

# Pillar 3 disclosures

**SMBC Bank International plc**

As of 31 March 2024



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## Document disclaimer

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

# 1. Overview

## 1.1 Background

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

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

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

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

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

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

## 1.2 Disclosure overview

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

- **Key metrics** (section 2)
- **Own funds** (sections 3 and 4)
- **Risk management**, both in relation to overall risk management issues and specific risk categories (sections 5, 6, 10, 12, 13, 14 and 16)
- **Credit risk exposures** (sections 7, 8 and 9)
- **Interest rate risk in the banking book (IRRBB)** (section 11)
- **Leverage ratio** (section 15)
- **Asset encumbrance** (section 17)
- **Remuneration disclosures** (section 18).

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

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

### 1.3 Basis and frequency of disclosures

In accordance with the PRA's 'Disclosure (CRR)' part of the Rulebook, these disclosures are based on 31 March 2024 year-end data. The corporate governance disclosures can be found in the Bank's annual report and financial statements.

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

### 1.4 Consolidation basis

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

At the date of signing this Disclosure Document, the Bank had one branch, which is established in Paris.

### 1.5 Verification, attestation and approval

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

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

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

### 1.6 Location

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

This can be found at [www.smbcgroup.com/emea/notices-reporting/corporate-disclosures/](http://www.smbcgroup.com/emea/notices-reporting/corporate-disclosures/)

## 2. Key metrics

The key metrics dashboard provides an overview of the Bank's prudential regulatory situation including its capital, leverage ratio and liquidity ratios. Overall, the Bank's ratios have remained robust over the year. The increase in capital ratio was driven by a decrease in credit Risk Weighted Exposure Amounts (RWEAs).

**Table 1: KM1 – Key metrics**

		31 Mar 2024	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
<b>Available own funds (amounts)</b>						
1	Common Equity Tier 1 (CET1) capital	5,477	5,077	5,084	5,077	5,083
2	Tier 1 capital	5,477	5,077	5,084	5,077	5,083
3	Total capital	5,477	5,077	5,084	5,077	5,083
<b>Risk weighted exposure amounts</b>						
4	Total risk weighted exposure amount	28,122	31,432	29,061	29,791	28,579
<b>Capital ratios (as a percentage of risk weighted exposure amount)</b>						
5	CET1 ratio (%)	19.5	16.2	17.5	17.0	17.8
6	Tier 1 ratio (%)	19.5	16.2	17.5	17.0	17.8
7	Total capital ratio (%)	19.5	16.2	17.5	17.0	17.8
<b>Additional own funds requirements based on SREP* (as a percentage of risk weighted exposure amount)</b>						
UK 7a	Additional CET1 SREP requirements (%)	1.0	0.7	0.7	0.7	0.7
UK 7b	Additional Tier 1 SREP requirements (%)	0.3	0.2	0.2	0.2	0.3
UK 7c	Additional Tier 2 SREP requirements (%)	0.5	0.3	0.3	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	9.8	9.3	9.3	9.3	9.3
<b>Combined buffer requirement (as a percentage of risk weighted exposure amount)</b>						
8	Capital conservation buffer (%)	2.5	2.5	2.5	2.5	2.5
9	Institution-specific countercyclical capital buffer (%)	1.1	1.0	0.99	0.6	0.44
11	Combined buffer requirement (%)	3.6	3.5	3.5	3.1	2.9
UK11a	Overall capital requirements (%)	13.4	12.8	12.8	12.4	12.3
12	CET1 available after meeting the total SREP own funds requirements (%)	9.6	6.8	8.2	7.7	8.5
<b>Leverage ratio</b>						
13	Total exposure measure excluding claims on central banks	37,072	42,439	37,292	36,456	36,713
14	Leverage ratio excluding claims on central banks (%)	14.8	12.0	13.6	13.9	13.8
<b>Additional leverage ratio disclosure requirements</b>						
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	14.8	12.0	13.6	13.9	13.8
14b	Leverage ratio including claims on central banks (%)	9.2	8.0	8.3	8.7	8.2
14c	Average leverage ratio excluding claims on central banks (%)	14.0	13.0	13.7	13.8	13.4
14d	Average leverage ratio including claims on central banks (%)	9.0	8.1	8.5	8.7	8.1
14e	Countercyclical leverage ratio buffer (%)	0.4	0.4	0.3	0.2	0.2
<b>Liquidity coverage ratio</b>						
15	Total high quality liquid assets (HQLA) (weighted value – average)	25,071	26,810	25,074	22,986	27,770
UK 16a	Cash outflows – Total weighted value	19,489	20,154	19,937	18,656	22,064
UK 16b	Cash inflows – Total weighted value	3,380	3,183	3,700	3,355	2,970
16	Total net cash outflows (adjusted value)	16,110	16,971	16,237	15,301	19,094
17	Liquidity coverage ratio (%)	155.6	158.0	154.4	150.2	145.4

		31 Mar 2024	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
<b>Net stable funding ratio</b>						
18	Total available stable funding	<b>23,986</b>	23,890	23,965	23,210	23,984
19	Total required stable funding	<b>16,912</b>	16,939	16,870	16,613	16,839
20	NSFR ratio (%)	<b>141.8</b>	141.0	142.1	139.7	142.4

\* Supervisory Review and Evaluation Process.

### 3. Own funds

#### Table 2: CC1 – Composition of regulatory own funds

The Bank determines its own funds on the basis laid down in the CRR. CET1 capital and risk weighted assets (RWAs) are calculated applying the transitional arrangements under the CRR, including the International Financial Reporting Standard (IFRS) 9 transitional arrangements. The Bank has not applied any restrictions to the calculation of own funds.

		(a)	(b)	
		31 March 2024	31 March 2023	Balance sheet source in Table CC2
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	3,200.1	3,200.1	a
2	Retained earnings	2,275.9	1,878.8	b
3	Accumulated other comprehensive income (and other reserves)	103.8	110.5	c
6	CET1 capital before regulatory adjustments	5,579.8	5,189.4	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	(4.3)	(5.0)	h
8	Intangible assets (net of related tax liability)	(70.2)	(56.4)	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(3.6)	(10.2)	e
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		0	
15	Defined benefit pension fund assets	(24.2)	(30.1)	f
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	(0.8)	(4.7)	g
28	Total regulatory adjustments to CET1	(103.1)	(106.3)	
29	CET1 capital	5,476.7	5,083.0	
60	Total risk exposure amount	28,122.2	28,579.2	
Capital ratios and buffers				
61	CET1 (as a percentage of total risk exposure amount)	19.5%	17.8%	
62	Tier 1 (as a percentage of total risk exposure amount)	19.5%	17.8%	
63	Total capital (as a percentage of total risk exposure amount)	19.5%	17.8%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92(1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD (expressed as a percentage of risk exposure amount)	9.1%	8.2%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical buffer requirement	1.1%	0.44%	
68	CET1 available to meet buffers (as a percentage of risk exposure amount)	10.4%	8.5%	
Amounts below the thresholds for deduction (before risk weighting)				
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38(3) CRR are met)	47	26.0	

**Table 3: CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements**

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

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to Table CC1
<b>31 March 2024</b>			
<b>Assets – Breakdown by asset class according to the balance sheet in the published financial statements</b>			
1 Cash and balances at central banks	22,951.2		
2 Settlement balances	95.5		
3 Loans and advances to banks	3,453.5		
4 Loans and advances to customers	18,051.7		
5 Reverse repurchase agreements	1,710.4		
6 Investment securities	668.5		
7 Derivative assets	1,973.0		
of which: subject to capital deduction (Prudential valuation adjustment)	2.7		h
8 Other assets	763.7		
9 Intangible assets and goodwill	70.2		
of which: subject to capital deduction	70.2		d
10 Property and equipment	243.5		
11 Current tax asset	5.5		
12 Deferred tax asset	43.7		
13 Pensions surplus	33.6		
of which: subject to capital deduction (Defined Benefit Pensions fund)	33.6		f
<b>Total assets</b>	<b>50,064.1</b>		
<b>Liabilities – Breakdown by liability class according to the balance sheet in the published financial statements</b>			
1 Deposits by banks	21,151.7		
2 Customer accounts	19,829.1		
3 Debts securities in issue	901.9		
4 Derivatives liabilities	1,625.2		
of which: subject to capital deduction (Prudential valuation adjustment)	1.6		h
of which: subject to capital decrease (fair value gains from the institution's own credit risk)	0.8		g
5 Other liabilities	938.6		
6 Other provisions	11.0		
7 Deferred tax liability	26.8		
8 of which: offsetting the pensions surplus	9.4		f
<b>Total liabilities</b>	<b>44,484.3</b>		
<b>Shareholders' equity</b>			
1 Called up share capital	3,200.1		a
2 Retained earnings	2,275.9		b
3 Other reserves	103.8		c
of which: subject to capital deduction (fair value reserves related to gains or losses on cash flow hedges)	3.6		e



**Total shareholders' equity**
**5,579.8**
**Table 4: CCA – Main features of regulatory own funds instruments and eligible liabilities instruments**

This table provides a description of the main features of regulatory instruments issued and included as capital in Table 2 as at 31 March 2024.

		a	b	c	d	e	f
1	Issuer	SMBC BI plc					
2	Unique identifier	n/a					
2a	Public or private placement	Private					
3	Governing law(s) of the instrument	English					
3a	Contractual recognition of write-down and conversion powers of resolution authorities	n/a					
	Regulatory treatment						
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1					
5	Post-transitional CRR rules	Common Equity Tier 1					
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated					
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares					
8	Amount recognised in regulatory capital or eligible liabilities (currency in millions, as of most recent reporting date)	USD 800 million	USD 800 million	USD 400 million	USD 1.2 billion	GBP 50 thousand	USD 1 thousand
9	Nominal amount of instrument	800,000	800,000	400,000	1,199,999	50,000	1
UK 9a	Issue price	USD 1,000 each	USD 1,000 each	USD 1,000 each	USD 1,000 each	GBP 1 each	USD 1,000
UK 9b	Redemption price	n/a					
10	Accounting classification	Shareholders' equity					
11	Original date of issuance	28 May 2013	25 May 2012	27 May 2008	5 March 2003	31 July 2020	3 March 2003
12	Perpetual or dated	Perpetual					
13	Original maturity date	n/a					
14	Issuer call subject to prior supervisory approval	n/a					

## 4. Own funds requirements and risk weighted exposure amounts

**Table 5: OV1 – Overview of risk weighted exposure amounts**

This table provides a breakdown of the risk weighted exposure amounts (RWEAs) and the total own funds requirements, by exposure class and calculation approach, of SMBC BI as at 31 March 2024. Total own funds requirements are calculated as RWEAs multiplied by 8%.

		RWEAs		Total own funds requirements	
		31 March 2024	31 March 2023	31 March 2024	31 March 2023
1	Credit risk (excluding CCR)	24,153	24,625	1,932	1,970
2	of which: the standardised approach	24,153	24,625	1,932	1,970
6	Counterparty credit risk – CCR	1,759	1,742	141	139
7	of which: the standardised approach	1,759	1,742	141	139
UK 8a	of which: exposures to a CCP	0.2	0.1	0	0
UK 8b	of which: credit valuation adjustment – CVA	259	255	21	20
20	Position, foreign exchange and commodities risks (market risk)	195	466	16	37
21	of which: the standardised approach	195	466	16	37
UK 22a	Large exposures				
23	Operational risk	2,016	1,745	161	140
UK 23a	of which: basic indicator approach				
UK 23b	of which: standardised approach	2,016	1,745	161	140
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	117	65	9	5
<b>29</b>	<b>Total</b>	<b>28,122</b>	<b>28,579</b>	<b>2,250</b>	<b>2,285</b>

The RWEAs have remained stable between year ended 31 March 24 and 31 March 2023.

**Table 6: LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories**

This table provides information about the differences between the Bank's regulatory exposures and carrying amounts presented in the financial statements prepared in accordance with IFRS as at 31 March 2024.

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			Not subject to own funds requirements or subject to deduction from own funds
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	
Assets						
Cash and balances at central banks	22,951	22,951	22,951	–		
Settlement balances	95	95	95	–		
Loans and advances to banks	3,453	3,453	3,453	–		
Loans and advances to customers	18,052	18,052	18,052	–		
Reverse repurchase agreements	1,710	1,710	1,710	–		
Investment securities	668	668	668	–		
Derivative assets	1,973	1,973	–	1,973	1,835	–
Other assets	764	764	563	201	–	–
Intangible assets and goodwill	70	70	–	–	–	70
Property and equipment	244	244	244	–	–	–
Current tax asset	6	6	–	–	–	6
Deferred tax asset	44	44	44	–	–	–
Pensions surplus	34	34	–	–	–	34
<b>Total assets</b>	<b>50,064</b>	<b>50,064</b>	<b>47,781</b>	<b>2,174</b>	<b>1,835</b>	<b>109</b>
Liabilities						
Deposits by banks	21,152	21,152	–		–	21,152
Customer accounts	19,829	19,829	–		–	19,829
Debts securities in issue	902	902	–		–	902
Derivatives liabilities	1,625	1,625	–	1,625	1,623	–
Other liabilities	939	939	–	286	–	653
Other provisions	11	11	11		–	
Deferred tax liability	27	27	–			27
<b>Total liabilities</b>	<b>44,484</b>	<b>44,484</b>	<b>11</b>	<b>1,911</b>	<b>1,623</b>	<b>42,562</b>

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

**Table 7: LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

This table provides a reconciliation between the assets' carrying values under the regulatory consolidation in Table 6 and the exposures used for regulatory purposes as at 31 March 2024, split by regulatory risk framework.

	Total	Items subject to Credit risk framework	CCR framework	Market risk framework
<b>Assets' carrying value amount under the scope of regulatory consolidation (as per template LI1)</b>	49,955	47,781	2,174	1,835
<b>Liabilities' carrying value amount under the regulatory scope of consolidation (as per template LI1)</b>	3,545	11	1,911	1,623
<b>Total net amount under the regulatory scope of consolidation</b>	46,410	47,770	262	212
<b>Off-balance sheet amounts</b>	17,504	17,504		
Differences in valuations	(4)	(4)		
Differences due to different netting rules, other than those already included in row 2	1,696	0	1,729	
Differences due to consideration of provisions	(3)	(3)		
Differences due to the use of credit risk mitigation techniques (CRMs)	(6,746)	(6,746)		
Differences due to credit conversion factors	(7,844)	(7,844)		
Other differences	(84)	(84)		
<b>Exposure amounts considered for regulatory purposes</b>	52,584	50,592	1,992	195

**Table 8: LI3 – Outline of the differences in the scopes of consolidation (entity by entity)**

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

## 5. Risk management framework

### 5.1 Risk management strategy

The Bank's risk strategy is designed to support the Corporate Strategy and the achievement of sustainable growth over the long term. The risk strategy comprises four pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives.

#### Business model

Achieve sustainable business growth and manage earnings volatility by prudent risk taking and appropriate pricing of risk.

#### Solvency and liquidity

Maintain capital and liquidity resources in surplus over business needs and regulatory requirements.

#### Conducting business

Adhere to the letter and spirit of all applicable legal and regulatory requirements and ensure that actions (or failure to act) do not cause an adverse outcome for the Bank, its customers, suppliers and other key stakeholders.

#### Operational resilience

Maintain an operational risk framework comprising people, processes and systems to a high standard in order to ensure resilience against both internal and external operational disruptions.



## 5.2 Risk management objectives

The Bank's risk management objectives are to:

- ensure the Bank's strategic risk pillars, risk strategy statements and risk appetite measures are observed and maintained in the pursuit of the Bank's strategic objectives;
- maintain a risk appetite that achieves appropriate risk/return whilst ensuring that the Bank always maintains adequate capital;
- ensure that prudent levels of liquidity are in place to fund the Bank even under stressed conditions;
- maintain fair and ethical relationships with all the Bank's customers;
- manage and mitigate risk that the Bank assumes because of its business strategy;
- maintain an adequate and effective control environment; and
- ensure that the Bank adheres to the letter and spirit of laws and regulations governing its business.

## 5.3 Risk management framework components

The Bank's risk management framework provides the fundamental structure for the management of the risks that it faces, i.e., the governance arrangements, roles and responsibilities, appetites and limits, processes and reporting.

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

The framework can be described through the following components:

### **Risk governance**

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

The Bank's risk management governance arrangements are comprised of:

- a committee structure to oversee and manage the Bank's risks;
- an organisational structure that utilises a Three Lines of Defence (3 LOD) model for the management of risks, and clearly establishes the responsibilities for the various LOD; and
- a policy framework that defines the mandatory minimum requirements for the management of risks.

## Governance structure

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

Governance disclosure	Annual report references	
	Page number	Paragraph
Number of directorships held by members of the management body	44-47	Director biographies
Recruitment policy for selection of members of the management body and their actual knowledge, skills and expertise	48-50	Board composition
	45-47	Director biographies
Policy on diversity with regard to selection of members of the management body, its objectives and relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	48-49	
		Board composition
Information on the Risk Committee and the number of times that Committee has met	62	Risk Committee
Information flow on risk to the management body	52-53	Opportunity and risk
Information on sustainability risk management	32-43	Sustainability risk management

## Three Lines of Defence

The Bank has adopted the Three Lines of Defence model. This approach separates the ownership and management of risk from the functions that oversee risk and the function that provides independent assurance.

### First line

Senior management, in the first line of defence, are ultimately responsible for the risks and controls that fall within their area of responsibility. Each department operates within the risk appetite threshold in the context of its own strategy, taking into account the Bank's overall risk management framework and Corporate Strategy. This approach is designed to ensure that risk appetite is cascaded down to those areas where risk is taken.

### Second line

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

### Third line

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

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

### **Risk identification and assessment**

The key principles used for risk identification and assessment are:

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

The Bank has several processes to ensure its risks are identified and assessed, including Principal and Emerging risks, Risk Register, Scenario analysis and Stress testing, etc.

### **Risk measurement and monitoring**

The key principles for risk measurement and monitoring are to:

- measure risk exposure by loss modelling, enterprise-level key risk indicators (KRIs), Risk Register execution and scenarios;
- provide capital methodology and implementation;
- facilitate senior management understanding of the severity of the risk;
- appropriately report to Board, Risk Committee and Executive Committee of inherent and post-mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite; and
- maintain a record of accepted risks.

### **Risk management (control and mitigation)**

The Bank seeks to control and mitigate inherent risk as far as possible to ensure that it remains within the risk appetite. Risks are monitored on an inherent (pre-control/mitigation) and residual (post-control/mitigation) basis to assess the Bank's risk profile.

The risk control and mitigation the Bank undertakes is in the form of:

- tangible security;
- financial collateral, both funded and unfunded;
- risk governance, policy and procedures, including risk appetite and business level limits;
- individual and collective controls; and
- other mitigation and control actions.

Controls and mitigation are articulated in the policy framework for the main risk types. Controls that implement the policies are contained in the relevant procedure manuals for the Bank's operational processes.

### **Risk reporting and escalation**

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

- Ensuring that senior management is provided with the necessary information regarding the Bank's principal risks so that an informed view of the Bank's risk profile can be made.
- Ensuring that all material risks are reported and deliver a complete view of the whole range of risks facing the Bank.
- The principal risks facing the Bank are reported at the appropriate monthly Risk and Control Committee meetings. Each Committee has responsibility for the principal risk categories and related risk management matters.
- Delivering a Risk Report that incorporates the key themes/messages from the Risk and Control Committees to the Executive Committee monthly.

### **Risk appetite setting**

The purpose of risk appetite is to define the broad-based level of risk that the entity is able and willing to accept in pursuit of its strategic objectives. The risk appetite and risk strategy are complementary, aligning with and supportive of the Corporate Strategy.

The Bank's key principles for its Risk Appetite Framework are as follows:

- Risk appetite is set by the Board. This is undertaken on an annual basis as part of the strategic planning process.
- The risk appetite is driven by both top-down Board leadership and bottom-up involvement of business units and second-line teams.
- To facilitate embedding of risk appetite into the Bank and its culture.
- To evaluate opportunities for appropriate risk-taking and act as a defence against excessive risk-taking.
- To promote robust discussions about the risk profile of the Bank as a result of its activities;
- To be adaptive, where appropriate, to changes in business and market conditions.
- To cover all Bank activities.
- That Board-level appetite changes should drive real changes in risk-taking at the business level.
- That risk-taking is calibrated to the Bank's long-term sustainability.
- That risk appetite setting is an integral part of the Bank's strategy.

### **Stress testing and scenario analysis**

Stress testing and scenario analysis are used across the principal risks to ensure that the Bank can adequately understand and quantify risks not only as they currently exist, but as they might develop in times of stress.

#### **Reverse stress testing**

Reverse stress testing (RST) is used to identify and monitor the factors and the stress levels that have the potential to cause the Bank's business model to become unviable. Reverse stress testing is an important part of the overall risk management framework and assists management in understanding key vulnerabilities within the business model and to identify potential control enhancements.

The Bank's RST is developed in conjunction and alignment with the risk assessment processes (Risk Register and principal and emerging risks) and is included in the Internal Capital Adequacy Assessment Process (ICAAP).

### **Model risk management framework**

All internal models used to conduct stress testing are subject to the Model Risk Management Policy. This Policy is the governing document for all stress testing-related models, covering credit, market, liquidity and operational risks. All stress testing models are subject to a self-assessment against the model risk management principles published by the PRA and the findings of this are reported in the ICAAP document. In the year, the Bank enhanced its model risk management framework to align it to the latest regulatory requirements. These enhancements included the development of the model inventory, establishment of the model risk appetite framework and implementation of new processes to enhance accountability and transparency. This work is expected to continue during the current fiscal year.



## Risk management training

The key principles for risk management training are:

- to facilitate senior management understanding and engagement with key risk management topics and processes;
- to ensure an appropriate and up-to-date framework is in place so that the required skill sets are updated and refreshed regularly, thereby reinforcing the Three Lines of Defence; and
- to communicate and embed the Bank's risk culture and framework throughout the organisation.

The Bank conducts training across all user groups and levels of seniority, through an ongoing process, tailored as appropriate to each group.

## 5.4 Risk profile

The Bank's principal risk categories are summarised below:

Type	Description	How risks are managed
Credit	The risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.	Credit risk is identified, managed and monitored individually and in aggregate. A number of approaches are used such as limits, indicators and stress testing.  Example key indicators include earnings volatility, obligor, sector and country concentration limits and credit quality metrics.
Liquidity	The risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.	Liquidity risk is identified, managed and monitored using a number of approaches, such as limits, indicators and stress testing.  Example key indicators include liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and survivability period metrics under stress scenarios.
Market	The risk that movements in interest rates, foreign exchange rates, or stock prices will change the market value of financial products, leading to a loss.	The Bank uses Value at Risk to a 99% confidence interval to measure and control market risk alongside other relevant metrics.
Operational and other non-financial	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. There is also an increasing regulatory and Bank focus on operational resilience.	Operational risk is managed with a view to maximising resilience and continuity whilst maintaining acceptable levels of residual risk.  Example key indicators used to monitor, measure and report operational risk include operational risk losses and an operational risk profile score underpinned by diverse operational risk indicators.  Several appropriate approaches are used to manage other non-financial risks.
Conduct	The risk of the Bank's actions, inactions or behaviours resulting in poor outcomes for its customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.	The Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank assesses conduct using a suite of targeted metrics.

Type	Description	How risks are managed
Cyber	The risk of cyber-attack which can result in wide-ranging impacts, from information theft to unavailability of systems and services. Any cyber-attack may result in loss of customer confidence, damage to the Bank's reputation, financial loss (including recovery costs and increased costs of working) and possible regulatory penalties or intervention.	The Bank has implemented technical and procedural controls at multiple levels to detect, prevent and respond to potential threats and anomalous behaviour. Any incidents are escalated through the Bank's incident management process, which is tested regularly. All staff receive comprehensive security awareness training and participate in regular simulated phishing campaigns. A number of themes related to cyber events also feature in the Bank's operational risk scenario exercise and are reflected in Operational Risk Capital assessment.
Model	The potential loss resulting from errors in the development, implementation or use of internal models.	Model risk is managed through the Model Risk Management Framework, which comprises four key components: model governance and control, model management, model development and independent model validation. The Bank continues to enhance and embed the Operational Resilience framework in preparation for the regulatory deadline of March 2025.
Sustainability, including climate change	Sustainability risk results from Environmental, Social and Governance (ESG) issues, events or conditions that have the potential to substantially impact (financially, reputationally or physically) the Bank, SMBC Group, its clients, the environment and/or society. This risk can manifest itself across all risk types.	This is managed under the Sustainability Risk Framework, which is embedded in the broader risk framework and across the business.
Reputational risk	The risk of current and prospective impact on earnings and capital arising from litigation or a decline in customer base from negative public opinion regarding the Bank's business practices and, therefore, inability to establish new relationships or continue serving existing relationships.	This has been managed under the Financial Crime and Reputational Risk Framework, and the Bank intends to enhance the governance framework for this risk over the coming year.

The above list should not be considered exhaustive, as the Bank could also be exposed to other potential risks and uncertainties.

At the year-end, the Bank's risk profile sits within the overall risk appetite established by the Board. The risk profile versus risk appetite is reported monthly to the Executive Committee and quarterly to the Risk Committee.

## 5.5 Strategic planning

### 5.5.1 Capital planning

As part of the Corporate Strategy process, the Board critically assesses the capital requirements to support the business plan, and the requirements under stress. This is documented through the ICAAP and is available to regulators on request.

The Bank adopts a 'Pillar 1 plus approach', using the Pillar 1 elements (credit, market and operational risk) as a basis. It then quantifies any other material risks, not covered or adequately captured by Pillar 1, under Pillar 2A.

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

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

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

Risk category	Pillar 1 approach
<b>Credit risk</b>	
Credit risk weighted assets	Standardised approach under Chapter 2, Title II, Part Three of the UK CRR
Funded credit risk mitigation	Financial collateral comprehensive method under UK CRR Article 223
Counterparty credit risk	Standardised approach for counterparty credit risk in section 3, Chapter 6, Title II, Part Three of the UK CRR
<b>Market risk</b>	
Interest rate general market risk	Maturity-based approach under UK CRR Article 339
Foreign exchange risk	Standardised approach under UK CRR Article 352
<b>Operational risk</b>	Standardised approach under Chapter 3, Title III, Part Three of the UK CRR
<b>Credit valuation adjustment risk</b>	Standardised method under UK CRR Article 384
<b>Settlement risk</b>	UK CRR Article 378

See sections 6, 10 and 11 for further details.

### 5.5.2 Liquidity planning

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

See section 16 for further details.

### 5.5.3 Recovery and resolution planning

The Board also considers, on an annual basis, the Bank's crisis preparedness: the Bank assesses extreme but plausible stress scenarios which can be systemic or idiosyncratic in nature and would result in the Bank invoking its Recovery Plan, which documents the crisis monitoring and escalation procedure, stress testing and credible recovery options that could be taken to weather a crisis situation. The overall Recovery and Resolution Planning Framework comprising the Recovery Plan, the Solvent Wind Down Plan, and the Resolution Pack, is approved by the Board annually.

## 6. Credit risk management

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

### 6.1 The framework

The Bank ensures that the level of credit risk it takes is in line with its risk appetite and business model through the following key measures:

- Having a credit risk management framework that consists of appropriate controls and senior management governance and oversight.
- The establishment of well-defined policies and procedures for the identification, measurement and control of credit risk.
- A centralised credit risk control function, under the responsibility of the Chief Risk Officer, who has a right of veto on credit and underwriting transactions.
- Having thorough risk analysis and reporting functions, conducted by a credit management team with the capabilities and resources to evaluate and monitor the exposures and limits.
- The implementation of the Bank's Risk Appetite Framework.
- Ensuring understanding of vulnerabilities through stress testing and reverse stress testing.
- Ensuring the Bank's model governance framework is robust.
- Having strong rating systems to measure the risk of individual transactions.
- Regular reviews conducted by the Audit Department's Credit Review Group to ensure compliance with policies, procedures and market best practice.
- A fully comprehensive credit assessment is undertaken at a transaction and client level, including: analysis of a variety of financial measures (e.g., cash flow) and quantitative analysis of industrial trends such as the competitiveness of a borrower's products, services and management calibre.

### 6.2 Credit assessment

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

The rating system consists of two indicators, namely:

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

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

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

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



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

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

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

### **6.3 Credit monitoring**

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

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

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

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

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

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

### **6.4 Industry exposures**

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

### **6.5 Geographical exposures**

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

### **6.6 Maximum exposure to credit risk**

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

## 6.7 Use of credit risk mitigation techniques

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

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

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

## 6.8 Offsetting of financial assets and financial liabilities

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

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

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

## 6.9 Credit quality of counterparty per class of financial assets

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

## 6.10 Counterparty credit risk

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

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

## 6.11 Qualitative information on external credit ratings

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

Issuer- and issue-specific ratings are captured by using information from S&P and information in SMBC BI booking systems. An identifier for each issuer/issue is booked in the SMBC BI booking system. These identifiers are then used to map ratings from an automated data feed provided by S&P.

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

## 7. Credit risk exposures

### 7.1 Analysis of non-performing and forborne exposures

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

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

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

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

#### Table 9: CQ1 – Credit quality of forborne exposures

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

**31 March 2024**

	Gross carrying amount/Nominal amounts of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
	Non-performing forborne							
	Performing forborne		Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	121	58	58	58	(0)	(8)	28	28
Other financial corporations	–						–	
Non-financial corporations	121	58	58	58	(0)	(8)	28	28
<b>Total</b>	<b>121</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>(0)</b>	<b>(8)</b>	<b>28</b>	<b>28</b>

**Table 10: CQ3 – Credit quality of performing and non-performing exposures by past due days**

**31 March 2024**

	Gross carrying amount/nominal amount									
	Performing exposures				Non-performing exposures					
	Not past due or past due ≤ 30 days		Unlikely to pay that are not past due or are past due ≤ 90 days		Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which: defaulted
Cash balances at central banks and other demand deposits	23,053	23,053	–	–	–	–	–	–	–	–
Loans and advances	23,393	23,393	253	233	–	–	–	20	–	253
Central banks	22	22	–	–	–	–	–	–	–	–
General governments	201	201	–	–	–	–	–	–	–	–
Credit institutions	4,387	4,387	–	–	–	–	–	–	–	–
Other financial corporations	3,544	3,544	35	35	–	–	–	–	–	35
Non-financial corporations	15,240	15,240	218	198	–	–	–	20	–	218
Debt securities	648	648	–	–	–	–	–	–	–	–
General governments	638	638	–	–	–	–	–	–	–	–
Other financial corporations	10	10	–	–	–	–	–	–	–	–
Off-balance sheet exposures	17,558	–	9	–	–	–	–	–	–	9
General governments	0	–	–	–	–	–	–	–	–	–
Credit institutions	767	–	–	–	–	–	–	–	–	–
Other financial corporations	1,136	–	–	–	–	–	–	–	–	–
Non-financial corporations	15,655	–	9	–	–	–	–	–	–	9
<b>Total</b>	<b>64,652</b>	<b>47,094</b>	<b>262</b>	<b>233</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20</b>	<b>–</b>	<b>262</b>

**Table 11: CQ4 – Quality of non-performing exposures by geography**

**31 March 2024**

	Gross carrying/Nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	Of which: non-performing						
		Of which: defaulted	Of which: subject to impairment				
On-balance sheet exposures	24,294	253	253	24,294	(269)	–	–
United Kingdom	8,372	95	95	8,372	(28)	–	–
France	3,722	64	64	3,722	(57)	–	–
Saudi Arabia	1,022	–	–	1,022	(23)	–	–
Japan	1,857	–	–	1,857	(0)	–	–
Netherlands	699	34	34	699	(23)	–	–
United States	502	–	–	502	(1)	–	–
South Africa	782	–	–	782	(0)	–	–
Switzerland	758	26	26	758	(2)	–	–
Turkey	185	–	–	185	(1)	–	–
Russian Federation	251	–	–	251	(122)	–	–
Other countries	6,144	33	33	6,144	(12)	–	–
Off-balance sheet exposures	17,567	9	9	–	–	11	
France	6,890	–	–	–	–	1	
United Kingdom	6,148	8	8	–	–	5	
Saudi Arabia	58	–	–	–	–	–	
Spain	90	–	–	–	–	–	
South Africa	152	–	–	–	–	–	
Netherlands	533	1	1	–	–	1	
Cayman Islands	242	–	–	–	–	2	
Japan	176	–	–	–	–	–	
Hong Kong	123	–	–	–	–	–	
Jersey	32	–	–	–	–	–	
Other countries	3,125	–	–	–	–	2	
Total	41,860	262	262	24,294	(269)	11	–

**Table 12: CR1 – Performing and non-performing exposures and related provisions**

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

**31 March 2024**

	Gross carrying amount/Nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures		Non-performing exposures		Performing exposures – accumulated impairment and provisions		Performing exposures – accumulated impairment and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
	Of which: Stage 1	Of which: Stage 2	Of which: Stage 2	Of which: Stage 3	Of which: Stage 1	Of which: Stage 2	Of which: Stage 1	Of which: Stage 2	Of which: Stage 2	Of which: Stage 3	Of which: Stage 2	Of which: Stage 3		
Cash balances at central banks and other demand deposits	23,503	23,503	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	23,393	21,488	1,905	253	–	253	(173)	(15)	(158)	(96)	–	(96)	10,449	50
Central banks	22	22	–	–	–	–	–	–	–	–	–	–	–	–
General governments	201	201	0	–	–	–	(0)	(0)	(0)	–	–	–	–	–
Credit institutions	4,387	4,184	203	–	–	–	(82)	(1)	(82)	–	–	–	3,670	–
Other financial corporations	3,544	3,490	54	35	–	35	(1)	(0)	(0)	(0)	–	(0)	756	–
Non-financial corporations	15,240	13,592	1,648	218	–	218	(90)	(13)	(77)	(96)	–	(96)	6,024	50
Debt securities	648	648	–	–	–	–	–	–	–	–	–	–	–	–
General governments	638	638	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	10	10	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance sheet exposures	17,558	16,920	638	9	–	9	10	4	6	1	–	1	–	–
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–
General governments	0	0	–	–	–	–	0	–	0	–	–	–	–	–
Credit institutions	767	716	51	–	–	–	3	1	2	–	–	–	–	–
Other financial corporations	1,136	1,136	–	–	–	–	0	0	–	–	–	–	–	–
Non-financial corporations	15,655	15,068	587	9	–	9	7	3	4	1	–	1	–	–
<b>Total</b>	<b>64,652</b>	<b>62,109</b>	<b>2,543</b>	<b>262</b>	<b>–</b>	<b>262</b>	<b>(164)</b>	<b>(11)</b>	<b>(152)</b>	<b>(95)</b>	<b>–</b>	<b>(95)</b>	<b>10,449</b>	<b>50</b>

**Table 13: CR1-A – Maturity of exposures**

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

**31 March 2024**

	Net exposure value					Total
	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	
Loans and advances	–	10,404	8,645	4,240	–	23,289
Debt securities	–	648	–	–	–	648
<b>Total</b>	–	11,052	8,645	4,240	–	23,937

**Table 14: CR2 – Changes in the stock of non-performing loans and advances**

**31 March 2024**

	Gross carrying amount
<b>Initial stock of non-performing loans and advances</b>	426
Inflows to non-performing portfolios	–
Outflows from non-performing portfolios	174
Outflows due to write-offs	–
Outflow due to other situations	174
<b>Final stock of non-performing loans and advances</b>	253

**Table 15: CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries**

**31 March 2024**

	Gross carrying amount	Related net accumulated recoveries
<b>Initial stock of non-performing loans and advances</b>	426	–
Inflows to non-performing portfolios	189	–
Outflows from non-performing portfolios	(362)	–
Outflow to performing portfolio	(348)	–
Outflow due to sale of instruments	–	–
Outflows due to write-offs	(15)	–
Outflow due to other situations	–	–
<b>Final stock of non-performing loans and advances</b>	253	–



**Table 16: CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer**

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

**31 March 2024**

Breakdown by country	Exposure value under the standardised approach	Own funds requirement	Risk weighted exposure amounts	Own funds req. weights %	Countercyclical buffer rate (%)
Australia	58	5	58	0.2%	1.0%
Belgium	51	4	51	0.2%	0.0%
Bermuda	175	14	175	0.7%	0.0%
Cayman Islands	454	55	690	2.9%	0.0%
Czech Republic	141	9	109	0.5%	2.0%
France	6,220	470	5,881	24.9%	1.0%
Germany	48	4	48	0.2%	0.8%
Guernsey	119	10	119	0.5%	0.0%
Hong Kong	106	8	106	0.4%	1.0%
Hungary	61	5	61	0.3%	0.0%
Ireland	318	25	318	1.3%	1.0%
Isle of Man	30	2	30	0.1%	0.0%
Japan	95	7	82	0.3%	0.0%
Jersey	810	68	848	3.6%	0.0%
Luxembourg	683	55	683	2.9%	0.5%
Morocco	113	8	106	0.4%	0.0%
Netherlands	934	73	913	3.9%	1.0%
Nigeria	498	37	465	2.0%	0.0%
Norway	103	8	103	0.4%	2.5%
Oman	44	4	44	0.2%	0.0%
Qatar	51	2	26	0.1%	0.0%
Russian Federation	134	16	194	0.8%	0.0%
Saudi Arabia	933	59	734	3.1%	0.0%
Singapore	562	42	522	2.2%	0.0%
Slovakia	7	1	7	0.0%	1.5%
South Africa	719	58	719	3.0%	0.0%
Spain	68	5	68	0.3%	0.0%
Sweden	12	1	12	0.0%	2.0%
Switzerland	480	38	480	2.0%	0.0%
United Arab Emirates	105	8	105	0.4%	0.0%
United Kingdom	8,563	671	8,393	35.5%	2.0%
United States	552	40	504	2.1%	0.0%
Other countries	1,199	77	964	4.6%	0.0%
<b>Total</b>	<b>24,447</b>	<b>1,889</b>	<b>23,617</b>	<b>100%</b>	

**Table 17: CCyB2 – Amount of institution-specific countercyclical capital buffer**

31 March 2024	Total
Total risk weighted assets	28,122
Institution-specific countercyclical capital buffer rate	1.06%
Institution-specific countercyclical capital buffer requirement	297

## 8. Standardised approach

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

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

**Table 18: CR4 – Credit risk exposure and CRM effects**

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

**31 March 2024**

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

31 March 2023

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWAs	RWAs density (%)
1	Central governments or central banks	26,982	–	28,036	132	97	0.3%
3	Public sector entities	26	–	85	7	18	20.0%
4	Multilateral development banks	650	–	526	2	497	94.2%
6	Institutions	2,253	277	1,135	471	656	40.9%
7	Corporates	17,007	15,999	15,024	7,469	21,262	94.5%
8	Retail	–	–	–	–	–	75.0%
9	Secured by mortgages on immovable property	1,034	–	1,015	–	1,015	100.0%
10	Exposures in default	379	27	75	5	108	134.5%
11	Exposures associated with particularly high risk	330	31	240	4	365	150.0%
14	Collective investment undertakings	19	6	19	6	307	1250.0%
16	Other items	299	–	299	–	299	100.0%
17	Total	48,978	16,340	46,454	8,096	24,625	45.1%

## Table 19: CR5 – Standardised approach

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

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

Exposure classes	Risk weight								Total	Of which: unrated
	0%	20%	50%	75%	100%	150%	250%	1250%		
Central governments or central banks	28,030	78	33	–	–	–	26	–	28,168	–
Regional government or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	91	–	–	–	–	–	–	91	26
Multilateral development banks	31	–	–	–	497	–	–	–	528	497
International organisations	–	–	–	–	–	–	–	–	–	–
Institutions	–	807	610	–	190	–	–	–	1,606	18
Corporates	–	281	1,803	–	20,068	341	–	–	22,493	16,658
Retail	–	–	–	0	–	–	–	–	–	–
Exposures secured by mortgages on immovable property	–	–	–	–	1,015	–	–	–	1,015	1,015
Exposures in default	–	–	–	–	25	55	–	–	80	80
Exposures associated with particularly high risk	–	–	–	–	–	243	–	–	243	243
Units or shares in collective investment undertakings	–	–	–	–	–	–	–	25	25	25
Equity	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	299	–	–	–	299	299
<b>As at 31 March 2023</b>	<b>28,061</b>	<b>1,258</b>	<b>2,446</b>	<b>–</b>	<b>22,095</b>	<b>640</b>	<b>26</b>	<b>25</b>	<b>54,550</b>	<b>19,423</b>

**Table 20: CR3 – CRM techniques overview: Use of CRM techniques**

	Unsecured carrying amount	Secured carrying amount	Of which: secured by collateral c	Of which: secured by financial guarantees d	Of which: secured by credit derivatives e
	a	b			
Loans and advances	36,199	10,500	7,231	3,269	
Debt securities	648	–	–	–	
Total	36,847	10,500	7,231	3,269	
Of which non-performing exposures	202	50	–	50	

## 9. Exposures to counterparty credit risk

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) defaulting before the final settlement of cash flow obligations. The size of the potential loss could be reduced by the application of netting or collateral agreements with the counterparty. As at 31 March 2024, SMBC BI did not have any counterparty credit risk exposures to credit derivatives or central counterparties.

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

**Table 21: CCR1 – Analysis of CCR exposure by approach**

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

### 31 March 2024

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

### 31 March 2023

	Replacement cost	Potential future exposure	Alpha used for computing regulatory exposure value	Exposure value pre CRM	Exposure value post CRM	Exposure value	RWEA
SA-CCR (for derivatives)	459	999	1.4	1,949	1,949	1,949	1,482
Financial collateral comprehensive method (for securities financing transactions)				1,267	25	25	5
<b>Total</b>				<b>3,216</b>	<b>1,974</b>	<b>1,974</b>	<b>1,487</b>

**Table 22: CCR2 – Transactions subject to own funds requirements for CVA risk****31 March 2024**

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

31 March 2023

	Exposure value	RWEA
Transactions subject to the standardised method	726	255
Total transactions subject to own funds requirements for CVA risk	726	255

**Table 23: CCR3 – Standardised approach: CCR exposures by regulatory exposure class and risk weights**

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

**31 March 2024**

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

31 March 2023

Exposure classes	Risk weight											Total exposure value
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
Institutions					102	785						887
Corporates						25			1,061			1,086
<b>Total exposure value</b>					102	810			1,061			1,974



**Table 24: CCR5 – Standardised approach: Composition of collateral for CCR exposures**

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

**31 March 2024**

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

**31 March 2023**

Collateral type	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of collateral posted		Fair value of collateral received	Fair value of collateral posted
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash		817		390		
Debt					1,279	
<b>Total</b>		<b>817</b>		<b>390</b>	<b>1,279</b>	

**Table 25: CCR8 – Exposures to central counterparties (CCPs)**

**31 March 2024**

	Exposure value	RWEA
<b>Exposures to QCCPs (total)</b>		0.2
Prefunded default fund contributions	2.5	0.2

**31 March 2023**

	Exposure value	RWEA
<b>Exposures to QCCPs (total)</b>		0.1
Prefunded default fund contributions	2.5	0.1

## 10. Market risk management

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

The Bank ensures the level of market risk is in line with the Bank's risk appetite and business model through the following controls:

- Value at Risk (VaR) is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model.
- Interest rate risk in the banking book refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book position.

This is assessed using:

- the scenarios as prescribed by the Basel Committee on Banking Supervision (BCBS) (parallel/non-parallel) that is assessed monthly and then daily in the event pre amber limits are breached;
- historical scenarios, for example Lehman, Black Monday and the more recent COVID-19 period – assessed monthly, which considers the Bank's current positions against past crises;
- daily market risk reporting of net basis point value (BPV) limits for the overall portfolio and by major currency (GBP, USD, EUR and JPY) respective maturity ladder;
- monitoring and assessing the daily profit and loss to ensure it is in line with the Bank's expectation; and
- managing, monitoring and reporting the Bank's early warning indicators.

### Fair value of derivative assets and liabilities

The tables in note 13 to the financial statements show the Bank's fair value disclosures on 31 March 2024.

**Table 26: MR1 – Market risk under the standardised approach**

**31 March 2024**

		RWEAs	
		31 March 2024	31 March 2023
<b>Outright products</b>			
1	Interest rate risk (general and specific)	32	96
2	Equity risk (general and specific)		–
3	Foreign exchange risk	155	356
4	Commodity risk		–
<b>Options</b>			
5	Simplified approach		–
6	Delta-plus method	7	15
7	Scenario approach		–
8	Securitisation (specific risk)		–
9	<b>Total</b>	<b>195</b>	466

## 11. Interest rate risk in the banking book

### 11.1 IRRBB risk management objectives and policies

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

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

#### 11.1.1 Risk management and risk assessment purposes

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

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

#### 11.1.2 Risk management and risk assessment strategies

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

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

#### 11.1.3 Risk management frequency and key indicators

To manage IRRBB, the Bank measures and monitors its exposure in EVE through stress testing on a monthly basis. The results for EVE are monitored against the RAF and regulatory limits. For NII, the Bank will monitor the results against the threshold expected to be introduced by the European Banking Authority (EBA) in the near future.

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

- 6 Standardised Scenarios, with amber (1.5%) and red (2%) thresholds
- 2 Standardised Scenario +200bps, with amber (1.1%) and red (1.5%) thresholds.

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

In the event a pre amber for the 6 Scenarios (1.3%) or the 2 Scenarios (0.9%) limit is breached, daily IRRBB EVE monitoring will occur with daily communication to the relevant stakeholders until the KRIs falls below the pre amber threshold.

In addition, the Bank also conducts two NII-related stress scenarios (+200bps) testing on the Bank's non-trading book positions in the major currencies. The bank is currently recalibrating NII stress testing under the new EBA guidelines effective from June 2023.

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

#### 11.1.4 Interest rate shocks and stress scenarios

The Bank performs IRRBB EVE stress testing comprised of eight scenarios (listed below) for positions in the major currencies, each of which has its own prescribed shifts based on historical time series ranging from 2000 to 2015. This period captures multiple crises, including the Financial Crisis (2007–09) which would have been a severe shock.

The eight scenarios are:

- i) parallel shock up;
- ii) parallel shock down;
- iii) steepener shock (short rates down and long rates up);
- iv) flattener shock (short rates up and long rates down);
- v) short rates shock up;
- vi) short rates shock down;
- vii) a sudden parallel shift of the yield curve up by 200 bps; and
- viii) a sudden parallel shift of the yield curve down by 200bps.

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

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

#### 11.1.5 Model assumptions deviations

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

The model used for the IRRBB EVE stress test had been independently validated by the Model Validation Group of SMFG and is on a two-year review cycle.

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

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

#### 11.1.6 Hedge strategies and accounting treatment

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

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

### 11.1.7 Other information

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

**Table 27: IRRBB1 – Quantitative information on IRRBB**

		a	b	c	d	e	f
In reporting currency		$\Delta$ EVE*		$\Delta$ NI**		Tier 1 capital	
Period		31 March 2024	31 March 2023	31 March 2024	31 March 2023	31 March 2024	31 March 2023
010	Parallel shock up	(2.1)	6	211.0	185.2		
020	Parallel shock down	(27.2)	(24.3)	(211.0)	(185.2)		
030	Steeper shock	(18.5)	(15.6)				
040	Flattener shock	(10.2)	1.1				
050	Short rates shock up	(11.7)	2.3				
060	Short rates shock down	(27.9)	(25.6)				
070	<b>Maximum</b>	<b>(27.9)</b>	<b>(25.6)</b>	<b>(211.0)</b>	<b>(185.2)</b>		
080	<b>Tier 1 capital</b>					<b>5,477</b>	5,083

\* Change in economic value of equity.

\*\* Change in net interest income.

## 12. Operational and other risks

### 12.1 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risks.

Operational risk arises as a result of the Bank's day-to-day operations and is relevant to every aspect of the business. Operational risk management is embedded through regular engagement with the business, challenge where required, operational risk reporting and training. This is further supported by the execution of the following processes to ensure the operational risk profile is understood and managed:

- Operational risk appetite definition and calibration
- Operational risk identification, assessment and measurement
- Control and mitigation
- Reporting and escalation.

The ongoing management of operational risk is supported by diverse processes and tools, which include: Operational risk event/material incident reporting, Scenario analysis, Risk Register, Risk issue/acceptance identification, Product approval framework, Operational risk capital approach, Risk indicator governance framework, Third party risk management/outsourcing (TPRM), IT and cyber risk oversight and Project monitoring.

### 12.2 Operational resilience

Operational resilience concerns the Bank's ability to prevent, adapt, respond to, recover and learn from operational disruptions.

Operational disruptions to the products and services offered by firms have the potential to cause harm to consumers, market participants and the financial system. The Bank's core business concerns generating revenue as a direct result of taking credit risk through its lending portfolio, and operational resilience is a crucial factor in helping it achieve its business plan. This entails preventing, as far as possible, a major operational disruption from occurring.

The following are the key components of the existing Operational Resilience Framework which is still being developed, enhanced and implemented in preparation for the regulatory deadline of March 2025. These components complement the operational risk processes, which are focused on the prevention of disruption, to introduce the operational resilience concepts of response and recovery to normal operations without materially impacting clients, market integrity or financial stability:

- Important Business Services (IBS)
- Impact tolerances
- Mapping
- Scenario testing
- Self-assessment
- Boards and governance.

By March 2025, SMBC BI is required to have developed key components and operational capabilities which improve its operational resilience and address its Lessons Learned so it can consistently remain within its impact tolerances in the event of an operational disruption.

SMBC BI has an active Operational Resilience Programme which is scoping, designing and then implementing the changes required in order to iteratively improve its resilience to the required standard during the transition period. This includes enhancements to business continuity, incident management, technology and cyber resilience, and the establishment of a formal business service management capability.

### **12.3 Important Business Services (IBS)**

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

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

The Bank has nine IBS.

### **12.4 Impact tolerances**

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

### **12.5 Mapping**

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

### **12.6 Scenario testing**

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

### **12.7 Self-assessment**

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

### **12.8 Board and governance**

An interim Governance structure has been introduced with an Operational Resilience Council (ORC) chaired by the SMF24 (or equivalent). The council includes IBS Owners and Capability Leads who together can review the status of each IBS.

The Operational Resilience Programme, which is developing maturity of a number of core capabilities during the transition period, is governed by a dedicated Steering Committee chaired by SMF24 (or equivalent).

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

**Table 28: OR1 – Operational risk own funds requirements and risk weighted exposure amounts**  
**31 March 2024**

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

31 March 2023

	Relevant indicator			Own funds requirements	Risk exposure amount
	Year 3	Year 2	Last year		
Banking activities					
Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches	841	871	1,014	140	1,745
Subject to TSA:	841	871	1,014	–	–

### 13. Conduct risk management

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

The Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank has a policy framework to help all colleagues in understanding good conduct, positive behaviours and raising and addressing concerns.

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

Conduct KRIs, which seek to provide effective risk identification, are regularly reviewed, including by the Executive and Risk Committees, with the aim of ensuring these remain proportionate and relevant to encourage organisational learning, constructive challenge and inclusion, as well as improved engagement and accountability.



## 14. Sustainability risk management

SMBC Group defines sustainability as the creation of “a society in which today’s generation can enjoy economic prosperity and wellbeing and pass it on to future generations”. The Bank shares SMBC Group’s objective of working with customers and stakeholders towards building and sustaining a better world.

The Bank’s sustainability arrangements extend to the three aspects of ESG, and while there is significant focus on the risks and opportunities arising from climate change, the Bank recognises that this forms part of a broader range of sustainability factors.

The Board, supported by its Committees, is responsible for setting and monitoring the development of the Bank’s Sustainability Strategy.

Sustainability is an important element of the Board’s ongoing education plan. During the year, the Directors received briefings from internal and external specialists on topics including reputational risk, greenwashing risk and trends in climate litigation. In addition, certain individual members of the Board have received briefings from professional advisors on climate matters.

## 15. Leverage ratio

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

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

**Table 29: LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures**  
**31 March 2024**

	Applicable amount
Total assets as per published financial statements	50,064
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	0
Adjustment for exemption of exposures to central banks	(22,367)
Adjustment for derivative financial instruments	599
Adjustment for securities financing transactions (SFTs)	3
Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	8,759
Other adjustments	14
<b>Total exposure measure</b>	<b>37,072</b>

**Table 30: LR2 – LRCom: Leverage ratio common disclosure**

		Leverage ratio exposures	
		31 March 2024	31 March 2023
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>			
1	On-balance sheet items (excluding derivatives and SFTs but including collateral)	46,489	49,314
6	Asset amounts deducted in determining Tier 1 capital (leverage)	(94)	(97)
<b>7</b>	<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>46,395</b>	<b>49,217</b>
<b>Derivative exposures</b>			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)	1,026	1,067
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	1,546	1,742
<b>13</b>	<b>Total derivatives exposures</b>	<b>2,572</b>	<b>2,809</b>
<b>Securities financing transaction (SFT) exposures</b>			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	1,710	1,267
16	Counterparty credit risk exposure for SFT assets	3	4
<b>18</b>	<b>Total SFT exposures</b>	<b>1,713</b>	<b>1,271</b>
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposures at gross notional amount	17,365	16,036
20	Adjustments for conversion to credit equivalent amounts	(8,606)	(7,623)
21	General provisions deducted in determining Tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures	–	–
<b>22</b>	<b>Off-balance sheet exposures</b>	<b>8,759</b>	<b>8,413</b>
<b>Capital and total exposure measure</b>			
23	Tier 1 capital (leverage)	5,477	5,083
24	Total exposure measure including claims on central banks	59,440	61,710
UK 24a	Claims on central banks excluded	(22,367)	(24,997)
<b>UK 24b</b>	<b>Total exposure measure excluding claims on central banks</b>	<b>37,072</b>	<b>36,713</b>
<b>Leverage ratio</b>			
25	Leverage ratio excluding claims on central banks (%)	14.8%	13.8%
UK 25a	Fully loaded ECL* accounting model leverage ratio excluding claims on central banks (%)	14.8%	13.8%
UK 25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	14.8%	13.8%
UK 25c	Leverage ratio including claims on central banks (%)	9.2%	8.2%
26	Regulatory minimum leverage ratio requirement (%)	3.3%	3.25%
<b>Additional leverage ratio disclosure requirements – leverage ratio buffers</b>			
27	Leverage ratio buffer (%)	0.4%	0.2%
UK-27b	of which: countercyclical leverage ratio buffer (%)	0.4%	0.2%
<b>Additional leverage ratio disclosure requirements – disclosure of mean values</b>			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	1,684	1,251
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	1,710	1,267
UK 31	Average total exposure measure including claims on central banks	60,937	62,928
UK 32	Average total exposure measure excluding claims on central banks	39,167	38,067
UK 33	Average leverage ratio including claims on central banks (%)	9.0%	8.1%
UK 34	Average leverage ratio excluding claims on central banks (%)	14.0%	13.4%

\* Expected credit loss.

**Table 31: LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

**31 March 2024**

	Leverage ratio exposures	
	31 March 2024	31 March 2023
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:</b>	<b>46,489</b>	49,314
Trading book exposures	–	–
Banking book exposures, of which:	<b>46,489</b>	49,314
Covered bonds	–	–
Exposures treated as sovereigns	<b>24,804</b>	28,058
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	<b>610</b>	579
Institutions	<b>4,928</b>	3,993
Secured by mortgages of immovable properties	<b>1,049</b>	1,012
Retail exposures	<b>0</b>	0
Corporates	<b>14,386</b>	14,920
Exposures in default	<b>63</b>	75
Other exposures (e.g., equity, securitisations and other non-credit obligation assets)	<b>649</b>	677

#### **LRA – Disclosure of LR qualitative information**

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

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

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

The leverage ratio has remained stable between year ended 31 March 2023 and 31 March 2024.

## **16. Liquidity risk management**

### **16.1 Liquidity risk**

Liquidity risk is the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.

The Bank ensures that the level of liquidity risk is in line with its risk appetite and business model through the following main measures:

- The establishment of a clear, consistent Risk Appetite Framework, and its underpinning quantitative risk metrics, early warning indicators and KRIs, that is understood across the Bank.
- Defining clear roles and responsibilities for the management of liquidity under normal and stressed circumstances.
- The implementation of a robust committee framework to manage liquidity risk issues, with clear terms of reference and standard agendas.
- Regular management information to demonstrate that we are operating within risk appetite, along with other select metrics.
- Regular senior management training.

Within the governance framework outlined above, the Bank has established a liquidity risk management approach as a core component of the risk management process. The purpose of the framework is to ensure that the Bank successfully follows its strategy while operating within the bounds outlined by the liquidity risk appetite statement.

In developing the framework, the Bank considered the following factors:

- Development of proactive and practical risk management policies to adopt market best practice.
- Accurate quantification and communication of risk.
- Adequate control of the relevant risk limits.
- Ensuring the transparency of risk management.
- Ensuring the validity of reports through appropriate checks and comparisons.
- Accurate and timely risk measurement.

The liquidity risk appetite is monitored against both internal and external regulatory liquidity metrics. The external regulatory liquidity ratios, LCR and NSFR, are monitored against the internal risk appetite and regulatory requirement. LCR measures the ability of a bank's liquid asset resources to absorb net outflows over a 30-day stress period. NSFR measures the amount of available stable funding required to fund the Bank's activities. NSFR was introduced as a regulatory requirement in the UK from 1 January 2022.

Stress testing is the key internal monitoring tool used to anticipate liquidity outflows under various stress scenarios and assess the adequacy of the liquid asset buffer to cover these. Idiosyncratic, market-wide and combined stress scenarios are assessed against internal risk appetite limits, and results are reported to the ALMCo. The stress tests are reviewed at least annually as part of ILAAP and approved by the Board.

In addition, a number of controls are in place to monitor and escalate any liquidity issues, such as early warning indicators to monitor internal and external market and liquidity risks as well as other internal liquidity metrics.

The Bank maintains a range of management actions for use in a liquidity stress and these are documented in the Recovery Plan. The actions are designed to be flexible in nature and provide a menu of options which can be utilised as required in order to facilitate recovery in a stress.

## 16.2 Analysis of liquidity risk

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

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

**Table 32: LIQ1 – Quantitative information of LCR**

UK 1a	Quarter ending on (DD Month YYYY)	Total unweighted value (average)				Total weighted value (average)			
		31 March 2024	31 Dec 2023	30 Sep 2023	30 June 2023	31 March 2024	31 Dec 2023	30 Sep 2023	30 June 2023
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
<b>High quality liquid assets</b>									
1	Total high quality liquid assets (HQLA)					25,071	25,660	26,107	26,542
<b>Cash outflows</b>									
5	Unsecured wholesale funding	21,657	22,555	23,367	23,641	15,370	16,240	16,861	17,123
7	(All counterparties)	21,338	22,191	22,981	23,234	15,051	15,877	16,475	16,716
8	Unsecured debt	319	364	386	407	319	364	386	407
10	Additional requirements	1,056	1,073	1,100	1,051	1,056	1,073	1,100	1,051
11	Outflows related to derivative exposures and other collateral requirements	1,056	1,073	1,100	1,051	1,056	1,073	1,100	1,051
13	Credit and liquidity facilities	13,486	13,188	12,816	12,706	2,704	2,529	2,349	2,249
14	Other contractual funding obligations	362	436	485	447	124	129	124	107
15	Other contingent funding obligations	24,263	24,113	24,313	20,965	235	231	253	250
16	Total cash outflows	–	–	–	–	19,489	20,203	20,687	20,780
<b>Cash inflows</b>									
17	Secured lending (e.g., reverse repos)	1,487	1,394	1,285	1,148	0	0	0	0
18	Inflows from fully performing exposures	3,470	3,348	3,154	3,151	2,672	2,571	2,427	2,407
19	Other cash inflows	756	809	920	885	708	732	808	747
20	Total cash inflows	5,713	5,551	5,359	5,184	3,380	3,302	3,235	3,154
UK 20c	Inflows subject to 75% cap	5,713	5,551	5,359	5,184	3,380	3,302	3,235	3,154
<b>Total adjusted value</b>									
UK 21	Liquidity buffer					25,071	25,660	26,107	26,542
22	Total net cash outflows					16,110	16,901	17,452	17,626
23	Liquidity coverage ratio					155.6%	151.8%	149.6%	150.6%

## **Table 33: LIQB on qualitative information on LCR, which complements template UK LIQ1**

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

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

All LCR figures shown are average figures for each quarter.

### **16.4 Explanations on the changes in the LCR over time**

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

### **16.5 Explanations on the actual concentration of funding sources**

Wholesale unsecured funding is obtained from financial and non-financial customer deposits, certificate of deposit issuance and funding from the parent entity.

### **16.6 High level description of the composition of the institution's liquidity buffer**

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

### **16.7 Derivative exposures and potential collateral calls**

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

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

### **16.8 Currency mismatch in the LCR**

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

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

The commentaries under 15.1.1 and 15.1.6 have captured the material items in the LCR that are relevant for the Bank's liquidity profile.

### Table 34: LIQ2 – Net stable funding ratio

The NSFR requires SMBC BI to have sufficient available stable funding to meet its required stable funding over a one-year horizon. Based on current regulatory requirements and guidance which came into effect on 1 January 2022, the minimum level is 100%. SMBC BI's NSFR as at 31 March 2024 is 141.8%.

#### 31 March 2024

		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding Items						
1	Capital items and instruments	5,290	–	–	–	5,290
2	Own funds	5,290	–	–	–	5,290
7	Wholesale funding:	–	32,289	757	9,970	18,684
9	Other wholesale funding	–	32,289	757	9,970	18,684
11	Other liabilities:	8	258	2	11	12
13	All other liabilities and capital instruments not included in the above categories	–	258	2	11	12
14	Total available stable funding					23,986
Required stable funding Items						
15	Total HQLA		–	–	–	–
UK-15a	Assets encumbered for more than 12 months in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	Performing loans and securities:		7,760	2,030	13,952	15,307
18	Performing securities financing transactions with financial customers collateralised by level 1 HQLA subject to 0% haircut		1,587	–	–	–
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		2,542	504	2,402	2,908
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and public sector entities, of which:		3,609	1,525	11,530	12,367
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		22	1	20	32
26	Other assets:		1,311	28	379	863
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	3	2
29	NSFR derivative assets		–	–	–	–
30	NSFR derivative liabilities before deduction of variation margin posted		–	–	–	–
31	All other assets not included in the above categories		648	28	376	629
32	Off-balance sheet items		16,046	–	–	743
33	Total required stable funding		–	–	–	16,912
34	Net stable funding ratio (%)					141.8%



The main available stable funding (ASF) sources are capital and long-term borrowing from SMBC Group which supports almost all required stable funding (RSF) driven by loans to customers. ASF provided by deposits from corporate customers supports the remaining RSF.

The Bank's ASF mainly consists of its own funds, deposits from corporate customers (both financial institute and non-financial institute) and central Banks, certificate deposit (CD) and derivatives payables.

The Bank's RSF mainly consists of loans to both financial and non-financial customers, and undrawn committed credit facilities.

## 17. Asset encumbrance

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

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

**Table 35: AE1 – Encumbered and unencumbered assets**

**31 March 2024**

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

\* Extremely high quality liquid assets.

**31 March 2023**

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which: notionally eligible EHQLA* and HQLA		of which: notionally eligible EHQLA and HQLA		of which: EHQLA and HQLA		of which: EHQLA and HQLA
<b>Assets of the reporting institution</b>	703	–			53,439	26,462		
Equity instruments	–	–	–	–	20	–	17	–
Debt securities	–	–	–	–	891	863	599	555
of which: issued by general governments	–	–	–	–	863	863	555	555
of which: issued by financial corporations	–	–	–	–	23	–	44	–
Other assets	703	–			52,528	25,598		

**Table 36: AE2 – Collateral received and own debt securities issued**

**31 March 2024**

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

**31 March 2023**

	Fair value of encumbered collateral received or own debt securities issued	of which: notionally eligible EHQLA and HQLA	Unencumbered	
			Fair value of collateral received or own debt securities issued available for encumbrance	of which: EHQLA and HQLA
<b>Collateral received by the reporting institution</b>	<b>236</b>	<b>232</b>	<b>6,752</b>	<b>1,136</b>
Loans on demand	45	–	–	–
Debt securities	192	232	1,136	1,136
of which: issued by general governments	232	232	1,136	1,136
of which: issued by non-financial corporations	–	–	–	–
Loans and advances other than loans on demand	–	–	5,616	–
<b>Total assets, collateral received and own debt securities issued</b>	<b>941</b>	<b>232</b>		

**Table 37: AE3 – Sources of encumbrance****31 March 2024**

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

\* Asset-backed securities.

**31 March 2023**

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs* encumbered
Carrying amount of selected financial liabilities	381	579

**Table 38: AE4 – Accompanying narrative information**

The main sources of funding that contribute to SMBC BI's low levels of encumbrance include derivative margin placed with counterparties, securities borrowed and subsequently lent out and placement of cash ratio deposits with the central banks.

## 18. Remuneration

### 18.1 Governance

SMBC BI has a Remuneration Committee (RemCo) comprising four independent non-executive Directors (one of whom is Chair) and one shareholder non-executive Director. Non-executive Directors do not receive any form of variable pay.

The RemCo has had six meetings during this performance year.

The Bank consults with PricewaterhouseCoopers LLP for remuneration advice and Simmons & Simmons for legal advice in respect of the development of remuneration practices.

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

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

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

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

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

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

## 18.2 Remuneration Policy

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

This Policy is reviewed annually, or more frequently if required, by the Head of Human Resources (HR). The RemCo will approve significant revisions to the Policy. During the FY23 review, the Policy was simplified and updated to cover more than one SMBC entity in the EMEA region.

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

## 18.3 Remuneration Policy objectives

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

It is the Bank's intention that:

- 1) the Policy will support the Bank's long-term aims. It will seek to encourage and support long-term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
- 2) the Remuneration Policy promotes sound and effective risk management and is consistent with the Bank's Risk Management Strategy and objectives;
- 3) the Policy should support a fair and inclusive workplace, with all employees being paid equally for equal work or work of equal value. Through the annual salary review, SMBC has established processes and controls to ensure any inequities are reviewed and addressed in a timely way;
- 4) decisions about Remuneration Policy will be reviewed, considered and approved/ratified by the Remuneration Committee;
- 5) employees are remunerated by means of the following elements – basic salary, allowances, benefits and variable pay – that may be relevant to their location and function;
- 6) the amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and
- 7) employees have the opportunity to share in the success of the Bank in years of good performance, and also accept diminished levels of variable pay in times of poor performance or losses.

## 18.4 Material Risk Takers (MRTs)

The Bank identifies MRTs in line with the requirements of the fifth iteration of the Capital Requirements Directive [1] (CRD V), and the EBA MRT Regulatory Technical Standards (RTS). The identification requirements consist of qualitative and quantitative criteria which typically focus on an employee's role, seniority, remuneration levels, authority to expose the institution to material risk including credit and market exposures as well as other identified risks. The Bank does not apply any shareholding requirements upon any of its employees, including its MRTs.

Management is satisfied that it has identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk due to their professional responsibilities.

Employees, including MRTs, understand that their bonus is based on the risk adjusted performance of the EMEA region as a whole and that individual financial performance will not have any direct influence on their individual bonus. They also know that credit cost, liquidity cost and conduct will directly affect the calculation of the bonus fund and that there is therefore a clear incentive to develop prudent sustainable business.

## 18.5 Control function employees

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

## 18.6 Discretionary Bonus Scheme (variable compensation)

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

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

The bonus pool established through this cap calculation methodology number is then reviewed by RemCo with reference to such factors as internal and market levels of remuneration, and other factors such as attrition, inflation and alignment to business strategy and stability. The RemCo has the discretion to adjust the bonus pool from this calculated outcome.

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

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

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

## 18.7 Pay mix

The Bank believes that fixed pay should be sufficient for its employees to maintain an acceptable standard of living, without reliance on variable pay. Variable pay should continue to be a relatively modest component of total remuneration. The Bank seeks an appropriate balance of fixed and variable remuneration. Management is satisfied that its ratios of variable to fixed pay are appropriate for its business, with control function pay predominantly made up of fixed pay.

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

The only variable remuneration operated by SMBC BI is the Discretionary Bonus Scheme. All other remuneration is considered fixed remuneration, and includes salary, fixed pay, allowances and benefits.

## 18.8 Deferral policy

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

For employees who are not MRTs, there is a deferral plan for employees at the corporate title of Director and above whose bonus exceeds £100,000. A percentage of the bonus over £100,000 is deferred for three years. This deferral plan is active in the UK, Belgium and the Middle East, and is continuing to be rolled out across European countries for the 2023/24 financial year and onwards.

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

## 18.9 Performance adjustment – malus and clawback

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

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

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

## 18.10 Guaranteed variable remuneration

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

### 18.11 Severance payment policy

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

For remuneration tables – UK Rem 1, 2 and 3, the MRT categories are defined as follows:

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

**Table 39: REM1 – Remuneration awarded for the financial year**

		MB Supervisory function	MB management function	Other senior management	Other Identified staff
1	Fixed remuneration	Number of identified staff	7	3	9
2		Total fixed remuneration	1.0	1.4	3.6
3		of which: cash-based	1.0	1.4	3.6
9	Variable remuneration	Number of identified staff	7	3	9
10		Total variable remuneration	0	1.1	2.2
11		of which: cash-based	0	0.4	1.1
12		of which: deferred	0	0.3	0.4
UK-13a		of which: shares or equivalent ownership interests	0	0.7	1.1
UK-14a		of which: deferred	0	0.5	0.4
17	Total remuneration (2 + 10)		1	2.5	5.8
					32.8

**Table 40: REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)**

		Other senior management
<b>Severance payments awarded during the financial year</b>		
6	Severance payments awarded during the financial year – Number of identified staff	2
7	Severance payments awarded during the financial year – Total amount	0.3
8	of which: paid during the financial year	0.3
11	of which: highest payment that has been awarded to a single person	0.1

**Table 41: REM3 – Deferred remuneration**

		Total amount of deferred remuneration awarded for previous performance periods	Of which: due to vest in the financial year	Of which: vesting in subsequent financial years	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
7	MB Management function	0.8	0.4	0.4	0.4	0
8	Cash-based	0.3	0.2	0.2	0.2	0
9	Shares or equivalent ownership interests	0.4	0.3	0.2	0.3	0
13	Other senior management	1.3	0.6	0.7	0.6	0.1
14	Cash-based	0.6	0.3	0.3	0.3	0
15	Shares or equivalent ownership interests	0.7	0.3	0.3	0.4	0.1
19	Other identified staff	6.1	2.7	3.4	2.7	0.8
20	Cash-based	2.7	1.3	1.5	1.3	0
21	Shares or equivalent ownership interests	3.4	1.5	1.9	1.5	0.8
25	Total amount	8.1	3.8	4.4	3.8	1.0

**Table 42: REM4 – Remuneration of 1 million EUR or more per year**

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

**Table 43: REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)**

		Management body remuneration			Business areas			Total
		MB Supervisory function	MB Management function	Total MB	Investment banking	Corporate functions	Independent internal control functions	
1	Total number of identified staff							96
2	of which: members of the MB	7	3	10				
3	of which: other senior management				1	5	3	
4	of which: other identified staff				46	20	11	
5	Total remuneration of identified staff	1.0	2.5	3.5	22.8	10.0	5.8	
6	of which: variable remuneration	0	1.1	1.1	9.2	3.2	1.8	
7	of which: fixed remuneration	1.0	1.4	2.4	13.5	6.7	4.0	

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



