



# A trusted partner for the long term

## SMBC Derivative Products Limited

Annual report and financial statements  
Year ended 31 March 2024

Company number 02988637



**SMBC DERIVATIVE PRODUCTS LIMITED**  
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**Company registration**

Registered as a private limited company in England and Wales under company number 02988637.

**Regulatory registration**

Authorised and regulated by the Financial Conduct Authority.

Financial Services Register number: 172073

**Registered office**

100 Liverpool Street, London, EC2M 2AT,  
 United Kingdom

**Website**

<https://www.smbcgroup.com/emea>

**IFPR disclosures**

<https://www.smbcgroup.com/emea/notices-reporting/corporate-disclosures#annual>

**Auditor**

KPMG LLP  
 15 Canada Square  
 London  
 E14 5GL

## **SMBC DERIVATIVE PRODUCTS LIMITED STRATEGIC REPORT**

The Directors present the Strategic Report of SMBC Derivative Products Limited (“the Company”, “SMBC DP”) for the year ended 31 March 2024 (“the year”).

### **Principal activities**

SMBC Derivative Products Limited (“the Company”, “SMBC DP”) is an investment firm providing derivatives, securities and business advisory products and services. It is regulated by the Financial Conduct Authority as a full scope investment firm.

SMBC DP is a wholly owned subsidiary of SMBC Nikko Capital Markets Limited (“CM Ltd”) which together with another subsidiary, SMBC Capital Markets (Asia) Limited and two branches, in Abu Dhabi and Hong Kong, form the CM Ltd Group. The CM Ltd Group is part of Sumitomo Mitsui Financial Group (SMFG), a Tokyo-based holding company that is one of Japan’s largest financial institutions. Through its subsidiaries and affiliates, SMFG offers a diverse range of financial services, including commercial banking, leasing, securities, credit card, consumer finance and other services. The corporate group of companies of SMFG is known as SMBC Group.

### **Business model and strategy**

The Company is structured as a bankruptcy remote specialised derivative products company (“DPC”) which holds a credit rating of Aa1 from Moody’s Investors Service Inc. (“Moody’s”) and AA- from Standard & Poor’s Ratings Group (“S&P”). It manages its capital in accordance with its regulatory requirements under IFPR as well as specific operating requirements to maintain these enhanced credit ratings.

SMBC DP provides interest rate and foreign exchange risk hedging products to customers seeking a counterparty with a credit rating higher than that of SMBC Group. The Company also provides, for a fee, credit performance guarantees to third party customers.

All principal trades booked by the Company with its customers are hedged with mirror transactions with an affiliated entity, SMBC Capital Markets Inc. (“CM Inc.”). The Company earns a credit intermediation fee for each transaction.

The Company provides credit guarantee to clients of its affiliated companies on the performance of those affiliates. A fee is earned for all such credit guarantees written. Additionally, the Company is free to earn a return on its capital. The Company’s objectives, policies and processes for managing capital are set out in Note 17.

The Company does not employ staff and at the year-end had no employees. Staff of affiliated companies perform activities on behalf of the Company, and the quality of the services provided is monitored under an appropriate governance framework.

### **Principal risks and uncertainties**

The Company is subject to a range of risk factors and uncertainties in the course of conducting its principal activities, including credit and counterparty risk, liquidity risk, market risk, cash flow risk, operational risk and other risks, an overview of which is included in Note 17 to the financial statements.

### **Risk Management**

Internal processes and controls are subject to regular self-assessment in addition to verification by an independent internal audit function, reporting to the Board, which has full discretion over the particular processes and controls it chooses to review and the timing of any review.

## **SMBC DERIVATIVE PRODUCTS LIMITED STRATEGIC REPORT**

Other closely monitored risks, all of which are reviewed and assessed at least annually, include regulatory risk and conduct risk. Regulatory risk, a significant factor for authorised and regulated investment firms, is the risk of non-compliance to existing regulations and also the risk of changes to applicable regulations or laws having an adverse impact on the business. Conduct risk arises from any activity that the Company or any individuals performing services on the Company's behalf might engage in which would result in unfair treatment of the Company's customers, breaches of conduct of business or financial crime rules or damage to market integrity or competition.

The Company operates within the overall risk appetite framework of its parent group, with distinct limits set out specifically for SMBC DP. The key risks reviewed by the Board and management are set out in the annual report of CM Ltd within the Strategic Report and notes to the financial statements.

DPC's such as SMBC DP can be structured as either continuation or termination vehicles. SMBC DP is a continuation DPC. A credit rating downgrade of the intermediate parent, Sumitomo Mitsui Banking Corporation ("SMBC") to Baa3 (long-term) / P-3 short-term or below by Moody's, or BB (long-term) / B (short-term) or below by S&P would constitute a "trigger event" for the Company whereby it is required to terminate all trades with affiliated counterparties so exposing itself to market risk. A continuation DPC is then obliged to make and receive scheduled payments on all trades with non-affiliated counterparties until those trades either mature, are novated, or are terminated.

It is typical for DPC's to have contingent manager agreements. Under these agreements, an unaffiliated derivatives dealer agrees to provide portfolio management and other general services should a trigger event take place. On the occurrence of a trigger event, the responsibility for the Company's portfolio would fall to the contingent manager. The Company's contingent manager is BlackRock Financial Management, Inc.

SMBC Group's own credit rating is inextricably linked to Japan's sovereign risk, thereby exposing the Company to a range of macro-economic, geopolitical and other external business risks, all of which are reviewed and assessed at least annually.

### **Business Environment**

The Company operates in a highly regulated business environment with significant requirements in respect of reporting, capital and liquidity management, product design, conduct, customer service and other business aspects from multiple regulators in the countries the Company operates. These regulations constantly change and evolve in response to years of financial instability, new business practices, economic and political developments and become increasingly stringent in order to promote good practice and stability in global financial markets.

Global markets remain challenging due to the present geopolitical instability. Fresh conflict which began between Israel and Gaza during the year has destabilised the region and has significant potential for further escalation. The conflict between Russia and Ukraine has entered into its third year, with both sides preparing for long-term military action. It continues to exert pressure on energy and food prices, leading to higher inflation, and results in additional costs of supporting Ukraine, maintaining and imposing new sanctions on Russia for Western countries. Recent general elections in the UK and later in 2024 in the U.S. may bring about additional market uncertainty and volatility.

Notwithstanding the above, the financial markets have become comparatively more stable. Global inflation rates have declined, leading to growing confidence that the high interest rates imposed to curb inflation will soon be reduced.

The Company has no direct exposure to the conflict areas above and is structured to withstand instability better than the rest of SMBC Group, however is not completely immune to global crises.

The Company follows the CM Ltd Group framework in responding to these challenges. It continues to act as a derivatives specialist and continues to seek opportunities to diversify its customer base and develop its derivatives business working alongside affiliated SMBC Group entities.

## **SMBC DERIVATIVE PRODUCTS LIMITED STRATEGIC REPORT**

### **Business Development and Performance**

The Company takes into account a range of strategic, business and operational considerations when reviewing the performance of the business. Such considerations include the efficient allocation and use of capital, earnings stability, balance sheet quality, operational robustness and the maintenance of good regulatory compliance.

Effectiveness is measured through the Company's use of financial indicators such as budgeted revenue targets, new deal revenue and return on capital and also non-financial indicators including conduct considerations, compliance with relevant internal and external rules and targets and the setting of measurable goals for all employees performing services on the Company's behalf through a comprehensive assessment process. The Directors pay particular attention to management information relating to earnings, regulatory capital, leverage and liquidity.

Despite the challenges presented by the rates environment and the mix of factors affecting the business environment and global markets in which the business operates, the Company reported a profit before taxation of USD 11.5m for the year ended 31 March 2024, representing a USD 6.2m increase on the previous year ended 31 March 2023 (USD 6.2m). The income-driven profit increase is attributable to higher guarantee fees and interest income, due to the full effect of high interest rates throughout the year.

At 31 March 2024, the Company had common equity tier 1 (CET1) and total regulatory capital of USD 251.2m (31 March 2023: USD 242.1m). Further details of regulatory capital and ratios are presented in Note 21.

### **Energy consumption and efficiency**

Information on the CM Ltd Group's energy consumption and reduction measures, which includes the Company, can be found in the Annual Report and Accounts of CM Ltd.

Approved by the Board on 13 June 2024 and signed on its behalf

Antony Yates

Director

Date: 22 July 2024

## SMBC DERIVATIVE PRODUCTS LIMITED

### CORPORATE GOVERNANCE

The CM Ltd Group seeks to promote high standards of corporate governance. Guiding principles are in place for the relationship between the CM Ltd Board and the Company's Board. This framework promotes full and effective interaction across all levels to support the delivery of strategy and business objectives within a framework of best corporate governance practice.

#### The Board of Directors

The Directors who were in office at the date of signing of the financial statements are set out below.

Name	Board of Directors	Audit	Nomination	Risk	Executive
<i>Independent Non-executive Directors</i>					
Thomas Coleman	M	M	M	M	-
Roger McCormick	M	M	C	M	-
Timothy Quinn	M	C	M	M	-
<i>Group Non-executive Director</i>					
Aarti Sharma	M	M	M	M	-
Dipesh Ganatra*	M	M	M	C	-
<i>Executive Directors</i>					
Antony Yates	C	-	-	-	M
Mehul Desai	M	-	-	-	C

“C” – “Chair of Board or Committee”:

“M” – Member of Board or Committee

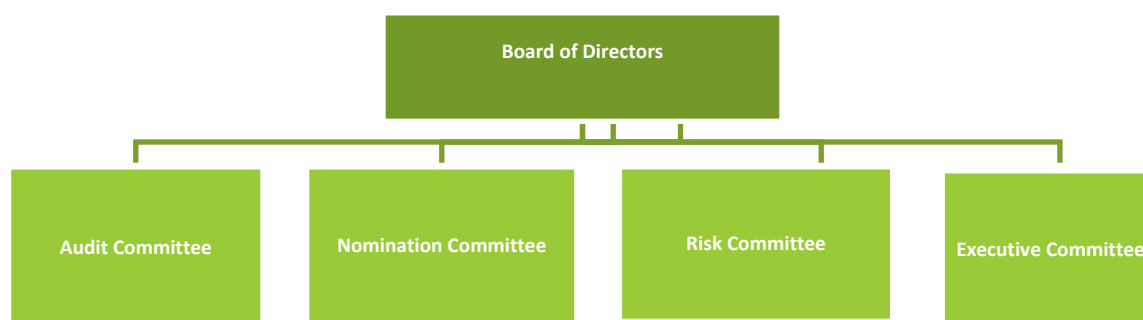
\*- Joined after year-end

## SMBC DERIVATIVE PRODUCTS LIMITED CORPORATE GOVERNANCE

### Governance Structure

The Board of Directors is responsible for promoting the Company's success for the benefit of its shareholders while having regard to certain factors.

The Board operates within a formal schedule of matters reserved, with certain responsibilities delegated to its Committees is shown below. The responsibilities of the Board and Committees are detailed in their terms of reference, which are reviewed regularly and updated as required.



The responsibilities of the Board Committees are as follows:

#### Audit Committee

The Audit Committee is responsible for assisting the Board in: i) its oversight and monitoring of the integrity of the financial statements and internal financial controls; and ii) monitoring and reviewing the effectiveness of the internal audit function. The members of the Committees comprise non-executive directors and it is chaired by an independent non-executive director.

#### Nomination Committee

The Nomination Committee is responsible for assisting the Board in the recommendation and approval of Board and senior management positions. The Nomination Committee also has responsibility for overseeing the process for ensuring that non-executive directors receive a tailored induction on appointment and ongoing development programmes. The members of the Committees comprise non-executive directors and it is chaired by an independent non-executive director.

#### Risk Committee

The Risk Committee is responsible for assisting the Board in its oversight of risk, reviewing the Company's risk appetite and risk profile, reviewing the risk effectiveness of the risk management framework, reviewing the methodology used in determining the Company's capital requirements and stress testing. The members of the Committees comprise non-executive directors and it is chaired by a non-executive director.

## **SMBC DERIVATIVE PRODUCTS LIMITED CORPORATE GOVERNANCE**

### **Executive Committee**

The Executive Committee is attended by members of the senior management team and is responsible for the supervision and management of the Company's business. The Committee meets monthly and reports to the Board of Directors. The non-executive Directors receive a copy of the papers and minutes of all Committee meetings.

### **Section 172(1) Statement**

Section 172(1) of the Companies Act 2006 requires company directors to act in the way they consider in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to the:

- a) likely consequences of any decisions in the long term
- b) interests of employees
- c) need to foster business relationships with suppliers, customers and others
- d) impact of the company's operations on the community and the environment
- e) desirability of the company maintaining a reputation for high standards of business conduct
- f) need to act fairly as between members of the company

This part describes how in the year the Directors have had regard to the above matters (the section 172(1) matters) when performing their duty under section 172(1) and forms the statement required under section 414CZA of the Companies Act 2006.

The Board considers that it has adhered to the requirements of section 172 of the Companies Act 2006 (the "Companies Act") and have, in good faith, acted in a way that they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, have had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172(1)(a-f) of the Companies Act) in its decision making.

As part of the director induction process, directors are briefed on their duties, including their duty under s172 of the Companies Act. The directors are entitled to request from the Company all such information they may reasonably require in order to be able to perform their duties as directors, including professional advice from either the Company Secretary or from an independent advisor at the Company's expense. Ongoing training is provided to the directors, as required, to ensure that their knowledge remains up to date and they continue to be able to discharge their duties as directors.

### **Stakeholders – Overview**

The Board recognises that the Company's success is dependent on its stakeholders and that its activities impact its stakeholders in different ways. When presenting an item for approval to the Board and its Committees, members of management are required to identify in supporting documentation the stakeholder groups relevant to the item, which are then considered by the Directors in their discussion and decision making.

### **High standards of business conduct**

Long term relationships are central to the Company's Purpose, and the Board recognises that to earn the trust of its stakeholders and achieve its objective of sustainable growth, it must exercise high standards of business conduct. The Company has no direct employees and, therefore, conduct matters primarily involve staff within CM Ltd and SMBC Bank International plc ("SMBC BI") who conduct activities on behalf of DP Ltd. Oversight of conduct undertaken by CM Ltd is also understood to include DP Ltd in scope. Oversight of conduct of CM Ltd staff is achieved primarily through the CM Ltd Board Risk and Compliance Committee ("BRCC") and two additional CM Ltd committees described below.

The CM Ltd Executive Committee is a committee comprised of CM Ltd senior management and meets on a monthly basis to discuss matters of note for CM Ltd's business (with consideration of DP Ltd as relevant) and examines management information including Compliance-related metrics. The Control and Conduct Assessment Forum ("CCAF") meets on a monthly basis and



## SMBC DERIVATIVE PRODUCTS LIMITED

### CORPORATE GOVERNANCE

considers metrics related to the conduct of CM Ltd's and DP Ltd's business, including RAG indicators and analysis of topics including:

- internal policy breaches in areas including employees' personal account dealing and declaration of outside business interests
- completion rates for mandatory training

regulatory notifications

#### A long-term view

The Company seeks to achieve long-term sustainable growth, ensuring that it remains well funded, well controlled and that there is a sensible balance between risk and reward. During the year, the Board considered future business movements in terms of expected changes to the market environment and business trends seen to date.

#### Stakeholder engagement

The Board delegates to management the authority to run the business on a day-to-day basis. The Company therefore engages with stakeholders in many ways and at all levels of the business to understand their needs, priorities and concerns. These interactions take place in the context of the strategies and policies set by the Board and its Committees. Significant interactions with stakeholders are reported as necessary to the Board and Committees. Set out below are examples of how engagement has occurred in the year and the result of that engagement.

#### Customers

***'Customer first' is one of the Company's core values and it seeks to build its brand by being a reliable and trusted partner to its customers.***

#### Methods of engagement

Interaction with customers is primarily through relationship managers and product specialists, but the CM Ltd CEO and other stakeholders also meet customers to develop strategic partnerships. Significant interactions and notable transactions are reported to the Board as required, along with consideration of how the business strategy will enable the Company to better meet the needs of existing and potential customers.

During the year, the CM Ltd Group has continued to implement enhanced processes and organisational structures under the Customer Lifecycle Management Project with the aim of improving the customer experience. Other key areas of focus include the way in which the CM Ltd Group requests and collates KYC onboarding information.

#### Environment and Community

***The Company recognises its role in society and the importance of contributing positively to the societies in which it operates.***

#### Methods of engagement

The CM Ltd Group recognises the importance of working towards building and sustaining a better world. It aims to create social value by balancing economic growth with initiatives aimed at tackling social issues.

## SMBC DERIVATIVE PRODUCTS LIMITED

### CORPORATE GOVERNANCE

The CM Ltd Group is supported by the EMEA Sustainability Programme, have been actively engaged in overseeing and developing the Company's sustainability capabilities in the year.

Details of SMBC Group's sustainability activities are available to all employees through the intranet, and this includes briefing materials for Front Office colleagues on how they can best support their customers as well as the steps SMBC Group is carrying out to realise a more sustainable world. This is supported by townhalls and other briefings, such as the Annual Sustainability Week held in November 2023 which included events to increase awareness on topics such as social value creation, sustainability risk management and the Three Lines of Defence, and an introduction to the SMBC Group's three-year EMEA Operational Sustainability programme.

The CM Ltd Group supported the SMBC Group announcement 'Strengthening Efforts Against Climate Change' in May 2023. This press release announced the SMBC Group's progress and future plans in response to climate change, including an update on the SMBC Group's sustainability strategy and efforts to reduce emissions across several sectors.

In conjunction with SMBC BI, the CM Ltd Group is a strong supporter of the BOOST programme through which mentoring, paid internships and work skills are offered to young people in local communities around London.

The SMBC Group also participated in the #PositivelyPurple initiative during December 2023, focusing on contributions people with disabilities make to our communities and the economy and addressing the barriers they face worldwide. As part of celebrations for Disability History Month in November and December 2023, the SMBC Group focused on spreading awareness of visual impairment, with events to allow colleagues to experience a simulation of a variety of visual impairments to gain an understanding of the challenges people can face in their day-to-day lives, an introduction to the work done by Guide Dogs and a session with a guest speaker on the impact of visual impairment. The SMBC Group also held a session on autism in November 2023 which included the benefits of a neurodiverse workplace and advising on a range of behaviours that can be adopted to support neurodiverse colleagues.

#### Colleagues

The Company has no direct employees and therefore matters relating to this stakeholder group who provide services on behalf of the Company can be found in the s.172 (1) statement of CM Ltd Annual Report and Accounts

#### Suppliers

***The Company relies upon external suppliers to provide certain products or services that assist it in the running of its business. Suppliers are engaged for a variety of reasons, including the provision of expertise or resource that DP Ltd may or may not possess itself.***

#### Methods of engagement

Engagement with suppliers is conducted via a dedicated team and with executives who require supplier services. A procurement process is in place for all engagements, and this requires that a rigorous due diligence process is undertaken on the supplier before engagement. These checks include steps relating to compliance with laws and regulations, such as anti-bribery and corruption, modern slavery, and cost management. Ongoing monitoring of suppliers is also undertaken, while particular focus is given to relationships with outsourcing providers and such engagements are subject to CM Ltd Group's third-party risk management framework. Any new or modified outsourcing relationships deemed critical to the operations of the CM Ltd Group require the approval of the Outsourcing Oversight Committee.

Reflecting developing regulatory expectations, the Company is enhancing its third-party risk management framework in order to increase efficiencies and align its approach with the wider SMBC Group in EMEA, including the expansion of the remit of this area to include a non-outsourcing framework.

The Board annually reviews and approves the Company's Statement of Compliance with the UK's Modern Slavery Act 2015. Anti-Slavery checks are included as part of due diligence processes, including the supply chains of vendors and other counterparties.

## SMBC DERIVATIVE PRODUCTS LIMITED

### CORPORATE GOVERNANCE

The SMBC Group has a dedicated Procurement team which handles all aspects of sourcing, purchasing, contract management and supplier assurance to ensure that the requirements of both our Company and the suppliers who provide us with goods and services are treated in an efficient, equitable and ethical manner.

The SMBC Group encourages proactive collaboration between third party suppliers and service recipients and facilitates these relationships via frequent outreach mechanisms such as the monthly Travel Arranger Committee which is attended by colleagues who arrange business travel as well as external parties who provide updates on their products and services and can engage directly with any issues reported. In connection with this Committee, the SMBC Group's first Business Travel Summit in October 2023 brought all of the SMBC Group's key travel suppliers on-site to the London office to showcase current partnerships and was open to all SMBC Group colleagues to attend.

#### Regulators

*The Company is required to comply with its regulators' rules and to ensure the integrity of the financial markets in which it operates. DP Ltd recognises that failure to comply with these requirements will impact its ability to carry out its business and serve its customers.*

#### Methods of engagement

During the year, individual Directors and members of the Executive Committee of CM Ltd have met FCA representatives at annual strategy, continuous assessment, and other meetings. The Board and Committees have also received regular reports on significant regulatory matters, such as new regulations and Dear CEO and CRO letters and overseen the Company's response on matters including the annual evaluation letters, the evolving sanctions environment and US Dollar IBOR transition.

The Board and its Committees have overseen the Company's response on matters of significance to the Company and its regulator, including matters raised affecting the Group's overseas entities and Head Office. Significant regulatory communication is reported to the Board on a quarterly basis.

At an executive level, the CM Ltd Group benefits from SMBC BI's public affairs function through which the CM Ltd Group identifies and engages on regulatory and industry change that may impact the Company's business.

#### SMBC Group

*As part of SMBC Group, the Company shares and contributes to the realisation of the Group's Mission and Vision. The Company also seeks to assist SMBC Group to expand and consolidate its global franchise. A Service Level Agreement framework is in place for the provision and receipt of services between DP Ltd and SMBC Group.*

#### Methods of engagement

As a wholly owned subsidiary of CM Ltd, the section 172(1) matter related to the need to act fairly as between members of the company is less relevant to the Directors' discussions than the other section 172(1) matters. However, the Company recognises the importance of the role it plays to further the Mission and Vision of SMBC Group, particularly through the expansion of the SMBC Group's franchise in EMEA.

The CM Ltd Group engages closely with SMBC BI and SMBC Group affiliated companies at all levels including meetings with senior executives of SMBC Group and participation in EMEA-wide strategic discussions.

The new SMFG CEO, Mr Nakashima, shared a message to all staff upon his appointment in December 2023 to explain his management approach and values to foster a sense of engagement between Head Office in Tokyo and colleagues on a global basis.

During the year, a senior level forum attended by the Board Chairs and CEOs of the CM Ltd and SMBC BI and the CEO of SMBC Bank EU AG met periodically to further enhance the coordination of business activities and other strategic matters. The executive Directors are also appointed to the boards of other SMBC Group companies in EMEA, including main affiliates.

## **SMBC DERIVATIVE PRODUCTS LIMITED**

### **CORPORATE GOVERNANCE**

The CM Ltd CEO joins the monthly EMEA Management Committee, to report on CM Ltd Group's business activities and receive updates on other business progress and strategies being conducted by other entities. The Company's executives and other stakeholders engage in active participation in monthly EMEA Group business meetings, including the EMEA Marketing Committee and the EMEA Sales and Trading Committee where business lines from various entities report directly on their achievements, strategy, and challenges. Additionally, there is regular reporting of Service Level Agreement (SLA) KPI performances at the monthly Executive Committee and CCAF meetings.



## **SMBC DERIVATIVE PRODUCTS LIMITED DIRECTORS' REPORT**

The directors submit their report and the audited financial statements of SMBC Derivative Products Limited for the year ended 31 March 2024. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this Report, can be found as follows: Stakeholder considerations on pages 8-11 and energy consumption and efficiency on page 4.

### **Results and dividends**

The Company's profit for the year, after taxation, amounted to USD 8.6m (2023: USD 7.3m). No dividends have been declared or paid in the year and the Directors do not recommend the payment of a final dividend (2023: USD nil).

### **Directors**

The Directors who served during the year were:

T S Coleman

M Desai

D Ganatra (appointed on 13 June 2024)

Y Ishii (resigned on 7 March 2024)

R S McCormick

T Quinn

A Sharma (appointed on 7 March 2024)

G Swanton (resigned on 13 June 2024)

A Yates

During the financial year, the independent non-executive Directors benefitted from qualifying third party indemnity provisions and these provisions remain place at the date of this Report. The Company has directors' and officers' liability insurance in place in respect of certain losses or liabilities to which the Company's officers maybe exposed in the discharge of their duties.

### **Disclosure of information to the auditor**

The Directors who held office at the date of approval of this Directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Going Concern**

The Directors recognise uncertainties in respect of the business environment and global economic outlook, which may affect the ability of the Company to continue as a going concern. However, the Company is set up to be more financially stable than the rest of the SMBC Group and therefore more protected against negative circumstances. The Directors place a particular focus on the maintenance of its credit rating, which is crucial to its operations. In order to comply with the rating criteria, the Company maintains very high levels of capital and liquidity, invests funds only in highly-rated securities and fully collateralises its exposures to financial risks. Consequently, the Directors are confident that, taking into account reasonably possible scenarios, the Company will continue to have sufficient funds and be able to operate for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

## **SMBC DERIVATIVE PRODUCTS LIMITED DIRECTORS' REPORT**

### **Political and charitable donations**

The Company made no political and charitable donations during the year.

### **Risk management**

Financial risk management objectives and policies, the Company's risk exposures and principal risks and uncertainties are set out in the Strategic Report and in the notes to the financial statements.

### **Events after the reporting date**

No significant events occurred after 31 March 2024 that would have a material impact on the financial statements for the year.

### **Future developments**

The Company does not expect any significant changes in its principal business activities or business strategy.

### **Auditor**

In accordance with section 487 of the Companies Act 2006, the Company's auditor, KPMG LLP, is deemed to be reappointed and will therefore continue in office for the year ended 31 March 2025.

Approved by the Board of Directors on 13 June 2024 and signed on its behalf

Antony Yates

Director

Date: 22 July 2024

## **SMBC DERIVATIVE PRODUCTS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that year. In preparing each of the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board of Directors on 13 June 2024 and signed on its behalf

Antony Yates

Director

Date: 22 July 2024

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC DERIVATIVE PRODUCTS LIMITED**

## **Opinion**

We have audited the financial statements of SMBC Derivative Products Limited ("the Company") for the year ended 31 March 2024 which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows, and related notes, including the accounting policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## **Fraud and breaches of laws and regulations – ability to detect**

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Review of the Company's internal audit reports and Board Minutes of the Company.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition due to the systemised nature of trading revenue streams.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC DERIVATIVE PRODUCTS LIMITED**

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation.
- Evaluating the design and implementation and operating effectiveness of relevant internal controls; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC DERIVATIVE PRODUCTS LIMITED**

### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**James Voyle (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London E14 5GL

United Kingdom

Date: 22 July 2024

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2024**

	Notes	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Net trading (loss) / gain	2	(481)	54
Fees and commissions income		5,424	4,665
Fees and commissions expense		(282)	(296)
Net fees and commissions income	3	5,142	4,369
Interest income	4	12,988	6,454
Interest expense	5	(3,568)	(1,805)
Net interest		9,420	4,649
Total income		14,081	9,072
Personnel expenses	6, 7	(133)	(117)
Depreciation and amortisation	14	(8)	(48)
Professional fees	8	(2,317)	(2,079)
Other operating expenses		(167)	(653)
Operating expenses		(2,625)	(2,897)
Profit from ordinary activities before taxation		11,456	6,175
Tax credit / (charge) on profit from ordinary activities	9	(2,844)	1,088
Profit for the period		8,612	7,263

Company profit for the financial year is entirely attributable to the equity holders of the Parent. All results are from continuing operations.

The notes on pages 23 to 47 form an integral part of these financial statements.

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2024**

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Profit for the period	8,612	7,263
Other comprehensive income	-	-
Total comprehensive income for the period attributable to equity holders of the Company	8,612	7,263

The notes on pages 23 to 47 form an integral part of these financial statements.



**SMBC DERIVATIVE PRODUCTS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2024**

	Notes	31 March 2024 USD'000	31 March 2023 USD'000
Assets			
Cash at banks	10	249,930	262,008
Trading securities	11	49,993	49,987
Derivative assets	12	35,039	50,870
Other debtors	13	5,738	5,217
Intangible assets	14	-	8
Total assets		340,700	368,090
Liabilities			
Derivative liabilities	12	34,772	50,082
Other creditors	15	54,623	75,315
Total liabilities		89,395	125,397
Net assets		251,305	242,693
Equity attributable to equity holders of the parent			
Called up share capital	16	200,000	200,000
Retained earnings		51,305	42,693
Total equity		251,305	242,693

The notes on pages 23 to 47 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 13 June 2024 and signed on its behalf by:

Antony Yates

Director

Date: 22 July 2024

Company number 02988637

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2024**

	Note	Share capital USD'000	Retained earnings USD'000	Total equity USD'000
At 1 April 2022	16	200,000	35,430	235,430
Profit for the period		-	7,263	7,263
Total comprehensive income for the period		-	7,263	7,263
At 31 March 2023		200,000	42,693	242,693
At 1 April 2023	16	200,000	42,693	242,693
Profit for the year		-	8,612	8,612
Total comprehensive income for the year		-	8,612	8,612
At 31 March 2024		200,000	51,305	251,305

The notes on pages 23 to 47 form an integral part of these financial statements.

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

	Note	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Cash flows from operating activities			
Profit for the period		8,612	7,263
Adjustments to reconcile net income to net cash from operating activities:			
Adjustments for non-cash items:			
Depreciation and amortisation		8	48
Tax charge / (credit)		2,844	(1,088)
Changes in operating assets and liabilities:			
Change in investment securities		(6)	15,027
Change in other debtors		(1,456)	(2,728)
Change in derivative assets		15,831	(28,387)
Change in derivative liabilities		(15,310)	28,133
Change in other creditors		(20,692)	47,414
Corporation tax paid	9	(1,909)	-
Net cash from operating activities		(12,078)	65,682
Net change in cash		(12,078)	65,682
Cash and cash equivalents at beginning of period	10	262,008	196,326
Cash and cash equivalents at end of period	10	249,930	262,008
Net change in cash		(12,078)	65,682

The notes on pages 23 to 47 form an integral part of these financial statements.

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**1. Accounting policies**

**Statement of compliance**

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS"), in conformity with the requirements of the Companies Act 2006 and applicable law.

**Going concern**

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Company is designed as a highly-rated, bankruptcy-remote entity. Its financial resilience arises from the same factors which ensure its credit rating. In order to maintain the rating, the Company invests mainly cash and highly-rated securities, such as US Treasury or high-quality corporate bonds. The assets are funded almost entirely by its own capital which exceeded USD 250m (2023: USD 242m) on both accounting and regulatory bases. Its unaudited capital ratios, disclosed in Note 21, are far in excess of the regulatory minimum requirements.

The Company has no external borrowings. Its parent, CM Ltd, has provided it a multi-currency liquidity facility, of which USD 15.5m was drawn at 31 March 2024 (2023: USD 18.3m). The facility size was increased in December 2022 from USD 10m to USD 50m, to fund the additional IFPR Core Liquid Asset requirement, which in turn reflects the growing amount of guaranteed transactions (see further information in Notes 22 and 23). Additionally, CM Inc. has provided it a USD 200m committed revolving credit loan facility, none of which was drawn at 31 March 2024 (2023: USD nil).

SMBC DP's business model offers swaps and interest rate caps for counterparties that need to transact through an entity with a higher rating than that of SMBC Group. At the reporting date, external derivative balances comprised one active swap and about 60 interest rate caps. The swap and caps are fully hedged under a CSA and present no credit or market risks for the Company.

SMBC DP provides guarantees to clients that have bought interest rate caps from CM Inc. in the event of CM Inc.'s non-performance. To protect itself, SMBC DP obtains an indemnity from CM Inc. equivalent to the termination value of the caps. This indemnity is fully collateralised by US Treasury securities. In practice, the collateral called upon is the higher of the termination value or the 15-day adverse market movement, to ensure the capital ratio stipulated by ratings agencies is maintained. As a result, there is no net exposure (2023: USD nil).

The Company has no subsidiaries and is structured and managed on the basis that it can meet all liabilities on a standalone basis.

The Company's ability to fulfil its obligations is further protected by a contingent manager arrangement with BlackRock Financial Management, Inc. which would come in place upon a trigger event.

The SMBC Group's global derivative business continues to support the Company because it recognises the important economic value of having a highly rated DPC in the group in the form of enhanced business opportunities and customer product offering. There is continued global demand for structuring derivative contracts through highly reliable counterparties that the Company represents.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**Functional and presentational currency**

The Directors consider the functional currency of the Company's activities to be US dollars since the majority of the Company's income is generated in this currency.



# **SMBC DERIVATIVE PRODUCTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 MARCH 2024**

#### **Preparation of the income statement**

The Company has departed from the standard income statement format required by Schedule IV of the Companies Act in order to present interest income within operating profit or loss.

#### **New accounting standards**

IFRS 17 Insurance Contracts became effective for financial periods beginning on or after 1 January 2023. The standard did not have a material effect on the Company's financial statements.

#### **Foreign currency translation**

Foreign currency assets and liabilities are re-measured into US dollar equivalents at rates of exchange ruling at the balance sheet date. Gains and losses resulting from re-measurement into US dollar equivalents are reflected in the Company income statement within net trading gain or loss.

#### **Net trading income**

Net trading income includes all gains and losses on the existing portfolio of derivatives and trading securities, including Day 1 profit or loss on newly entered derivative contracts, and foreign exchange differences.

Day 1 profit or loss equals the fair value of new derivative contracts upon initial recognition less transaction price (usually nil or negligible) of entering into such contracts.

#### **Fees charged to related parties**

The Company recharges to CM Inc. and CM Ltd professional fees it incurs in its costs. The fees are recognised on accruals basis within fee income.

#### **Intermediation fees**

The Company receives an intermediation fee from CM Inc. for each derivative transaction with an unaffiliated counterparty. The fee is equal to the present value of two hundredths of one percent (0.02%) of the notional amount (weighted average for amortising or accreting transactions) times the tenor of the transaction for each primary transaction. For an option transaction, the fee is equal to the prevailing inter-bank broker fee for a transaction of the same type plus a bid-ask spread. Should a trade be terminated prior to maturity there will be a proportionate rebate of the fee earned at inception. The main performance obligation, acceptance of the trade risks by the Company, is satisfied on the trade date and is the point in time when the revenue is recognised within fee income.

#### **Guarantees**

The Company provides guarantees to external customers over derivative products sold by CM Inc. These arrangements are treated as financial guarantees.

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment. The guarantee only compensates for losses that are actually incurred as a result of a failure by the debtor to make payment and does not compensate for more than the actual loss incurred. Financial guarantees are measured at the higher of amortised initial fair value and contingent obligations to the holders.

The Company is fully indemnified by CM Inc. in the event of a default and holds collateral in the form of securities to offset mark to market movements for instruments covered by these guarantees.

A guarantee fee is earned based upon the daily average value of the guaranteed transactions. The income is recognised in fee income as accrued.

#### **Interest income**

Interest is earned on trading securities and cash at banks. Interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter year, where appropriate, to the net carrying amount of the financial asset.

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**Professional fees**

Professional fees are incurred in respect of contingent manager arrangement, rating verification, audit and audit-related services. The fees are recognised in operating expenses on an accrual basis.

**Financial instruments**

**i) Categories**

The following categories of financial instruments held by the Company are within the scope of IFRS 9:

- Cash and cash equivalents;
- Trading securities;
- Derivative instruments, including credit guarantees; and
- Other debtors and creditors.

**ii) Classification and measurement**

Under IFRS 9, financial assets are classified into three categories, measured at:

- a) amortised cost;
- b) fair value through other comprehensive income; or
- c) fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other assets are classified as measured at fair value through profit or loss.

IFRS 9 permits designation of any financial assets at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch.

Financial liabilities are classified as measured at:

- a) fair value through profit or loss (either designated or held for trading); or
- b) amortised cost.

At the reporting date, financial instruments measured at amortised cost included:

- cash at banks;
- other debtors; and
- other creditors.

Instruments measured at fair value through profit or loss comprised

- trading securities; and
- derivatives;

There were no assets measured at fair value through other comprehensive income.

**iii) Recognition and derecognition**

Under IFRS 9, an entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

The standard permits a choice between trade date and settlement date accounting for recording regular way transactions. When applying settlement date accounting it is still required that any movements in fair value between trade date and settlement date are

## SMBC DERIVATIVE PRODUCTS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 MARCH 2024

reflected as they occur. The movement in fair value is taken to profit and loss or to other comprehensive income depending upon the classification of the asset. Settlement date is used for transactions with trading securities. Trade date is used for derivatives.

Assets are derecognised when the entity transfers its contractual rights to receive the cash flows and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation is either discharged or cancelled or expires.

#### iv) Fair value

Fair value is the price to sell an asset or settle a liability (exit price) in an orderly transaction between market participants at the measurement date under current market conditions which takes place either: (a) in the *principal market* for the asset or liability; or (b) in the absence of a principal market, in the *most advantageous market* for the asset or liability.

The Company makes adjustments to the valuation of their derivatives by calculating credit, debit and funding valuation adjustments consistent with IFRS 13.

#### v) Impairment

The Company recognises an impairment allowance for expected credit losses for financial assets carried at amortised cost and fair value through other comprehensive income.

IFRS 9 establishes three impairment categories:

- a) low risk assets ("stage 1");
- b) instruments whose credit risk has significantly increased since initial recognition ("stage 2"); and
- c) credit-impaired ("stage 3").

Impairment provision of assets in stage 1 is measured for the 12-month future expected credit losses. Impairment provision for assets in stages 2 and 3 is calculated over the lifetime of the asset. IFRS 9 sets criteria for classification as low, significantly increased risk and credit-impaired. They include rebuttable presumptions of a significant increase in credit risk for instruments over 30 days in arrears and credit impairment for instruments over 90 days in arrears.

At the reporting date, the Company had no assets in stages 2 or 3. Where the Company's assets in scope have a life span of less than 12 months, the impairment provision is calculated for the shorter of the asset lifetime and 12 months.

#### Intangible assets

Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. The carrying values of intangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable.

External expenditure on intangible assets is capitalised as incurred, per supplier invoices including non-recoverable VAT.

Assets under construction are not amortised until ready for use. Completed intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Computer software	5 years
-------------------	---------

#### Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, management has exercised judgement and estimates, gauged in accordance with industry best practice, when determining the amounts recognised in the financial statements in relation to the fair value of derivative assets and liabilities.

#### i) Judgements

Judgments do not usually directly address measurement. The management exercises judgements when accounting standards allow a range of possible measurement methods. A different judgement might lead to a materially different accounting treatment and valuation.

Judgement is exercised in respect of the methodology for valuing the Company's collateralised derivative contracts. The management has chosen to use, in line with market practice, the Overnight Indexed Swap curve ("OIS") in order to more consistently manage the associated interest rate and funding risks.

Judgement is exercised as to whether unobservable inputs constitute a significant part of the total value of derivative instruments and therefore the level at which the instruments should be classified in the fair value hierarchy.

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**ii) Estimates**

Estimates use uncertain information and sometimes subjective assumptions to measure carrying values. As a result, estimates bear a risk of material adjustments to the carrying amounts in subsequent accounting years.

Estimates are used where the fair value of derivative assets and liabilities cannot be derived from active markets and is determined using a variety of valuation techniques that employ mathematical models. The inputs to these models use observable market data where possible but, where observable market data are not available, unobservable inputs are used. The estimates include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

Credit Valuation Adjustments (“CVA”) and Debit Valuation Adjustments (“DVA”) are incorporated into derivative valuations to reflect the value of counterparty and own credit risk. CVAs, calculated on a counterparty exposure basis across instrument type, are derived from market data and management estimates of exposure at default, probability of default and recovery rates. The DVA is an adjustment to the value of the Company’s derivative liabilities that seeks to reflect the Company’s own default risk, which involves similar estimates of exposure at default, probability of default and recovery rates.

Judgement was exercised in respect of the methodology for valuing the Company’s collateralised derivative contracts. The management has chosen to use, in line with market practice, the Overnight Indexed Swap curve (“OIS”) in order to more consistently manage the associated interest rate and funding risks.

The funding fair value adjustment (“FVA”) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are wholly uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the company or the counterparty.

The FVA, CVA and DVA are calculated independently of each other.

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**2. Net trading gain / (loss)**

This comprises the following items of income and expense:

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Trading loss on derivative instruments	(82)	(150)
Trading securities gain / (loss)	20	(10)
Derivative reserves	(419)	214
	<hr/>	<hr/>
	(481)	54

**3. Net fees and commissions income**

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Fees charged to related parties	1,882	1,882
Guarantee fee income	3,542	2,783
Other net fees	(282)	(296)
	<hr/>	<hr/>
	5,142	4,369

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**4. Interest income**

Interest income for the year was earned on the following instruments:

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Interest income on:		
- Floating rate notes	-	268
- U.S. treasury securities	5,895	2,578
- Short-term deposits	7,093	3,608
	<hr/> 12,988	<hr/> 6,454

**5. Interest expense**

Interest expense relates to the following:

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Interest expense on:		
- Collateral received	2,635	1,421
- Funding loans	933	384
	<hr/> 3,568	<hr/> 1,805

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**6. Operating profit**

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
This is stated after charging:		
Directors' emoluments	133	117
Auditor's remuneration		
Audit of these financial statements	135	120
Audit-related assurance services	77	41
Other assurance services	556	163
	<u>901</u>	<u>441</u>

Audit fees relate to the audit of the financial statements payable to KPMG LLP. Audit-related assurance services include CASS assurance and quarterly financial reviews payable to KPMG LLP. Other assurance services relate to fees payable to KPMG LLP's US affiliate for agreed-upon procedures relating to credit agency ratings.

**7. Information regarding directors and employees**

The average monthly number of employees of the Company (excluding directors) during the year was nil (2023: nil).

Three external directors received emoluments during the year for management services to the Company:

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Directors' emoluments	129	114
National Insurance	4	3
Total	<u>133</u>	<u>117</u>
Emolument of highest paid director	45	40

No director received pension contributions or any other retirement benefits (2023: USD nil).

Certain directors are also directors of the Parent undertaking. Emoluments received by them for their services to the Company are disclosed in the consolidated financial statements of the Parent. They are not separately disclosed as it was not practical to apportion their time.



**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2024**

**8. Professional fees**

Professional fees consist of the following:

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
Contingent manager fees	1,250	1,230
Rating agency fees	277	284
Auditor's remuneration (see Note 6)	768	324
Other professional fees	22	241
	<hr/>	<hr/>
	2,317	2,079

**9. Tax on profit from ordinary activities**

	Year ended 31/03/2024 USD'000	Year ended 31/03/2023 USD'000
<b>Current tax expense</b>		
Current period	2,268	(604)
Adjustments for prior years	576	(484)
	<hr/>	<hr/>
Total tax charge / (credit) in income statement	2,844	(1,088)

The tax (credit) / charge on profit for the year differs from the nominal amount that would arise at the standard rate of corporation tax in the UK. The differences are explained below:

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	Year ended 31/03/2024		Year ended 31/03/2023	
	USD'000	Effective tax rate	USD'000	Effective tax rate
Profit before taxation	11,456		6,175	
Tax using the UK corporation tax rate of 25% (2023: 19%)	2,864	25.0%	1,173	19.0%
Banking surcharge	234	2.0%	(179)	(2.9)%
Permanent difference	13	0.1%	31	0.5%
Advance Pricing Agreement adjustment	(918)	(7.9)%	(1,629)	(26.4)%
Adjustments for prior years	1,139	9.9%	(484)	(7.8)%
Utilisation of loss carry forward	(488)	(4.3)%	-	-
Total tax charge / (credit)	2,844	24.8%	(1,088)	(17.6)%

An Advance Pricing Agreement (“APA”) between the Group, its affiliate CM Inc., the UK tax authorities and US tax authorities defines the basis on which UK tax is charged on the profits of the global derivative products group. A new 7<sup>th</sup> APA is being negotiated with the UK and US tax authorities.

There is an unutilised tax loss of USD 4.0m (2023: USD 4.0m), for which no deferred tax asset is recognised.

**Corporation tax rate**

Effective from 1 April 2023 the headline rate of corporation tax has increased from 19% to 25% and the banking surcharge rate of 8%, applicable to profits of banking companies under the Finance (No.2) Act 2015, has been reduced to 3%.

On 17 November 2022, the UK Government confirmed its intention to implement the G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation, which was enacted in 2023, will seek to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15% on UK and overseas profits arising after 31 December 2023. As the UK rate of corporation is now 25%, the impact of these rules is not expected to be material.

**10. Cash at banks**

	31 March 2024	31 March 2023
	USD'000	USD'000
Cash at bank	112,831	132,244
Short-term deposits	137,099	129,764
	249,930	262,008

None of these amounts were deposited with group undertakings as of 31 March 2024 (2023: USD nil).

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**11. Trading securities**

Trading security assets represent short-term investments in debt and equity instruments, primarily held to maintain credit rating while also generating income from value fluctuations, interest, dividends and coupons.

	Listed on non-UK exchanges USD'000	Not listed USD'000	Total USD'000
<i>Fair value as at 31 March 2024</i>			
U.S. treasury securities	49,993	-	49,993
Total	49,993	-	49,993

	Listed on non-UK exchanges USD'000	Not listed USD'000	Total USD'000
<i>Fair value as at 31 March 2023</i>			
U.S. treasury securities	49,987	-	49,987
Total	49,987	-	49,987

**12. Derivative assets and liabilities**

Derivatives are financial instruments which derive their value from other assets, rates, prices, indices or other variables and which settlement does not usually involve the delivery of the underlying instrument. Derivative assets represent contracts with positive fair values and liabilities represent those with negative fair values.

In line with the requirements of IFRS 13, the Company booked a Debit Valuation Adjustment (“DVA”), Credit Valuation Adjustment (“CVA”) and Funding Valuation Adjustment (“FVA”) when calculating the fair value of its derivatives. Collectively, these are classified as “Derivative reserves”.

The tables below provide an analysis of carrying values and principal amounts by type of contract:

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	Carrying value		Notional principal	
	31 March 2024 USD'000	31 March 2023 USD'000	31 March 2024 USD'000	31 March 2023 USD'000
Interest rate and currency swaps	2,815	5,991	14,154	13,859
Options	32,096	44,838	1,277,254	2,167,685
Derivative reserves	128	41	-	-
Derivative assets	35,039	50,870	1,291,408	2,181,544
Interest rate and currency swaps	2,812	5,894	18,544	18,544
Options	32,093	44,719	1,848,233	2,154,885
Derivative reserves	(133)	(531)	-	-
Derivative liabilities	34,772	50,082	1,866,777	2,173,429

The table below analyses the carrying values of derivatives, excluding reserves, by contractual maturities:

Carrying values	31 March 2024 USD'000	31 March 2023 USD'000
Due within 1 year	20,572	26,105
Due within 1 to 5 years	11,524	6,314
Due within 5 to 10 years	2,815	18,410
Derivative assets	34,911	50,829
Due within 1 year	20,572	26,076
Due within 1 to 5 years	11,521	6,299
Due within 5 to 10 years	2,812	18,238
Derivative liabilities	34,905	50,613

Derivatives are usually used by market participants to hedge risks in non-derivative financial or non-financial contracts. When the host contracts expire, the related derivatives are settled as well. Due to that, contractual maturities represent the maximum expected duration of derivative instruments.

The following paragraphs provide additional information on derivative contracts traded by the Company:

**Interest rate and currency contracts**

The two parties to an interest rate swap agree to exchange, at particular intervals, payment streams calculated on a specified notional amount with at least one stream based on a floating interest rate. Basis swaps involve two floating rates, such as prime and SOFR.

The parties to a currency swap generally exchange at the outset a principal amount in two currencies, agreeing to re-exchange the currencies at a future date and agreed upon exchange rate. These foreign exchange contracts relate to major foreign currencies such as Yen, Sterling and Euros.

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**Options**

Interest rate caps, the primary derivative instrument offered to customers by the Company, and floors require the writer to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The cap or floor writer receives a premium for bearing the risk of unfavourable interest rate changes.

**13. Other debtors**

	31 March 2024 USD'000	31 March 2023 USD'000
Accrued interest income	72	354
Other related party debtors	4,463	2,712
Other external debtors	-	98
Prepayments	99	44
Corporation tax	1,104	2,009
	<hr/> 5,738	<hr/> 5,217

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**14. Intangible assets**

Computer software  
USD'000

**Cost**

Balance at 1 April 2022	144
Additions	-
Balance at 31 March 2023	144
Additions	-
Balance at 31 March 2024	144

**Accumulated amortisation and impairment losses**

Balance at 1 April 2022	88
Charge for the period	48
Balance at 31 March 2023	136
Charge for the period	8
Balance at 31 March 2024	144

**Carrying amounts**

Balance at 31 March 2023	8
Balance at 31 March 2024	-

**15. Other creditors**

	31 March 2024 USD'000	31 March 2023 USD'000
Collateral received from related parties	33,480	54,515
Funding loans received from related parties	15,535	18,335
Amounts due to related parties	5,099	2,352
Other creditors and accruals	509	113
	54,623	75,315

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**16. Called up share capital**

	31 March 2024 USD'000	31 March 2023 USD'000
200m ordinary shares of USD 1 each	200,000	200,000

**17. Risk management**

**i) Strategy in using financial instruments**

The principal activities of the Company are to act as agent and intermediary in a variety of over-the-counter (“OTC”) derivative transactions including interest rate caps and interest rate and currency swaps, and the provision of credit guarantees to third party customers conducting hedge transactions with CM Inc. The Company takes no intra-day or overnight derivative trading positions. All exposures are fully hedged with mirror transactions undertaken with an affiliated company, CM Inc. The Company records trading income from intermediation fees paid by CM Inc. The Company invests its capital in a portfolio of high-quality floating rate notes and treasury bills, seeking to earn an interest margin and when the opportunity arises, realise a profit.

**ii) Cash flow and fair value interest rate risk**

As the Company operates a primarily balanced derivative portfolio (subject to appropriate credit adjustments) and invests in floating rate assets funded through floating rate liabilities or capital there is no significant exposure in the derivative portfolio to changes in cash flow or fair value due to interest rate risk.

**iii) Credit risk**

**a) Credit quality and collateral**

Credit risk represents the potential losses that the Company would incur if a counterparty failed to perform its obligations under contractual terms and collateral held was not sufficient to cover them.

***Cash at banks***

Credit risk of cash at banks, which corresponds to its maturity profile, is characterised by the short-term ratings of the financial institutions it was held at:

	31 March 2024 Fair value USD'000	31 March 2023 Fair value USD'000		31 March 2024 Fair value USD'000	31 March 2023 Fair value USD'000
<i>S&amp;P rating</i>			<i>Moody's rating</i>		
A-1+	124,112	117,468	P-1	249,930	262,008
A-1	125,818	144,540	P-2	-	-
	249,930	262,008		249,930	262,008



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***Trading securities***

Credit risk of trading securities is characterised by their long-term ratings:

<i>S&amp;P rating</i>	31 March 2024 Fair value USD'000	31 March 2023 Fair value USD'000	<i>Moody's rating</i>	31 March 2024 Fair value USD'000	31 March 2023 Fair value USD'000
AAA	-	-	Aaa	49,993	49,987
AA+	49,993	49,987	Aa2	-	-
	<u>49,993</u>	<u>49,987</u>		<u>49,993</u>	<u>49,987</u>

***Derivatives***

The Company is exposed to the credit risk arising from transactions with CM Inc. and other counterparties. The notional or contractual values of swap agreements do not represent exposure to credit risk which is limited to the current cost of replacing the contracts with a positive market value. Credit risk represents the amount of loss that the Company would incur if counterparty failed to perform its obligations under contractual terms.

The table below analyses the carrying values of derivative assets before reserves by credit ratings:

<i>S&amp;P rating</i>	31 March 2024 Fair value USD'000	31 March 2023 Fair value USD'000	<i>Moody's rating</i>	31 March 2024 Fair value USD'000	31 March 2023 Fair value USD'000
Related parties			Related parties		
A	34,049	50,829	A1	34,049	50,829
External parties			External parties		
Unrated	862	-	Unrated	862	-
	<u>34,911</u>	<u>50,829</u>		<u>34,911</u>	<u>50,829</u>

Exposures rated BBB+ or lower by S&P amounted to USD 0.9m at the reporting date (2023: USD nil).

The Company's credit exposure arises from the risk of non-performance of its counterparties in fulfilling their contractual obligations pursuant to its derivative transactions. The risk of non-performance can be directly impacted by volatile or illiquid trading markets, which may impair the counterparties' abilities to satisfy their obligations. At the reporting date, the value of the cash collateral pledged by CM Inc. in respect of derivative contracts was USD 33.5m (2022: USD 54.5m). In addition to the cash collateral, the Company held collateral in the form of securities, further explained in Note 23.

**b) Credit risk concentration**

Management determines concentrations of counterparty credit risk in accordance with the European Banking Authority guidance ("EBA Rules"). Management does not believe that the Company is exposed to significant concentrations of risk identified by currency or product. The notes below analyse concentration of credit risk by geographical areas.

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***Geographical analysis***

Below is a geographical analysis of cash at banks by their countries of incorporation:

	31 March 2024 USD'000	31 March 2023 USD'000
Japan	12,988	12,297
Singapore	124,111	117,467
USA	112,831	132,244
	<hr/> 249,930	<hr/> 262,008

Geographical analysis of trading securities is based on the countries of the issuers:

	31 March 2024 USD'000	31 March 2023 USD'000
USA	49,993	49,987
	<hr/> 49,993	<hr/> 49,987

Derivative assets before reserves are analysed by reference to the countries of the customers:

	31 March 2024 USD'000	31 March 2023 USD'000
Derivative assets		
USA	34,049	50,829
UK	862	-
	<hr/> 34,911	<hr/> 50,829

**c) Impairment**

At the reporting date, the Company had no financial assets which were credit-impaired or which credit risk had significantly increased since initial recognition. There were no overdue amounts receivable (2023: USD nil).

**iv) Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The Company has no unfunded forward commitments in the one-year time horizon.

The tables below show maturities of undiscounted contractual cash flows in respect of financial liabilities of the Company.

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As at 31 March 2024	Carrying value USD'000	Less than 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	Total USD'000
Non-derivative financial liabilities					
Other creditors	54,623	54,623	-	-	54,623
Derivative financial liabilities					
Derivative liabilities (excluding reserves) <sup>1</sup>	34,905	20,572	11,521	2,812	34,905
As at 31 March 2023	Carrying value USD'000	Less than 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	Total USD'000
Non-derivative financial liabilities					
Other creditors	75,315	75,315	-	-	75,315
Derivative financial liabilities					
Derivative liabilities (excluding reserves) <sup>1</sup>	50,613	26,076	6,299	18,238	50,613

<sup>1</sup> The maturities of derivative liabilities were prepared on the basis of their present values rather than undiscounted cash flows.

**v) Market risk**

All trading instruments are subject to market risk, the potential that future changes in market conditions may make an instrument less valuable, due to fluctuations in security prices, as well as interest and foreign exchange rates. Market risk is directly affected by the volatility and liquidity in the markets in which the related underlying assets are traded. As the instruments are recognised at fair value, those changes directly affect reported income.

Since all of the Company's transactions with third parties are matched by transactions with CM Inc., the Company has no net exposure to market risk on derivative financial instruments.

The Company invests its capital in cash deposits, treasury bills, and a portfolio of high-quality floating rate notes; through the latter it seeks to earn an interest margin and, when the opportunity arises, to realise a profit. The Company has no borrowings. Interest expense is limited to amounts paid on any collateral received which itself matches the amount this cash earns when deposited.

The Company funds itself from its share capital and retained earnings. As a consequence of this the Company's sensitivity to interest rates is restricted to the direct correlation between interest income and prevailing interest rates.

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The weighted average yield on the cash deposits as of 31 March 2024 was 5.29% (2023: 2.83%). No floating rate notes were held and accordingly no interest was earned in the year (2023: 2.72%). The weighted average yields on U.S. treasury securities were 4.46% (2023: 2.28%).

**vi) Foreign exchange risk**

The Company does not have a significant foreign exchange exposure.

**18. Offsetting financial assets and financial liabilities**

The disclosure set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the company or the counterparties or following other predetermined events. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The tables below disclose the potential effect of netting arrangements on financial assets and liabilities that do not meet the offsetting criteria. The offset amounts have been capped for each counterparty at the lower of assets and liabilities.

	Amounts in the statement of financial position USD'000	Amounts that do not meet the offsetting criteria USD'000	Capped cash collateral USD'000	Net amounts USD'000
At 31 March 2024				
Derivative assets (excluding reserves)	34,911	(863)	(33,186)	862
Derivative liabilities (excluding reserves)	34,905	(863)	-	34,042
At 31 March 2023				
Derivative assets (excluding reserves)	50,829	-	(50,829)	-
Derivative liabilities (excluding reserves)	50,613	-	-	50,613

**19. Fair value hierarchy**

IFRS 13 establishes a hierarchy of valuation inputs used for the fair value measurement of financial instruments. It also encourages the use of higher levels of inputs where possible. These valuation levels are often perceived as indicators of the quality and liquidity of financial instruments.

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly.

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- Level 3: Unobservable inputs.

Where an instrument is measured using a combination of inputs, its classification is determined by the lowest level of inputs which make a significant contribution to the overall value.

When available, the Company uses quoted market prices to determine fair value and classify such items within Level 1.

In some cases where a market price is not available the Company will make use of acceptable practical expedients such as matrix pricing to calculate fair value, in which case the items are classified within Level 2.

If quoted market prices are not available, fair value is based upon internally developed models that use current independently sourced market parameters such as interest rates, exchange rates, option volatilities, etc. The valuation model used generally depends on the specific asset or liability being valued. The determination of fair value considers various key input factors, including interest rate yield curves, time value and volatility factors, underlying options and derivatives and price activity for equivalent synthetic instruments.

The majority of derivative transactions entered into by the Company are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying reference rate. The principal techniques used to value these instruments are discounted cash flows, Black-Scholes and Monte Carlo simulation. A given position is categorised as Level 2 or Level 3 depending on the observability of the key inputs to the model. All trades in both years were valued using observable inputs, therefore, there were no balances classified as Level 3.

Fair values of financial instruments measured at amortised cost approximate their carrying values.

The following table presents the fair value hierarchy of financial assets and liabilities measured at fair value at 31 March 2024 and 31 March 2023:

	Level 1 USD'000	Level 2 USD'000	Total USD'000
At 31 March 2024			
Assets			
Derivative financial instruments	-	35,039	35,039
Trading securities	49,993	-	49,993
	49,993	35,039	85,032
Liabilities			
Derivative financial instruments	-	34,772	34,772
	-	34,772	34,772
At 31 March 2023			
Assets			
Derivative financial instruments	-	50,870	50,870
Trading securities	49,987	-	49,987
	49,987	50,870	100,857
Liabilities			
Derivative financial instruments	-	50,082	50,082
	-	50,082	50,082

The Product Control department is responsible for the valuation policies and procedures. This department is responsible for verifying valuations of the Company's derivatives and securities, and reports into the Chief Financial Officer. The Risk Management department is responsible for managing model risk and its related policies and procedures. It reports into the Chief Risk Officer. As all models are owned by the front office under supervision and reporting lines of the Head Trader, independence in the validation process is maintained. All changes in existing models are reported to the Risk Management department and approved by the Model Validation Group ("MVG"). Model use and changes to models are approved by Global Risk Management Committee ("GRMC"), to which the MVG makes its recommendations. The GRMC broader membership extends to include representatives from the Bank, which also supports independence within the validation process. Pricing models are validated based on assigned tiers. Tier 1 models are validated annually, Tier 2 models are validated every 2 years, and Tier 3 models are validated every 3 years. Stress tests are run on a weekly/monthly basis.

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**20. Classification of financial assets and financial liabilities**

Financial instruments at the reporting date are classified in accordance with IFRS 9.

	Amortised cost USD'000	FVTPL* USD'000	Total USD'000
At 31 March 2024			
Assets			
Cash at banks	249,930	-	249,930
Trading securities	-	49,993	49,993
Derivative assets	-	35,039	35,039
Other debtors	5,738	-	5,738
Total assets	255,668	85,032	340,700
Liabilities			
Derivative liabilities		34,772	34,772
Other creditors	54,623		54,623
Total liabilities	54,623	34,772	89,395
	Amortised cost USD'000	FVTPL* USD'000	Total USD'000
At 31 March 2023			
Assets			
Cash at banks	262,008	-	262,008
Trading securities	-	49,987	49,987
Derivative assets	-	50,870	50,870
Other debtors	5,217	-	5,217
Total assets	267,225	100,857	368,082
Liabilities			
Derivative liabilities		50,082	50,082
Other creditors	75,315		75,315
Total liabilities	75,315	50,082	125,397

\* Fair value through profit or loss

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**21. IBOR Reform**

Following negative publicity around the quality of published London Interbank Offered Rate ('LIBOR'), the reform and replacement of benchmark interest rates has become a priority for global regulators. As a result, the UK's Financial Conduct Authority (FCA) and other global regulators instructed market participants to prepare for the cessation of most LIBOR rates after the end of 2022, and to adopt "near Risk-Free Rates" (RFRs). The alternative reference rate for Sterling LIBOR is the Sterling Overnight Index Average (SONIA) and for US Dollar LIBOR is the Secured Overnight Financing Rate (SOFR).

When the reform was announced, the Company had IBOR-linked derivative assets and liabilities, referenced to GBP, USD, EUR and JPY LIBOR. All these instruments were migrated from IBOR to RFRs in advance of the regulatory deadline.

The Company's derivative instruments are governed by International Swaps and Derivatives Association (ISDA) definitions. ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The supplement is effective from 25 January 2021 and from that date, all new derivatives that reference the ISDA definitions also include the fallbacks.

The main risks to which the Company was exposed to as a result of IBOR reform were operational – for example, the renegotiation of derivative contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform. Financial risk was predominantly limited to interest rate risk.

There have been no changes to the risk management strategies as a result the IBOR reform. The transition was aimed at maintaining equivalence and business continuity of its contracts with customers.

In addition to own instruments, the Company guarantees derivative transactions of its affiliate, CM Inc., as described in Note 23, some of which were linked to IBORs. Migration of these instruments from IBOR to RFRs was completed by the reporting date. The table below presents the analysis of these derivatives at the last reporting date by IBOR type.

	31 March 2024 USD LIBOR USD'000	31 March 2023 USD LIBOR USD'000
Financial guarantees linked to derivative contracts		
Carrying value (excluding reserves)	-	938,849
Notional principal	-	47,799,303

**22. Regulatory capital (unaudited)**

The Company is subject to the FCA's Investment Firms Prudential Regime (IFPR). The IFPR is a single prudential regime for all solo regulated investment firms in the UK (FCA investment firms) authorised under the UK Markets in Financial Instruments Directive (MiFID).

The primary objective of the Company's capital management is to ensure compliance with capital requirements imposed by the FCA. Regulatory capital comprises ordinary share capital and retained earnings (including externally verified interim profits) as common equity tier 1 capital ("CET1"). The business must maintain Own Funds ratio, the proportion of relevant capital to the IFPR own funds requirement above the FCA prescribed thresholds.

The table below summarises the Company's capital adequacy position.

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	31 March 2024 USD'000	31 March 2023 USD'000
Common equity tier 1 (CET1) capital		
Called up share capital	200,000	200,000
Retained earnings	51,305	42,693
	251,305	242,693
CET1 regulatory adjustments		
Intangible assets	-	(8)
Other	(133)	(532)
	(133)	(540)
Total CET1 capital	251,172	242,153
<i>Total own funds (A)</i>	251,172	242,153
IFPR own funds requirement (B)	947	928
Own funds ratio *	265.2	261.0

\* *Own funds ratio is defined as Own Funds v IFPR Own Funds Requirement (A / B)*

The Company utilises a number of approaches to ensure that it remains compliant with the overall financial adequacy rule under IFPR.

Foremost is the annual assessment of own funds (regulatory capital) and liquidity adequacy conducted during the Internal Capital Adequacy and Risk Assessment (“ICARA”) process, which considers the Company’s resource requirements under ‘business as usual’ and a variety of severe yet plausible stressed scenario contexts. In the case of own funds, these requirements are forecast over a three-year time horizon and test a number of the key sensitivities of the Company’s business lines and balance sheet. The Company then ensures that its current level of financial resources is adequate to remain a going concern during this period under all scenarios considered.

In addition, the Company monitors both its required and available capital in accordance with the rules and requirements set out in its Operating Policies and Guidelines in order to meet the operational requirements for AAA / Aaa rated derivative products company. The Company is currently rated AA- by S&P (2023: AA-) and Aa1 by Moody’s (2023: Aa1).

The management believes that the Company has been in compliance with externally imposed capital requirements throughout the period.

Further details of the Company’s own funds, own funds requirements and remuneration information can be found in the Company’s IFPR Disclosure Document. This report is published on the SMBC Group’s corporate website for the EMEA ([www.smbcgroup.com/emea/notices-reporting/corporate-disclosures](http://www.smbcgroup.com/emea/notices-reporting/corporate-disclosures)).

### **23. Financial guarantees and borrowing facilities**

The Sumitomo Mitsui Banking Corporation (“the Bank”) acts as guarantor for some of the Company’s transactions. For this the Company pays a fee based on the notional amount, maturity and deal type for each transaction, which amounted in 2024 to USD nil (2023: USD nil). The Bank is currently rated A1 long term and P-1 short term by Moody’s, and A long-term and A-1 short-term by S&P.

Under a loan agreement dated 18 April 2016, CM Inc. has committed to provide the Company with a USD 200m revolving credit facility for a five-year period. A commitment fee on the amount of the undrawn facility is payable to CM Inc. annually to the maturity date of the agreement. At 31 March 2024, the entire facility was unused (2023: USD nil). The facility was renewed in April 2021 for another five-year period.



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As described in Note 24, DP Ltd. guarantees interest rate caps of CM Inc. In return, CM Inc. provides DP Ltd. an indemnity supported by collateral in the form of US Treasury bills.

In December 2021 CM Ltd agreed to provide the DP Ltd with a USD 10m uncommitted short term multi-currency liquidity facility, renewed annually. In December 2022, the facility was amended to increase its size to USD 50m to accommodate SMBC DP's liquidity requirements. At 31 March 2024, USD 15.5m (2023: USD 18.3m) of the facility was utilised.

SMBC DP, as an AA-/Aa1 derivative product company, is required by Moody's and S&P to have a Contingent Manager. Under such an agreement, an unaffiliated derivatives dealer would provide portfolio management and other general services to the firm in the event that the long term senior rating of Sumitomo Mitsui Banking Corporation ('the bank') is downgraded to Baa3 or below by Moody's, or the event that the bank's short term rating is downgraded to P-3 or below by Moody's, or the event that the long term senior rating of the bank is downgraded to BB or below by S&P, or the event that the bank's short term rating is downgraded to B or below by S&P. On 7th December 2023, the Contingent Manager Agreement with Blackrock Financial Management, Inc. rolled for twelve months as no notice to terminate was issued by SMBC DP.

**24. Related party disclosures**

Related parties of the Company comprise subsidiaries and affiliates of the wider SMBC Group and Directors of the Company. The tables below set out related party balances at the reporting date and transactions during the year. Directors' emoluments are disclosed in Note 7.

	31 March 2024 USD'000	31 March 2023 USD'000
<b>CM Inc.</b>		
Derivative assets	34,039	50,870
Debtor for operating expenses for trading related services	4,463	2,162
Derivative liabilities	(861)	-
Collateral received	(33,480)	(54,515)
Deferred income related to guarantee fees	(4,244)	(2,352)
Guarantee indemnity securities *	1,247,600	2,764,260
Net gain / (loss) on derivative transactions	981	27,055
Guarantee fee income	3,542	2,783
Agency fee income	1,882	1,882
Interest expense	(2,635)	(1,421)
Operating expenses for trading related services	(276)	(242)
<b>CM Ltd</b>		
(Creditor) / debtor for operating expenses for trading related services	(854)	550
Funding loans	(15,535)	(18,335)
Management fee expense	(180)	(180)
Interest expense	(933)	(384)
<b>SMBC Bank International</b>		
Operating expenses for trading related services	-	(1)

*\*In the ordinary course of business, the Company guarantees the performance of its affiliate, CM Inc., in relation to interest rate caps sold to third parties. To protect itself against the risk, the Company has obtained an indemnity from CM Inc. To support this indemnity, CM Inc. pledges securities collateral in the form of US Treasury bills. At 31 March 2024 the termination value of guaranteed interest rate cap transactions, against which collateral was held, was USD 877.0m (2023: USD 1,840.9m). As explained in Note 1, the guarantees are accounted for as financial guarantees.*

**SMBC DERIVATIVE PRODUCTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**25. Ultimate parent undertaking**

The smallest group of which this Company is a member and which has included this Company in its group financial statements is SMBC Nikko Capital Markets Limited, incorporated in England and Wales.

Sumitomo Mitsui Financial Group, Inc. incorporated in Japan, is the Company's ultimate parent entity. It is the largest Group of which this Company is a member and which has included this Company in its Group financial statements. Copies of these financial statements can be obtained from the following address:

1-2 Marunouchi

1-chome

Chiyoda-ku

Tokyo

Japan