SMBC
SUMITOMO MITSUI BANKING CORPORATION
EUROPE LIMITED

Pillar 3 Disclosures

(As of 31st March 2015)

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 Prudential Regulation Authority ("PRA").

- 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 3. 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 (requires disclosure to allow market participants to understand the Bank's risk profile)

The formal legislative framework to be reflected in the detailed rules and requirements are imposed by each local regulator. The Bank is regulated by the PRA and the Financial Conduct Authority ("FCA").

The relevant requirements are contained in the Capital Requirements Regulation ("CRR"). The CRR Part 8 lays out the disclosure requirements applicable to banks and building societies, in accordance with Pillar 3. 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 is intended to ensure increased transparency and hence more effective market discipline.

The PRA granted the Bank 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 until December 2013 and subject to the relevant CRD IV requirements since January 2014.

1.2 Disclosure overview

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

- **Risk Management;** both in relation to overall risk management issues and specific risk categories (sections 2 - 6);
- **Capital structure and adequacy** (sections 7 - 8)
- **Credit risk exposures** (section 9)
- **Leverage Ratio and Asset Encumbrance** (sections 10 - 11)

1.3 Basis and Frequency of Disclosures

These disclosures are based on 31st March 2015 year end data, in accordance with the CRR Part 8.

After due consideration of the size and complexity of operations, the Bank has determined that this 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.

The first Pillar 3 Disclosures were made as of 31st March 2009 (covering the first full financial year for which the requirements existed).

1.4 Consolidation basis

The Bank is authorised by the PRA and is regulated by the FCA and PRA.

The Bank is required by the PRA to produce consolidated regulated reports, including its branches in France, Italy, Spain, the Netherlands, the Republic of Ireland and the Czech Republic 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 medium as per CRR Article 434.

This can be found at https://www.smbcgroup.com/emea/info/smbce

1.6 Remuneration Disclosures

The Bank's remuneration disclosures are published separately and can be found at the same link above.

2. Risk Management Framework

3.1 Risk Management Strategy and objectives

The key risks that SMBCE encounters in the pursuit of its strategic objectives can be categorized as follows: Credit, Market, Liquidity, Operational, Conduct, and Other Non-Financial.

SMBCE's business model is designed to ensure that the Bank remains a well-funded, well-controlled, risk averse corporate banking institution focusing resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced growth.

The Bank's risk management objectives are as follows:

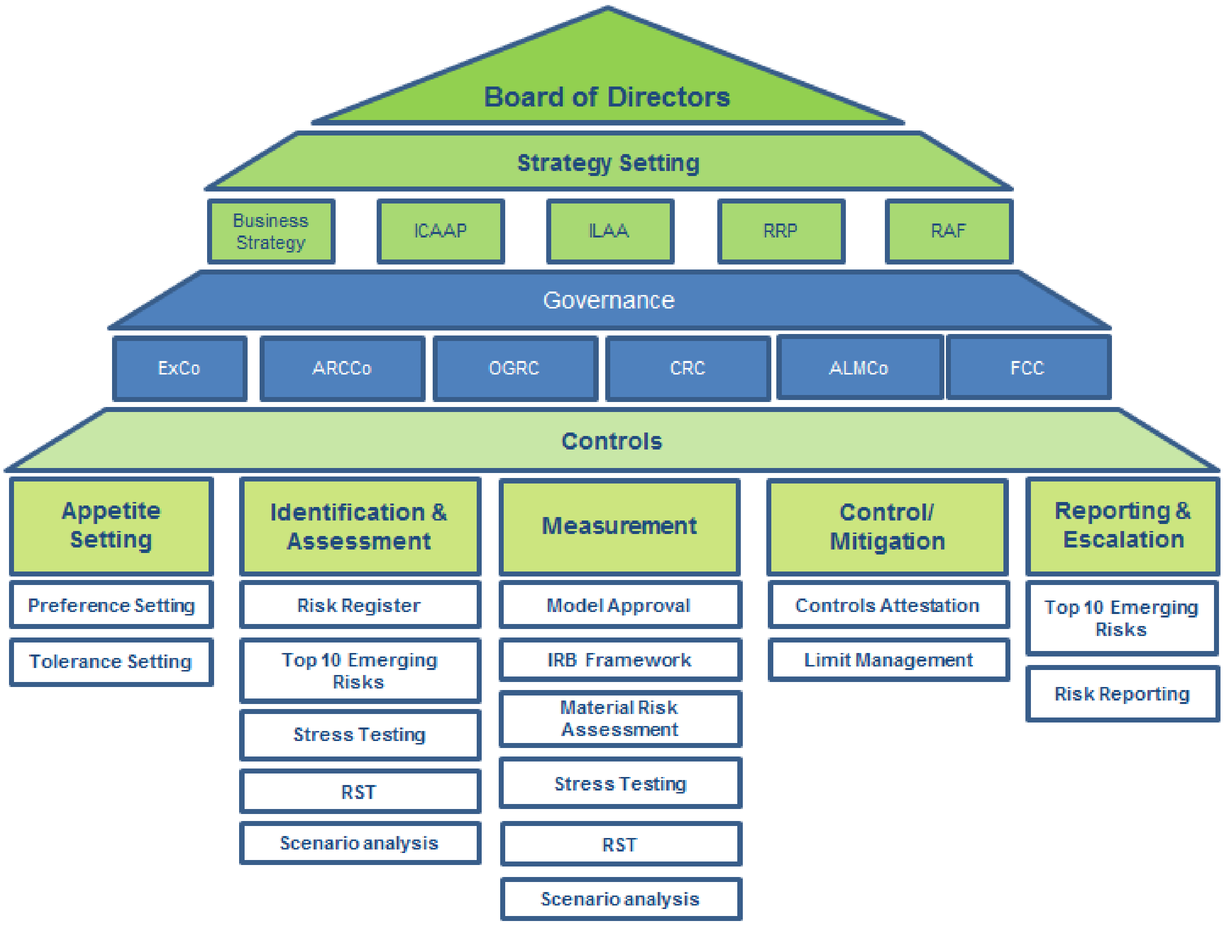
- To ensure the Bank's risk preference statements and tolerances are observed and maintained in the pursuance of the Bank's strategic objectives;
- To maintain a risk appetite that maximises risk/return whilst ensuring that the Bank maintains adequate capital at all times;
- To ensure that prudent levels of liquidity are in place to fund the Bank even under stressed conditions;
- To maintain fair and ethical relationships with all our customers;
- To manage and minimise risk that we assume as a consequence of our business strategy e.g. Operational Risk, Conduct Risk,
- To maintain an adequate and effective control environment; and
- To ensure that we adhere to the rule and spirit of laws and regulations governing our business.

The key principles to ensure an effective risk management strategy are;

- Providing a fit for purpose Risk management framework;
- Providing the Bank with an appropriately robust 2nd Line of Defence;
- Combining the overall principles set by the Bank's Corporate Strategy and the level of risk the Bank is able and willing to undertake, i.e. the Bank's Risk Appetite;
- Ensuring that risk issues associated with business development activities are being correctly identified measured and properly reported; and
- Obtaining appropriate assurance that there are sufficient controls in place to control risk

As part of the overall strategic and risk governance, the Bank undertakes and produces a number of key internal processes and documentation, which are outlined in the diagram below:

SMBCE Risk Management Framework



Key:

ICAAP:	Internal Capital Adequacy Assessment Process
ILAA:	Individual Liquidity Adequacy Assessment
RRP:	Recovery and Resolution Planning
RAF:	Risk Appetite Framework
RST:	Reverse Stress Test
ExCo:	Executive Committee
ARCCo:	Audit, Risk and Compliance Committee
OGRC:	Operational and General Risk Committee
CRC:	Credit Risk Committee
ALMCo:	Asset and Liability Management Committee
FCC:	Financial Crime Committee

Corporate Strategy

The high level principles of the Bank's Corporate Strategy are that:

- The SMBCE Board has overall responsibility for the Bank's Corporate Strategy and also for ensuring that there is an appropriately aligned Risk Appetite framework in place;
- The Bank pursues an annual strategic planning cycle, with the business strategy being developed in the last quarter of each financial year;
- Corporate Strategy is approved by the Board in June each year, following review of the draft in April; and
- The long term planning of Capital and Liquidity management and Recovery & Resolution Planning is a key component of the Corporate Strategy.

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 Internal Capital Adequacy Assessment Process ("ICAAP") and is available to regulators on request.

Liquidity Planning

As part of the Corporate Strategy process the Board critically assesses the liquidity the Bank needs to support the business plan and also those requirements under stress. This is documented through the Individual Liquidity Adequacy Assessment ("ILAA") and is available to regulators on request.

Risk Appetite

As part of the Corporate Strategy process the Board will approve a risk appetite that supports the long term objective of sustainable growth and balances the need for long term profitability with prudent risk management.

Recovery and Resolution Planning

The Board also considers on an annual basis extreme but plausible scenarios which can be systemic or idiosyncratic in nature and result in the Bank invoking its Recovery Plan options. The Recovery Plan, that includes a wind down plan, is approved by the Board annually.

The ICAAP, ILAA and RRP documents and the Credit, Market and Operational Risk policies are key elements of the risk management framework, which are aligned to the Bank's Risk Appetite and Corporate Strategy.

Appropriate policies and procedures have been established to ensure appropriate governance for the work streams supporting the risk management. These are reviewed at least annually.

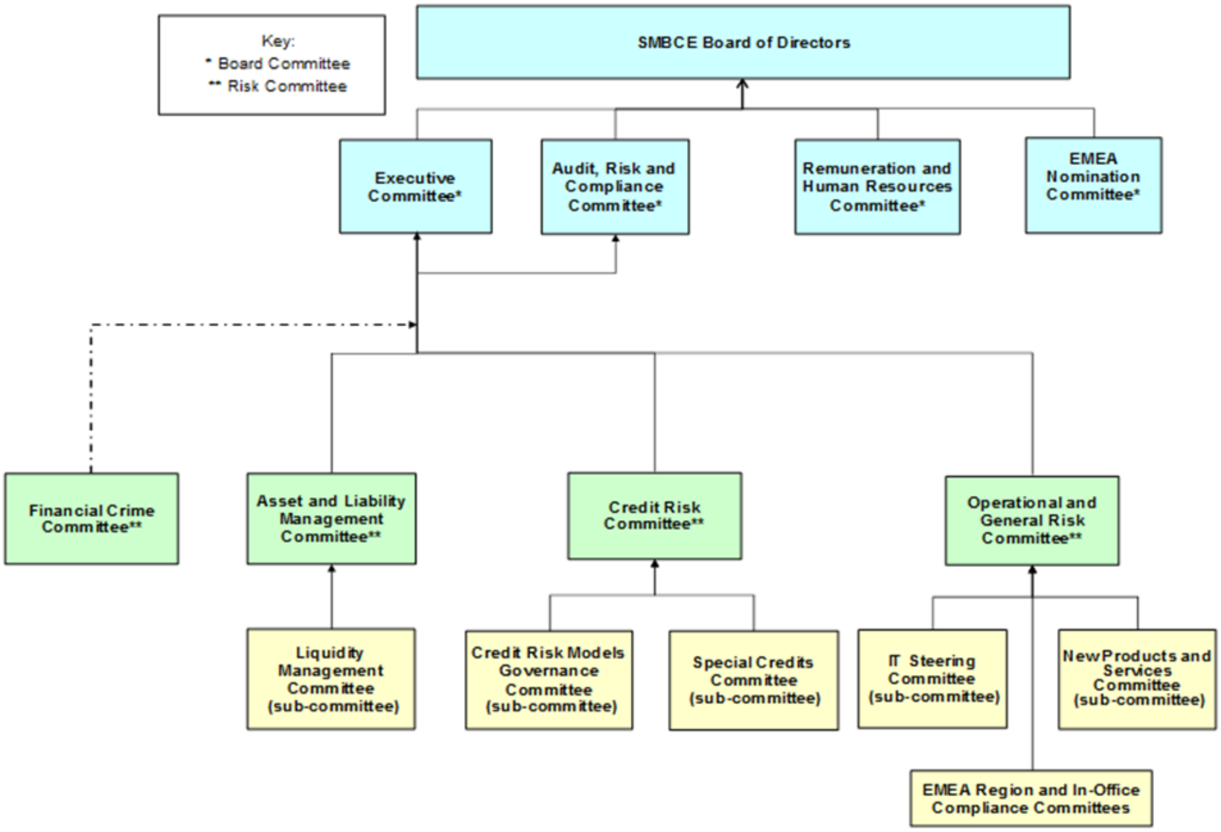
3.2 Governance Structure

SMBCE has in place a governance structure that ensures sound overall management and oversight of risk management which is defined as follows;

- The **SMBCE Board** is ultimately responsible for the exercise of effective risk governance, including setting risk appetite appropriate to business strategy;
- The Board established **Audit, Risk and Compliance Committee (ARCCo)**, is responsible for consideration of risk matters and for providing, inter alia, focused support, advice, oversight and challenge on risk governance;
- The Board established **Executive Committee (ExCo)**, is responsible for, inter alia, overseeing the work of the Risk Committees; and
- The Bank's governance structure is a combination of a top down governance and a bottom up business line accountability.

The key elements are illustrated in the diagram below

SMBCE Governance Structure



Audit, Risk and Compliance Committee (ARCCo), is a quarterly meeting chaired by an independent Non-Executive Director, with the other Non-Executive Directors attending as members. The CEO, COO, CRO, General Counsel, the Co-General Managers of Audit Department, the Chief Compliance Officer and the Head of Finance and Control are invited to attend at the discretion of the Committee Chairman.

- The Committee is principally responsible for considering the Bank's risk management structure and systems, the main areas of risk faced by the Bank, compliance risk and regulatory issues, annual financial statements, external audit arrangements, Internal Audit and Credit Review oversight, and the appointment and dismissal of the senior management members of Audit Department. It also receives a report on the major areas of discussion at Risk Committee meetings.

The responsibilities of the ARCCo with respect to risk management matters include:

- To consider and, if thought fit, recommend approval to the Board of the Bank's risk appetite statement on an annual basis, and as necessary;
- To provide oversight and challenge on the design and execution of stress and scenario testing;
- To provide oversight and challenge of the risk management arrangements of the executive, including reviewing the key discussions and decisions reached by the Risk Committees;
- To consider and, if thought fit, recommend approval to the Board of major revisions to the core Treasury limits and to note any minor changes to those limits that have been approved by the CEO/COO;
- To consider and, if thought fit, recommend approval to the Board of specific and collective provisions;

- To consider other Credit risk management issues, including self-assessment results, updates on watchlist names, exposure analysis, setting and revision of credit limits, and details of exposures exceeding internal guidelines;
- To consider and, if thought fit, approve significant changes to the ARCCo policies;
- To consider and if thought fit, recommend approval to the Board of the ICAAP, the ILAA document and any revisions thereto;
- If necessary, to provide oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board;
- To provide the advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Bank;
- In accordance with the UK Corporate Governance Code, to undertake an annual review of the effectiveness of the Bank's system of internal controls and to consider the wording of the disclosures in the Directors' Report; and
- To receive an annual report from the Chief Information Officer of SMBC Americas and EMEA Division, such report to explain, inter alia, the key SMBC-group wide IT risk issues as they impact the Bank.

The **Executive Committee (ExCo),** is a monthly meeting attended by all executive Directors and the other General Managers of SMBCE. The Co-General Managers of Audit Department attend this meeting as observers. The Chief Executive Officer is the chairman of this Committee.

- The Committee is responsible for the supervision and management of SMBCE's daily operations and for overseeing the work of the Risk Committees.

As shown in the previous diagram, the Bank has established the following Risk Committees:

- Financial Crime Committee: is a monthly meeting.
- Asset and Liability Management Committee: is a monthly meeting primarily responsible for considering Market and Liquidity risk management issues, and Asset and Liability management matters. The Committee is chaired by the Head of RMD Market Risk Management Group.
- Credit Risk Committee: is a monthly meeting primarily responsible for reporting and discussing a wide range of credit issues. The Committee is chaired by the JGM of RMD– Credit Risk Planning Group / Head of Credit Risk Control Unit.
- Operational and General Risk Committee: is a monthly meeting responsible for examining and discussing matters related to general risk management issues. The Committee is chaired by a Co-CRO.

These Committees have responsibility for managing certain specific areas of risk for the Bank. The Terms of Reference of these Committees is contained in the separate Board Committee and Framework document issued by Planning Department-Legal and Compliance Department.

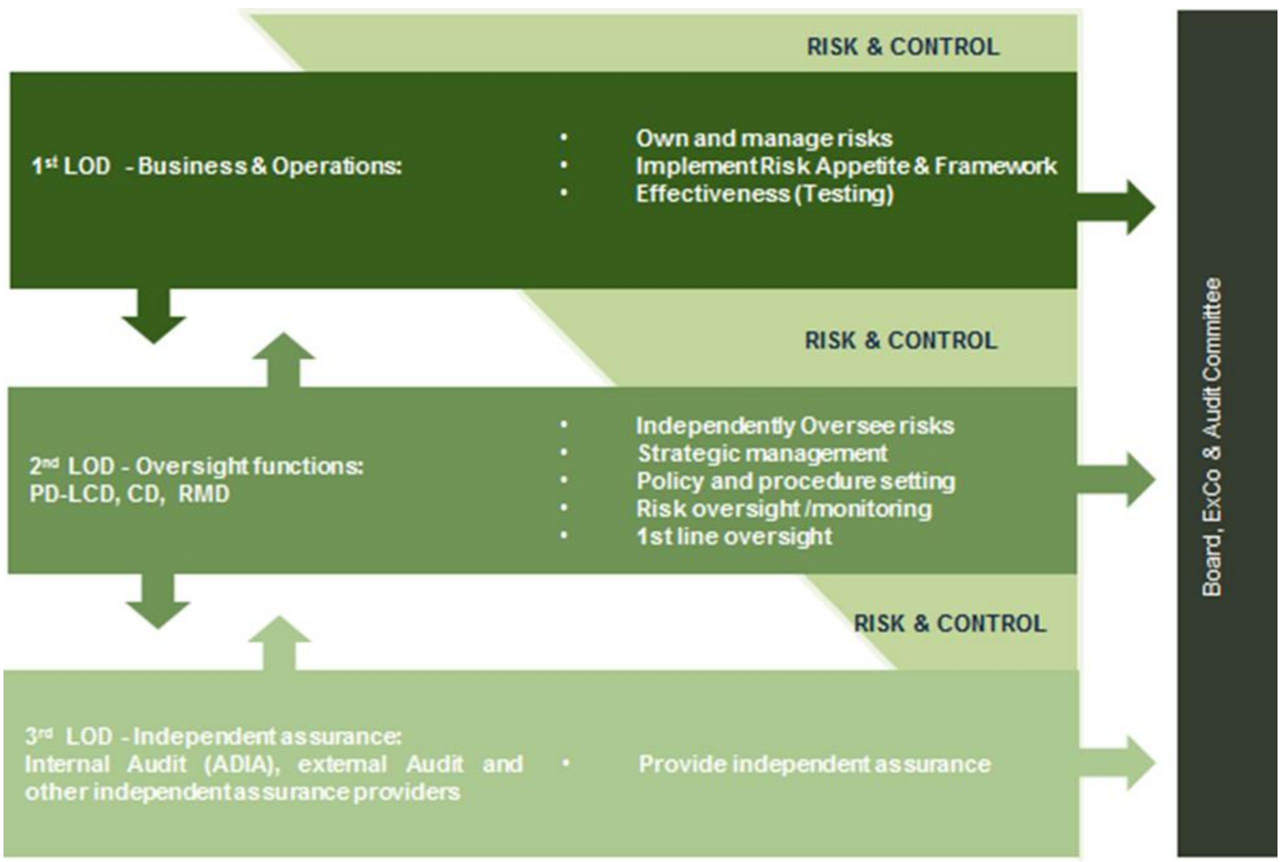
The **Chief Executive Officer** (CEO) is responsible for implementing the corporate strategy within the risk tolerance approved by the SMBCE Board. The CEO delegates authority to senior corporate and line managers to define and implement business strategies and risk appetite to maximise the Bank's risk/ return objectives.

3.3 Enterprise Risk Management Model

The Directors, through the Audit, Risk and Compliance Committee (ARCCo), considers the risk management framework and its governance adequate given the Bank's size and business model. The Bank adopts a 3 Lines of Defence (3 LOD) model as a means to communicate clear accountabilities to achieve and assure overall effective risk governance, management and assurance, reflecting and reinforcing the Bank's internal control framework.

The 3 LOD approach separates the ownership/management of risk from the functions that oversee risk and the functions that provides independent assurance:

LOD 1 – Functions that own and manage risk;
LOD 2 – Functions that independently oversee risk;
LOD 3 – Functions that provide independent assurance.



LOD 1- Senior management in the first line of defence are required to establish their own Risk Tolerances at departmental level. Each department will propose individual Business Unit Risk Tolerance statements and thresholds in the context of its own strategy, taking into account the overall risk management framework and Corporate Strategy. This approach is designed to ensure that the Bank's risk appetite is cascaded down to where the risk is taken.

LOD 2 -The key risk management process employed to ensure a robust second line of defence is as follows:

- Risk Governance
- Risk Appetite Setting
- Risk Register
- Three Lines of Defence
- Risk Control Assessment
- Stress Testing / Reverse Stress Testing
- Active Credit Portfolio Quality Management ("ACPM")
- Senior Management Training
- Key Risk Indicator / Early Warning Indicator
- Model Governance (e.g. IRB)
- Internal Control Assessment/Attestation
- Ongoing monitoring of the key risk management policies and procedures

LOD 3 – Internal and External audit provide independent assurance.

The Bank has established an independent Audit Department, which comprises an Internal Audit Group and a Credit Review Group. The objective of Audit Department is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established and maintained within the Bank. In order to achieve this objective, the Internal Audit Group, which is responsible for reviewing the controls for those risks other than credit risk, conducts audits and provides consulting services to management by using a risk-based approach. The Credit Review Group, which is responsible for reviewing credit risk, conducts credit reviews by employing predetermined risk criteria. The Audit Department acts independently of the Bank's business units. The two Co-General Managers of Audit Department report to the Audit, Risk and Compliance Committee at its quarterly meetings.

3.4 Risk measurement and monitoring systems

The key principles for effective risk measurement and monitoring are:

- Measure risk exposure by loss modelling, enterprise level KRIs and scenarios;
- Provide an Operational Risk capital methodology and implementation;
- Maintain a record of accepted risks;
- Ensure appropriate reporting to Board and ExCo of inherent and post-mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite; and
- Facilitate senior management understanding of the severity of the risk.

The monthly Risk Report submitted at Executive Committee includes:

- The Chief Risk Officer report;
- A Credit risk report;
- A Risk Tolerance dashboard; and
- A Liquidity risk report.

Internal Ratings Based Framework and Credit Risk Attestation

- All internal credit risk assessment models utilised to assess obligor and product credit risk are subject to the IRB Credit Risk Policy and Standards.
- The ARCCo approved policy is the governing document on credit risk assessment models and parameter estimation.
- Grading models and systems are subject to an annual assessment to ensure continued compliance with the Capital Requirements Regulation.

Stress Testing and Scenario Analysis

- Stress testing is a key forward looking tool to calculate the impact of several scenarios over differing timeframes. Stress testing models the impact of low-frequency, extreme impact events that might not be appropriately captured by other risk management techniques.
- Stress testing and scenario analysis are used by RMD across the principal risks to ensure that the Bank can adequately understand and quantify not only risks as they currently exist, but as they might develop in times of stress.

Reverse Stress Testing

- The UK FSA Policy Statement (PS 09/20) requires "a firm to identify explicitly and assess the scenarios most likely to render its business model unviable"
- Reverse Stress Testing ("RST") is utilised to identify and monitor the factors and stress levels that have the potential to cause SMBCE's business model to become unviable. Reverse stress testing is seen as an important part of the overall risk management framework of the Bank, since it can aid understanding of key vulnerabilities.
- Reverse stress testing work has assisted in developing a better understanding of the relationship between movements in capital and liquidity.
- The RST is developed in conjunction and alignment with the Risk Assessment processes (Risk Register and Emerging Top 10 Risks).

3.5 SMBCE's Risk Profile and ratios

The Bank's goal is to achieve sustainable growth in its business over the long-term.

The Bank uses Risk Appetite to define the broad-based level of risk that the Bank is able and willing to undertake in carrying out its business. The Bank's Risk Appetite ensures formal management identification and consensus about the strategic level risks that the Bank is facing and, as such, is a key tool for managing business. The Bank's risk level is, at all times, managed to be within its approved risk capacity, which is considered to be the maximum level of risk the Bank can assume given its current level of resources before breaching constraints determined by available capital and liquidity and set within the Bank's risk appetite.

The Bank is exposed to certain risks and uncertainties in conducting its business. The Bank's principal risk categories are shown below:

- Credit Risk – 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 borrowers financial standing. The Bank's total maximum exposure to credit risk as at 31 March 2015 was USD 42.8 billion (2014: USD 42.9 billion) and can be found in the Financial Statements page 33
- Market Risk – 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 ("VaR") to a 99% confidence interval to measure market risk alongside other relevant metrics. During the year the average VaR was USD 0.4 million.
- Liquidity Risk – the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.
- Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Historically, losses in this risk category have been low.
- Conduct Risk – the risk of the Bank's behavior resulting in poor customer outcome and/or damage to the integrity of the financial markets. Any significant failure in this area could lead to regulatory censure and/or reputational damage.
- Other non-financial risks – as a result of its activities the Bank assumes other potential risk impacts such as reputational and others which it manages with in the overall policy framework. Historically, losses in this risk category have been low.

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 tolerance established by the Board. The Risk profile versus Risk Appetite is reported monthly at the Executive Committee.

A summary of the Bank's Risk Appetite is set out below. The Bank's Risk Appetite for Market Risk, Conduct Risk, Operational Risk and Other Non-Financial Risks is low. As a consequence, the main risks that the Bank manages are Credit Risk and Liquidity Risk.

Credit Risk— As at the 31st March 2015, the Bank's maximum exposure to credit risk was USD 42.8 billion. The average credit cost ratio for non-defaulted assets was 0.74% and the problem asset ratio was 2.16%

Liquidity Risk— The Bank maintains a strong and stable liquidity position. As at the 31st March 2015, the Bank's estimation of the Net Stable Funding Ratio ("NSFR") was at 69.6%, and the Liquidity Coverage Ratio ("LCR") was at 115%.

3. Credit Risk Management

4.1 The Framework

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 borrowers financial standing.

The Bank's Board is ultimately responsible for ensuring that the level of credit risk taken by the Bank is in line with its risk appetite and business model. It achieves this 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 (CRO) 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;
- By the implementation of the Bank's risk appetite framework;
- Ensuring understanding of vulnerabilities through stress testing and reverse stress testing;
- Having strong rating systems to measure the risk on individual transactions;
- By regular reviews conducted by Audit Department – Credit Review Group to ensure compliance with policies, procedures; and
- Market best practice.

There have been no significant changes in the year in the objectives and policies for the management of credit risk.

There is an internal rating system for each asset control category set according to asset characteristics. The overview is shown as follows:

Grading	Portfolio	Exposure class	Supervisory Scheme
J-series	Japanese Commercial and Industrial Companies, Lease/Rental /Non-bank, Banks, Securities, Life-Insurances, Non-Life Insurances, Japanese sovereign related institutions	Central Banks & Governments Institutions Corporates	F-IRB
G-series C&I	Non-Japanese Commercial and Industrial Companies	Corporates	Standardised
G-series FI	Non-Japanese Banks, Securities, Insurances	Institutions Corporates	F-IRB
G-series Sovereign	Governments, Central Banks, Institutions related to Governments	Central Banks & Governments	F-IRB

**Equity exposure uses IRB (Simple Risk Weight) approach. For Structured Finance and Object Finance, such as Aircraft Finance, apply the Specialised Lending approach and use the Supervisory Slotting Criteria.*

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.

The Bank's internal obligor grading, and borrower categories are set out in the table below, and are used for the purposes of determining the Bank's credit quality of obligors:

J-series	(Benchmark) S&P	G-series	(Benchmark) S&P	Borrower's Category
J1	AAA to AA-	G1	AAA to A-	Normal Borrowers
J2	A+ to A-	G2	BBB+ to BBB-	
J3	BBB+ to BBB-	G3	BB+ to BB-	
J4	BB+ and lower	G4	B+	
J5		G5	B	
J6		G6	B-	
J7		G7	CCC and lower	Borrowers Requiring Caution
J7R		G7R		Substandard Borrowers
J8		G8		Potentially Bankrupt Borrowers
J9		G9		Virtually Bankrupt Borrowers
J10		G10		Bankrupt Borrowers

**G grade – non Japanese borrowers, J Grade – Japanese borrowers*

The internal ratings, G7R and J7R through to G10 and J10 are recognised as "Default" in terms of CRD IV and in line with regulatory default definition.

In addition to the above 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.

Credit Monitoring

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

- Periodic monitoring following financial results disclosures;
- Continuous monitoring should credit conditions deteriorate; and

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'normal borrower' 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 Independent Credit Risk Control Unit ("ICRCU") 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.

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 on page 30 of the Financial Statements.

Geographical Exposures

Please refer to page 31 of 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.

Maximum exposure to credit risk

Please refer to page 31 of 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 take into account collateral or other credit enhancements.

Collateral Held

The Bank's corporate lending is often secured by fixed and floating charges on the assets of borrowers. However, unless the asset is impaired, the only collateral which is valued on a continuous basis are cash and Government Bonds. Estimates of the fair value of the collateral held is made when a loan is individually assessed for impairment. Collateral takes various forms and the value of this security will vary over time and is dependent on the types of asset and the jurisdiction of the borrowers as well as the ability to dispose of the collateral.

Guarantors are sovereign, public entities, financial institution and C&I companies with sufficient credit ratings, which have ability to provide protection. Information on the Collateral Held can be found on page 32 of the Financial Statements.

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 ISDA Credit Support Annex.

The Bank also enters into 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 of offsetting in the statement of financial position.

The disclosures set out on page 32 of 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. Following the changes to IAS 32 clarifying the offsetting requirements, the Bank no longer nets Foreign exchange transactions.

Credit quality of counterparty per class of financial assets

More information can be found on page 33 of the Financial Statements.

4. Market Risk Management

Market Risk

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's Board is ultimately responsible for ensuring that the level of market risk run by the Bank is in line with their risk appetite and business model.

The Bank uses a variety of matrices to measure and control market risk. One such tool is the use of 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. The Bank uses a 99% confidence interval and a one-day time horizon. The Bank currently uses a historical simulation which is updated monthly to generate the VaR result using data from a four year observation period. The Bank uses VaR to control market risk both on the Trading and Banking accounts on both a standalone and consolidated basis. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model. However, VaR is not a perfect tool for risk management and cannot provide an indication of the potential losses that may occur. The Bank therefore conducts a program of stress-testing using scenarios relevant to the current portfolio composition.

Interest rate risk on the Banking book is stressed by taking the Basis Point Value ("BPV") positions and stressing them by an average of 100 basis points (bp). In addition to this a further 200 bp parallel shift stress test is carried out (as per BIPRU2.3.8) as part of the ICAAP submission. Stress tests are also carried out on FX positions (assuming 17% appreciation and depreciation of each currency vs. USD).

Risk management for each category is augmented by employing suitable sensitivity limits such as BPV limits which measure the potential change in portfolio fair value for an instantaneous 0.01% shift in interest rates. Using the BPV, the Bank can examine the effects to income of movements in yields applied to the Banking and Trading portfolios.

The Bank's VaR exposures can be found on Financial Statements page 34. The income sensitivity table in the Financial Statements reports the worst case of six possible yield curve shift scenarios averaging 100bp, including "Steepening", "Flattening" and "Parallel" shifts, which comprises of the Market Risk Stress Test.

Fair value of derivative assets and liabilities

The tables in the Financial Statements on page 35 show the Bank's fair value disclosures at 31 March 2015 and 31 March 2014.

5. Liquidity Risk Management

Liquidity Risk

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

The Bank's Board is ultimately responsible for ensuring that the level of liquidity risk run by the Bank is in line with their risk appetite and business model. It achieves this through the following main measures:

- The establishment of a clear, consistent Risk Appetite Framework that is understood across the organisation;
- Defining clear roles and responsibilities for the management of liquidity under normal and stressed circumstances;
- The implementation of a robust committee framework to manage liquidity risk issues, with clear terms of reference and standard agendas;
- Regular management information to demonstrate that the Bank is operating within risk appetite, along with other select metrics;
- 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 enterprise 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; and
- Accurate and timely risk measurement.

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including UK Gilts, Swiss Government bonds, U.S. Treasury Bills and cash held at Bank of England and European Central Bank reserve accounts. The quantity of this buffer of liquid assets is purposefully maintained such that the Bank comfortably exceeds its individual liquidity guidance, as prescribed by the regulators in November 2013.

The Bank is monitoring its estimated positions under the incoming CRD IV liquidity requirements and expects to exceed the minimum liquidity coverage ratio and net stable funding ratio metrics when implemented.

Analysis of liquidity risk

Contractual maturity of financial assets and liabilities form 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. From 1 April 2014, the Bank has chosen not to net derivative assets and liabilities.

The tables in the Financial Statements on pages 38 and 39 show the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments.

6. Operational Risk Management

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 due to the Bank's day to day operations and is relevant to every aspect of the business.

The Bank's Board is ultimately responsible for ensuring that the level of operational risk taken by the Bank is in line with their risk appetite and business model. The Bank has in place an operational risk management framework to effectively manage operational risk and minimize the occurrence and impact of operational risk events. This framework consists of the following key elements:

- Internal loss data, used to assess the Bank's exposure to operational risk and the effectiveness of internal controls;
- External loss data, used to explore possible weaknesses in the control environment or consider previously unidentified risk exposures;
- Business Environment & Internal Control Factors ("BEICFs"), factors that affect operational risk, including changes to laws/regulations, internal rules and procedures and new products;
- Risk & Control Assessments ("RCA"), the Bank's methodology to assess operational risk.

The RCA methodology has been developed to evaluate and manage the level of residual operational risk within the Bank and to reflect changes in risk profile and control environment in each business unit. A set of 22 predefined scenarios that are relevant to our business are used. Each scenario is mapped to one of the seven Event Types according to CRD IV.

Risk & Control Assessments are conducted on a semi-annual basis in March and September. During these exercises all business units are required to review and reassess their existing scenarios and update risk and control scores and maximum potential losses as required.

The Bank's operational risk management framework also includes processes for capital calculations and stress testing. The Bank applies the Standardised Approach for calculating its regulatory operational risk capital. For each business line, the Bank calculates a capital requirement for operational risk as a certain percentage of the three year average of the Bank's net income. Stress testing is utilized to calculate any additional capital requirement deemed necessary under stressed conditions.

7. Conduct Risk Management

Conduct Risk

Conduct risk is the risk of the Bank’s behavior resulting in poor customer outcomes and/or damage to the integrity of the financial markets.

Since its establishment in April 2013 the FCA has been developing and expanding its requirements in respect of the conduct of financial institutions. The Bank’s work on conduct includes assessing key risks across the business, identifying controls and ensuring that management receives the right information to enable it to identify and deal with conduct related issues. Conduct risks are mitigated through a robust risk framework and include:

- Strong governance and culture;
- Good product design and sales processes; and
- Appropriate market behaviour and conflict of interest management.

The Bank's conduct risk initiative is in progress and is set to continue for the coming year and will aim to build on our existing controls framework.

8. Capital Structure

8.1 Overview

All figures in in this section USD millions

	31 March 2015	31 March 2014
Tier 1 capital	**3,644.9**	**3,526.0**
Permanent share capital	3,200.0	3,200.0
Profit & Loss and other reserves	444.9	326.0
Total deductions	(37.0)	(8.8)
Tier 1 capital after deductions	**3,607.9**	**3,517.2**

Regulatory Expected Losses exceeded the total provisions as at 31 March 2015. Therefore, the excess has been deducted from Tier 1 capital and included in the total deductions in the above table

8.2 Reconciliation of Total capital to Shareholders Equity

	31 March 2015	31 March 2014
Shareholders Equity per Financial Statements	**3,642.7**	**3,525.6**
Reserves not included in Tier 1 capital	2.2	0.4
Cash flow hedge	0.2	(1.6)
Available for sale reserve	2.0	2.0
Total deductions	(37.0)	(8.8)
Tier 1 capital after deductions	**3,607.9**	**3,517.2**

8.3 Securitisation first losses

As per CRR Article 264, 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.

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9. Capital Adequacy

Overview

The Standardised Approach is used for non-Japanese customers graded under a corporate model and the capital requirements are calculated as credit risk-weighted assets amount multiplied by 8%. The IRB Foundation Approach is used for all other asset classes, including Specialised Lending via the Supervisory Slotting Criteria. It is calculated as per PRA guidelines using the Bank's estimates of Probability of Default ("PD"). Figures include securitisation first losses as additions to credit risk rather than deductions from capital resources.

All figures in this section USD millions

9.1 Capital requirements for credit risk

	31 March 2015	31 March 2014
Standardised Approach	**682.4**	**620.5**
Corporate exposures	682.4	620.5
Internal Ratings Based Approach - Foundation	**395.4**	**520.3**
Central governments and central banks	38.4	21.4
Banks	14.9	114.5
Corporate exposures - excluding specialised lending	96.5	77.6
Corporate exposures - specialised lending	223.5	285.9
Equity	6.0	-
Non-credit obligations	5.7	4.8
Credit Valuation Adjustment	10.4	16.1
Total Credit Risk Capital Required	**1,077.8**	**1,140.8**

9.2 Capital requirements for Market Risk and Operational Risk

	31 March 2015	31 March 2014
Market Risk	**14.1**	**16.9**
Interest rate risk	2.2	12.4
Options transactions	6.9	0.1
Foreign Exchange risk	5.0	4.4
Operational Risk	**69.7**	**61.5**

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

	31 March 2015	31 March 2014
Total capital adequacy ratio	**24.8%**	**22.9%**
Tier 1 capital adequacy ratio	**24.8%**	**22.9%**
Total capital requirements	**1,161.6**	**1,219.1**
8% of credit risk-weighted assets	1,077.9	1,140.7
Capital requirements for Market Risk	14.1	16.9
Capital requirements for Operational Risk	69.7	61.5

10. Credit Risk Exposures

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment under a contractual obligation. Credit risks are calculated based on the borrower's overall ability to repay. For these purposes the Bank has adopted the IRB foundation approach, with the PRA's approval, and the Standardised approach to calculate its credit risk exposures. The tables below identify the group's credit risk exposures by approach and exposure class. Please note the following when referring to the tables:

Original exposure: the original exposure of the transaction before credit risk mitigation ("CRM") and credit conversion factors ("CCF")

EAD / exposure value: Exposure at Default is the value that the Bank is exposed to at the time of default. This is calculated after CRM factors using the Bank's Standardised and IRB models.

RWA: Risk-Weighted Assets multiply the EAD by the risk-weight assigned to the particular obligor or guarantor of the asset.

All figures in this section USD millions

10.1 Credit risk exposure - by approach

31 March 2015

	Original Exposure	EAD	RWA
FIRB	25,416.7	24,845.0	1,785.1
FIRB - Specialised Lending	4,411.9	4,064.2	2,958.8
Standardised	13,247.9	9,137.2	8,530.3
	43,076.5	**38,046.4**	**13,274.2**

31 March 2014

	Original Exposure	EAD	RWA
FIRB	27,751.9	26,276.5	2,216.5
FIRB - Specialised Lending	5,818.6	5,368.6	4,025.7
Standardised	10,424.6	8,739.4	7,806.3
	43,995.1	**40,384.5**	**14,048.5**

10.2 Credit risk exposure – by exposure class

31 March 2015

	Original Exposure	EAD	RWA
IRB foundation approach	**25,416.7**	**24,845.0**	**1,785.0**
Central governments or central banks	13,408.5	15,708.7	392.0
Institutions	6,357.7	5,606.0	186.7
Corporates	5,650.5	3,530.3	1,206.3
FIRB - Specialised Lending	**4,411.9**	**4,064.2**	**2,958.8**
Standardised approach	**13,247.9**	**9,137.2**	**8,530.3**
Institutions	-	-	-
Corporates	13,226.4	9,115.7	8,498.1
Items associated with particularly high risk	21.5	21.5	32.2
	43,076.5	**38,046.4**	**13,274.1**

31 March 2014

	Original Exposure	EAD	RWA
IRB foundation approach	**27,751.9**	**26,276.5**	**2,216.5**
Central governments or central banks	15,129.9	14,982.7	212.8
Institutions	5,937.7	5,702.2	948.3
Corporates	6,684.3	5,591.6	1,055.4
FIRB - Specialised Lending	**5,818.6**	**5,368.6**	**4,025.7**
Standardised approach	**10,424.5**	**8,739.4**	**7,806.2**
Institutions	25.3	25.3	12.5
Corporates	10,399.2	8,714.1	7,793.7
Items associated with particularly high risk	-	-	-
	43,995.0	**40,384.5**	**14,048.4**

10.3 Credit risk exposure – by industry

All figures in the remainder of this section are calculated on an EAD basis

31 March 2015

	Finance and insurance	Government & local authorities	Manu-facturing	Wholesale & services	Other corporate exposures	Transport	Energy & infra-structure	Total EAD
IRB foundation approach	**18,174.5**	**3,633.8**	**775.8**	**358.8**	**1,691.7**	**209.5**	**1.0**	**24,845.0**
Central governments or central banks	12,078.5	3,630.2	-	-	-	-	-	15,708.7
Institutions	5,426.1	-	-	-	177.4	2.5	-	5,606.0
Corporates	669.9	3.6	775.8	358.8	1,514.3	207.0	1.0	3,530.3
FIRB - Specialised Lending	**20.6**	**209.2**	**36.5**	**158.0**	**820.9**	**797.1**	**2,022.0**	**4,064.2**
Standardised approach	**227.1**	**25.1**	**1,556.3**	**271.3**	**6,787.3**	**270.1**	**0.0**	**9,137.2**
Institutions	-	-	-	-	-	-	-	-
Corporates	227.1	25.1	1,556.3	271.3	6,765.8	270.1	0.0	9,115.7
Items associated with particularly high risk	-	-	-	-	21.5	-	-	21.5
	18,422.2	**3,868.1**	**2,368.6**	**788.1**	**9,299.9**	**1,276.7**	**2,023.0**	**38,046.4**
Memorandum items:								
Specific provisions			*21.9*		*65.5*			*87.4*
*Impaired assets **			*42.1*		*201.3*			*243.4*

31 March 2014

	Finance and insurance	Government & local authorities	Manu-facturing	Wholesale & services	Other corporate exposures	Transport	Energy & infra-structure	Total EAD
IRB foundation approach	**19,793.1**	**1,160.3**	**1,245.0**	**438.0**	**3,640.2**	**-**	**-**	**26,276.5**
Central governments or central banks	13,911.4	1,071.2	-	-	-	-	-	14,982.7
Institutions	5,638.7	-	-	-	63.5	-	-	5,702.2
Corporates	243.0	89.1	1,245.0	438.0	3,576.7	-	-	5,591.6
FIRB - Specialised Lending	**-**	**-**	**-**	**-**	**425.9**	**894.3**	**4,048.4**	**5,368.6**
Standardised approach	**452.6**	**54.0**	**1,629.1**	**315.5**	**5,566.0**	**626.7**	**95.5**	**8,739.4**
Institutions	25.4	-	-	-	-	-	-	25.3
Corporates	427.2	54.0	1,629.1	315.5	5,566.0	626.7	95.5	8,714.1
Items associated with particularly high risk	-	-	-	-	-	-	-	-
	20,245.7	**1,214.3**	**2,874.1**	**753.5**	**9,632.1**	**1,521.0**	**4,143.9**	**40,384.5**
Memorandum items:								
Specific provisions	*25.0*		*24.9*		*16.0*		*20.9*	*86.7*
*Impaired assets **	*25.0*		*57.2*		*36.7*		*83.3*	*202.2*

** Impaired assets broken down by industry are allocated according to original obligor and, therefore, original exposure is used here.*

10.4 Credit risk exposure – by maturity

31 March 2015

	To 1 year	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years to 7 years	More than 7 years	Total EAD
IRB foundation approach	**19,990.1**	**991.1**	**1,413.1**	**589.5**	**1,861.2**	**24,845.0**
Central governments or central banks	12,909.0	190.7	468.2	464.7	1,676.1	15,708.7
Institutions	5,294.0	240.0	40.2	2.3	29.5	5,606.0
Corporates	1,787.1	560.4	904.7	122.5	155.6	3,530.3
FIRB - Specialised Lending	**107.3**	**499.9**	**445.5**	**85.6**	**2,925.9**	**4,064.2**
Standardised approach	**2,488.1**	**2,227.6**	**3,314.2**	**475.7**	**631.6**	**9,137.2**
Institutions	-	-	-	-	-	-
Corporates	2,488.1	2,206.1	3,314.2	475.7	631.6	9,115.7
Items associated with particularly high risk	-	21.5	-	-	-	21.5
	22,585.5	**3,718.6**	**5,172.8**	**1,150.8**	**5,418.7**	**38,046.4**

31 March 2014

	To 1 year	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years to 7 years	More than 7 years	Total EAD
IRB foundation approach	**21,384.3**	**1,085.0**	**1,333.2**	**551.3**	**1,922.7**	**26,276.5**
Central governments or central banks	14,803.4	43.6	-	1.4	134.3	14,982.7
Institutions	4,943.9	76.4	250.7	362.3	68.9	5,702.2
Corporates	1,637.0	965.0	1,082.5	187.6	1,719.5	5,591.6
FIRB - Specialised Lending	**362.2**	**521.7**	**654.0**	**316.1**	**3,514.6**	**5,368.6**
Standardised approach	**1,555.9**	**2,604.3**	**3,373.5**	**553.8**	**652.0**	**8,739.4**
Institutions	3.1	13.0	9.3	-	-	25.3
Corporates	1,552.8	2,591.3	3,364.2	553.8	652.0	8,714.1
Items associated with particularly high risk	-	-	-	-	-	-
	23,302.4	**4,211.0**	**5,360.7**	**1,421.2**	**6,089.3**	**40,384.5**

10.5 Credit risk exposure – by geographical area

31 March 2015

	United Kingdom	France	Italy	Other Europe	Japan	Middle East & Africa	Other Countries	Total EAD
IRB foundation approach	**13,628.7**	**3,845.5**	**282.1**	**3,608.0**	**1,494.0**	**823.4**	**1,163.3**	**24,845.0**
Central governments or central banks	10,096.1	3,314.0	124.5	628.0	583.9	124.6	837.7	15,708.7
Institutions	2,275.1	279.2	0.1	2,438.0	228.5	113.5	271.6	5,606.0
Corporates	1,257.5	252.3	157.5	542.0	681.6	585.3	54.0	3,530.3
FIRB - Specialised Lending	**2,181.6**	**1,023.9**	**61.0**	**493.9**	**-**	**267.9**	**35.9**	**4,064.2**
Standardised approach	**1,618.8**	**2,332.4**	**526.3**	**2,237.2**	**100.7**	**1,462.7**	**859.1**	**9,137.2**
Institutions	-	-	-	-	-	-	-	-
Corporates	1,618.8	2,332.4	526.3	2,215.7	100.7	1,462.7	859.1	9,115.7
Items associated with particularly high risk	-	-	-	21.5	-	-	-	21.5
	17,429.1	**7,201.8**	**869.4**	**6,339.2**	**1,594.7**	**2,554.0**	**2,058.3**	**38,046.4**
Memorandum items:								
Specific provisions		*12.6*	*5.3*	*69.6*				*87.4*
*Impaired assets **		*21.3*	*6.8*	*215.4*				*243.4*

31 March 2014

	United Kingdom	France	Italy	Other Europe	Japan	Middle East & Africa	Other Countries	Total EAD
IRB foundation approach	**11,057.8**	**6,558.7**	**386.2**	**2,932.7**	**3,129.8**	**901.2**	**1,310.1**	**26,276.5**
Central governments or central banks	9,579.9	4,605.8	-	161.4	-	135.8	499.8	14,982.7
Institutions	134.3	170.2	14.3	1,530.2	3,129.8	461.4	261.9	5,702.2
Corporates	1,343.6	1,782.7	371.9	1,241.1	-	304.0	548.4	5,591.6
FIRB - Specialised Lending	**2,602.7**	**1,521.2**	**83.6**	**697.3**	**74.5**	**387.3**	**2.0**	**5,368.6**
Standardised approach	**1,620.5**	**3,312.1**	**647.2**	**2,270.5**	**35.3**	**368.8**	**485.0**	**8,739.4**
Institutions	15.3	3.3	6.7	-	-	-	-	25.3
Corporates	1,605.2	3,308.8	640.5	2,270.5	35.3	368.8	485.0	8,714.1
Items associated with particularly high risk	-	-	-	-	-	-	-	-
	15,281.0	**11,392.0**	**1,117.0**	**5,900.5**	**3,239.6**	**1,657.3**	**1,797.1**	**40,384.5**
Memorandum items:								
Specific provisions		*1.3*	*7.1*	*52.5*		*25.9*		*86.7*
*Impaired assets **		*10.6*	*11.4*	*150.1*		*30.0*		*202.2*

** Impaired assets broken down by geographic location are allocated according to original obligor and, therefore, original exposure is used here.*

10.6 Exposures subject to IRB approach – All exposures

31 March 2015

	Exposure value			
Grade	On balance sheet	Off balance sheet	Total	Average RW
Total J-series	**2,485.6**	**1,160.0**	**3,645.6**	
J1 - J2	1,372.3	791.5	2,163.8	5.3%
J3 - J4	1,113.2	351.0	1,464.2	37.5%
J5 - J6	0.1	17.0	17.1	141.1%
J7A - J7B	-	0.5	0.5	189.2%
J7R - J10	-	-	-	0.0%
Total G-series	**19,353.2**	**1,486.2**	**21,199.4**	
G1 - G2	18,475.0	1,844.1	20,319.0	2.6%
G3 - G4	870.7	2.0	872.7	62.6%
G5 - G6	7.5	0.1	7.7	135.2%
G7A - G7B	-	-	-	0.0%
G7R - G10	-	-	-	0.0%
	21,838.8	**2,646.2**	**24,845.0**	

31 March 2014

	Exposure value			
Grade	On balance sheet	Off balance sheet	Total	Average RW
Total J-series	**2,446.1**	**983.1**	**3,429.2**	
J1 - J2	1,403.3	492.6	1,895.9	8.4%
J3 - J4	1,034.9	488.0	1,522.9	31.1%
J5 - J6	7.9	0.0	7.9	113.1%
J7A - J7B	-	2.5	2.5	175.4%
J7R - J10	-	-	-	0.0%
Total G-series	**20,280.7**	**2,566.6**	**22,847.3**	
G1 - G2	19,673.1	2,155.2	21,828.3	3.5%
G3 - G4	313.1	396.2	709.2	54.8%
G5 - G6	268.7	15.2	283.9	141.4%
G7A - G7B	-	-	-	0.0%
G7R - G10	25.8	-	25.8	100.1%
	22,726.8	**3,549.7**	**26,276.5**	

10.7 Exposures subject to IRB approach – Central governments or central banks

31 March 2015

	Exposure value			
Grade	On balance sheet	Off balance sheet	Total	Average RW
Total J-series	**0.9**	**582.9**	**583.8**	
J1 - J2	0.9	565.9	566.8	0.0%
J3 - J4	-	-	-	0.0%
J5 - J6	0.0	17.0	17.0	141.2%
J7A - J7B	-	-	-	0.0%
J7R - J10	-	-	-	0.0%
Total G-series	**14,645.0**	**479.9**	**15,124.9**	
G1 - G2	14,436.8	479.9	14,916.7	1.4%
G3 - G4	208.2	-	208.2	74.7%
G5 - G6	-	-	-	0.0%
G7A - G7B	-	-	-	0.0%
G7R - G10	-	-	-	0.0%
	14,645.9	**1,062.8**	**15,708.7**	

31 March 2014

	Exposure value			
Grade	On balance sheet	Off balance sheet	Total	Average RW
Total J-series	**-**	**-**	**-**	
J1 - J2	-	-	-	0.0%
J3 - J4	-	-	-	0.0%
J5 - J6	-	-	-	0.0%
J7A - J7B	-	-	-	0.0%
J7R - J10	-	-	-	0.0%
Total G-series	**14,835.2**	**147.5**	**14,982.7**	
G1 - G2	14,710.2	140.4	14,850.6	0.0%
G3 - G4	-	6.9	6.9	86.3%
G5 - G6	125.0	0.2	125.2	163.5%
G7A - G7B	-	-	-	0.0%
G7R - G10	-	-	-	0.0%
	14,835.2	**147.5**	**14,982.7**	

10.8 Exposures subject to IRB approach – Institutions

31 March 2015

Grade	Exposure value: On balance sheet	Exposure value: Off balance sheet	Exposure value: Total	Average RW
Total J-series	**801.8**	**22.9**	**824.7**	
J1 - J2	801.7	17.4	819.1	0.6%
J3 - J4	-	5.5	5.5	26.7%
J5 - J6	0.1	-	0.1	112.7%
J7A - J7B	-	-	-	0.0%
J7R - J10	-	-	-	0.0%
Total G-series	**3,605.3**	**1,176.0**	**4,781.3**	
G1 - G2	3,487.7	1,174.1	4,661.8	1.8%
G3 - G4	110.5	1.8	112.3	77.4%
G5 - G6	7.1	0.1	7.2	136.5%
G7A - G7B	-	-	-	0.0%
G7R - G10	-	-	-	0.0%
	4,407.1	**1,198.9**	**5,606.0**	

31 March 2014

31 March 2014

Grade	Exposure value: On balance sheet	Exposure value: Off balance sheet	Exposure value: Total	Average RW
Total J-series	**987.7**	**253.4**	**1,241.1**	
J1 - J2	987.0	244.9	1,231.9	9.1%
J3 - J4	0.7	8.5	9.2	23.0%
J5 - J6	-	-	-	0.0%
J7A - J7B	-	-	-	0.0%
J7R - J10	-	-	-	0.0%
Total G-series	**3,401.9**	**1,059.3**	**4,461.1**	
G1 - G2	3,172.1	963.2	4,135.2	13.8%
G3 - G4	140.3	81.4	221.6	70.9%
G5 - G6	89.5	14.7	104.2	100.3%
G7A - G7B	-	-	-	0.0%
G7R - G10	0.0	-	0.0	100.1%
	4,389.6	**1,312.7**	**5,702.2**	

10.9 Exposures subject to IRB approach – Corporates

31 March 2015

	Exposure value			
Grade	On balance sheet	Off balance sheet	Total	Average RW
Total J-series	**1,682.9**	**554.2**	**2,237.1**	
J1 - J2	569.7	208.2	777.9	14.2%
J3 - J4	1,113.2	345.5	1,458.7	37.6%
J5 - J6	-	-	-	0.0%
J7A - J7B	-	0.5	0.5	189.2%
J7R - J10	-	-	-	0.0%
Total G-series	**1,102.9**	**190.3**	**1,293.1**	
G1 - G2	550.4	190.1	740.5	32.8%
G3 - G4	552.1	0.2	552.2	55.0%
G5 - G6	0.4	-	0.4	111.5%
G7A - G7B	-	-	-	0.0%
G7R - G10	-	-	-	0.0%
	2,785.8	**744.5**	**3,530.2**	

31 March 2014

31 March 2014

	Exposure value			
Grade	On balance sheet	Off balance sheet	Total	Average RW
Total J-series	**1,458.4**	**729.7**	**2,188.2**	
J1 - J2	416.3	247.7	664.1	7.1%
J3 - J4	1,034.2	479.5	1,513.7	31.1%
J5 - J6	7.9	0.0	7.9	113.1%
J7A - J7B	-	2.5	2.5	175.4%
J7R - J10	-	-	-	0.0%
Total G-series	**2,043.6**	**1,359.8**	**3,403.4**	
G1 - G2	1,790.8	1,051.6	2,842.4	6.3%
G3 - G4	172.8	307.9	480.7	46.9%
G5 - G6	54.2	0.3	54.5	169.3%
G7A - G7B	-	-	-	0.0%
G7R - G10	25.8	-	25.8	100.1%
	3,502.0	**2,089.5**	**5,591.6**	

10.10 Expected & Actual losses – IRB approach

Expected loss refers to the amount expected to be lost from exposure to a counterparty over a one-year period. This calculation uses regulatory PD, LDG and EAD. Actual loss is the economic loss associated with the collection on the underlying instruments.

31 March 2015

	31 March 2015	
	Expected loss	Actual loss
IRB foundation approach	**3.4**	**-**
Central governments or central banks	0.8	-
Institutions	0.5	-
Corporates	2.1	-
FIRB - Specialised Lending	**99.1**	**17.4**
	102.5	**17.4**

31 March 2014

	31 March 2014	
	Expected loss	Actual loss
IRB foundation approach	**22.7**	**-**
Central governments or central banks	2.5	-
Institutions	3.9	-
Corporates	16.3	-
FIRB - Specialised Lending	**45.8**	**23.7**
	68.5	**23.7**

10.11 Specialised lending - by exposure and weighting

Specialised lending relates to financing of individual projects where repayment is dependent on the performance of the actual underlying asset or collateral.

	Exposure value	
	31 March 2015	31 March 2014
Strong	3,248.0	4,579.3
Good	350.7	518.3
Satisfactory	74.0	137.5
Weak (or defaulted)	391.6	256.7
	4,064.3	**5,491.8**

10.12 Average weighted PD – by booking branch

The table below analyses the average weighted Probability of Default for each exposure class by booking branch location:

31 March 2015

	London branch	Paris branch	Milan branch
IRB foundation approach			
Central governments or central banks	0.01%	0.00%	0.20%
Institutions	0.05%	0.07%	0.20%
Corporates	0.14%	0.10%	0.14%
Total average weighted PD	**0.04%**	**0.01%**	**0.15%**

10.13 Credit risk mitigation – by exposure class

31 March 2015

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	**4,432.1**	**4,427.8**	**8,859.9**
Central governments or central banks	-	3,103.9	3,103.9
Institutions	4,302.7	81.5	4,384.2
Corporates	129.4	1,242.4	1,371.8
FIRB - Specialised Lending	**113.3**	**-**	**113.3**
Standardised approach	**-**	**3,465.2**	**3,465.2**
Institutions	-	-	-
Corporates	-	3,465.2	3,465.2
Items associated with particularly high risk	-	-	-
	4,545.4	**7,893.0**	**12,438.4**

11. Leverage Ratio

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. Credit Conversion Factors "CCFs" are applied to the off-balance sheet items and are not included at gross exposure.

The following tables focus on the Bank's leverage ratio calculation and provide 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:

All figures in this section USD millions

11.1 Table LRCom: Leverage ratio common disclosure

31 March 2015

Leverage ratio common disclosure	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	28,436.4
Asset amounts deducted in determining Tier 1 capital	8.4
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral	**28,444.8**
Derivative exposures	
Replacement cost associated with derivatives transactions	989.1
Add-on amounts for PFE associated with derivatives transactions	526.3
Total derivative exposures	**1,515.4**
Securities financing transaction exposures	
Total securities financing transaction exposures	**-**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	16,417.4
Adjustments for conversion to credit equivalent amounts	(9,134.7)
Total off-balance sheet exposures	**7,282.7**
Capital and Total Exposures	
Tier 1 capital	**3,607.9**
Total Exposures	**37,242.9**
Leverage Ratios	
End of quarter leverage ratio	**9.7%**
Leverage ratio (av of the monthly leverage ratios over the quarter)	**9.1%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	**-**
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	**-**

11.2 Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

31 March 2015

Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts
Total assets as per published financial statements	31,966.4
Adjustments for derivative financial instruments	18.4
Adjustments for securities financing transactions	(1,942.0)
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7,282.7
Other adjustments	(82.6)
Leverage ratio exposure	**37,242.9**

11.3 Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives and SFTs)

31 March 2015

Split-up of on-balance sheet exposures (excluding derivatives and SFTs)	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	**28,436.4**
Trading book exposures	-
Banking book exposures, of which:	28,436.4
Exposures treated as sovereigns	14,702.7
Institutions	2,465.2
Corporate	11,151.8
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	116.7

11.4 Table LRQua: Disclosure on qualitative items

31 March 2015

Disclosure on qualitative items	
Description of the processes used to manage the risk of excessive leverage	The leverage ratio is monitored by the Bank's risk department with Amber and Red limits set before any breach. Should any of these limits be breaches the Bank has an internal escalation policy which is enacted.
Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	- The level of off-balance sheet commitments and guarantees issued by the Bank in the period - Benefit of profits increasing Tier 1 capital

12. Asset Encumbrance

Asset Encumbrance affects the transferability of assets and can restrict its free use. The Bank assesses the assets that are encumbered and is required to report this on a quarterly basis as shown in the tables below:

All figures in this section USD millions

12.1 Assets

31 March 2015

	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution	**555.4**		**31,471.6**	**859.0**
Loans on demand	-		12,443.6	
Equity instruments	-	-	11.7	11.7
Debt securities	-	-	850.1	847.3
Loans and advances other than loans on demand	555.4		16,407.7	
Other assets	-		1,758.5	

12.2 Collateral received

31 March 2015

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance
Collateral received by the reporting institution	**2,356.9**	**9,213.7**	**100.0**
Loans on demand	2,257.1	7,294.0	-
Equity instruments	-	-	-
Debt securities	99.8	1,919.7	100.0
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	-	-

12.3 Sources of encumbrance

31 March 2015

	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	**2,592.1**	**2,912.4**
Derivatives	-	-
Deposits	2,592.1	2,912.4
Debt securities issued	-	-

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