SMBC
SUMITOMO MITSUI BANKING CORPORATION
EUROPE LIMITED

Pillar 3 Disclosures

(As of 31st March 2017)

Contents

Document disclaimer

- The purpose of the Pillar 3 disclosures as contained within this Disclosure Document is to explain how 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 different approaches to calculating capital allowed under the Capital Requirements Directive IV ("CRDIV"),

  - The mix of corporate exposure types between banks,

  - The different risk appetites and profiles of banks,

  - The different waivers applied for and granted by the Prudential Regulation Authority ("PRA").

- Pillar 2 capital requirements do not form part of 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, implemented in Europe under CRDIV, made up of a Capital Requirements Directive (“CRD”) and Capital Requirements Regulation (“CRR”). 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 Individual Bank Risk and Business & Control Risk Factors. This enables capture of other wider general risks not captured sufficiently under Pillar 1.
- Pillar 3 is Market Discipline (requires disclosure to allow market participants to understand the Bank’s risk profile).

SMBCE is authorised by the PRA in the United Kingdom (“UK”). The Bank is regulated by the Financial Conduct Authority (“FCA”) and PRA from which it receives information for assessing capital adequacy and setting capital requirements for SMBCE.

The relevant requirements are contained in the CRR. Part 8 of the CRR 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.

1.2 Disclosure overview

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

- **Key Metrics** (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)
- **Credit risk exposures** (section 11)
- **Leverage Ratio and Asset Encumbrance** (sections 12 - 13)
- **Remuneration disclosures** (section 14)
- **Corporate Governance disclosures** (section 15)

1.3 Basis and Frequency of Disclosures

In accordance with Part 8 of the CRR, these disclosures are based on 31st March 2017 year end data. The Corporate Governance disclosures set out in Sections 3.2 and 15 are correct as at the date of approval of the Bank's financial statements, 4 July 2017.

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.

1.4 Consolidation basis

The Bank is required by the PRA to produce regulatory reports, which include 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

2. Key Metrics

The key metrics dashboard provides an overview of the Bank's prudential regulatory situation including its capital requirements, leverage ratio and key liquidity monitoring metrics. Supplementary information can be found in the table references provided.

2.1 Key metrics

All figures in this section USD millions

	Ref	31 March 2017	31 March 2016
Available capital			
Common Equity Tier 1 (CET1)	9.1	3,817.2	3,685.2
Tier 1	9.1	3,817.2	3,685.2
Total capital	9.1	3,817.2	3,685.2
Risk-weighted assets			
Total risk-weighted assets (RWA)	10.2	18,277.5	20,041.1
Risk-based capital ratios as a percentage of RWA			
Common Equity Tier 1 ratio (%)	10.2	20.9%	18.4%
Tier 1 ratio (%)	10.2	20.9%	18.4%
Total capital ratio (%)	10.2	20.9%	18.4%
Additional CET1 buffers requirements as a percentage of RWA			
Capital conservation buffer requirements (2.5% from 2019)		1.250%	0.625%
Countercyclical buffer requirement	10.4	0.061%	0.032%
Total of bank CET1 specific buffer requirements		1.311%	0.657%
Basel III leverage ratio			
Total Basel III leverage ratio exposure measure	12.1	45,662.0	51,919.0
Basell III leverage ratio (%)	12.1	8.4%	7.1%
Liquidity Coverage Ratio			
Total HQLA		18,351.6	20,815.8
Total Net Cash Outflow		14,024.0	21,388.4
LCR ratio (%)		125.5%	97.3%

3. Risk Management Framework

3.1 Risk Management Strategy and objectives

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 principal risks that SMBCE encounters in the pursuit of its strategic objectives have been categorised as follows: Conduct, Credit, Market, Liquidity, Operational and Other Non-Financial.

The Bank's risk management objectives are as follows:

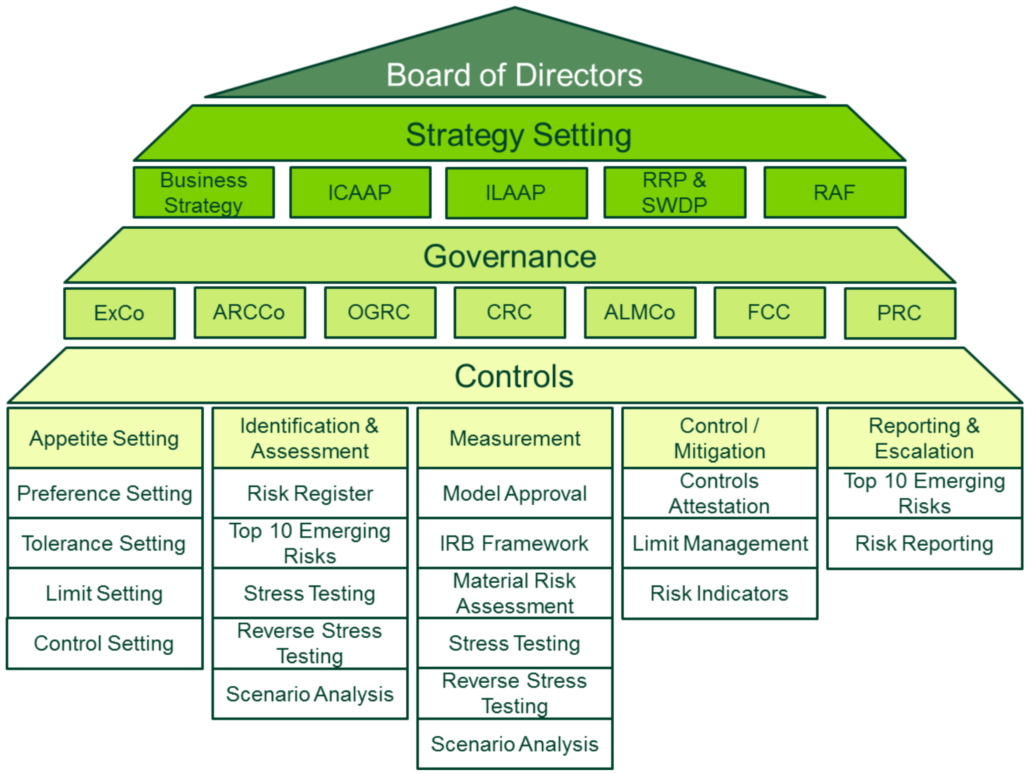
- To ensure the Bank's risk preference statements and tolerances are observed and maintained in the pursuit of the Bank's strategic objectives;
- To maintain a risk appetite that maximises risk/return whilst ensuring that the Bank maintains adequate capital at all times;
- To ensure that prudent levels 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 mitigate 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 adherence 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:

ALMCo:	Asset and Liability Management Committee
ARCCo:	Audit, Risk and Compliance Committee
CRC:	Credit Risk Committee
ExCo:	Executive Committee
FCC:	Financial Crime Committee
ICAAP:	Internal Capital Adequacy Assessment Process
ILAAP:	Internal Liquidity Adequacy Assessment Process
IRB:	Internal Ratings Based
OGRC:	Operational and General Risk Committee
PRC:	Prudential Regulatory Committee
RAF:	Risk Appetite Framework
RRP & SWDP:	Recovery and Resolution Planning & Solvent Wind Down Plan

3.1.1 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;
- The Corporate Strategy is approved by the Board in June/July 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.

3.1.2 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.

3.1.3 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 Internal Liquidity Adequacy Assessment ("ILAAP") and is available to regulators on request.

3.1.4 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.

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

Policies and procedures have been established to ensure appropriate governance of the work streams supporting the risk management framework. These are reviewed at least annually.

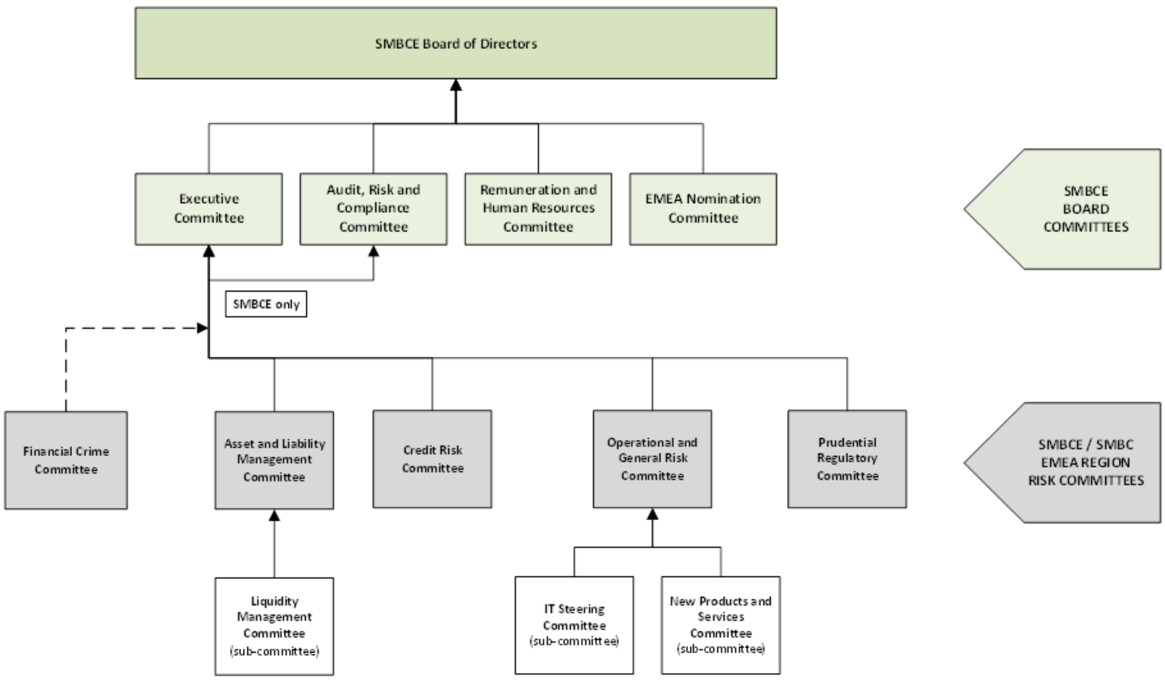
3.2 Governance Structure

The SMBCE Board of Directors has put in place a governance structure that it believes is appropriate for a regulated bank that is a wholly owned subsidiary. This governance structure is designed to provide sound overall management and oversight of risk management.

SMBCE Governance Structure

This part sets out key components of the Bank's risk governance. Further detail on the Bank's governance arrangements are set out in section 15 on page 47.

The Bank's Board and Committee framework is as follows:



- The **SMBCE Board** retains all decision-making powers except those which it has delegated to either a Committee or an individual. The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed at least annually;
- The **Audit, Risk and Compliance Committee** is responsible for consideration of risk matters and for providing, inter alia, focused support, advice, oversight and challenge on risk governance;
- The **Executive Committee** 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.

Audit, Risk and Compliance Committee (ARCCo), The members of the Audit, Risk and Compliance Committee are the non-executive Directors. Ms Powers-Freeling is the acting Chairman of this Committee. The relevant members of executive management are also invited to attend Committee meetings, including: the Chief Executive Officer, Chief Operating Officer, the Co-General Managers of Audit Department, the Co-Chief Risk Officers, the Regional Chief Compliance Officer, the Co-General Manager of Planning Department – Legal and Compliance Department/General Counsel EMEA/Money Laundering Reporting Officer and the Head of Planning Department - Finance and Control Group. A representative of the external auditors is also required to attend a minimum of two meetings per annum. The Co-General Manager of Planning Department – Legal and Compliance Department/General Counsel EMEA/Money Laundering Reporting Officer, the Co-General Managers of Audit Department and the Co-Chief Risk Officers have direct access at any time to the Committee members.

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, conduct risk and regulatory issues, 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 Co-General Managers of Audit Department. The Committee is also responsible for considering whistle blowing reports and for assessing the effectiveness of the Bank's whistle blowing arrangements. The Committee also receives a report on the major areas of discussion at Risk Committee meetings. The Audit, Risk and Compliance Committee meets quarterly and reports to the Board of Directors.

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

- To consider and, if thought appropriate, 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 Committee, including reviewing the key discussions and decisions reached by the Risk Committees;

- To consider and, if thought appropriate, 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 appropriate, 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 appropriate, approve significant changes to the ARCCo policies;

- To consider and if thought fit, recommend approval to the Board of the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) document and any revisions thereto;

- To provide, where necessary, 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;

- 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.

Risk Committees

The Risk Committees have been established to consider certain areas of risk for the Bank and report, as necessary, to the Executive Committee and the Audit, Risk and Compliance Committee. These Committees comprise:

- **Financial Crime Committee** - this Committee meets quarterly and is responsible for considering those aspects of the Bank's financial crime arrangements that it deems necessary to ensure that the Bank's KYC Risk Culture Mission is achieved. The Committee is independent of other Committees, but reports to the Executive Committee and Audit, Risk and Compliance Committee on any significant matters that require the attention of those Committees;
- **Asset and Liability Management Committee -** a monthly Committee where senior members of the Bank meet to examine and discuss matters related to market and liquidity risk management and asset and liability management. The Committee is also responsible for ensuring that matters of policy, strategy and market view are communicated to all parties in an effective manner. This includes market review and risk management, liquidity risk management, asset projection and liability management and ALM operations;

  The Asset and Liability Management Committee has established the following Sub-Committee:

  - **Liquidity Management Committee** – a monthly Committee responsible for considering issues relating to liquidity risk management, including review and challenge of the fundamental components of the liquidity risk management framework. This Committee reports to the Asset and Liability Management Committee.

- **Credit Risk Committee** - a monthly Committee where senior members of the Bank meet to examine and discuss matters related to the Bank's credit risk management. The Committee is also responsible for ensuring that matters of policy, strategy and market view are communicated to all parties in an effective manner. This includes, but is not limited to review, discussion and challenge, where applicable of: portfolio risk, portfolio risk outlook, changes to portfolio risk composition and analysis of non-performing loans;

- **Prudential Regulatory Committee -** a monthly Committee responsible for providing assurance, as necessary, to the Executive Committee, Audit, Risk and Compliance Committee or Board that the governance, assumptions and results of the following processes are fit for purpose: Internal Capital Adequacy Assessment Process; Recovery Plan; Resolution Pack; Solvent Wind Down Analysis; Internal Liquidity Adequacy Assessment Process; and Internal Ratings Based approach and other grading models; and

- **Operational and General Risk Committee** - a monthly Committee in which senior members of the Bank meet to examine and discuss the non-financial risk profile and matters related to the Bank's general risk management. This Committee is also responsible for ensuring that matters of policy, strategy and measures being taken to identify, manage and mitigate such risks are communicated to all parties in an effective manner. This includes, but is not limited to review, discussion and challenge, where applicable, of: operational risk management, compliance activities report, LIBOR, human resources, systems matters and security risk, operational activities and internal audit findings.

  The operational and General Risk Committee has established the following sub-committees:

  - **IT Steering Committee** - a Committee meets every two months and is responsible for considering the impact of SMBCE and EMEA Region IT initiatives and policy, IT budget and systems performance. It also considers significant global IT projects that affect SMBCE and the EMEA Region. This Committee reports to the Operational and General Risk Committee.

  - **New Products and Services Committee** - a monthly Committee that serves as a forum to examine and discuss the risks of new products and services, from various aspects, in order to support the risk analysis of the relevant departments. As a result of this, the Committee can, if necessary, suggest any modifications or changes deemed necessary to new products and services.

3.3 Enterprise Risk Management Model

The Bank utilises the industry-wide standard 3 Lines Of Defence ("3 LOD") model to manage its risk across the enterprise. The model is used 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.

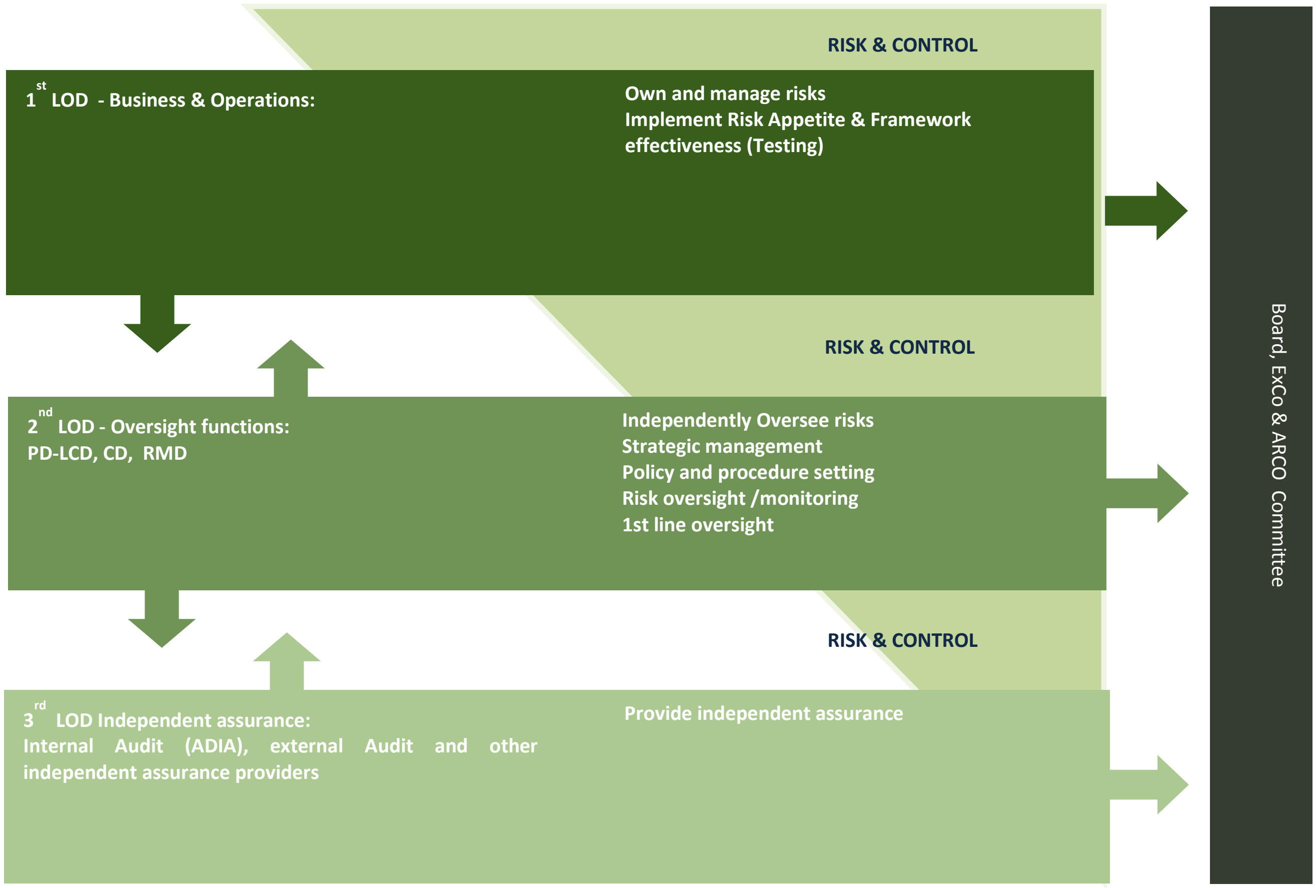
The 3 LOD approach separates the ownership/management of risk from the functions that oversee risk and the functions that provides independent assurance:

First Line of Defence – Functions that own and manage risk,

Second Line of Defence – Functions that independently oversee risk,

Third Line of Defence – Functions that provide independent assurance.

The model is illustrated in the diagram below:



The First Line Of Defence ("LOD 1) comprises business and operational units.

SMBCE's key principles for LOD 1 are:

- Any risk which results from the Bank's business activities is a risk for which the LOD 1 are responsible,
- First Line of Defence staff may not necessarily be directly responsible for "operationalising" all controls which mitigate the risks, but should understand the controls and how well they are working.

The **General Managers** as **Risk Owners** and **Control Owners** are ultimately responsible for each of the risks and controls that fall within their area of responsibility and are responsible for ensuring that appropriate controls are in place to mitigate the risks.

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
- Top 10 risks
- Three Lines of Defence

- Risk Control Assessment (scenario analysis)
- 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)
- New Products and Services
- Internal Control Assessment/Attestation
- Ongoing monitoring of the key risk management policies and procedures
- Operational risk event reporting

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

The monthly Risk Report submitted at Executive Committee includes:

- The Chief Risk Officer report;
- A Credit risk report;
- The Top 10 emerging risks;
- A Risk Tolerance dashboard;
- A Liquidity risk report; and
- A Market Risk report.

3.4.1 Internal Ratings Based (IRB) 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.
- This 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.

3.4.2 Stress Testing and Scenario Analysis

- 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.

3.4.3 Reverse Stress Testing

- The then 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 2017 was USD 50.8 billion (2016: USD 54.2 billion) and can be found in the Financial Statements Note 4.

- 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 0.9million.
- 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 2017, the average credit cost ratio for non-defaulted assets was 0.83% and the problem asset ratio was 1.63%.

Liquidity Risk – The Bank maintains a strong and stable liquidity position. As at the 31st March 2017, the Bank’s CRD IV Delegated Act Liquidity Coverage Ratio (LCR) was at 125.5% and the Net Stable Funding Ratio (NSFR) based on the latest Basel 3 rules was 96.1%.

4. 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 borrower's 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). The CRO 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 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.*

4.1.1 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.

4.1.2 Credit Monitoring

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

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

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'normal borrower's' category, the customer is added to the Special Credit Borrower List and reported to management.

To minimise the potential loss that may arise from any model failure and/or inadequate usage of the models and systems, the Bank has appropriate policies in place to manage its models and grading systems. The Bank's Credit Risk Control Unit ("CRCU") 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.

4.1.3 Industry Exposures

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

4.1.4 Geographical Exposures

Please refer to Note 4 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.

4.1.5 Maximum exposure to credit risk

Please refer to Note 4 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.

4.1.6 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 types of collateral which are valued on a continuous basis are cash and Government Bonds. Estimates of the fair value of the collateral held are 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 in Note 4 of the Financial Statements.

4.1.7 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 for offsetting in the statement of financial position.

The disclosures set out in Note 4 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.

4.1.8 Credit quality of counterparty per class of financial assets

A detailed breakdown of credit quality of counterparty per class of financial assets can be found in Note 4 of the Financial Statements.

All exposures to credit risk can be found in section 11.

5. 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. 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 Market risk under normal and stressed circumstances;
- A robust committee framework to manage Market 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; and
- Regular senior management training.

The Bank uses a variety of limits within its risk framework 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 also 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) as well as historic scenarios such as the 2007/8 Financial Crisis. In addition to this a further 200 bp parallel shift stress test is carried out as part of the ICAAP submission. Stress tests are also carried out on FX positions (applying a historic stress scenario).

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 in Note 4 of the Financial Statements. 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 Note 4 of the Financial Statements show the Bank's fair value disclosures at 31 March 2017 and 31 March 2016.

6. Liquidity Risk Management

Liquidity Risk

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

The Bank's Board is ultimately responsible for ensuring that the level of liquidity risk taken by the Bank is in line with its 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;
- 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; and
- Regular senior management training.

Within the governance framework outlined above, the Bank has established a liquidity risk management approach that is 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 Swiss, Swedish and Norweigan Government bonds and cash held at Bank of England and European Central Bank reserve accounts. The quantity of this buffer of liquid assets is managed such that the Bank meets its Liquidity Coverage Ratio regulatory requirement at internally set limits and internally set Net Stable Funding Requirement Risk Tolerance.

Analysis of liquidity risk

The tables in Note 4 of the Financial Statements show the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments

Contractual maturity of financial assets and liabilities 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.

7. 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. SMBCE formally identifies, assesses and manages its operational risks through the following processes and tools:

- *Operational Risk Event Reporting -* this is the reporting and recording of operational risk losses, near misses and other non-monetary events. These events are captured and logged centrally and are analysed to pro-actively manage risk through root cause analysis.
- *Scenario Analysis (RCA*) - this process seeks to identify the high impact, low likelihood but plausible events that could impact the bank and also estimate the respective severities and probabilities used across main risk categories to ensure that the Bank can adequately understand and quantify not only risks as they currently exist, but also those in extreme circumstances. The analysis focuses on high impact, low probability events.
- *Risk Register* - (Risk and Control Self-Assessment) – this process is used to assess the Banks' existing key or expected risks. It assesses the inherent risks, control effectiveness and resultant residual risks of the key risks that the Bank is exposed to and which could negatively impact the achievement of strategic objectives. In this way the Bank ensures that appropriate controls and/or remediation plans are in place to mitigate risk and loss impact.
- *Risk Acceptance* - the first line and department heads are expected to identify risks, risk issues or control failings that need to be mitigated. In certain circumstances, risk mitigation may not be possible or may require a longer period for remediation. In those situations, the risk must be accepted. This process supports this need and describes the approach for raising, accepting, monitoring and reporting a Risk Acceptance.
- *New Product and Services* (NPS) - This describes the governance of the "New Product Committee" and the process for new product and services approval, monitoring and post approvals. It ensures adequate risk assessment, compliance with relevant requirements and standards of the regulatory system; while ensuring customer fair treatment is addressed. It is an important component of the Conduct Risk management agenda.
- Operational Risk Capital Requirement- outlines the procedures for calculating the Operational Risk Capital Pilar 1 - Standardised approach;

Risk Indicator Governance Framework- the Bank has identified a number of Operational Risk indicators. The monitoring, reporting and escalation (where required) of risk indicators is another risk management tool which seeks to alert the Bank to potential deterioration in the operational risk profile. All risk indicators are processed by SCMG- Strategic and Credit Risk Management Group but their review remains the responsibility of the relevant first and second lines of defence.

The output from the above processes are analysed in order to give a view of the operational risks that the Bank is exposed to versus its risk appetite, and therefore mitigated or risk acceptance (as required) and act as a further input into the business activities and strategy of the Bank.

The operational risk management framework is being enhanced on a continuous improvement basis.

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. A modelling approach is used to calculate economic capital (Pillar 2A). Stress testing is utilized to calculate any additional capital requirement deemed necessary under stressed conditions.

8. Conduct Risk Management

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

Conduct risk management is integrated with the Bank's wider risk management framework. The Bank identifies and assesses current and emerging conduct risks across its business lines ensuring controls are effectively mitigating these risks. Conduct risks are mitigated through a robust control framework, including the following:

- The Bank's policy and procedure framework that sets requirements for various conduct related risk areas, such as management of conflict of interests, price sensitive information and personal account dealing;
- Monitoring and oversight of the Bank's adherence to the above policy and procedure framework;
- Training to ensure that all employees are familiar with the Bank's policy and procedure framework and that employees are aware of their individual responsibilities in relation to conduct risk;
- Comprehensive processes to mitigate anti-competitive behaviour;
- Product design and sales processes, including post-sale review and customer complaints analysis;
- A remuneration structure that ensures remuneration is at risk when things go wrong;
- Conduct risk indicators and a conduct risk measurement framework; and
- Reporting of conduct risk measures to senior management and risk committees.

The Bank is continually challenging the information it produces in relation to conduct risk so that senior management can make effective decisions regarding conduct risks.

9. Capital Structure

9.1 Overview

All figures in this section in USD millions

	31 March 2017	31 March 2016
Tier 1 capital	**3,904.0**	**3,749.3**
Permanent share capital	3,200.0	3,200.0
Profit & Loss and other reserves	704.0	549.3
Total deductions	(86.8)	(64.1)
Tier 1 capital after deductions	**3,817.2**	**3,685.2**

Regulatory Expected Losses exceeded the Bank's estimate of total provisions for IRB exposures as at 31 March 2017. Therefore, the excess has been deducted from Tier 1 capital and included in the total deductions in the above table.

9.2 Reconciliation of Total capital to Shareholders Equity

	31 March 2017	31 March 2016
Shareholders Equity per Financial Statements	**3,904.7**	**3,751.3**
Reserves not included in Tier 1 capital	(0.7)	(2.0)
Cash flow hedge	(0.7)	(1.0)
Available for sale reserve	-	(1.0)
Total deductions	(86.8)	(64.1)
Tier 1 capital after deductions	**3,817.2**	**3,685.2**

10. Capital Adequacy

Overview

All figures in this section in USD millions

The Standardised Approach ("SA") 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 Internal ratings Based ("IRB") Foundation Approach is used for all other asset classes, including Specialised Lending via the Supervisory Slotting Criteria. It is calculated as per CRDIV guidelines using the Bank's own estimates of Probability of Default ("PD") and the regulatory estimates for Loss Given Default ("LGD").

The risk-weighted assets and Pillar 1 capital requirements, by key regulatory exposure class, of SMBCE as at 31st March 2017 are presented in the table below:

10.1 Pillar 1 overview

	31 March 2017	31 March 2016
Credit risk capital required	**1,341.8**	**1,490.9**
Standardised approach	**918.7**	**991.0**
Corporate exposures	918.7	991.0
Internal ratings based approach - foundation	**419.0**	**471.5**
Central governments and central banks	27.8	19.6
Institutions	21.5	43.6
Corporate exposures	132.1	136.5
Corporate exposures - specialised lending	234.2	266.3
Equity	3.4	5.6
Other credit risk	**4.1**	**28.4**
Non-credit obligation assets (IRB)*	4.0	14.3
Contributions to the default fund of a central counterparty	0.1	-
Credit valuation adjustment	**7.7**	**14.1**
Market risk capital required	**13.8**	**17.3**
Interest rate risk	7.8	8.9
Options transactions	1.9	4.9
Foreign exchange risk	4.1	3.5
Operational risk capital required	**98.9**	**95.1**
Total capital requirements	**1,462.2**	**1,603.3**

* Non-credit obligation assets (IRB approach) primarily relate to other balance sheet assets that have no associated credit risk.

10.2 Capital adequacy ratio & capital requirements

	31 March 2017	31 March 2016
Common Equity Tier 1 ratio	**20.9%**	**18.4%**
Tier 1 ratio	**20.9%**	**18.4%**
Total capital ratio	**20.9%**	**18.4%**
Total risk-weighted assets	**18,277.5**	**20,041.1**
Total capital requirements (8% of RWAs)	**1,462.2**	**1,603.3**
Capital requirements of credit risk	1,341.8	1,476.8
Capital requirements for credit valuation adjustment	7.7	14.1
Capital requirements for market risk	13.8	17.3
Capital requirements for operational risk	98.9	95.1

10.3 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Geographical breakdown	General credit exposures		Own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB			
Czech Republic	86.56	87.4	9.6	0.740%	0.500%
Hong Kong	-	28.8	1.6	0.124%	1.250%
Norway	433.0	366.7	43.3	3.334%	1.500%
Sweden	45.0	3.4	3.7	0.281%	2.000%
Other countries	11,436.4	10,965.9	1,240.8	95.52%	0.000%
	12,001.0	**11,452.1**	**1,298.9**	**100.00%**	

10.4 Amount of institution-specific countercyclical capital buffer

	Total
Total risk-weighted assets	**18,277.5**
Institution specific countercyclical capital buffer rate	**0.061%**
Institution specific countercyclical capital buffer requirement	**11.1**

11. Credit Risk Exposures

Overview

All figures in this section in USD millions

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. 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 Bank'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 approach and IRB models.

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

11.1 Credit risk exposure – by exposure class and approach

31 March 2017

	Original Exposure	EAD	RWA
IRB foundation approach	31,630.7	34,281.4	5,237.6
Central governments or central banks	17,508.3	19,666.3	347.9
Institutions	5,277.9	6,171.5	268.4
Corporates	5,046.3	4,788.2	1,651.1
Corporate - Specialised lending	3,786.6	3,643.7	2,927.2
Equity	11.6	11.6	43.1
Standardised approach	19,494.7	12,002.5	11,483.5
Institutions	1.5	1.5	0.3
Corporates	19,248.1	11,927.5	11,391.3
Exposures in default	223.7	60.2	71.9
Items associated with particularly high risk	21.4	13.3	20.0
As at 31 March 2017	**51,125.4**	**46,283.9**	**16,721.1**

31 March 2016

	Original Exposure	EAD	RWA
IRB foundation approach	37,249.5	36,290.5	5,893.9
Central governments or central banks	20,687.4	23,228.6	244.7
Institutions	3,674.7	4,873.5	544.4
Corporates	8,676.7	4,164.4	1,706.2
Corporates - Specialised lending	4,191.8	4,005.1	3,328.7
Equity	18.9	18.9	69.9
Standardised approach	17,293.8	12,951.9	12,387.1
Corporates	17,183.0	12,900.6	12,324.4
Exposures in default	88.0	28.5	28.5
Items associated with particularly high risk	22.8	22.8	34.2
As at 31 March 2016	**54,543.3**	**49,242.4**	**18,281.0**

11.2 Credit risk exposure (RWA) – by industry

31 March 2017

	Finance and insurance	Government & local authorities	Manu-facturing	Wholesale & services	Other corporate exposures	Transport	Energy & infra-structure	Total RWA
IRB foundation approach	950.6	228.5	542.0	200.0	1,964.0	391.8	960.8	5,237.6
Central governments or central banks	200.9	147.0	-	-	-	-	-	347.9
Institutions	243.5	8.0	-	-	16.8	-	-	268.4
Corporates	488.8	10.7	416.2	104.8	623.9	6.6	-	1,651.1
Corporates - Specialised lending	12.1	62.8	125.9	95.1	1,285.4	385.2	960.8	2,927.2
Equity	5.2	-	-	-	37.9	-	-	43.1
Standardised approach	52.6	120.6	2,679.8	374.3	7,662.7	593.4	-	11,483.5
Institutions	0.2	-	-	-	0.1	0.1	-	0.3
Corporates	52.4	120.6	2,679.8	374.3	7,585.4	578.7	-	11,391.3
Exposures in default	-	-	-	-	57.2	14.6	-	71.9
Items associated with particularly high risk	-	-	-	-	20.0	-	-	20.0
As at 31 March 2017	**1,003.1**	**349.1**	**3,221.9**	**574.3**	**9,626.7**	**985.2**	**960.8**	**16,721.1**
Memorandum items:								
Specific provisions					*101.5*			*101.5*
Impaired assets					*292.6*			*292.6*

31 March 2016

	Finance and insurance	Government & local authorities	Manu-facturing	Wholesale & services	Other corporate exposures	Transport	Energy & infra-structure	Total RWA
IRB foundation approach	1,341.1	313.1	461.8	188.6	1,576.3	600.1	1,412.9	5,893.9
Central governments or central banks	47.0	197.6	-	-	-	-	-	244.7
Institutions	503.8	-	-	-	39.6	0.7	0.3	544.4
Corporates	708.3	12.5	343.0	76.8	503.9	61.7	-	1,706.2
Corporates - Specialised lending	12.1	103.0	118.8	111.8	1,032.9	537.7	1,412.6	3,328.7
Equity	69.9	-	-	-	0.0	-	-	69.9
Standardised approach	544.8	146.2	2,421.1	219.2	8,325.7	730.1	-	12,387.1
Corporates	544.8	146.2	2,421.1	219.2	8,263.0	730.1	-	12,324.4
Exposures in default	-	-	-	0.0	28.5	-	-	28.5
Items associated with particularly high risk	-	-	-	-	34.2	-	-	34.2
As at 31 March 2016	**1,885.9**	**459.3**	**2,882.9**	**407.7**	**9,902.1**	**1,330.2**	**1,412.9**	**18,281.0**
Memorandum items:								
Specific provisions					*118.3*			*118.3*
Impaired assets					*277.1*			*277.1*

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

11.3 Credit risk exposure (RWA) – by maturity

31 March 2017

	Up 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 RWA
IRB foundation approach	917.5	847.1	641.3	338.1	2,493.7	5,237.6
Central governments or central banks	95.2	116.4	-	77.9	58.4	347.9
Institutions	91.3	89.0	34.7	-	53.4	268.4
Corporates	650.1	382.5	244.9	118.1	255.4	1,651.1
Corporates - Specialised lending	37.8	259.2	361.7	142.1	2,126.4	2,927.2
Equity	43.1	-	-	-	-	43.1
Standardised approach	2,114.6	2,690.0	4,756.0	1,439.3	483.6	11,483.5
Institutions	-	0.1	0.0	0.0	0.2	0.3
Corporates	2,071.3	2,674.3	4,723.0	1,439.3	483.4	11,391.3
Exposures in default	23.3	15.6	33.0	-	-	71.9
Items associated with particularly high risk	20.0	-	-	-	-	20.0
As at 31 March 2017	**3,032.1**	**3,537.0**	**5,397.3**	**1,777.4**	**2,977.3**	**16,721.1**
Memorandum items:						
Specific provisions	*28.9*	*14.7*	*8.5*		*49.4*	*101.5*
Impaired assets	*58.6*	*30.7*	*27.0*	*32.6*	*143.8*	*292.6*

31 March 2016

	Up 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 RWA
IRB foundation approach	1,401.3	778.7	729.0	256.0	2,728.9	5,893.9
Central governments or central banks	28.3	20.5	-	18.4	177.4	244.7
Institutions	400.3	83.2	9.4	1.4	50.1	544.4
Corporates	925.1	256.7	230.3	100.6	193.4	1,706.2
Corporates - Specialised lending	19.5	376.5	489.3	135.6	2,307.9	3,328.7
Equity	28.0	41.9	-	-	-	69.9
Standardised approach	2,556.7	2,374.5	5,229.8	1,587.2	638.9	12,387.1
Corporates	2,554.8	2,332.0	5,216.0	1,582.7	638.9	12,324.4
Exposures in default	1.9	8.3	13.8	4.5	-	28.5
Items associated with particularly high risk	-	34.2	-	-	-	34.2
As at 31 March 2016	**3,958.0**	**3,153.3**	**5,958.8**	**1,843.2**	**3,367.7**	**18,281.0**
Memorandum items:						
Specific provisions	*32.6*	*16.5*	*18.9*	*2.4*	*48.0*	*118.3*
Impaired assets	*34.7*	*25.3*	*32.7*	*7.0*	*177.5*	*277.1*

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

11.4 Credit risk exposure (RWA) – by geographical area

31 March 2017

	United Kingdom	France	Italy	Other Europe	Japan	Middle East & Africa	Other Countries	Total RWA
IRB foundation approach	1,669.9	558.1	374.0	663.2	310.8	1,408.8	252.8	5,237.6
Central governments or central banks	17.2	-	118.0	28.8	-	2.6	181.2	347.9
Institutions	62.9	44.8	59.6	35.6	4.9	32.8	27.8	268.4
Corporates	401.1	54.1	93.6	237.8	305.9	549.2	9.3	1,651.1
Corporates - Specialised lending	1,188.7	459.2	102.8	317.9	-	824.2	34.4	2,927.2
Equity	0.0	-	-	43.1	-	-	-	43.1
Standardised approach	2,235.0	2,679.3	613.7	3,929.0	34.0	1,237.3	755.1	11,483.5
Institutions	0.3	-	-	-	-	-	-	0.3
Corporates	2,204.8	2,653.6	612.0	3,894.4	34.0	1,237.3	755.1	11,391.3
Exposures in default	29.8	25.7	1.7	14.6	-	-	-	71.9
Items associated with particularly high risk	-	-	-	20.0	-	-	-	20.0
As at 31 March 2017	**3,904.9**	**3,237.5**	**987.7**	**4,592.3**	**344.8**	**2,646.1**	**1,007.9**	**16,721.1**
Memorandum items:								
Specific provisions	*29.8*	*3.6*	*5.0*	*63.1*				*101.5*
Impaired assets	*60.0*	*22.5*	*6.7*	*170.5*			*32.9*	*292.6*

31 March 2016

	United Kingdom	France	Italy	Other Europe	Japan	Middle East & Africa	Other Countries	Total RWA
IRB foundation approach	1,645.4	797.1	318.6	1,178.5	250.2	1,476.3	227.8	5,893.9
Central governments or central banks	19.6	-	86.4	111.2	-	-	27.5	244.7
Institutions	121.6	47.3	29.7	62.2	28.9	97.7	157.0	544.4
Corporates	287.1	84.0	56.6	477.0	221.3	575.4	4.8	1,706.2
Corporates - Specialised lending	1,217.1	665.8	145.9	458.3	-	803.2	38.5	3,328.7
Equity	-	-	-	69.9	-	-	-	69.9
Standardised approach	2,870.3	2,748.9	403.5	4,112.5	55.8	1,202.4	993.7	12,387.1
Corporates	2,851.8	2,743.4	401.8	4,075.5	55.8	1,202.4	993.7	12,324.4
Exposures in default	18.6	5.5	1.7	2.8	-	-	-	28.5
Items associated with particularly high risk	-	-	-	34.2	-	-	-	34.2
As at 31 March 2016	**4,515.7**	**3,546.0**	**722.1**	**5,291.1**	**306.1**	**2,678.6**	**1,221.4**	**18,281.0**
Memorandum items:								
Specific provisions	*24.9*	*14.2*	*5.5*	*73.8*				*118.3*
Impaired assets	*43.9*	*19.7*	*7.2*	*206.3*				*277.1*

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

11.5 Exposures subject to IRB approach – All exposures

31 March 2017

Grade	EAD	RWA	Average risk weight
Total J-series	**3,107.8**	**734.9**	**23.65%**
J1 - J2	**1,887.4**	**276.1**	**14.6%**
Central governments or central banks	449.8	-	-
Institutions	28.7	5.6	19.6%
Corporates	1,408.9	270.5	19.2%
J3 - J4	**1,129.6**	**307.6**	**27.2%**
Central governments or central banks	-	-	-
Institutions	1.1	0.3	24.8%
Corporates	1,128.5	307.4	27.2%
J5 - J6	**52.3**	**46.0**	**88.0%**
Central governments or central banks	-	-	-
Institutions	0.4	0.1	32.1%
Corporates	51.9	45.9	88.4%
J7A - J7B	**38.5**	**105.1**	**273.4%**
Central governments or central banks	-	-	-
Institutions	-	-	-
Corporates	38.5	105.1	273.4%
J7R - J10	**-**	**-**	**-**
Total G-series	**27,511.4**	**1,515.2**	**5.5%**
G1 - G2	**26,033.6**	**674.1**	**2.6%**
Central governments or central banks	19,035.0	136.8	0.7%
Institutions	5,674.1	226.9	4.0%
Corporates	1,324.4	310.5	23.4%
G3 - G4	**1,018.7**	**533.6**	**52.4%**
Central governments or central banks	109.9	81.8	74.4%
Institutions	219.0	35.5	16.2%
Corporates	689.8	416.4	60.4%
G5 - G6	**324.7**	**307.4**	**94.7%**
Central governments or central banks	64.7	112.1	173.2%
Institutions	113.8	0.0	0.0%
Corporates	146.2	195.3	133.6%
G7A - G7B	**134.4**	**-**	**-**
Central governments or central banks	-	-	-
Institutions	134.4	-	-
Corporates	-	-	-
G7R - G10	**-**	**-**	**-**
	30,619.2	**2,250.1**	

* Excludes specialised lending, deferred tax asset and equity exposures.

31 March 2016

Grade	EAD	RWA	Average risk weight
Total J-series	**3,135.0**	**669.2**	**21.34%**
J1 - J2	**1,919.9**	**234.5**	**12.2%**
Central governments or central banks	470.3	-	-
Institutions	235.2	29.2	12.4%
Corporates	1,214.4	205.2	16.9%
J3 - J4	**1,209.8**	**425.0**	**35.1%**
Central governments or central banks	-	-	-
Institutions	0.5	0.1	24.8%
Corporates	1,209.3	424.9	35.1%
J5 - J6	**0.2**	**0.2**	**93.5%**
Central governments or central banks	-	-	-
Institutions	0.1	0.1	111.8%
Corporates	0.1	0.1	80.2%
J7A - J7B	**5.0**	**9.5**	**189.5%**
Central governments or central banks	-	-	-
Institutions	-	-	-
Corporates	5.0	9.5	189.5%
J7R - J10	**-**	**-**	**-**
Total G-series	**29,123.7**	**1,806.5**	**6.2%**
G1 - G2	**27,112.2**	**671.6**	**2.5%**
Central governments or central banks	22,690.1	177.1	0.8%
Institutions	3,789.9	294.5	7.8%
Corporates	632.1	200.0	31.6%
G3 - G4	**1,757.9**	**959.8**	**54.6%**
Central governments or central banks	60.4	48.0	79.5%
Institutions	631.6	101.2	16.0%
Corporates	1,065.9	810.7	76.1%
G5 - G6	**139.2**	**175.0**	**125.8%**
Central governments or central banks	-	-	0.0%
Institutions	101.7	119.2	117.2%
Corporates	37.5	55.8	149.0%
G7A - G7B	**114.4**	**-**	**-**
Central governments or central banks	-	-	-
Institutions	114.4	-	-
Corporates	-	-	-
G7R - G10	**-**	**-**	**-**
	32,258.7	**2,475.6**	

* Excludes specialised lending, deferred tax asset and equity exposures.

11.6 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, LGD and EAD. Actual loss is the economic loss associated with the collection on the underlying instruments.

31 March 2017

	Expected loss	Actual loss
IRB foundation approach	8.8	-
Central governments or central banks	1.7	-
Institutions	0.4	-
Corporates	6.7	-
FIRB - Specialised Lending & Equity	101.6	-
As at 31 March 2017	**110.4**	**-**

31 March 2016

	Expected loss	Actual loss
IRB foundation approach	7.8	-
Central governments or central banks	0.3	-
Institutions	2.1	-
Corporates	5.4	-
FIRB - Specialised Lending	118.7	-
As at 31 March 2016	**126.4**	**-**

11.7 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.

	Risk-Weighted Assets	
	31 March 2017	31 March 2016
Strong	1,636.4	1,892.9
Good	655.5	528.6
Satisfactory	150.1	135.6
Weak (or defaulted)	485.2	771.6
	2,927.2	**3,328.7**

11.8 Average weighted PD – by booking location

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

31 March 2017

	United Kingdom	France	Italy
IRB foundation approach			
Central governments or central banks	0.04%	0.00%	0.00%
Institutions	0.04%	0.03%	0.19%
Corporates	0.38%	0.20%	0.11%
Total average weighted PD	**0.10%**	**0.01%**	**0.13%**

31 March 2016

	United Kingdom	France	Italy
IRB foundation approach			
Central governments or central banks	0.00%	0.00%	0.00%
Institutions	0.12%	0.03%	0.19%
Corporates	0.33%	0.13%	0.11%
Total average weighted PD	**0.08%**	**0.01%**	**0.12%**

11.9 Derivative counterparty credit exposures

31 March 2017

	Mark to Market Method
Gross positive fair value of contracts	1,093.6
Netting benefits	(535.3)
Net Current Credit Exposure	**558.3**
Collateral held	(60.7)
Potential future credit exposure	886.3
Net Derivative Credit Exposure	**1,383.9**

11.10 Credit risk mitigation – by exposure class

The table below analyses the exposure value (EAD) that has been covered by eligible financial collateral or by guarantee resulting in credit risk mitigation (CRM):

31 March 2017

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	5,656.0	2,123.3	7,779.2
Central governments or central banks	6.5	325.5	332.0
Institutions	5,468.7	90.7	5,559.3
Corporates	180.8	1,707.1	1,887.9
Corporate - Specialised lending	-	-	-
Equity	-	-	-
Standardised approach	0.5	4,629.2	4,629.7
Institutions	-	-	-
Corporates	0.5	4,507.9	4,508.4
Exposures in default	-	121.3	121.3
Items associated with particularly high risk	-	-	-
As at 31 March 2017	**5,656.5**	**6,752.5**	**12,408.9**

31 March 2016

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	3,278.8	5,849.1	9,127.9
Central governments or central banks	-	287.5	287.5
Institutions	1,871.3	60.2	1,931.5
Corporates	1,403.7	5,501.4	6,905.2
Corporate - Specialised lending	3.8	-	3.8
Equity	-	-	-
Standardised approach	0.5	1,197.0	1,197.5
Institutions	-	-	-
Corporates	0.5	1,197.0	1,197.5
Exposures in default	-	-	-
Items associated with particularly high risk	-	-	-
As at 31 March 2017	**3,279.3**	**7,046.0**	**10,325.4**

11.11 Standardised approach – by exposure class and credit quality step

31 March 2017

	Original Exposure	EAD	RWA
Institutions	**1.5**	**1.5**	**0.3**
Credit quality step unrated	1.5	1.5	0.3
Corporates	**19,248.1**	**11,927.5**	**11,391.3**
Credit quality step 2	1,969.3	1,133.8	566.9
Credit quality step 3	2,622.5	2,078.8	2,078.8
Credit quality step 4	1,052.9	712.7	712.7
Credit quality step 5	99.0	61.4	92.1
Credit quality step unrated	13,504.4	7,940.8	7,940.8
Exposures in default	**223.7**	**60.2**	**71.9**
Credit quality step unrated	223.7	60.2	71.9
Items associated with particularly high risk	**21.4**	**13.3**	**20.0**
Credit quality step unrated	21.4	13.3	20.0
As at 31 March 2017	**19,494.7**	**12,002.5**	**11,483.5**

* Original exposure reported on an 'obligor' basis.

31 March 2016

	Original Exposure	EAD	RWA
Corporates	**17,183.0**	**12,900.6**	**12,324.4**
Credit quality step 1	103.5	66.9	13.4
Credit quality step 2	1,411.9	1,055.6	532.8
Credit quality step 3	2,444.2	2,111.7	2,111.7
Credit quality step 4	769.1	485.8	485.8
Credit quality step unrated	12,454.3	9,180.7	9,180.7
Exposures in default	**88.0**	**28.5**	**28.5**
Credit quality step unrated	88.0	28.5	28.5
Items associated with particularly high risk	**22.8**	**22.8**	**34.2**
Credit quality step unrated	22.8	22.8	34.2
As at 31 March 2016	**17,293.7**	**12,951.9**	**12,387.1**

* Original exposure reported on an 'obligor' basis.

12. 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

12.1 Table LRCom: Leverage ratio common disclosure

31 March 2017

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)	36,292.9
Asset amounts deducted in determining Tier 1 capital	(87.5)
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral	**36,205.5**
Derivative exposures	
Replacement cost associated with derivatives transactions	497.6
Add-on amounts for PFE associated with derivatives transactions	886.3
Total derivative exposures	**1,383.9**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting)	1,451.5
Add-on amount for counterparty credit risk exposure for SFT assets	3.4
Total securities financing transaction exposures	**1,454.9**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	12,186.5
Adjustments for conversion to credit equivalent amounts	(5,568.8)
Total off-balance sheet exposures	**6,617.7**
Capital and Total Exposures	
Tier 1 capital	**3,817.2**
Total Exposures	**45,662.0**
Leverage Ratios	
End of quarter leverage ratio	**8.4%**
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	**-**

* "SFTs" refers to securities financing transactions where securities are used to borrow cash or other high investment-grade securities (or vice versa).

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

31 March 2017

Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts
Total assets as per published financial statements	38,838.0
Adjustments for derivative financial instruments	290.3
Adjustments for securities financing transactions	3.4
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6,617.7
Other adjustments	(87.5)
Leverage ratio exposure	**45,662.0**

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

31 March 2017

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:	**36,292.9**
Trading book exposures	-
Banking book exposures, of which:	36,292.9
Exposures treated as sovereigns	18,776.1
Institutions	3,333.9
Corporate	13,872.3
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	310.7

12.4 Table LRQua: Disclosure on qualitative items

31 March 2017

Disclosure on qualitative items	
Description of the processes used to manage the risk of excessive leverage	The leverage ratio is calculated and reported to senior management on a monthly basis by Finance and Control. The ratio is monitored on a monthly basis by Risk Management department and is managed within Board approved Amber and Red thresholds. The thresholds are established to allow sufficient headroom above regulatory minimum standards and sufficient time for remedial action to be undertaken. Should these thresholds be breached the Bank has an internal escalation policy which would be implemented.
Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	- The decrease in deposits placed at central banks - The benefit of profits increasing Tier 1 capital - The level of off-balance sheet commitments and guarantees issued by the Bank in the period decreasing

13. Asset Encumbrance

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

The Bank assesses asset encumbrance in the following disclosure of on-balance sheet encumbered and unencumbered assets, off-balance sheet collateral and matching liabilities based on the requirement in Part Eight of CRD IV guidelines:

All figures in this section USD millions

13.1 Assets

31 March 2017

	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution	**2,502.8**		**36,448.1**	**379.9**
Loans on demand	-		16,614.6	
Equity instruments	-	-	6.9	6.9
Debt securities	-	-	455.7	373.0
Loans and advances other than loans on demand	2,203.0		18,046.8	
Other assets	299.7		1,324.0	

13.2 Collateral received

31 March 2017

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**4,940.0**	**1,458.8**
Loans on demand	192.1	-
Debt securities	-	1,458.8
Loans and advances other than loans on demand	4,660.9	-
Other collateral received	87.0	-

13.3 Sources of encumbrance

31 March 2017

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**6,581.0**	**7,442.8**

14. Remuneration

The SMBCE Remuneration Policy applies to all locally hired employees of Sumitomo Mitsui Banking Corporation Europe Limited (“SMBCE” or “the Bank”). Except for certain aspects of variable pay for Material Risk Takers and other employees as defined below, it does not apply to employees of Sumitomo Mitsui Banking Corporation (“SMBC”) seconded from SMBC, whose remuneration is governed by rules established by SMBC in Japan.

The Policy for SMBCE forms a significant part of the Policy for SMBC in Europe, Middle East and Africa (“EMEA” or “EMEA Region”) and the calculation of the bonus fund is based on the results of SMBC in EMEA.

This Policy is owned by the Head of PD-HR Group, who will review the policy annually or more frequently if necessary. The Remuneration and Human Resources Committee (“RemCo”) has the authority to make significant revisions to the policy. Minor revisions may be made by PD-HR Group and approved by the CEO, with ratification by the RemCo.

Risk Appetite

SMBCE is a wholly owned subsidiary of SMBC and the emphasis is on long term sustainable growth. The Bank seeks long term sustainable growth and seeks to avoid significant volatility from year to year.

Management believes that the overall business model of the Bank is conservative, cautious and prudent. Its principles of shared purpose are reflected in the significant collaborative effort from many departments that is involved in transacting business. No piece of business is the sole result of the actions of any one individual and no one individual can on his or her own initiative transact business that might place the Bank at risk. The Board has a framework for setting, managing and monitoring risk appetite, with the aim of optimising the return to, and protecting the interests of, stakeholders (including shareholders, customers and employees).

The Bank is committed to ensuring that it has suitable processes in place to ensure that employees fully understand the risks which relate to their activities, and risk considerations are at the heart of Management’s overall planning processes.

SMBCE’s Risk Appetite and risk tolerances are clearly defined to ensure the appropriate utilisation of its capital as well as for funding and liquidity. Risk Appetite is approved annually by the Board. The structure has four levels being qualitative preferences, quantitative tolerances, various risk limits and control measures.

Preference 12 incorporates the Bank's risk appetite towards to remuneration:

"The Bank will ensure appropriate staffing arrangements (including remuneration, competence and resourcing) which enables sustainable growth and reinforces the overall risk culture."

Remuneration Policy Objectives

SMBCE’s remuneration policy is an expression of the Bank’s overall philosophy, aims and objectives.

It is the Bank’s intention that:

1) Remuneration policy will support the Bank’s long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;

2) Decisions about remuneration policy will be reviewed, considered and approved/ratified by the Remuneration Committee;

3) Employees are remunerated by means of the following elements - basic salary, allowances, benefits and variable pay – that may be relevant to their location and function;

4) The amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and

5) Employees have the opportunity to share in the success of the Bank in years of good performance and also accept responsibility for poor performance and/or losses in other years.

Governance

SMBCE has established a Remuneration and Human Resources Committee further details on the constitution of which is set out in section 15 on page 46. Non-Executive Directors do not receive any form of variable pay.

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

HR Group consults Risk Management Department ("RMD") and PD-LCD regularly on an informal basis concerning remuneration policy and formally once a year about concerns to be addressed about department, group and/or individual remuneration, particularly variable pay. The Business Performance Rating ("BPR") of each Department includes an independent assessment on both financial and non-financial, and qualitative and quantitative by RMD and PD-LCD of their contribution to and engagement with the Bank's risk management and compliance activities respectively. The Personal Performance Rating ("PPR") of each individual includes an assessment of their compliance, risk management and overall behaviour.

Material Risk Takers

Material Risk Takers for SMBCE have been identified in line with the quantitative and qualitative criteria as set out by the European Banking Authority. Material Risk Takers have been identified by reason of their role, their seniority, their authority to expose the institution to material credit, market or other identified risks, or the level of their compensation.

The Bank is satisfied that it has identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk in respect of their delegated authority.

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

Discretionary Bonus Scheme

All employees are eligible to participate in the annual performance related bonus scheme with Company, Department and personal performance all assessed to form a view on recommended variable pay outcomes.

Risk adjustment

The calculation of the bonus fund is a percentage of SMBC EMEA Net Income after Risk Adjustment ("NIARA"). Net Income is adjusted for credit cost of non-impaired assets, liquidity cost, an adjustment for the prudent valuation of fair valued positions, and then by the Risk Adjustments. These risk adjustments focus on a Value at Risk ("VaR") approach for all risk types reflecting potential loss scenarios to a 90% confidence level for credit, liquidity, market and operational risk. These adjustments link to the most important risks identified through the risk register and ICAAP process. Each Department is also assessed against three core considerations, each of equal weighting, that Management believes are essential for the sustainable growth of the EMEA Region. These are

Financial Performance, Non-Financial Performance and Management and Compliance. This qualitative review considers the Bank's risk appetite, its operational needs and other significant factors such as risk, control or compliance events, together with any other factors that Management may consider significant including conduct. These assessments will provide a Business Performance Rating ("BPR") that dictates the pool available to that Department.

In addition, all support functions are requested to input onto the assessment of all back office and front office departments. This assessment happens on an annual basis and encompasses a wide ranging review of activities with the information provided included as part of the annual assessment of the BPR for each Department.

Individuals' performance is also assessed, with each given a Personal Performance Rating ("PPR") based on the following factors with the following weightings in FY16:

1	Objectives (professional and personal)	20% of overall assessment
2	Quality of Work	20% of overall assessment
3	Compliance	20% of overall assessment
4	Risk & Challenge	20% of overall assessment
5	Behaviours & Conduct	20% of overall assessment

These weightings may change from year to year, subject to the approval of the RemCo.

Leverage

The Bank believes that fixed pay should be sufficient for any individual to maintain an acceptable standard of living, without reliance on variable pay. The Bank also believes that variable pay should continue to be a relatively modest aspect of total remuneration. The Bank seeks an appropriate balance of fixed and variable remuneration. Management is satisfied that its leverage ratios are appropriate for its business.

SMBCE operates a cap on the maximum variable pay award of 200% of fixed pay following the approval of SMBC, the sole shareholder of SMBCE.

Deferral Policy

The Bank believes in principle that those employees who have a material impact on its risk profile in EMEA should have variable pay that is subject to deferral and performance adjustment. The Bank also believes that its risk profile is conservative and the Bank's ratio of variable to fixed pay is low. The Bank may therefore defer bonus for Material Risk Takers and other Staff where fixed and /or variable remuneration exceed certain thresholds.

The Bank's deferral policy provides for between 20% and 60% of bonus to be deferred for 2 to 7 years for Material Risk Takers and senior staff at Deputy General Manager level and above, depending on the particular remuneration of the individual. The policy allows for deferral in cash and non-cash, depending on the particular remuneration of the individual.

For identified Material Risk Takers, 50% of each tranche of variable remuneration will be awarded in instruments other than cash. To this end, SMBCE has established a Phantom Share Scheme. Benefits under the scheme are linked to the change of the share price of SMFG between grant date and release date.

Performance Adjustment – Malus and Clawback

It is the Bank's policy that any deferred bonus is subject to performance adjustment. Performance adjustment seeks to take account of matters that were not apparent at the time of the original bonus award and may result in the loss of bonus. In particular, adjustments may take place where there is reasonable evidence of employee misbehaviour or material error, where there is material downturn in the financial circumstances of the Bank or where there is a material failure of risk management in the Bank.

Decisions on performance adjustment will be considered and decided by Management, the RemCo and the Board, as necessary.

The RemCo and the Board have the authority to withhold payment of any bonus in the event of significant organisational stress or incident, including but not limited to the following circumstances:

(a) there is reasonable evidence of employee misbehaviour or material error; or

(b) there is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the Bank; or

(c) there is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety; or

(d) the firm or the relevant business unit suffers a material failure of risk management; or

(e) the firm or the relevant business unit suffers a material downturn in its financial performance.

The RemCo and the Board have the authority to reclaim payments of any bonus for Material Risk Takers, during a period which may be up to seven years after the award date in the event that the Participant is involved in or responsible for any of the circumstances detailed in a) – d) above.

For PRA Senior Managers, this period may be extended to at least ten years should the Bank or a regulator have commenced an enquiry into potential material failures.

FY16 Aggregate Remuneration in respect of Material Risk Takers split into fixed and variable remuneration

All of SMBCE works in a single business area – international commercial banking, and hence no disaggregation is required.

All figures in this table USD thousands

Remuneration amount		Senior management	Other material risk takers
Fixed remuneration	Number of employees	12	37
	Total fixed remuneration	4,578	11,726
Variable remuneration	Number of employees	8	32
	Total variable remuneration	1,694	5,679
Total remuneration		6,272	17,405

15. Corporate Governance

This section sets out further details of the Bank's governance arrangements as at the date of approval of the Bank's financial statements, 4 July 2017.

Board of Directors

The Board is responsible for the leadership, direction and control of the Bank and for ensuring that the Bank complies with its legal and regulatory requirements. The Board's responsibilities include approving and overseeing implementation of the Bank's strategic objectives, risk strategy and internal governance, ensuring the integrity of the Bank's accounting and financial reporting systems and for defining and overseeing the implementation of governance arrangements that ensure that the Bank is managed in an effective and prudent manner.

The Board comprises six Directors, three of whom are executive and three of whom are non-executive.

The Directors are as follows:

Independent non-executive

Ms Laurel Powers-Freeling (Chairman)
Mr Alan Keir

Group non-executive

Mr Kenichi Hosomi

Executive

Mr Tetsuro Imaeda (Chief Executive Officer)
Mr Keiichiro Nakamura
Mr Stanislas Roger

Independent non-executive Directors

The Board has appointed two non-executive Directors.

- Ms Powers-Freeling is the Chairman of the Board, the EMEA Nomination Committee and the Remuneration and Human Resources Committee. She is also acting Chairman of the Audit, Risk and Compliance Committee. She was appointed a Director of the Bank on 1 July 2015. Ms Powers-Freeling is a director of four other companies: Atom Bank Plc (financial services), C. Hoare & Co. (financial services), Callcredit Information Group (financial services) and Majid Al Futtaim Ventures (leisure, entertainment and business ventures).

- Mr Keir was appointed a Director of the Bank on 12 October 2016. Mr Keir is a director of three other companies: HSBC Trinkaus und Burkhadt (financial services), HSBC Bank Middle East (financial services) and Majid Al Futtaim (retail, hotels and leisure).

Group non-executive Director

- Mr Hosomi is a Managing Executive Officer of SMBC. He is appointed Deputy Head of SMBC's International Banking Unit and Deputy Head of International Business Unit of SMFG. He was appointed an executive Director of the Bank on 13 April 2012 and on 23 June 2015 became a non-executive. Mr Hosomi holds no other directorships.

Executive Directors

The executive Directors, under the leadership of the CEO, Mr Imaeda, are responsible for running the business of the Bank, implementing the strategy and policies approved by the Board and for ensuring the Board's decisions are implemented appropriately. They also have executive responsibility for certain areas of the Bank's business. Further detail on the executive Directors is shown below.

- Mr Tetsuro Imaeda, appointed as a Director on 27 September 2016, is the Chief Executive Officer. Mr Imaeda is also a Managing Executive Officer of SMBC. In addition to his Directorship of the Bank, Mr Imaeda is a Director of three other SMFG group companies.

- Mr Keiichiro Nakamura, appointed as a Director on 2 April 2012, is the Chief Operating Officer and General Manager of Planning Department, which has responsibility for the following activities: corporate planning, human resources, financial reporting, legal and compliance and information systems. Mr Nakamura is also an Executive Officer of SMBC. In addition to his Directorship of the Bank, Mr Nakamura is a Director of two other SMBC group companies.

- Mr Stanislas Roger, appointed as a Director on 29 April 2015, is the Deputy Chief Executive Officer. Mr Roger is also an Executive Officer of SMBC. Mr Roger holds no other internal or external directorships.

The Board meets quarterly and additionally, when necessary. Between these meetings there is regular contact between the executive and non-executive Directors. The Board has a formal schedule of matters reserved for its consideration.

All Directors, the Board and the Board Committees have access to the advice of the Company Secretary and have the right to seek independent professional advice at the Bank's expense in the furtherance of their duties.

The Directors conduct a periodic review of the effectiveness and performance of the Board and the Audit, Risk and Compliance Committee. The results of these reviews are reported as appropriate to the Board and Audit, Risk and Compliance Committee and proposals are made to implement any changes required.

Board Committees

The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed at least annually. The Committees are as follows:

- **Audit, Risk and Compliance Committee**

The members of the Audit, Risk and Compliance Committee are the non-executive Directors. Ms Powers-Freeling is the acting Chairman of this Committee.

At the invitation of the Committee Chairman, Mr Imaeda and Mr Nakamura also attend Committee meetings. The relevant members of executive management are also invited to attend Committee meetings, including: the Co-General Managers of Audit Department, the Co-Chief Risk Officers, the Regional Chief Compliance Officer, the Co-General Manager of Planning Department – Legal and Compliance Department/General Counsel EMEA/Money Laundering Reporting Officer and the Head of Planning Department - Finance and Control Group. A representative of the external auditors is also required to attend a minimum of two meetings per annum. The Co-General Manager of Planning Department – Legal and Compliance Department/General Counsel EMEA/Money Laundering Reporting Officer the Co-General Managers of Audit Department and the Co-Chief Risk Officers have direct access at any time to the Committee members.

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, conduct risk and regulatory issues, 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 Co-General

Managers of Audit Department. The Committee is also responsible for considering whistle blowing reports and for assessing the effectiveness of the Bank’s whistle blowing arrangements. The Committee also receives a report on the major areas of discussion at Risk Committee meetings. The Audit, Risk and Compliance Committee meets quarterly and reports to the Board of Directors.

- **Executive Committee**

Mr Imaeda is the Chairman of this Committee, which is attended by all executive Directors and the other General Managers and Co-General Managers of the Bank. The Co-General Managers of Audit Department attend Committee meetings as non-members.

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. The Executive Committee meets monthly and reports to the Board of Directors.

The Bank’s non-executive Directors receive a copy of the agenda, papers and minutes of all Executive Committee meetings.

- **EMEA Nomination Committee**

The members of the EMEA Nomination Committee are Ms Powers-Freeling (Chairman), Mr Keir, Mr Imaeda, Mr Nakamura and Mr Roger.

The EMEA Nomination Committee is responsible for assessing and recommending candidates to the Board to fill Board, Senior Manager Function and certain other senior-level vacancies (namely, Deputy Chief Executive Officer, General Manager of Planning Department, General Manager of Audit Department, General Manager of Risk Management Department, General Manager of Operations and Administration Department, General Manager of Credit Department, Co-General Manager of Credit Department – Asset Finance Credit Department, Co-General Manager of Planning Department – Legal and Compliance Department, Head of Planning Department – Finance and Control Group and Joint General Managers of Credit Department with credit sanctioning responsibilities) as and when they arise. The Committee is also responsible for: (i) considering the composition of the Board, which includes matters of diversity and the Board’s policy for the selection and appointment of Directors and senior management; (ii) assessing at least annually the knowledge, skills and experience of the Directors individually and the Board collectively; (iii) assessing annually the size, composition and performance of the Board; and (iv) taking into account the need to ensure that the Board’s decision-making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the Bank as a whole.

- **Remuneration and Human Resources Committee**

The members of the Remuneration and Human Resources Committee are Ms Powers-Freeling (Chairman), Mr Keir and Mr Hosomi. Mr Imaeda, Mr Nakamura and the Head of Human Resources Group also attend Committee meetings as non-voting members.

The Remuneration and Human Resources Committee is responsible for assessing the appropriateness, 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.

Nomination matters

As set out above, the EMEA Nomination Committee is responsible for nominating candidates to the Board to fill SMBCE Board, Senior Management Function and certain other senior-level vacancies. The final decision on whether to appoint any candidate to one of these positions lies with the Board of Directors.

The Board has established a Diversity Policy. This Policy and the Bank's policy on the selection and appointment of senior management and Directors reflect the Bank's status as a wholly-owned subsidiary of SMBC. In respect of gender diversity, the Board has set itself a target that at least 20 per cent of the Board will be made up of women by the end of 2018, while keeping in mind the need to ensure that an appropriate mix of skills and experience on the Board. Currently, 16.7 per cent of the Board is made up of women.

As a wholly-owned subsidiary of SMBC, the Bank typically receives candidates from SMBC to fill senior management (General Manager and Director) vacancies. In cases where no suitable SMBC or SMBCE internal candidates are available for senior management positions and management determines that it needs to recruit in the local market, SMBCE will typically engage recruitment consultants to identify suitable candidates for appointment.

Appointments to Board and senior management level are made on the basis of the competencies, skills, experience and values of the candidates.

In addition, appointments to the Board seek to ensure that the Directors possess adequate collective knowledge, skills and experience to understand the Bank's activities and that it reflects an adequately broad range of experiences. Directors are also expected to commit sufficient time to perform their functions and to act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of senior management and to effectively oversee and monitor management decision-making.

A bespoke training and induction programme is in place for all new senior management and Board members. The purpose of this programme is to give those individuals the information they need in order for them to become as effective as possible in their new role within the shortest practicable time.

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Sumitomo Mitsui Banking Corporation Europe Limited

Head Office

99 Queen Victoria Street
London EC4V 4EH
United Kingdom

Tel +44 (0)20 7786 1000