SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

Pillar 3 Disclosures

(As of 31st March 2012)

Contents

Document disclaimer

- The purpose of the Pillar 3 disclosures as contained within this Disclosure Document is solely to explain the basis according to which Sumitomo Mitsui Banking Corporation Europe Limited ("SMBCE" or "the Bank") complies with certain capital related 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 & Financial Statements.
- This Disclosure Document reflects, where appropriate, information which is contained within the Bank's Annual Report & Financial Statements.
- The Information has been subject to internal review, but has not been audited by the Bank's external auditors.
- Although Pillar 3 disclosures are designed to provide transparent capital disclosure by banks on a common basis, the information contained in this particular Disclosure Document may not be directly comparable with that made available by other banks. This may be due to a number of factors such as:
    - The mix of approaches allowed under the Capital Requirements Directive ("CRD"),
    - The mix of corporate exposure types between banks,
    - The different risk appetites and profiles of banks,
    - The different waivers applied for and allowed by the FSA.
- Pillar 2 capital requirements are excluded from this Disclosure Document, but nevertheless play a major role in determining both the total capital requirements of the Bank and any surplus capital available.

1. Overview

1.1 Background

The ongoing capital requirements for international banks are governed on an overall basis by a capital accord formulated by the Basel Committee on Banking Supervision, commonly referred to as Basel 2. The framework 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 & Enhanced Capital Requirement (quantification of credit risk, market risk and operational risk).
- Pillar 2 is Supervisory Review (involving Individual Capital Guidance & Assessment by the regulator based on consideration of Risk and Business & Control Risk Factors. This enables capture of other wider general risks).
- Pillar 3 is Market Discipline (this involves frequent and forward looking disclosure set by the regulator).

In the case of banks in the EU, implementation of Basel 2 was achieved via the Capital Requirements Directive ("CRD"). The CRD came into effect in the EU as at the beginning of 2007. This provided the formal legislative framework to be reflected in the detailed rules and requirements which are imposed by each local regulator. The Financial Services Authority ("FSA") is the regulator for the Bank.

The relevant requirements are contained in BIPRU (The Prudential Sourcebook for Banks, Building Societies and Investment), and GENPRU (the General Prudential Sourcebook).

BIPRU Section 11 lays out the disclosure requirements applicable to banks and building societies, in accordance with Pillar 3. The Section 11 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 is intended to ensure increased transparency and hence more effective market discipline.

The FSA granted SMBCE permission to use an Internal Ratings Based ("IRB") approach to credit risk and capital management, alongside the Standardised approach for certain assets (as outlined in more detail in subsequent sections of this document) in December 2007. The Bank has therefore been subject to the relevant BIPRU and GENPRU requirements since January 2008.

After due consideration of the size and complexity of operations, the Bank determined that it would make the necessary Pillar 3 disclosures within a Disclosure Document to be issued on an annual basis. The first Pillar 3 Disclosures were made as of 31st March 2009 (covering the first full financial year for which the requirements existed).

1.2 Disclosure overview

In accordance with the BIPRU section 11 requirements, the Bank has prepared this Disclosure Document presenting the internal status as at 31st March 2012.

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

- **Governance** (section 2);
- **Risk Management;** both in relation to overall risk management issues and specific risk categories (sections 3 – 8);
- **Capital structure and adequacy** (sections 9 – 10)

In addition section 11 provides a more detailed analysis of the Bank's credit portfolio and associated capital requirements in relation thereto.

1.3 Basis and Frequency of Disclosures

These disclosures are based on 31st March 2012 year end data.

After due consideration of the size and complexity of operations, the Bank has determined that the Disclosure Document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. However, any material change in the approaches or permissions used to calculate capital requirements will be disclosed as it arises.

1.4 Consolidation basis

SMBCE is regulated and authorised as a UK bank by the Financial Services Authority ("FSA").

SMBCE is required by the FSA to produce consolidated regulated reports, including its branches in France, Italy and the Netherlands, in order to assess its capital resources and capital requirements.

This Disclosure Document therefore relates to the SMBCE group.

1.5 Location and verification

This Disclosure Document has been reviewed by the Bank's senior management 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, then such data has been subject to external audit during the formal review and verification process.

The Disclosure Document is published on the Bank's corporate website, which is felt to be the most appropriate mechanism to ensure that there is maximum transparency as per BIPRU Section 11.
This can be found at http://www.smbcgroup.com/emea/emea/info/index

2. Governance

2.1 Overview

The Bank has in place a structure to ensure responsibilities are clear for the management of all significant risks. Key elements of these responsibilities are as follows:

The SMBCE Board is responsible for the exercise of effective management oversight of key risks.

The Executive Committee is responsible for the supervision and management of the Bank's daily operations and for overseeing the work of the Risk Committees. As part of this responsibility, the Executive Committee reviews and monitors the most significant risk issues.. The Executive Committee meets monthly.

The Audit, Risk and Compliance Committee is principally responsible for considering the Bank's risk management structure and systems, the main areas of risk faced by the Bank, key matters arising in the Risk Committee meetings, annual financial statements, external audit arrangements, Internal Audit and Credit Review oversight, monitoring the Bank's risk management and internal control systems, and the appointment and dismissal of the senior management members of the Audit Department. The Audit, Risk and Compliance Committee meets quarterly and reports to the Board of Directors.

The Nomination Committee is responsible for assessing and recommending candidates to the Board to fill Board, General Manager and Significant Influence Function (as defined by the FSA) vacancies as and when they arise.

The Remuneration and Human Resources Committee is responsible for assessing the appropriateness of and approving the remuneration of the Bank's Directors and certain other members of management. It also has responsibility for other Board level remuneration and human resource matters, such as approving the Bank's remuneration policy and considering the level of staff turnover. The Remuneration and Human Resources Committee meets quarterly and reports to the Board of Directors.

Risk Committees - The Bank has established three Risk Committees, which report to the Executive Committee and the Audit, Risk and Compliance Committee. These Committees have responsibility for considering the risks to which the Bank is exposed, as follows:

- Market and Liquidity Risk issues are monitored at the Asset and Liability Management Committee;
- Credit Risk issues are monitored at the Credit Risk Committee ; and
- Operational Risks are monitored at the Operational and General Risk Committee ("OGRC").

In addition, the OGRC has responsibility for examining the risks associated with new products and services (in conjunction with its New Products and Services sub-committee) and major project and business change activity. This Committee also examines a number of other risk areas, including: IT, the business continuity plan, human resources, legal, regulatory compliance, and reputational risk.

The following Sub-Committees have also been established:

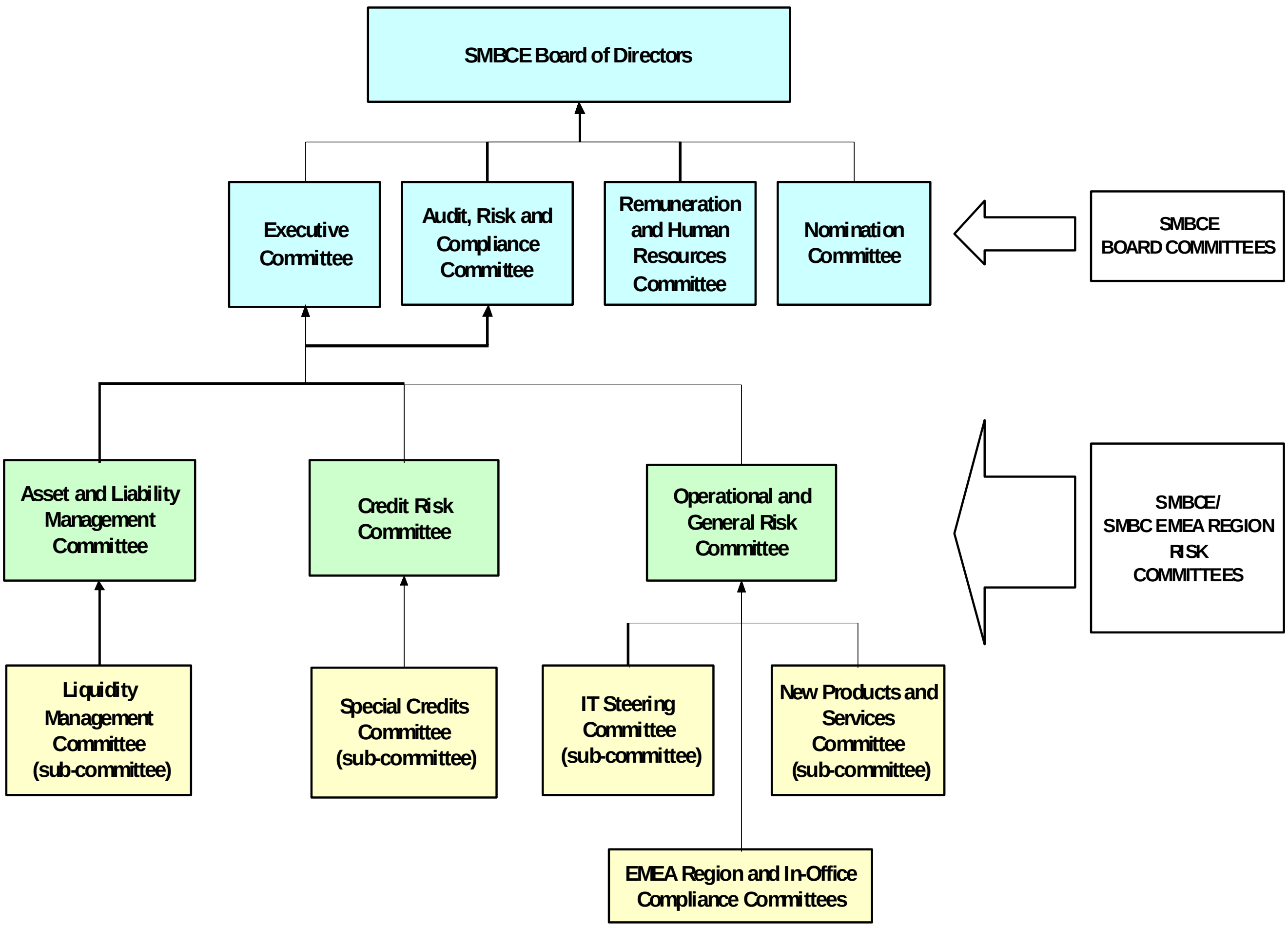
- Liquidity Management Committee (Sub-Committee of Asset and Liability Management Committee), which is responsible for considering issues relating to liquidity risk management, including analysis of the funding market, stress testing results, impact of business strategy on assets and deposits and funding strategy;

- Special Credits Committee (Sub-Committee of Credit Risk Committee), which is responsible for considering issues relating to, and the status of, Special Credit borrowers;

- IT Steering Committee (Sub-Committee of OGRC), which is primarily responsible for examining IT projects and IT policies and strategies including global initiatives and how these apply to the Bank, and

- New Products and Services Committee (Sub-Committee of OGRC), which is responsible for examining risks arising from the implementation of new products and services in order to support the risk analysis of the relevant departments. The Committee can also recommend that new products or services undergo the final approval process before their implementation.

The Committee structure is represented in the diagram below:



2.2 Relationship with Parent

As a 100% subsidiary of Sumitomo Mitsui Banking Corporation ("SMBC"), SMBCE will in general seek to ensure alignment of strategy in important areas and to ensure cost-effective and consistent approaches across the group, where appropriate.

The Bank therefore follows overall SMBC group policy in assessing and managing risks and uncertainties.

However, the Bank's management will at all times ensure local relevance in order to support achievement of local objectives.

3. Risk Management Framework

3.1 Importance of Risk Management

Risk management is a key discipline to manage and grow the Bank in order to:

- Optimise the return to, and protect the interests of, stakeholders (including the shareholders, customers and staff);
- Safeguard the Bank's assets and protect its reputation;
- Improve the Bank's operating performance; and
- Fulfill the Bank's strategic objectives.

3.2 Classification of Principal Risks

As a banking institution, the Bank is exposed to certain fundamental risks and uncertainties in conducting its business. The Bank classifies the principal risks into 5 categories, as shown below:

- **Credit risk**: 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.
- **Market risk**: the possibility that fluctuations in interest rates, foreign exchange rates, stock prices, or other market prices will change the market value of financial products, leading to a loss.
- **Liquidity risk:** the possibility of encountering an obstacle to raising the funds required for settlement due either to a mismatch between the use and procurement of funds or to an unexpected outflow of funds, or being forced to borrow at higher interest rates than usual.
- **Operational risk**: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks.
- **Business Environment risk**: encompasses other risks not noted above, including the risk to earnings and capital arising from changes in the business environment, from adverse business decisions, improper setting of or implementation of strategy or lack of responsiveness to changes in the business environment.

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

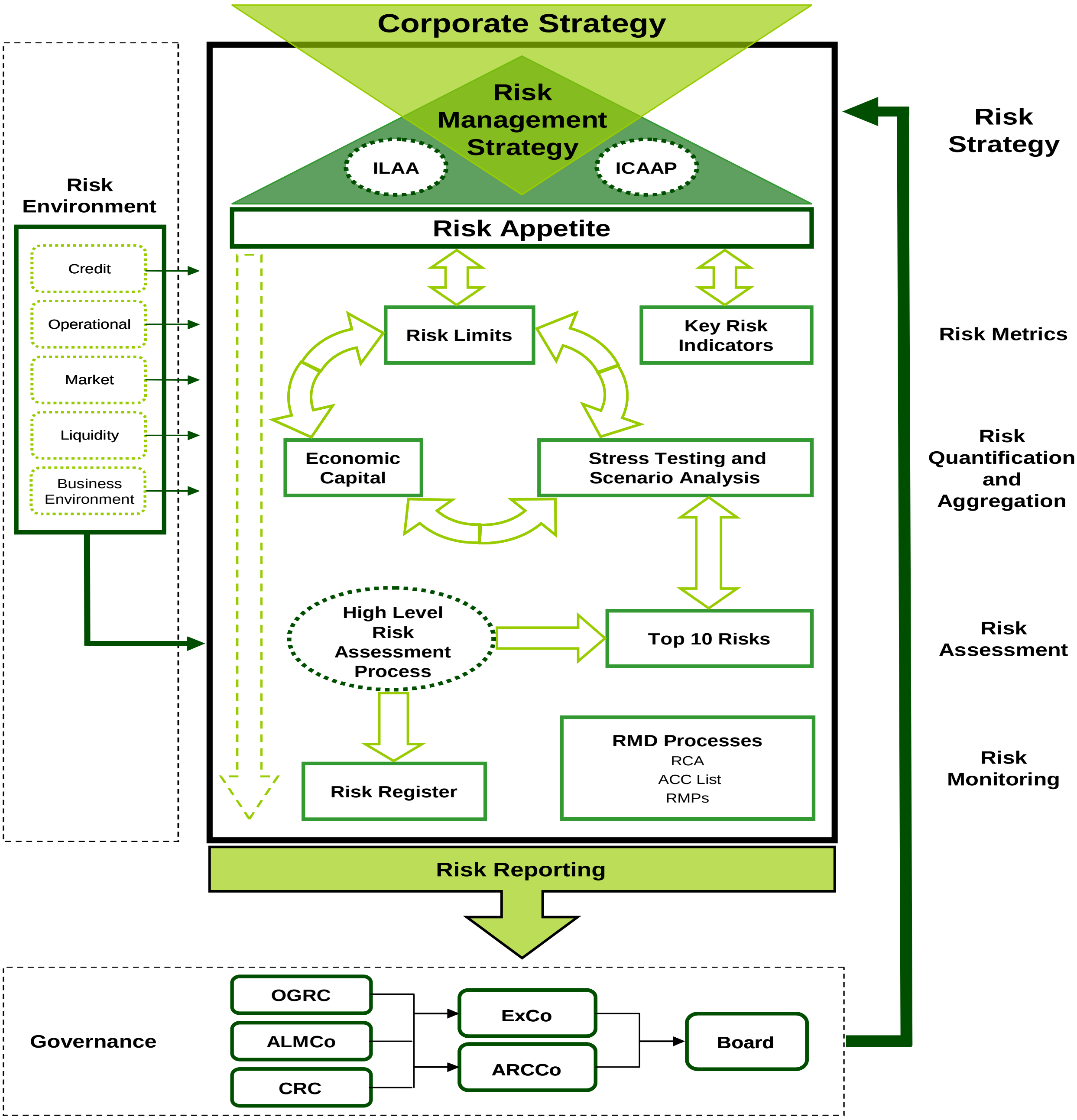
4. Integrated Risk Management Framework

4.1 Overview

To assist in the timely identification and holistic management and reporting of key risks, SMBCE has established an Integrated Risk Management ("IRM") Framework, which contains a number of key elements. This is represented diagrammatically below, and a brief explanation of key elements is also included:

4.2 Integrated Risk Management Framework

(extract from the Bank's IRM Policy for FY 2012)



Risk Appetite

A key element within the Bank's risk management strategy is its Risk Appetite, which is the mechanism put in place to ensure that the aggregate levels of risk being absorbed are well within capacity. At its most fundamental, the risk taking capacity cannot exceed the available amount of resources (capital or liquidity)

The Bank has established an enhanced risk appetite framework after significantly expanding work in this area during FY 2011. Ongoing development of the risk appetite framework has been identified as a major area of focus for FY 2012. The Bank is dedicating significant attention to this area, as it is recognised the importance of ensuring that the linkages between the Risk Appetite, the strategy for the business and overall capital planning processes should be strengthened.

The risk appetite approach ensures that key supporting elements such as the Internal Capital Adequacy Assessment Process ("ICAAP") and Individual Liquidity Adequacy Assessment ("ILAA"). are structured appropriately to ensure that the Bank is at all times able to demonstrate that it has, and will have even in stressed conditions, adequate capital and liquidity available given its risk profile.

The Recovery Plan and Resolution Pack ("RRP") is a new regulatory requirement whereby the Bank has to create a "Living Wills" to be submitted to the UK FSA. The main purpose of the RRP document is to provide sufficient information which is to be utilized by the regulators to liquidate the business in being specific circumstances whereby due to lack of liquidity and capital the Bank has to cease its activity

Risk management processes

A variety of processes have been established to ensure that the level for each risk within the risk environment can be measured using appropriate metrics and methodology, including a robust structure of risk limits and risk indicators.

Risk limits are set using a combination of operating limits, ratios and targets (measured against actual and potential risk including stressed conditions).

The Bank also makes extensive use Key Risk Indicators ("KRIs"). The use of KRIs for key risks, drivers of risk, or the effectiveness of internal controls can be a powerful, exception-based tool for monitoring risks and identifying potential issues for management attention and resolution. KRIs provide management with an indication of changes in the key risks to the Bank, which may be indicative of increased levels of risk.

To quantify the risks which it faces the Bank makes use of both regulatory driven calculation methodology and also internal quantification methodologies. Economic capital is used throughout the business for risk-based pricing, via the RAROC methodology, and within the Bank's risk appetite.

Stress Testing

Stress testing is a key tool to model the impact of low-frequency, extreme impact events that might not be appropriately captured by more normal risk management techniques. Stress testing is an essential part of the Bank's risk management processes, to ensure that the Bank can adequately understand and quantify not just risks as they currently exist, but as they might develop in times of economic stress.

The potential impact upon adequacy of resources must be understood in relation to both capital adequacy and liquidity management in particular. Ensuring that the appropriate work is undertaken and included with regards to both the ICAAP and ILAA related work being undertaken in the Bank has been an area to which close attention is being paid.

Risk Monitoring

The comprehensive assessment of risks and controls is performed in a number of ways. This is approached in a holistic manner as the close involvement of all areas of the bank is essential to ensure that the processes for assessing the appropriateness and effectiveness of key risks and their controls, and capturing emerging risks are in place. The Bank during FY 2011 made use of a High Levels risk Assessment Approach with a "Top 10" risk approach also being introduced. The Bank's overall risk monitoring processes are designed to capture current and emerging risks. As a general principle, risk owners are responsible for monitoring their risks in order to identify any significant changes to their current risk assessment (i.e. changes to the size of their inherent risk or to the level of mitigation of their risk). Risk owners must report any material changes to management. Material and significant risk (including material changes to risk and/or the level of mitigation or control) are to be reported to management and committees in a timely and effective manner in order to fulfill SMBCE's risk management governance requirements.

Risk Register

The risks that have been identified across the business are all documented within the Bank's Risk Register. The Risk Register is divided according to the five principal risk categories of Credit, Market, Liquidity, Operational and Business Environment risk. These are separated into sub-risks (Key Risks), of which there were 27 defined as at 31 March 2012.

5. Credit Risk Management

5.1 Current status

SMBCE obtained approval from the UK FSA to calculate its Pillar 1 credit risk capital calculations using a Foundation Internal Ratings-Based ("IRB") approach from 1st January 2008, using internal Probability of Default ("PD") rates, with Loss Given Default ("LGD") as per regulatory guidance for Japanese corporate, financial institutions and sovereign lending only.

Other assets are rated using the non-Japanese corporate model and are calculated for regulatory capital purposes according to the Standardised Approach.

Specialised lending uses supervisory slotting calculations.

There were no changes to the regulatory approvals during the year ending 31st March 2012.

5.2 Board responsibility

As the most senior body within the Bank, SMBCE's Board has responsibility for approval of certain key operating policies, including those which relate to the governance of Credit Risk. The Board oversees all elements of the Bank's Credit Risk management structures and, in order to perform its role effectively, receives regular reports on all critical credit-related issues.

The Credit Risk Committee ("CRC") is the internal committee directly responsible for strategic matters associated with the governance of credit risk. The CRC reports to the Executive Committee and Audit, Risk and Compliance Committee.

On a practical basis, the SMBCE Board has established the rules for approval of individual transactions, which is a key part of the Bank's day-to-day governance of credit risk. Specific approval authority levels have been established and these are reviewed on an annual basis. The General Manager of Credit Department, the COO and the CEO have authority to approve transactions up to certain limits. Should a transaction exceed the COO and CEO's approval authority, the approval of a meeting comprising the CEO, one non-executive Director and one executive Director acting together is also necessary. The Chief Risk Officer also attends such meetings and has the authority to exercise a right of veto in respect of any transactions considered at the meeting.

Although SMBCE is an independent entity, it operates within the context of the overall corporate governance structure of the SMFG group. The SMFG group has adopted an integrated approach to various aspects of credit risk management on a global basis, to ensure that resources and structures are harnessed in the most effective manner.

5.3 Importance of independent credit assessment

SMBCE utilises obligor and facility grading systems to assess the credit risk of individual transactions and capture the credit risk of the credit portfolio. Generally, the credit risk of the portfolio can be divided between credit cost (Expected Loss [“EL”]) and credit risk capital (Unexpected Loss [“UL”]). The Bank provides against EL with loss provisions and against UL with capital. All credits include probability of default, regardless of quality; thus, the credit risk of the credit portfolio must be controlled by assigning Obligor Grades and Facility Grades. To support any credit decision, the credit risk associated with the specific transaction which is under consideration must be assessed.

SMBCE’s assessments do not necessarily match external ratings (ratings published by rating agencies) for a variety of reasons, including:

- Rating agencies do not always have the same perspective as banks;
- Rating agencies may have access to different information;
- Rating assessment models used by rating agencies may take a different approach, such as Moody’s KMV EDF[1] model; and
- Rating agencies may also have different updating schedules.

5.4 Rating systems

SMBCE utilises a number of different internally developed rating systems and processes in the credit assessment process, reflecting different asset classes involved, with separate systems used for different assets including:

- Corporates (both Japanese and non-Japanese)
- Banks
- Securities companies
- Insurance companies
- Public Sector (including central governments and central banks)
- Project finance
- Aircraft finance
- Ship finance
- Property finance
- Purchased Claims

1, EDF is the expected default frequency within one year calculated based on stock price movement and other factors.

5.5 Assignment of Obligor and Facility Grades

In the case of both Obligor Grades and Facility Grades, detailed procedures document the approach which must be followed to ensure that the assessment is carried out appropriately.

An Obligor Grade indicates the credit risk of a company. To ensure allocation of obligor rating (and hence to assign an appropriate level in terms of internal PD), the first step is to undertake a detailed analysis of credit quality by use of the appropriate model. Obligor Grades are determined through a 3-step process – quantitative assessment, qualitative assessment, and self-assessment. Maintaining the integrity of Obligor Grades is critical for transaction and portfolio decision-making.

Obligor Grades range from 1 (the least risky) to 10 (the riskiest), with a common scale on a global basis across the SMBC group.

As part of this approach, and reflecting different market conditions, the Bank differentiates between Japanese and non-Japanese customers. Japanese corporates are assigned a “J series” Obligor grade and non-Japanese corporates are distinguished as being “G series”. The Bank also adopts a consolidated approach to assignment of grades to subsidiaries, meaning that when a Consolidated Subsidiary Grade is assigned, the same notation and methodology as those of the parent company are applied. Thus, almost all overseas Japanese companies will have J-grades.

A Facility Grade indicates the credit risk of an individual transaction and is determined by modifying the Obligor Grade according to the level of risk associated with conditions of the facility itself. The Facility Grade procedures require a formal assessment of pertinent factors, such as:

- Guarantees
- Third party assurances
- Tenor
- Collateral
- Purpose/structure
- Country ceiling/ transfer risk

5.6 Country Ceiling

In general, an Obligor Grade will not exceed the sovereign (government or central bank) grade of the country of domicile. In line with the approach of S&P, Moody’s and other rating agencies which assess country risk and use the ratings as the ceiling for individual obligor rating SMBCE applies the country rating ceiling.

5.7 Internal Rating System grades

The calibration of the internal grade structure is shown below:

G grade Code	J grade Code	Borrower's Category
G1	J1	Normal Borrowers
G2	J2	
G3	J3	
G4	J4	
G5	J5	
G6	J6	
G7	J7	Borrowers requiring caution
G7R	J7R	Substandard Borrowers
G8	J8	Potentially Bankrupt Borrowers
G9	J9	Virtually Bankrupt Borrowers
G10	J10	Bankrupt Borrowers

As the internal rating system, G7R and J7R or below grades are recognised as "Default" in terms of CRD in line with BIPRU default definition.

5.8 Use of the IRB approach

The use of the IRB approach forms an integral part of the Bank's credit approval process.

Each transaction is accompanied by an analysis of the return generated on a risk-adjusted basis to assess the profitability of transactions considering credit cost (i.e. expected loss) and capital cost, via the calculation of the "Risk Adjusted Return on Capital" or "RAROC", and "Sumitomo Mitsui Value Added" or "SMVA". These calculations take into account the economic capital which will be required to support any particular transaction, including Credit, Market, Operational and Liquidity Risk capital allocations. Tools, training and guidance are provided to business areas to ensure that this assessment is done in a consistent manner.

Another factor which will be taken into account is the extent to which provision of credit to a customer, industry group or country may give rise to particular concentrations of exposure.

There are, of course, wide-ranging requirements in terms of the supporting analysis and evaluation which have to be provided to ensure a thorough assessment of the transaction. For example, although not directly IRB-related, the Bank has established guidelines to ensure appropriate consideration is given to regulatory issues, social responsibility and environmental impact. This approach controls the extent to which these factors could give rise to risks (such as legal or reputational risk) of relevance to capital requirements under the Bank's ICAAP.

5.9 Use of Collateral and Other Credit Risk Mitigation

SMBCE uses various types of collateral to mitigate credit risk inherent within transactions, including:-

- Financial Collateral – Japanese Government Bonds, Cash and/or eligible guarantees (including Formal Guarantee and Credit Default Swaps ("CDS")) and / or Letters of Credit.
- Fixed charges over cash balances, tangible assets (e.g. aircraft and ships) and property in the form of buildings, plant and machinery.
- Assignments over receivables, ancillary instruments such as insurance policies, shares and share pledges.

It should be noted that in regulatory capital calculations, SMBCE recognises the collateral only if it is categorised as being collateral where the current value is easy to evaluate and is very stable, and there is strong liquidity. This only includes deposits and government bonds. The effect of collateral is recognised by applying supervisory, post hair-cut LGDs on each transaction under the comprehensive method.

5.10 Validation of rating systems

The rating systems used are subject to annual validation (both in terms of the rating models and parameters used) to ensure that they retain a sufficient degree of default discrimination power and are functioning effectively. The validation work encompasses critical factors such as:

- Default discrimination power of Obligor Grades
- Cross-sectional validation of actual default rate of each grade
- Consistency with external ratings

Backtesting of parameters is also conducted to ensure that the current Probability of Default ("PD") estimates are reasonable. Adjustments will be made to the estimation method or aspects of the rating systems as necessary.

5.11 Securitisation

SMBCE utilises securitisations in order to enhance capital efficiency by freeing up capital, particularly in the area of Project Finance. In securitisations, credit derivatives are used to transfer underlying obligor risk to external counterparties. For the purposes of portfolio management across business units SMBCE securitises pools of lending assets.

Where the securitisation exposures are rated by an eligible External Credit Assessment Institution ("ECAI") SMBCE uses the Ratings Based Method for calculating regulatory capital requirements. Where these grades are not available SMBCE employs the Supervisory Formula method.

Such structures have formed, and continue to form, an important part of SMBCE's commercial lending practices, particularly as they relate to Project Finance. Although a niche participant in the securitisation market to date, SMBCE has been one of the most active originators of securitisations referencing a range of project finance lending positions.

SMBCE makes use of both publicly rated and unrated securitisation techniques. Decisions about which approach is adopted will tend to result from prevailing market conditions, operational considerations and the particular requirements of the target group of investors. In calculating its capital requirements under Basel II SMBCE uses both the Ratings-Based Approach ("RBA") where the securitisation exposures are rated by an eligible ECAI and the Supervisory Formula ("SF") where external ratings are not available.

List of securitisations SMBCE has originated to date:

Deal Name	Closing	Deal Type	Portfolio Amount	Assets	SMBCE role
Profile I	Dec-05	Synthetic CDO	GBP 383m	UK PFI/PPP project loans	Originator
SMART PFI 2007 GmbH	Mar-07	Synthetic CDO	GBP 400m	UK PFI/PPP project loans	Originator
QVS Funding I Plc	Dec-09	Cash CLO	EUR 520m	Corporate Loans	Originator Investor

With regard to QVS Funding I Plc, SMBCE originated QVS Funding I Plc and purchased all the notes issued (AAA notes and subordinated notes) in order to provide the AAA tranche to the ECB as collateral to support funding. Therefore the purpose of this securitisation is not to transfer underlying obligor risk to external counterparties and there is no change to the existing credit monitoring framework for underlying assets. During the financial year ended 31 March 2012, this securitisation was wound down as the notes issued by the special purchase entity stopped being eligible collateral under the European Central Bank's Open Market Operations.

6. Market Risk Management

6.1 Market Risk Management

The Bank recognises market risk, as defined in Section 3.2 of this Disclosure Document, as being one of the principal risk categories arising in its activities.

For regulatory capital purposes, the Bank calculates its market risk capital requirements according to the Standardised methodology.

The Bank can demonstrate its quantitative management of market risks through its establishment of appropriate risk tolerances and limits; ensuring the continued transparency of the risk management process; clearly separated front, middle and back office operations and a control system of mutual checks and balances.

6.2 Market Risk Management Framework

The Bank has in place well defined policies and procedures for the identification, measurement and control of market risk. Embedded within these is a framework of management responsibilities.

The Board oversees the market risk management process. The corporate governance framework for market risk management ensures that appropriate controls, policies and senior management oversight form the basis of the Bank’s approach to market risk management.

The Board has delegated to the Co-General Managers of Treasury Department (“GMs of TD”) the executive responsibility to prudently manage the general market risk of SMBCE within the limits and guidelines established by the Board. These are aligned appropriately with limits and guidance from Corporate Risk Management Department of SMBC.

The Board has also delegated to the General Manager, Risk Management Department, who also acts as the Bank’s Chief Risk Officer (“GM of RMD & CRO”), the responsibility for middle office and risk management. RMD is independent of Treasury Department. RMD is therefore responsible for identifying, measuring, monitoring and analysing SMBCE’s market risk exposure and reporting to the management of SMBCE.

The principal aspects of the governance and control of market risk are set out in the Market Risk Policy (Interest Rate Risk in the Banking Book) and Market Risk Policy (Trading Book), updated on an annual basis, both of which are key operating policies of the Bank approved by the Board. Key aspects include Market Risk Measurement and Stress Testing.

6.3 Market Risk Management Methods

i) Market Risk Measurement

SMBCE separates market risk related activities between its Banking book and its Trading book. The accounting, risk control and capital (regulatory and economic) for each of these is established to be appropriate to the nature and scale of the activities conducted. The nature of the Banking book is to generate profit through the management of interest rates, terms and other aspects of assets (loans, bonds) and liabilities (deposits etc.) by market operations.

While market risk capital for regulatory capital purposes is calculated according to the Standardised methodology, SMBCE also measures and controls market risk using Value at Risk (VaR). VaR is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. SMBCE has adopted SMBC's approach to the calculation of VaR and uses a 99% confidence interval and a one-day time horizon. SMBCE currently uses an historical simulation to generate the VaR result using data from a four-year observation period, updated monthly.

The limitations to VaR are well recognised, for example the use of historical data as a guide to future price movements and the assumption that open positions can be hedged within the specified holding period. Therefore the Bank subdivides market risk into key types for which foreign exchange risk and interest rate risk are the main categories. Risk management for each category is fine-tuned by employing suitable sensitivity limits such as foreign exchange exposure and Basis Point Value (BPV) limits. BPV measures the potential change in portfolio fair value for an instantaneous 0.01% rise in interest rates.

Foreign exchange and Interest rate risk (in both banking and trading books) are monitored on a daily basis. Reporting on risk versus limit is submitted to senior management on a same day basis.

ii) Stress Testing

SMBCE prepares interest risk stress tests on a monthly basis consisting of six rate shift scenarios applied to the Banking (and Trading) book positions with a maximum loss scenario reported to management. Foreign exchange stress tests are also conducted on a monthly basis where potential US dollar appreciation and depreciation is applied to the banks open currency positions. A maximum loss scenario is calculated and reported to Management.

In addition to the above stress scenarios further scenarios have been developed drawing on actual observed historic events and/or guidance from regulatory or industry bodies.

Scenarios utilised are revised at least semi annually.

7. Liquidity Risk Management

7.1 Basic Approach to Liquidity Risk Management

The Bank recognises liquidity risk, as defined in Section 3.2 of this Disclosure Document, as being one of the principal risk categories arising in its activities.

The Bank can demonstrate its quantitative management of liquidity risks through its establishment of appropriate risk tolerances and limits; ensuring the continued transparency of the risk management process; clearly separated front, middle and back office operations and a control system of mutual checks and balances.

7.2 Liquidity Risk Management System

The Bank has an established liquidity risk management framework that is well integrated into the firm-wide risk management processes, of which it forms a core component.

The Board has responsibility for ensuring that the Bank has an appropriate liquidity risk management framework in place that is robust and appropriate, and is well integrated into the firm-wide risk management process.

The key aspects of this are all reflected in the Bank's Liquidity Risk Policy, which is a Key Operating Policy of the Bank. This Policy is subject to annual review.

The Chief Risk Officer is responsible for reporting matters arising from the Asset and Liability Management Committee to the Executive Committee and Audit, Risk and Compliance Committee. The Chairman of the Asset and Liability Management Committee is responsible for circulating the minutes of those meetings to all SMBCE Executive Committee members and the Co-GMs of the Audit Department. .
Market Risk Management Group of RMD (MRMG) is responsible for the identification, measurement and control of liquidity risk and ensures that policies applicable to the management of liquidity risk are clearly stipulated.

The Bank's liquidity risk management framework includes the continued development of proactive and practical risk management policies to adopt market best practice including;

- Quantification and communication of risk;
- Control of the relevant risk limits;
- Ensuring the transparency of risk management;
- Ensuring validity of reports through appropriate checks and comparisons; and
- Accurate and timely risk measurement.

The liquidity risk management framework covers several specific areas, including:

- pricing liquidity risk;
- intra-day management of liquidity;
- management of collateral;
- management of liquidity across legal entities, business lines and currencies; and
- funding diversification and market access.

Within the overall framework, there is a multi-layer approach indicative of the Bank's conservative bias towards liquidity, including the following elements:

- ensuring access to short-term funding;
- appropriate medium and long term funding strategy; and
- stress testing and contingency funding planning (consisting of four phases based on the funding situation, market conditions, etc).

This approach enables the Bank to manage liquidity risk in a proactive and risk-sensitive manner.

The Board has determined that it is appropriate to ensure that the framework contains a number of elements to manage liquidity risk, including Money Gap Limits, Liquidity Stress Testing, Contingency Funding Plans and Supplementary Liquidity Program (all of which are set out in SMBCE's Liquidity Risk Policy).

7.3 Liquidity Risk Management Methods

i) Money Gap Limit

The Money Gap Limit controls the net contractual funding deficit on both a currency and an aggregated basis.

ii) Contingency Planning

SMBCE's contingency plan consists of four phases based on the funding situation, market conditions etc.

iii) Supplementary Liquidity

SMBC's supplementary liquidity program which is followed by SMBCE, requires that in each key business centre the local entity is responsible for ensuring the "at sight" availability of an agreed amount of its home currency. This is a mutually supportive scheme by which SMBC entities support one another to ensure sufficiency of liquidity in any single currency across the group.

iv) Stress Testing

Internal stress testing is conducted on a weekly basis and reported at Asset and Liability Management Committee monthly. The scenarios utilised in the stress tests are in line with current regulatory requirements, being idiosyncratic, systemic and combined (idiosyncratic and systemic) in nature and are subject to review and challenge on at least an annual basis.

v) Liquidity Premium

The Bank applies Funds Transfer Pricing ("FTP") to each loan. A liquidity cost is calculated under FTP based on the amount, the average remaining life and the original trade date of each loan. The calculation references the Bank's current observed cost of funds and is regularly reviewed to ensure that it remains appropriate.

In FY2012 the liquidity cost became a chargeable cost to Marketing Departments (prior to this it was used as performance assessment tool). The liquidity cost will be extended to the liability side of the balance sheet by end of December 2012

7.4 Liquidity Risk and the Regulatory Environment

UK

The FSA's new liquidity regime went live on 01 October 2010 requiring BIPRU firms to complete an ILAA. The central purpose of the ILAA is to inform the Board about how the Bank ensures it has an adequate amount of liquidity in place at all times.

This ILAA therefore explains:

- the mechanisms in place for the ongoing assessment and quantification of liquidity risks, with risk limits which reflect the Bank's financial situation and risk tolerance
- the plans for mitigation of risk as necessary,
- how the Bank ensures both the adequacy, and awareness of, levels of current and future liquidity, to meet requirements in both normal and stressed economic conditions.

SMBCE's ILAA was approved at the Board meeting held on 25 October 2011.

International

Basel III: International framework for liquidity risk measurement, standards and monitoring was published in December 2010. The Liquidity Coverage Ratio and Net Stable Funding Ratio, whilst being subject to lengthy observation periods (Implementation dates of 1/1/2015 and 1/1/2018 respectively), are being monitored internally.

8. Operational Risk Management

8.1 Overview

The Bank has an established Operational Risk management function the purpose of which is to develop, implement and maintain the Bank's Operational Risk strategy and framework to mitigate the risk of losses from inadequate or failed internal processes, people and systems, or from external events.

The Bank's framework for Operational Risk management aims to minimise the occurrence and impact of Operational Risk events, in particular avoiding extreme or catastrophic events, in order to support the Bank's achievement of its strategic objectives.

To achieve this, the Bank has an established Operational Risk management governance structure and framework of processes to:

- ensure an appropriate understanding and awareness of Operational Risk at all levels of the Bank;
- effectively anticipate operational risks and implement appropriate mitigation in line with the Bank's Operational Risk appetite;
- effectively manage Operational Risk events to minimise their reoccurrence; and
- implement the Bank's Operational Risk capital strategy to ensure the Bank is adequately capitalised for Operational Risk requirements.

The Bank's regulatory capital requirements for operational risk are calculated according to The Standardised Approach ("TSA") under which gross income is regarded as a proxy for the Operational Risk exposure within each business line. The capital charge for Operational Risk is calculated based upon gross income for the preceding three years.

The Bank's activities and methodology are closely aligned with those adopted across SMFG globally. Since 31st March 2008, SMBC has adopted the Advanced Measurement Approach ("AMA") for calculation of operational risk capital requirements on a consolidated basis across the group as a whole.

9. Capital Structure

9.1 Overview

All figures in USD 000's

	31 March 2012	31 March 2011
Tier 1 core capital		
Permanent share capital	1,600,000	1,600,000
Profit & Loss and other reserves	135,200	88,700
Intangible assets	(3,400)	(2,500)
Qualified tier 2 capital		
Subordinated debt	800,000	800,000
Deductions from Tier 1 and Tier 2 capital	(3,200)	(800)
Total capital after deductions	2,528,600	2,485,400

On the 25 May 2012 the Bank increased its issued ordinary share capital by USD 800m to USD 2,400m.

9.2 Securitisation first losses

As per FSA BIPRU guidelines (para. 9.10.2) SMBCE has elected to include any first loss positions arising from securitisation transactions as additions to Credit Risk rather than deduct the exposure value from capital resources.

9.3 Expected loss excesses

SMBCE's collective provisions exceed the Expected Losses on those assets. Therefore, there is no requirement or opportunity to deduct 50% of excesses from capital.

10. Capital Adequacy

10.1 Capital requirements for Credit Risk

All figures in this section USD 000's

	31 March 2012	31 March 2011
Standardised Approach		
Corporate exposures	614,177	555,263
Internal Ratings Based Approach - Foundation		
Central governments and central banks	2,268	3,497
Banks	70,908	107,723
Corporate exposures – excluding specialised lending	102,742	83,077
Corporate exposures – specialised lending	286,177	210,206
Total IRB	462,095	404,503
Total Credit Risk Capital Requirement	1,076,272	959,766

Notes:

1. *The Standardised Approach is used for non-Japanese corporate customer exposures and is calculated as credit risk-weighted asset amount x 8%.*
2. *Foundation IRB Approach is used for all other asset classes, including Specialised Lending via the Supervisory Slotting Criteria. It is calculated as per FSA guidelines using Bank estimates of Probability of Default (PD). The credit risk-weighted asset amount x 8% is then multiplied by a scaling factor of 1.06.*
3. *Figures include securitisation first losses, as additions to Credit Risk rather than deductions from capital resources.*

10.2 Capital requirements for Market Risk

	31 March 2012	31 March 2011
Standardised Method		
Interest rate risk	15,800	13,000
Options transactions	300	2,600
Foreign Exchange risk	1,600	2,700
	17,700	18,300

10.3 Capital requirements for Operational Risk

	31 March 2012	31 March 2011
The Standardised Approach	55,382	53,897
	55,382	53,897

10.4 Capital Adequacy ratio, Tier 1 capital adequacy ratio and total capital requirement

	31 March 2012	31 March 2011
Total capital adequacy ratio	17.4%	19.3%
Tier 1 capital adequacy ratio	11.9%	13.1%
Total capital requirements	1,149,354	1,031,963
8% of credit risk-weighted assets	1,091,993	959,766
Capital requirements for Market Risk	17,700	18,300
Capital requirement for Operational Risk	55,382	53,897
Capital floor add-on[1]	0	0

[1] Add-on for the amount by which total credit risk falls below regulatory capital floor of 80% (2009: 80%).

11. Credit Risk Exposures

11.1 By approach

All figures in this section in USD 000's

	Exposure At Default "EAD"	
	31 March 2012	31 March 2011
Standardised	10,916,916	9,097,906
FIRB	15,520,589	17,056,399
FIRB – Specialised Lending	5,046,198	4,127,069
	31,483,703	30,281,374

11.2 By exposure type

Exposure type	EAD	Specific provisions	EAD	Specific provisions
	31 March 2012		31 March 2011	
Finance and insurance	13,033,385	45,294	14,577,358	247,912
Govt. & local authorities	372,747	0	249,383	0
Manufacturing	2,727,330	22,607	2,591,190	24,177
Wholesale	561,365	0	509,566	1,571
Services	82,029	0	20,669	0
Other corporate exposures	8,972,971	93,830	7,520,108	72,066
Transport	2,109,116	20,904	2,057,926	18,972
Energy	910,451	0	858,715	0
Infrastructure	2,636,234	0	1,810,692	0
Co-Investment	78,075	0	85,767	0
	31,483,703	182,635	30,281,374	364,698

11.3 By residual maturity

Maturity band	EAD	
	31 March 2012	31 March 2011
To 1 year	15,081,144	15,806,282
More than 1 year to 3 years	3,299,066	4,188,280
More than 3 years to 5 years	5,922,486	3,953,671
More than 5 years to 7 years	1,346,698	1,021,336
More than 7 years	5,834,309	5,311,805
	31,483,703	30,281,374

11.4 By geographic area

Country region	EAD	Specific provisions	EAD	Specific provisions
	31 March 2012		31 March 2011	
United Kingdom	8,689,685	24,802	10,294,279	17,339
France	8,989,135	51,703	3,912,318	55,087
Italy	1,230,396	0	1,067,287	0
Other Europe	4,506,385	48,808	5,034,769	218,028
Eastern Europe	2,104,699	29,058	1,560,890	47,767
Japan	3,228,871	0	5,815,944	0
Other Asia	162,782	0	148,890	0
Africa	508,667	0	397,436	0
Latin America	23,297	0	37,530	0
Middle East	733,178	28,265	727,272	26,477
North America	1,035,779	0	1,000,423	0
Oceania	270,829	0	284,336	0
	31,483,703	182,636	30,281,374	364,698

11.5 Exposures subject to IRB approach – Corporate exposures

31 March 2012

Grade	EAD On balance sheet	EAD Off balance sheet	EAD Total	Weighted average risk-weight
J1 - J2	332,595	63,741	396,336	11.4%
J3 - J4	995,557	561,107	1,556,664	34.0%
J5 - J6	103,417	29,459	132,876	124.8%
J7A - 7B	0	2,337	2,337	175.0%
Others	0	82,755	82,755	22.8%
J7R - J10	0	0	0	
	1,431,569	739,399	2,170,968	

31 March 2011

Grade	EAD On balance sheet	EAD Off balance sheet	EAD Total	Weighted average risk-weight
J1 - J2	250,475	66,905	317,380	11.3%
J3 - J4	860,929	440,675	1,301,604	32.1%
J5 - J6	42,881	18,442	61,323	119.5%
J7A - 7B	0	529	529	31.4%
Others	0	18,035	18,035	0.0%
J7R - J10	0	0	0	
	1,154,285	544,586	1,698,871	

11.6 Exposures subject to IRB approach – Sovereign exposures

31 March 2012

Grade	EAD			Weighted average risk-weight
	On balance sheet	Off balance sheet	Total	
G1 - G2	6,185,007	0	6,185,007	0.0%
G3 - G4	28,202	1,060	29,262	73.2%
G5 - G6	0	0	0	0.0%
G7A - 7B	0	0	0	0.0%
Others	0	0	0	0.0%
G7R - G10	0	0	0	
	6,213,209	1,060	6,214,269	

31 March 2011

Grade	EAD			Weighted average risk-weight
	On balance sheet	Off balance sheet	Total	
G1 - G2	749,334	0	749,334	0.0%
G3 - G4	0	211	211	78.0%
G5 - G6	0	0	0	0.0%
G7A - 7B	0	0	0	0.0%
Others	0	0	0	0.0%
G7R - G10	0	0	0	
	749,334	211	749,545	

11.7 Exposures subject to IRB approach – Bank exposures

31 March 2012

	EAD			
Grade	On balance sheet	Off balance sheet	Total	Weighted average risk-weight
J1 - J2	419,074	118,333	537,407	4.8%
J3 - J4	45,000	23,153	68,153	18.4%
J5 - J6	0	0	0	0.0%
J7A - 7B	0	0	0	0.0%
Others	0	9,718	9,718	27.4%
J7R - J10	0	0	0	
	464,074	151,204	615,278	

31 March 2011

	EAD			
Grade	On balance sheet	Off balance sheet	Total	Weighted average risk-weight
J1 - J2	921,930	45,070	967,000	4.0%
J3 - J4	45,000	25,064	70,064	20.2%
J5 - J6	615,907	0	615,907	0.0%
J7A - 7B	0	0	0	0.0%
Others	0	0	0	0.0%
J7R - J10	0	0	0	
	1,582,837	70,134	1,652,971	

11.7 Exposures subject to IRB approach – Bank exposures – cont.

31 March 2012

	EAD			
Grade	On balance sheet	Off balance sheet	Total	Weighted average risk-weight
G1 - G2	3,978,351	908,367	4,886,718	12.2%
G3 - G4	411,468	39,402	450,870	61.4%
G5 - G6	60,288	9,019	69,306	59.3%
G7A - 7B	0	0	0	0.0%
Others	0	0	0	
G7R - G10	0	0	0	
	4,450,107	956,788	5,406,894	

31 March 2011

	EAD			
Grade	On balance sheet	Off balance sheet	Total	Weighted average risk-weight
G1 - G2	7,484,860	1,120,325	8,605,185	5.5%
G3 - G4	630,898	17,728	648,626	78.6%
G5 - G6	2,310,585	39,078	2,349,663	2.4%
G7A - 7B	0	0	0	0.0%
Others	0	0	0	
G7R - G10	252,292	0	252,292	
	10,678,635	1,177,131	11,855,766	

11.8 Exposures subject to IRB approach – All exposures

31 March 2012

Grade	EAD On balance sheet	EAD Off balance sheet	EAD Total	Weighted average risk-weight
J1 - J2	751,669	196,651	948,319	7.5%
J3 - J4	1,040,557	584,260	1,624,818	33.3%
J5 - J6	103,417	29,459	132,876	124.7%
J7A - 7B	0	2,337	2,337	175.0%
Others	0	92,472	92,472	23.3%
J7R - J10	0	0	0	
	1,895,643	905,179	2,800,822	

Grade	EAD On balance sheet	EAD Off balance sheet	EAD Total	Weighted average risk-weight
G1 - G2	10,770,772	1,142,247	11,913,019	6.5%
G3 - G4	501,942	56,489	558,431	60.6%
G5 - G6	133,345	9,019	142,364	100.6%
G7A - 7B	54,355	520	54,875	253.4%
Others	0	0	0	0.0%
G7R - G10	40,065	0	40,065	
	11,500,479	1,208,275	12,708,754	

Co-investment	6,911	4,021	11,012	80.0%
Total	13,403,033	2,117,475	15,520,588	

11.8 Exposures subject to IRB approach – All exposures – cont.

31 March 2011

	EAD			
Grade	On balance sheet	Off balance sheet	Total	Weighted average risk-weight
J1 - J2	1,172,406	111,975	1,284,381	5.8%
J3 - J4	905,929	465,739	1,371,668	31.5%
J5 - J6	658,788	18,442	677,230	10.8%
J7A - 7B	0	529	529	31.4%
Others	0	32,519	32,519	0.0%
J7R - J10	0	0	0	
	2,737,123	629,204	3,366,327	

	EAD			
Grade	On balance sheet	Off balance sheet	Total	Weighted average risk-weight
G1 - G2	8,532,151	1,624,602	10,156,754	6.4%
G3 - G4	703,677	36,847	740,525	80.4%
G5 - G6	2,416,080	39,078	2,455,157	9.0%
G7A - 7B	1,418	581	1,999	235.0%
Others	0	0	0	0.0%
G7R - G10	324,323	0	324,323	
	11,977,649	1,701,108	13,678,758	

Co-investment	5,405	5,905	11,315	75.0%
Total	14,720,177	2,336,217	17,056,399	

11.9 Specialised lending by exposure and weighting

Slotting Criteria	Risk-weight	EAD	
		31 March 2012	31 March 2011
Strong	**50%** **70%**	4,173,666	3,399,786
Good	**70%** **90%**	397,065	352,207
Satisfactory	**115%**	204,938	156,869
Weak	**250%**	217,148	157,856
		4,992,817	4,066,718
Other assets under EL methodology			
Co-investment transactions		53,381	60,350
Total EL method		5,046,198	4,127,068

11.10 Standardised Approach by risk weighting

CQS	S&P ratings	Weight	EAD	
			31 March 2012	31 March 2011
1	AAA to AA-	20.0%	61,580	142,679
2	A+ to A-	50.0%	1,897,917	1,327,845
3	BBB+ to BBB-	100.0%	1,486,032	1,256,695
4	BB+ to BB-	100.0%	148,226	347,291
5	B+ to B-	150.0%	62,049	23,131
6	CCC+ and below	150.0%	0	0
No ECAI grade [1]		20.0%	0	0
		50.0%	48,171	51,301
		100.0%	6,635,627	5,684,015
LFG [2]		150.0%	577,315	264,949
			10,916,917	9,097,906

[1] *Default weight depends on exposure class for all transactions without an external grade from an approved ECAI. All SMBCE Standardised Approach assets are corporates.*

[2] *Leveraged Finance Group (LFG) assets default to 100% but an internal adjustment is made to assume that CQS5 @ 150% would be applied if external grade were found.*