SMBC NIKKO

SMBC NIKKO CAPITAL MARKETS LIMITED

Report and Financial Statements

31 December 2015

Company number 02418137

Strategic Report

Registered number: 02418137
Incorporated with limited liability in England and Wales

Directors

M Oshima

H Oiwa

T Yazawa

K Nakamura

Y Tsutsumi

Y Hayashi

J D Thomas

A Yates

Secretary

J Avery

Auditor

KPMG LLP

15 Canada Square

London E14 5GL

Banker

Sumitomo Mitsui Banking Corporation Europe Limited

99 Queen Victoria Street

London EC4V 4EH

Solicitor

Allen & Overy

One Bishops Square

London E1 6AO

Registered Office

One New Change

London EC4M 9AF

AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

Strategic Report

The directors present the Group Strategic Report of SMBC Nikko Capital Markets Limited ("Group" and "Company") for the year ended 31 December 2015.

Principal activities

SMBC Nikko Capital Markets Limited Group ("the Group") is a full scope investment business with securities, business advisory and derivatives divisions.

The Group consolidates the following legal entities:

- SMBC Nikko Capital Markets Limited ("the Company" or "CM LTD"), company number 02418137 incorporated in England and Wales, is a full scope investment firm regulated by the Financial Conduct Authority ("FCA"). Sumitomo Mitsui Banking Corporation ("SMBC") of Japan is the majority shareholder and controller. The Company has a representative office in Australia.
- SMBC Derivative Products Limited ("SMBC DP"), a wholly owned subsidiary of CM LTD, which is a full scope investment firm incorporated in England and Wales, regulated by the FCA. It is structured as a bankruptcy remote derivative products company ("DPC") and has received a credit rating of Aa1 from Moody's Investors Service Inc. ("Moody's") and AA- from Standard & Poor's Ratings Group ("S&P). SMBC DP's principal activities are the provision of interest rate and foreign exchange risk hedging products to customers seeking a highly rated counterparty and the provision, for a fee, of performance guarantees to affiliates.
- SMBC Capital Markets (Asia) Limited ("CM Asia") is incorporated in Hong Kong and is regulated by the Securities and Futures Commission. CM Asia acts as an agent and intermediary for the Company and its affiliated entities in Asian markets outside of Japan and in Australia.

The Group's and the Company's investment banking activities are focussed on customer facilitation and maximising order flow in the primary and secondary debt and equity markets, with a particular focus on Japan. The business advisory group provides advice and support to SMBC Group customers seeking new business opportunities. The derivatives business provides interest rate and foreign exchange hedging products to the members of the wider SMBC Group and its customers. Activities are funded from capital and facilities provided by the wider Group. The repo business is primarily a customer service rather than a source of funding.

The Group's and the Company's business plan for 2015 focussed on the incremental growth of existing business lines and the development of new products and services where there was an indication of client demand. The directors also considered the enhancement of internal controls and governance as an essential underpinning of business growth. Control of day-to-day business activities is exercised using appropriate measures, risk targets and limits, which define acceptable levels of risk covering all business and support activities. Monitoring of these activities is undertaken using an extensive suite of Key Risk Indicators ("KRIs") and Key Performance Indicators ("KPIs"), which have been selected for their ability to record small fluctuations in individual risks. The KRIs are an important element within the management information packs presented to the Group's executive committee on a monthly basis.

KPI's

The primary KPI's monitored by management are: actual revenue and expenses against budget; and capital adequacy measured through the tier 1 capital ratio. In 2015 the derivatives business operating profit exceeded budget, and the securities business actual operating profit was near to budget. Capital ratios are set out in Note 23, and have remained positive for the Group and Company throughout the year under review. Details of capital restructuring are set out in the Issue Share Capital and Capital notes.

Strategic Report

Principal risks and uncertainties

The Group and the Company have investment and ancillary services permissions relating to its business pursuant to the provisions of the Financial Services and Markets Act 2000 and the rules of the Financial Conduct Authority.

The principal risks and uncertainties facing the Group and the Company include credit risk, liquidity risk, market risk- a review of each of which is included in note 18 to the financial statements, and operational risk. Operational risk is defined as the risk of loss resulting from inadequate processes, people and systems or from external events.

The Group's and the Company's Risk Appetite Framework sets out the broad based level of these and other risks that are to be accepted in pursuit of its business goals and strategy. Underpinning this framework day-to-day business activities are managed using appropriate measures, risk targets and limits, which are to be considered as defining acceptable levels of each category of risk under normal conditions and are set-out within the specific policies and procedures in place across the organisation.

The Group and the Company seeks to minimise operational risk through clearly defined responsibilities for management and staff, comprehensive daily risk reporting and regular self-assessment of the operational set-up to identify any weaknesses covering front office, credit, risk management, settlements, legal, compliance and systems functions.

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

Other closely monitored risks, all of which are reviewed and assessed at least annually, include regulatory risk, the risk that changes to applicable regulations or laws may have an adverse impact on a business, which is a very significant factor for regulated investment firms, and conduct risk, which concerns potential detriment to the business, counterparties or employees caused by inappropriate judgements made in the course of our activities.

Additionally the Group and the Company are exposed to macro-economic, geopolitical and other external business risks which include, but are not limited to, the uncertain economic environment, particularly in the Eurozone where there are risks of Sovereign default, and changes to the level and volatility of prices such as foreign exchange rates, credit spreads, commodity and equity prices and, particularly, interest rates. The potential Brexit (UK exit from the EU) has also created a significant degree of market uncertainty, the result of which will be more clear once the UK general referendum takes place.

Counterparty credit risk arises from the potential non-performance of counterparties in fulfilling their contractual obligations pursuant to their derivative transactions. The Group and the Company seek to protect themselves from such risks through the use of industry standard documentation, commonly in the form of master agreements supported by individual transaction confirmations. Such documentation provides for a legally binding contractual framework which allows the application of close-out netting across a range of transactions and products with the same counterparty. The Group and the Company also mitigate credit risk through collateral arrangements. Such arrangements will depend on the nature of the transaction and the nature and credit worthiness of the counterparty. Collateral obtained will be in the form of cash or eligible government securities. These arrangements are supplemented by a series of guarantees from the parent, or other affiliates, that serve to transfer credit risk. Guarantee arrangements are set-out in Note 1.

Strategic Report

Principal risks and uncertainties (continued)

Liquidity risk arises primarily from the requirement to fund securities financing transactions, although risk here is significantly mitigated by delivery-versus-payment settlement arrangements, and collateral calls, where there is an imbalance between uncollateralised customer trades and collateralised hedge trades.

The Group's and the Company's funding requirements are met from its own resources, borrowing from affiliates and, occasionally, through repo market transactions. Potential funding risk is mitigated by a policy of holding significant positions in very high quality marketable securities that may be sold to cover any funding gaps. Reliance is also placed on committed and uncommitted facilities provided by SMBC.

Market risk is defined as the risk of losses arising from movements in market prices. Market risks are classified into "traded market risks" and "non-traded market risks". Traded market risk means the potential loss of earnings and capital arising from adverse movements in security prices, commodity prices, interest rates or foreign exchange rates in the trading book. This risk can arise from market making and (inventory) position taking in securities, currencies, commodities, or derivatives. Non-traded market risks includes market risks related to non-traded banking products and services, and residual risks not categorised as "traded market risks". Material non-trade market risks within the Group's and the Company's business include underwriting risk; the risk associated with underwriting issuance of equity or debt securities and illiquidity risk; the risk from holding illiquid assets. Market risk is managed through establishing, monitoring and enforcing a series of complementary position limits.

Results and dividends

The Group profit for the year, after taxation, amounted to $64.7 million (2014– $106.8 million). No dividend was paid in the year and none has been declared (2014 – $nil).

During 2015 the Group and the Company raised a further $540 million in further ordinary (common equity tier 1) and $110m in preference (additional tier 1) share capital (Note 20) from its parent SMBC and its affiliate, and minority shareholder, SMBC Nikko Securities, Inc. This capital raising exercise was undertaken in order to support the increased balance sheet capacity that will result from planned future expansion of the business.

Slow credit and equity markets throughout the year have impacted upon the performance of securities related business. Particular factors to note include the stalling of growth in Japanese equity indices, which correlate closely to business volumes and revenues, after strong performance in the first quarter; uncertainty in European credit markets throughout the year, prompted by such factors as fear of GREXIT the upheaval associated with the Volkswagen emissions scandal; and a significant fall in volumes of currency linked Uridashi bonds issued due to upheaval in relevant currency markets (such as Brazil and Turkey). The derivatives business continued to perform strongly, an increased corporate business flow supported the traditionally strong project finance business. The cost base of the Group and the Company has increased materially reflecting an emphasis in the business plan to enhance corporate governance and in particular the legal, compliance and risk functions.

Staff numbers increased from 191 to 230 for the Group and from 178 to 217 for the Company in 2015.

Strategic Report

Results and dividends (continued)

The directors take into account a range of strategic, business and operational considerations when reviewing the performance of each business line. Such considerations include the efficient allocation and use of capital, earnings stability, balance sheet quality, operational robustness and the maintenance of good regulatory compliance. Effectiveness is measured through the use of financial indicators such as budgeted revenue targets, new deal revenue and return on capital and also non-financial indicators such as conduct considerations, compliance with relevant internal and external rules and targets and the setting of measurable goals for all employees through a comprehensive assessment process.

The directors pay particular attention to management information relating to regulatory capital, leverage and liquidity.

The financial position of the Group and the Company at the end of the year was satisfactory.

By order of the Board

Jonathan Avery
Secretary
One New Change
London EC4M 9AF

Date: 13th April 2016

Directors' Report

The directors present their report and the financial statements of SMBC Nikko Capital Markets Limited ("Group" and "Company") for the year ended 31 December 2015.

Financial risk management

The Group and the Company have adopted a Three Lines of Defence approach to financial risk management to ensure that adequate oversight of risks exists and that a "risk aware" culture is embedded.

Each business function, and its respective head, is required to ensure that all business decisions taken maintain an appropriate balance between risk and return and are in accordance with the Group's and the Company's objectives and risk appetite. The business functions constitute the first line of defence ("1st LOD") and are responsible for identifying and managing risks directly and are accountable for both upside and downside outcomes. Each business function undertakes a regular risk self-assessment that is presented for executive management scrutiny.

The Risk Function, London Operations, London Financial Control and London Compliance all report to the Board, and make up the second line of defence ("2nd LOD") responsible for day-to-day risk identification, assessment and monitoring. It provides oversight and guidance as well as advising, facilitating and challenging the 1st LOD in their risk management activities and risk-return considerations. The Risk Function ensures that the Board and senior management are duly informed and engaged.

The Internal Audit department constitutes the third line of defence ("3rd LOD") and provides independent assurance to the Board that the 1st and 2nd LOD's are fit for purpose and that the risk based information provided to the Board and management is accurate and reliable.

Future developments

The development of a global securities business to complement its banking presence remains a key strategic goal for SMBC. That the Group and the Company are integral to the achievement of this goal, constituting a Europe, Middle East and Africa regional hub, was reflected in the increased capital investment in 2015.

The Group and the Company operate in a highly regulated market in which the relevant authorities are becoming increasingly interventionist. The full scale of the impact of proposed regulatory changes remains to be determined and the Group and the Company will continue to monitor developments in order to ensure full compliance.

Directors

The directors who served during the year and at the date of this report were as follows:

M Oshima	
K Hosomi	(resigned 11th August 2015)
H Oiwa	
M Okumura	(resigned 11th April 2016)

Directors' Report

Directors (continued)

T Yazawa	
Y Ohmi	(resigned 11th August 2015)
K Nakamura	(appointed 11th August 2015)
Y Tsutsumi	(appointed 29th July 2015)
Y Hayashi	
J D Thomas	(appointed 11th August 2015)
A Yates	

The Company maintains directors' and officers' liabilities insurance cover for its directors and officers as permitted by its Articles of Association and the Companies Act 2006. Such insurance policies were reviewed during the period and remain in force.

Company secretary

The Company secretary who served during the year and at the date of this report was:

J Avery

Disclosure of information to the auditor

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

Auditors

In accordance with section 487 of the Companies Act 2006, an elective resolution is in place that dispenses with the obligation to appoint an auditor annually. As a consequence, KPMG LLP continues to hold the position as the Company's auditor.

By order of the Board

Jonathan Avery
Secretary
One New Change
London EC4M 9AF
Date: 13th April 2016

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent auditor's report

to the members of SMBC Nikko Capital Markets Limited

We have audited the financial statements of SMBC Nikko Capital Markets Limited for the year ended 31 December 2015 set out on pages 11 to 69. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report

to the members of SMBC Nikko Capital Markets Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Mike Heath

Mike Heath (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London E14 5GL
United Kingdom

Date: 13th April, 2016

Group income statement

for the year ended 31 December 2015

	Notes	*2015 US$m*	*2014 US$m (restated)*
Net trading gain	2	206.0	247.1
Interest receivable on trading positions	4	9.2	4.4
Interest payable on trading positions	5	(7.9)	(7.7)
		207.3	243.8
Staff costs	6&7	(75.0)	(76.7)
Professional fees		(8.7)	(7.3)
Rent expense		(6.0)	(5.6)
Financial information		(9.3)	(7.9)
Management fee		(15.4)	(10.2)
Systems expenses		(1.3)	(0.9)
Other operating costs		(19.8)	(12.3)
		(135.5)	(120.9)
Operating profit		71.8	122.9
Interest receivable on non-trading positions	4	0.2	0.2
Profit on ordinary activities before taxation		72.0	123.1
Tax charge on profit on ordinary activities	8	(7.3)	(16.3)
Profit for the financial year		64.7	106.8
Profit for the financial year (Company)		64.7	109.6

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

The notes on pages 19 to 69 form an integral part of these financial statements.

Group statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
Profit for the financial year		64.7	106.8
Other comprehensive income, net of tax			
Actuarial gains/(losses) arising on a defined benefit pension plan, net of tax	9	0.1	(0.3)
Total comprehensive income for the year attributable to equity holders of the Group		64.8	106.5

The notes on pages 19 to 69 form an integral part of these financial statements.

Group statement of financial position

for the year ended 31 December 2015

	Notes	*2015* *US$m*	*2014* *US$m* *(restated)*
Assets			
Cash at banks	10	120.6	120.2
Trading securities	11	833.0	600.9
Other trading assets, at fair value		19.1	23.9
Derivative assets	12	5,671.2	4,520.9
Securities purchased under agreements to resell		3,763.0	2,129.4
Due from clients	13	2.7	2.0
Other debtors	14	2,236.9	2,693.1
Property, plant and equipment	15	13.8	15.6
Deferred tax asset	8	0.9	0.7
Total assets		12,661.2	10,106.7
Liabilities			
Derivative liabilities	12	5,708.7	4,479.7
Trading liabilities, at fair value		102.7	79.4
Trading securities sold, not yet purchased		242.0	118.6
Securities sold under agreements to repurchase		3,492.3	2,011.7
Other creditors	16	1,566.5	2,433.0
Subordinated debt	17	-	150.0
Pension scheme liability	9	1.8	1.9
Total liabilities		11,114.0	9,274.3
Net assets		1,547.2	832.4
Equity attributable to equity holders of the parent			
Called up share capital	20	1,304.0	654.0
Retained earnings		243.2	178.4
Total equity		1,547.2	832.4

The notes on pages 19 to 69 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 13th April, 2016 and were signed on its behalf by:

Antony Yates
Director
Date: 13th April 2016
Company number 02418137

Company statement of financial position

for the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m (restated)
Assets			
Cash at banks	10	8.8	9.3
Trading securities	11	722.4	488.8
Other trading assets, at fair value		19.1	23.9
Derivative assets	12	5,643.8	4,482.6
Securities purchased under agreement to resell		3,763.0	2,129.4
Due from clients	13	2.6	2.0
Other debtors	14	2,235.8	2,692.1
Investment in subsidiary undertaking	29	202.0	202.0
Property, plant and equipment	15	13.8	15.5
Deferred tax asset	8	0.9	0.7
Total assets		12,612.2	10,046.3
Liabilities			
Derivative liabilities	12	5,683.0	4,443.0
Trading liabilities, at fair value		102.7	79.4
Trading securities sold, not yet purchased		242.0	118.6
Securities sold under agreement to repurchase		3,492.3	2,011.7
Other creditors	16	1,564.5	2,430.6
Subordinated debt	17	-	150.0
Pension scheme liability	9	1.8	1.9
Total liabilities		11,086.3	9,235.2
Net assets		1,525.9	811.1
Equity attributable to equity holders of the parent			
Called up share capital	20	1,304.0	654.0
Retained earnings		221.9	157.1
Total equity		1,525.9	811.1

The notes on pages 19 to 69 form an integral part of these financial statements.

Group statement of changes in equity

for the year ended 31 December 2015

	Notes	*Equity share capital US$m*	*Retained earnings US$m*	*Total equity US$m*
At 1 January 2014		654.0	71.9	725.9
Profit for the year		-	106.8	106.8
Actuarial losses arising on a defined benefit pension plan, net of tax	9	-	(0.3)	(0.3)
Total comprehensive income for the period		-	106.5	106.5
At 31 December 2014		654.0	178.4	832.4
At 1 January 2015		654.0	178.4	832.4
Profit for the year		-	64.7	64.7
Issuance of share Capital	20	650.0	-	650.0
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	0.1	0.1
Total comprehensive income for the period		650.0	64.8	714.8
At 31 December 2015		1,304.0	243.2	1,547.2

The notes on pages 19 to 69 form an integral part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2015

	Notes	Equity share capital US$m	Retained earnings US$m	Total equity US$m
At 1 January 2014		654.0	47.8	701.8
Profit for the year		-	109.6	109.6
Actuarial losses arising on a defined benefit pension plan, net of tax	9	-	(0.3)	(0.3)
Total comprehensive income for the period		-	109.3	109.3
At 31 December 2014		654.0	157.1	811.1
At 1 January 2015		654.0	157.1	811.1
Profit for the year		-	64.7	64.7
Issuance of share Capital	20	650.0	-	650.0
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	0.1	0.1
Total comprehensive income for the period		650.0	64.8	714.8
At 31 December 2015		1,304.0	221.9	1,525.9

The notes on pages 19 to 69 form an integral part of these financial statements.

Group statement of cash flows

for the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m (restated)
Cash flows from operating activities			
Profit for the financial year		64.7	106.8
Adjustments to reconcile total comprehensive income to net cash (used in) operating activities:			
Depreciation	15	3.3	3.5
Change in trading securities		(261.7)	(81.1)
Change in trading assets, at fair value		4.8	(1.4)
Change in trading liabilities, at fair value		23.3	3.5
Change in other debtors		455.5	(1,297.7)
Change in derivative assets	12	(1,150.3)	(2,443.4)
Change in deferred tax assets	8	(0.2)	0.1
Change in derivative liabilities	12	1,229.0	2,445.6
Change in other creditors		(866.5)	1,243.0
Movement in actuarial gains/losses, net of tax		(0.1)	0.5
Others		0.1	(0.4)
Net cash used in operating activities		(562.8)	(127.8)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(1.5)	(1.2)
Net cash outflow from investing activities		(1.5)	(1.2)
Cash flows from financing activities			
Repayment of subordinated debt		(150.0)	-
Increase in Called up share capital		650.0	
Net cash inflow from financing activities		500.0	-
Net change in cash		0.4	(22.2)
Cash and cash equivalents at beginning of year	10	120.2	142.4
Cash and cash equivalents at end of year	10	120.6	120.2
Net increase / (decrease) in cash		0.4	(22.2)

The notes on pages 19 to 69 form an integral part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2015

	Notes	*2015 US$m*	*2014 US$m (restated)*
Cash flows from operating activities			
Profit for the financial year		64.7	109.6
Adjustments to reconcile total comprehensive income to net cash (used in) operating activities:			
Depreciation	15	3.3	3.4
Change in trading securities		(263.2)	(55.6)
Change in trading assets, at fair value		4.8	(1.4)
Change in trading liabilities, at fair value		23.3	3.5
Change in other debtors		455.7	(1,300.8)
Change in derivative assets	12	(1,161.2)	(2,453.3)
Change in deferred tax assets	8	(0.2)	0.1
Change in derivative liabilities	12	1,240.0	2,455.1
Change in other creditors		(866.1)	1,245.7
Movement in actuarial gains/losses, net of tax		(0.1)	0.5
Others		0.1	(0.4)
Net cash used in operating activities		(563.6)	(103.2)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(1.6)	(1.1)
Net cash outflow from investing activities		(1.6)	(1.1)
Cash flows from financing activities			
Increase in Called up share capital		650.0	-
Repayment of subordinated debt/subsidiary investment		(150.0)	-
Net cash inflow from financing activities		500.0	-
Net change in cash		(0.5)	5.3
Cash and cash equivalents at beginning of year	10	9.3	4.0
Cash and cash equivalents at end of year	10	8.8	9.3
Net (decrease) / increase in cash		(0.5)	5.3

The notes on pages 19 to 69 form an integral part of these financial statements.

Notes to the financial statements

at 31 December 2015

1. Accounting policies

Basis of consolidation

The Group consolidates all entities it controls. Control is judged to exist where the Group has the power to direct the relevant activities of an entity so as to obtain variable returns from its activities. In assessing control, the Group takes into consideration any potential voting rights that are currently exercisable.

The Group financial statements consolidate the financial statements of SMBC Nikko Capital Markets Limited and its subsidiary undertakings, SMBC Derivative Products Limited and SMBC Capital Markets Asia Limited (together "the Group"), drawn up to 31 December 2015.

Basis of preparation

The Group financial statements have been prepared under the historical cost convention except as set out below for the valuation of the derivative products, trading assets, trading liabilities, trading securities, and pension liabilities and in accordance with applicable accounting standards. Securities purchased under agreements to resell, securities sold under agreements to repurchase are not fair valued. The Directors have undertaken an assessment of the appropriateness of preparing the financial statements on a going concern basis and have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt as to the ability of the Group to continue as a going concern.

Statement of compliance

Both the Group financial statements and the Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. Prior year reclassifications are recorded where applicable to conform to changes in current year presentation.

Company profit and loss account

On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The profit dealt with in the financial statements of the Company was $64.7 million in the year ended 31 December 2015 and a profit of $109.6 million in the year ended 31 December 2014.

Preparation of financial statements in US dollars

The directors consider the functional currency of the Group's activities to be US dollars since the majority of the Company's income is generated in this currency. The directors have chosen to use US dollars as the presentational currency. All financial information is presented in US$ millions and has been rounded to one decimal point unless indicated otherwise.

Foreign currency translation

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

Segmental analysis

Segmental analysis of income and net assets has not been prepared because the Group is outside of the scope of reporting per IFRS 8 - Operating Segments. The Group's equity instruments are not traded in a public market and it is not in the process of issuing any class of instrument in a public market.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any losses for impairment. Cost includes the original purchase price of the asset and the costs directly attributable to bringing the asset into its working condition.

Depreciation is provided on the depreciable amount of items of property plant and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount less the estimated residual value at the end of its useful economic life. The Group and the Company use the following annual rates in calculating depreciation:

Leasehold assets:	
Leasehold property	Over the remaining life of the lease
Costs of adaption of leasehold property	Over the remaining life of the lease
Other	
Computers and similar equipment	3 years
Fixtures, fittings and other equipment	5 years

When deciding on useful economic life the principal factors taken into consideration are the expected rate of technological change and the expected pattern of usage of the assets.

Trading securities

Under IAS 39 an entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

IAS 39 permits a choice between trade date and settlement date accounting for recording regular way transactions. In accordance with IAS 39 when applying settlement date accounting it is still required that any movements in fair value between trade date and settlement date are reflected as they occur. The movement in fair value will be taken to profit and loss or to other comprehensive income depending upon the classification of the asset. Accordingly, it is not considered that trade date accounting provides more useful information to users of the financial statements.

During the financial year the group determined it would change its accounting for regular way transactions from trade date to settlement date accounting. This is considered to show a more relevant and reliable representation of the assets and liabilities of the company at the balance sheet date for the following reasons:

- It applies a consistent basis for the recognition of all financial instruments at the time at which the group becomes party to the contractual provisions. It avoids the recording of assets on the statement of financial position at a time when the Group is still exposed to settlement risks.

- As the asset is only recorded at the rate at which it settles no adjustment for any foreign currency translation difference between trade and settlement date is required.

As a result of the voluntary accounting policy change, changes have been applied retrospectively in accordance with IAS 8 resulting in the restatement of prior year financial information.The impact on the 2014 financial statements are detailed on page 24.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Credit guarantees

The Group entered into an unconditional guarantee with SMBC, acting through its Cayman Branch and SMBC Tokyo (the 'Guarantor'), which guarantees the prompt and complete payment when due of any net termination payment payable to the Group under any of the ISDA Master Agreements of specific guaranteed counterparties. Having such an agreement in place means that any required credit valuation adjustment is calculated based upon the probability of the double-default of both the Counterparty and the Guarantor. A fee is payable monthly based on the monthly daily average value of the guaranteed transactions. The fee has been accounted for in line with the substance of the credit guarantee. It has been computed on a fair value basis, discounted to its present value and recorded as a derivative liability on the balance sheet.

The Group has also entered into a series of credit guarantees with CM INC covering selected counterparties to derivative transactions entered into as principal. These guarantees are intended primarily to mitigate credit risk for regulatory capital management. No fees are paid to CM INC in relation to the credit guarantees it has provided. Such credit guarantees cover transactions where the Group has also entered back-to-back transactions with CM INC that fully transfer market and liquidity risk. No credit value adjustments ("CVA") are booked by the Group where credit default risk has been transferred in this way.

Derivative assets and liabilities

Derivatives are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Transactions are recorded on a trade date basis. Changes in the fair value are recognised immediately in the income statement.

Trading assets and liabilities

Fixed income financial instruments included in trading assets and trading liabilities represent contractual agreements with counterparties that provide fixed or variable periodic payments from a stated or contingent date over a specified time period. The Group records these fixed income financial instruments at fair value. Unrealised gains and losses due to changes in fair value are included in trading profit/ (loss) in the accompanying Group income statements.

Fair Value

The Group assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions either: (a) in the *principal market* for the asset or liability; or (b) in the absence of a principal market, in the *most advantageous market* for the asset or liability. That assumed transaction establishes a basis for determining the exit price.

The Group manages the credit and liquidity risks in their derivatives portfolio on a net basis. The Group provides fair value information on its derivative portfolio on a net basis to management. Therefore, the Group makes adjustments to the valuation of their derivatives by calculating credit, and debit valuation adjustments consistent with IFRS 13 and measures the fair value of the derivative portfolio on a net basis (i.e. the unit of account is the entire portfolio).

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Securities sold under agreement to repurchase and securities purchase under agreement to resell

In the ordinary course of business, the Group lends securities under agreements to repurchase them at a predetermined price ("repos"). Since substantially all of the risks and rewards (generally considered to be at least 90%) are retained by the Group, the securities remain on the consolidated statement of financial position and a liability is recorded in respect of the consideration received. On the other hand, the Group borrows securities under agreements to resell them at a predetermined price ("reverse repos"). Since the Group does not obtain substantially all of the risks and rewards of ownership, these transactions are treated as collateralised loans and the securities are not included in the Group statement of financial position. These collateralised loans are carried at amortised cost.

Securities borrowed are not recognised in the consolidated statement of financial position, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading securities sold, at fair value and any subsequent gain or loss is included in "Net trading profit" in the Group statements of comprehensive income.

Intermediation fees

Where the Group receives an intermediation fee from CM INC for a derivative transaction with an unaffiliated counterparty, the fees are recognised as the present value of estimated future cash flows on a trade date basis.

Cash and Cash equivalents

Cash comprises demand deposits and short term money market deposits of three months or fewer from the date of acquisition.

Interest receivable

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

Fee and commission income

Fees and commissions for services provided or received by the Group and the Company on securities transactions and advisory business are recognised on completion of the underlying transaction.

Fees charged by affiliates

Fees payable by the Group to SMBC and to CM INC for costs related to the derivative product support functions provided to the Group are recognised as an expense when incurred.

Pension costs

The Group operates a defined benefit pension plan and a defined contribution plan, both of which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plan is determined using the projected unit actuarial valuation method.

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Any actuarial gains and losses are recognised in other comprehensive losses, net of tax.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Pension costs (continued)

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the interest rates of high quality corporate bonds, in this case AA rated. The mortality rate is based on publicly available mortality tables in the UK. Future salary increases and pension increases are based on expected future inflation rates in the UK. Further details about the assumptions are given in note 9.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Due to the long term nature of this plan, such estimates are subject to significant uncertainty.

Deferred taxation

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Leasing

A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership. The Group classifies its office space rental as an operating lease since the risks and rewards mainly lie with the lessor. In addition, the lease term does not constitute a major part of the economic life of the building. Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Share based payments

The Group has a deferred remuneration scheme in place. On occasion awards of variable remuneration may be made to key staff under the terms of this scheme. Any such awards vest over a three year period. Due amounts are settled in cash but are benchmarked to the publicly quoted share price of Sumitomo Mitsui Finance Group.

Such awards are accounted for using the vesting approach whereby the Group accrues one third of the deferred award in year one, another third over years one and two and the final third over years one, two and three. This approach means that 61% of the total reward is accrued in the first year, 28% in the second year and 11% in the third year. The fair value of the amount payable to staff is recognised as staff costs and with a corresponding increase in liabilities over the vesting period.

Provisioning

Provisions are recognised for present obligations that have arisen as consequences of past events and where they can both be reliably estimated and it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Significant accounting judgements and estimates

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

Where the fair value of derivative assets and liabilities recorded on the balance sheet cannot be derived from active markets, it is determined using a variety of valuation techniques that employ mathematical models.

The inputs to these models use observable market data where possible but, where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives. Credit Valuation Adjustments ("CVA") and Debit Valuation Adjustments ("DVA") are incorporated into derivative valuations to reflect the value of counterparty and own credit risk. CVAs, calculated on a counterparty exposure basis across instrument type, are derived from management estimates of exposure at default, probability of default and recovery rates. The DVA is an adjustment to the value of the Group's derivative liabilities that seeks to reflect the Group's own default risk.

In line with market practice, the methodology for valuing the Group's collateralised derivative contracts uses the Overnight Indexed Swap curve (OIS) in order to more consistently manage the associated interest rate and funding risks.

The Group distinguishes between the credit guarantees it has purchased from SMBC, which are recognised on the balance sheet at the present value of future fees payable, calculated with reference to the expected exposure of the derivative transactions and those guarantees provided by CM INC valued at their transfer value which is the equivalent of the CVA on the guaranteed counterparty. Refer to Group credit guarantee policy on page 21 for further explanation on the guarantee from CM INC.

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

Prior Year Restatement

The 2014 comparatives have been restated to incorporate:

- A change from trade date to settlement date accounting for securities per the trading securities policy described on page 20. Changes have been applied retrospectively in accordance with IAS 8 resulting in the restatement of prior year financial information. As a result of the voluntary accounting policy change the following changes were made to the 2014 financial statements: Trading financial assets at fair value have increased by $43.1 million, amounts due from clients decreased by $1,360.7 million, trading financial liabilities at fair value remained the same and other liabilities decreased by $1,317.6 million.

- The group and company have reduced 'Other debtors due from group undertakings' in Note 14, and 'Amounts due to fellow group undertakings' in Note 16, by $600.0 million. This relates to balances between the Company and CM Inc that are managed on a net basis and subject to a master netting agreement.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Future accounting developments

In 2014, the IASB issued the following standards which have not yet been endorsed by the EU:

IFRS 9 – *Financial Instruments (replacement of IAS39)* – Classification and Measurement, Impairment, and Hedge accounting: setting out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial instruments. The mandatory effective date of IFRS 9 as a whole will be for annual periods beginning on or after 1st January 2018. Management are considering the impact of this standard.

IFRS 15 – *Revenue from Contracts with Customers*: Provides comprehensive guidance on the recognition of revenue from contracts with customers arising from the transfer of services. The new guidance creates a common revenue recognition standard across all industries and requires new disclosures. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017 and early adoption is not permitted. Therefore, this guidance is effective for the company beginning January 1, 2017. The Company is evaluating the effect of this new standard on its financial statements.

Notes to the financial statements

at 31 December 2015

2. Net trading profit

This comprises the following items of income and expense:

	2015 *US$m*	*2014* *US$m*
Trading gain on derivative instruments	139.0	135.5
Derivatives reserves	(35.7)	(10.6)
Gains on primary and secondary trading, underwriting and arrangement fees	102.8	123.1
Centralised activities	(0.1)	(0.9)
	206.0	247.1

Termination fees related to the release of guarantees discussed in Note 26 are included in gain/(loss) on derivative trading portfolio. In 2015, some of the guarantee contracts between the Group and CM Inc. have been terminated. In accordance with the Group's accounting policy, CVA was recognised on the underlying trades and the Group was compensated by CM Inc. for the same amount, resulting in a net nil gain or loss.

Funding adjustments are applied to reflect the expected funding cost integrated over the lifetime of the portfolio, with consideration of the default event of the counterparties. In 2015, the Company implemented a FVA framework to incorporate the impact of funding into its valuation estimates. The Company's approach for the funding adjustment assumes that it is reasonable to calculate the funding cost created by the mirror of any uncollateralised derivative assets; the resulting booking is included in derivative reserves.

Due to the global nature of the international capital markets, the directors consider that the disclosure of net trading income by geographical source would not be meaningful.

3. Operating Profit

		2015 *US$m*	*2014* *US$m*
This is stated after charging:			
Auditor remuneration	audit fees to KPMG LLP	0.4	0.4
	audit related service fees to KPMG LLP	0.2	0.2
	credit rating assurance fees to KPMG NY	0.2	-
		0.8	0.6
Operating lease rentals - land and buildings		4.9	5.0

Audit fees relate to the audit of the financial statements and audit-related services include CASS assurance and quarterly financial reviews.

Notes to the financial statements

at 31 December 2015

4. Interest receivable

	2015 US$m	2014 US$m
Due on trading activities from a fellow group undertaking	8.2	3.6
Due on trading activities from non-group undertakings	1.0	0.8
	9.2	4.4
Due on non-trading activities	0.2	0.2

5. Interest payable

	2015 US$m	2014 US$m
Due on and wholly repayable within five years:		
- to a non-group undertaking	4.4	3.9
- to a fellow group undertaking	3.2	3.2
Due on and not wholly repayable within five years:		
- to a fellow group undertaking	0.3	0.6
Due on trading activities	7.9	7.7

6. Staff costs

		2015 US$m	2014 US$m
Wages and salaries		57.9	63.6
Social security costs		6.0	3.5
Pension costs	Defined benefit scheme (Note 9)	0.2	0.2
	Defined contribution scheme	3.5	3.1
Other staff costs		7.4	6.3
		75.0	76.7

The average monthly number of Group and Company employees during the year was 217 (2014 – 179) and 204 (2014 – 166) respectively.

Notes to the financial statements

at 31 December 2015

7. Directors' emoluments

	2015 *US$m*	*2014* *US$m*
Emoluments	3.8	5.9
Group pension contributions	-	0.1
Total	3.8	6.0

	2015 *US$m*	*2014* *US$m*
Emolument of highest paid director	2.5	2.8
Total	2.5	2.8

8. Income tax expense

	2015 *US$m*	*2014* *US$m*
Current tax expense		
Current year	7.4	16.5
Adjustments for prior years	0.1	(0.5)
Foreign tax suffered	0.0	0.3
Double tax relief	(0.0)	(0.2)
Current tax expense (subtotal of the above)	7.5	16.1
Deferred tax expense:		
Origination and reversal of temporary difference	(0.2)	(0.1)
Adjustment for prior years	0.0	0.3
Deferred tax expense (subtotal of the above)	(0.2)	0.2
Total tax (charge) / credit in income statement	7.3	16.3

Disclosure of tax in OCI

	2015		*2014*	
	Before tax *US$m*	*Net of tax* *US$m*	*Before tax* *US$m*	*Net of tax* *US$m*
Actuarial losses arising on defined benefit pension plan	0.2	0.1	(0.5)	(0.3)

Notes to the financial statements

at 31 December 2015

8. Income tax expense (continued)

Reconciliation of effective tax rate

The tax assessed on the profit on ordinary activities for the year is not the same as the standard rate of corporation tax in the UK. The differences are explained below:

	2015 *US$m*	*Effective tax rate*	*2014* *US$m*	*Effective tax Rate*
Profit excluding taxation	72.0		123.1	
Tax using the UK corporation tax rate of 20.25% (2014: 21.5%)	14.6	20.25%	26.5	21.50%
APA adjustment	(7.6)	(10.58)%	(10.4)	(8.45)%
Non qualifying depreciation	0.2	0.24%	0.2	0.16%
Other	0.1	0.19%	0.0	0.01%
	7.3	10.10%	16.3	13.22%

The Group is party to an Advance Pricing Agreement ("APA") between its affiliates CM INC and CM Asia and Her Majesty's Revenue and Customs ("HMRC") which defines the basis on which UK tax is charged on global DPG profits.

Corporation tax rate

A corporation tax rate of 21% was effective until 31st March 2015, and 20% from 1st April 2015. For the prior year a corporation tax rate of 23% was effective until 31st March 2014 and 21% from 1st April 2014.

The deferred tax asset at 31 December 2015 has been calculated using the rate of 20% substantially enacted at the balance sheet date.

Deferred tax assets US$m

	2015 *US$m*	*2014* *US$m*
Property, plant & equipment	(0.6)	(0.3)
Employee benefits	(0.3)	(0.4)
Tax assets	(0.9)	(0.7)

Notes to the financial statements

at 31 December 2015

8. Income tax expense (continued)

Movement in deferred tax during the current year US$m

	January 1, 2015	*Recognised in income*	*Recognised in equity*	*December 31, 2015*
Property, plant and equipment	(0.3)	(0.3)	-	(0.6)
Employee benefits	(0.4)	(0.0)	0.1	(0.3)
Tax (assets)/liabilities	(0.7)	(0.3)	0.1	(0.9)

Movement in deferred tax during the prior year US$m

	January 1, 2014	*Recognised in income*	*Recognised in equity*	*December 31, 2014*
Property, plant and equipment	(0.5)	0.2	-	(0.3)
Employee benefits	(0.3)	0.0	(0.1)	(0.4)
Deferred compensation	(0.1)	0.1	-	-
Tax (assets)/liabilities	(0.9)	0.3	(0.1)	(0.7)

Notes to the financial statements

at 31 December 2015

9. Pension costs

The Group operates two pension schemes in the UK: a contract-based defined contribution scheme, which covers all of the Group's local employees, with the exception of one employee, and an Executive Personal Pension Plan ("EPP"), which is a trust based scheme that provides benefits on a defined benefit basis to one UK employee. The Group incurred no pension costs in respect of its Japanese expatriate employees.

The contract based scheme, The SMBC Capital Fairs Limited Group Personal Plan, is open to new entrants and future contributions. The pension cost for this scheme for the year was \$3.5 million (2014 – \$3.1 million). The Company recognises expenses as employees render services.

The Group currently contributes to the EPP policy at the rate of 15% of the capped salary.

The defined benefit promise is a pension:

- payable as of right unreduced from age 60, calculated as one-sixtieth of pensionable salary limited to the earnings cap, for each year of service;
- guaranteed for 5 years once in payment;
- increasing in line with retail price inflation or 5% p.a. whichever is the lower once in payment;
- with a 50% attaching spouse's pension.

The principle assumptions in valuing the Defined Benefit Obligation of the EPP are:

	2015	*2014*
	%	*%*
Rate of increase in salaries	4.6	4.5
Rate of increase in pension payment	3.1	3.0
Discount rate	3.7	3.4
Inflation assumption	3.1	3.0

Value of scheme assets and liabilities of the EPP

	Value	*Value*
	2015	*2014*
	US\$m	*US\$m*
Total fair value of assets	1.1	1.1
Present value of scheme liabilities	(2.9)	(3.0)
Deficit in the scheme	(1.8)	(1.9)
Related deferred tax asset	0.3	0.4
Net pension liability	(1.5)	(1.5)

Notes to the financial statements

at 31 December 2015

9. Pensions (continued)

Movement in the present value of the defined benefit obligations

	2015 *US$m*	*2014* *US$m*
Defined benefit obligations at the beginning of the year	3.0	2.5
Service cost / interest cost (expense recognised in profit and loss as staff costs)	0.2	0.2
Financial assumption	(0.1)	0.4
Exchange differences on opening balance	(0.2)	(0.1)
Present value of Scheme liabilities at the end of the year	2.9	3.0

Movements in actuarial loss

	2015 *US$m*	*2014* *US$m*
Opening capital (deficit)	(1.6)	(1.1)
Financials assumption	0.1	(0.5)
Cumulative actuarial (loss)/gain	(1.5)	(1.6)
Actuarial gain/(loss) net of tax	0.1	(0.3)

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of the Company at 31 December 2015. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

Notes to the financial statements

at 31 December 2015

9. Pensions (continued)

Sensitivity Analysis

The percentage and absolute impact on the defined benefit obligation of changes in the significant assumptions is shown approximately below:

Assumption Varied	*Defined Benefit Obligation*	*Defined Benefit Obligation*
	%	*US$m*
As at 31 December 2015		
Discount Rate 0.5% p.a. lower	13	0.4
Inflation Rate 0.5% p.a. lower	-12	(0.3)
Minimum rate of improvement of mortality 0.5% p.a. lower	-2	(0.1)

10. Cash at banks

	Group		*Company*	
	2015	*2014*	*2015*	*2014*
	US$m	*US$m*	*US$m*	*US$m*
Cash at bank	13.2	13.0	8.8	9.3
Short term deposits of three months or less	107.4	107.2	-	-
	120.6	120.2	8.8	9.3

For current accounts, $6.4 million (2014 – $4.7 million) of Group, and $5.6 million (2014 – $2.8 million) of Company current accounts were placed with group undertakings. For short term deposits $1.4 million (2014 – $1.4 million) of Group short term deposits were placed with group undertakings.

Notes to the financial statements

at 31 December 2015

11. Trading securities

	Listed on London Stock Exchange US$m	*Listed on non UK Exchanges US$m*	*Not Listed US$m*	*Total US$m*
Fair value as at 31 December 2015				
Group				
Floating rate notes	41.5	144.0	-	185.5
U.S. treasury securities	-	-	311.9	311.9
Foreign government securities	-	8.2	-	8.2
Corporate bonds	36.2	276.0	15.2	327.4
Total	77.7	428.2	327.1	833.0
Company				
Floating rate notes	41.4	83.5	-	124.9
U.S. treasury securities	-	-	261.9	261.9
Foreign government securities	-	8.2	-	8.2
Corporate bonds	36.2	276.0	15.2	327.4
Total	77.6	367.7	277.1	722.4

Fair value as at 31 December 2014	*US$m (restated)*	*US$m (restated)*	*US$m (restated)*	*US$m (restated)*
Group				
Floating rate notes	45.8	144.3	-	190.1
U.S. treasury securities	-	50.8	151.3	202.1
Foreign government securities	-	1.5	-	1.5
Corporate bonds	12.1	153.9	26.3	192.3
Equity securities	-	14.9	-	14.9
Total	57.9	365.4	177.6	600.9
Company				
Floating rate notes	45.8	82.3	-	128.1
U.S. treasury securities	-	0.7	151.3	152.0
Foreign government securities	-	1.5	-	1.5
Corporate bonds	12.1	153.9	26.3	192.3
Equity securities	-	14.9	-	14.9
Total	57.9	253.3	177.6	488.8

During the financial year the group changed its accounting policy as described in the accounting policy note on page 21, from trade date to settlement date accounting. As a result the 2014 comparatives have been restated for trading securities which have increased by US$43.1m.

Notes to the financial statements

at 31 December 2015

12. Derivative assets and liabilities

As required by IFRS 7, and IAS 32, the Company discloses derivative assets and liabilities gross by counterparty because there is no intention to settle net.

	2015 *US$m*	*2014* *US$m*
Group		
Amounts due from fellow group undertakings	3,558.5	2,272.7
Amounts due from external counterparties	2,177.4	2,269.7
Derivative Reserves	(64.7)	(21.5)
Derivative assets	5,671.2	4,520.9
Amounts due to fellow group undertakings	4,998.1	3,851.2
Amounts due to external counterparties	740.0	650.5
Derivative Reserves	(29.4)	(22.0)
Derivative liabilities	5,708.7	4,479.7
Company		
Amounts due from fellow subsidiary undertakings	3,541.4	2,250.2
Amounts due from external counterparties	2,166.8	2,253.7
Derivative Reserves	(64.4)	(21.3)
Derivative assets	5,643.8	4,482.6
Amounts due to fellow subsidiary undertakings	4,987.5	3,835.0
Amounts due to external counterparties	723.2	628.2
Derivative Reserves	(27.7)	(20.2)
Derivative liabilities	5,683.0	4,443.0

In line with the requirements of IFRS 13 the Group booked a Debit Value Adjustment ("DVA"), Credit Value Adjustment ("CVA") and Funding Value Adjustment ("FVA") when calculating the fair value of its derivatives. The FVA is a new accounting reserve and was calculated for the entire portfolio for the first time during the current year. These are all classified as derivatives reserves.

Notes to the financial statements

at 31 December 2015

12. Derivative assets and liabilities (continued)

At 31 December 2015 and 31 December 2014 the total notional principal amount related to derivative assets and liabilities, excluding equal and offsetting transactions with CM INC consisted of:

	Notional principal		Maturity range	
	2015	*2014*	*2015*	*2014*
Type	*US$m*	*US$m*	*Years*	*Years*
Group				
Interest rate and currency swaps	33,085.4	17,988.5	0-24	0-30
Options	3,379.6	11,616.3	0-4	0-23
Forward contracts	88.2	90.6	0-1	0-1
Credit default swaps	-	502.4	N/A	0-21
Commodity swaps	209.6	405.8	0-3	0-3
Third party	36,762.8	30,603.6		
Company				
Interest rate and currency swaps	27,017.1	17,820.8	0-24	0-30
Options	3,379.6	4,925.9	0-4	0-12
Forward contracts	88.2	90.6	0-1	0-1
Credit default swaps	-	502.4	N/A	0-21
Commodity swaps	209.6	405.8	0-3	0-3
Third party	30,694.5	23,745.5		

Total notional amount of transactions with group undertakings were: Group US$159,764.4 million (2014 – $92,915.6 million) and Company US$153,688.1 million (2014 – $ 86,049.1 million)

Although the notional principal amounts identified above may be indicative of the significance of the Group's trading activities in these financial instruments, they do not represent the amounts exchanged by the parties to derivative transactions and do not measure the exposure to credit or market risks. The amounts exchanged are based on the notional amounts and other terms of the derivative instrument agreements.

The following paragraphs provide additional information on interest rate, foreign exchange, commodity, credit and equity index derivatives contracts:

Interest rate contracts

Interest rate swaps are one of the primary derivative instruments used by the Group. The two parties to an interest rate swap agree to exchange, at particular intervals, payment streams calculated on a specified notional amount with at least one stream based on a floating interest rate. Basis swaps involve two floating rates, such as prime and LIBOR.

Forward rate agreements are settled in cash at a specified future date based on the differential between agreed upon interest rates and an index applied to a notional amount.

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

Notes to the financial statements

at 31 December 2015

12. Derivative assets and liabilities (continued)

Currency swaps and foreign exchange contracts

The Group is involved in a variety of currency swaps and foreign exchange contracts in its trading activities. The parties to a currency swap generally agree to the exchange of principal amounts and interest in two currencies, agreeing to re-exchange the principal amounts at a future date and agreed upon exchange rate. These currency swaps relate to major foreign currencies such as Yen, Canadian dollars, Sterling and Euros.

Credit derivatives

The Group undertakes credit derivative transactions. These transactions involve the purchase or sale of credit protection on an underlying reference asset, a basket of fixed income securities or collateralised commercial mortgage backed securities. The value of these transactions is based upon prices quoted by dealers that are in turn calculated with reference to underlying interest rates and credit ratings or, where the underlying reference credit is a single name, the value is calculated by a model where all significant inputs are observable. These transactions have agreed upon credit default criteria.

Commodity derivatives

The Group has undertaken a series of commodity index swaps and options whereby it receives a fixed rate per contract and guarantees to deliver the average index price to the counterparty or, alternatively, where it guarantees a fixed payment in return for the floating average index price from the counterparty. All counterparty positions are fully hedged with a market maker.

Equity index derivatives

The Group has undertaken a number of equity index option transactions. These transactions involve the payment or receipt of amounts which are determined by reference to the movement in an equity index.

As of 31 December 2015 for most of the Group's interest rate and currency swaps, and interest rate and currency options, back to back transactions were made with CM INC. For credit, commodity and equity and other index trades back to back transactions were made with other market counterparties. The Group continued to enter into interest rate, currency, commodity and inflation-linked derivative intermediation trades. No further credit and equity derivative intermediations or single-name credit default swaps were booked in the year. A gain of $139.0 million before CVA, DVA and FVA adjustments, was recognised on the derivative trading portfolio in 2015 and was disclosed in the net trading profit (2014 – $135.5 million). The fair value of these trades was determined using valuation techniques with significantly observable valuation inputs or internally generated models.

Note 18 describes the risks associated with the uses of derivative products.

Notes to the financial statements

at 31 December 2015

13. Due from clients

	Group *2015* *US$m*	*2014* *US$m* *(restated)*	*Company* *2015* *US$m*	*2014* *US$m* *(restated)*
Amount due from non-group undertakings	2.7	2.0	2.6	2.0
	2.7	2.0	2.6	2.0

During the financial year the Group changed its accounting policy as described in the accounting policy note on page 21, from trade date to settlement date accounting. The amounts due from Group undertaking relate to fees receivable.

14. Other debtors

	Group *2015* *US$m*	*2014* *US$m* *(restated)*	*Company* *2015* *US$m*	*2014* *US$m* *(restated)*
Accrued interest income	0.4	1.7	0.4	1.5
Other debtors due from group undertakings	1,864.2	2,372.7	1,863.6	2,372.7
Other debtors due from non-group undertakings	353.3	305.8	353.1	305.6
Prepayments	2.3	1.8	2.2	1.6
Corporation tax	16.7	11.1	16.5	10.7
	2,236.9	2,693.1	2,235.8	2,692.1

Pursuant to the terms of each Collateral Support Agreement ('CSA'), the Group and the Company has placed cash collateral of $326.5 million (2014 – $291.0 million) with non-group counterparties, and $1,854.6 million (2014 - $2,359.7 million) with group undertakings. Collateral is transferred with full re-hypothecation rights.

The Group has restated the 2014 comparatives for 'Other debtors due from group undertakings' to 'Amounts due to fellow group undertakings'. The reduction of $600m reflects netting agreements held with CM Inc. This is a similar reduction in 'Amounts due to fellow group undertakings' in Note 16.

Notes to the financial statements

at 31 December 2015

15. Property, plant and equipment

The year-end position of the Group and the Company comprised the following classes of assets:

	Leasehold Improvements US$m	*Personal Computers US$m*	*Furniture &Fixtures US$m*	*Total US$m*
Group				
Cost				
Balance at 1 January 2014	20.9	4.2	0.2	25.3
Additions	0.2	0.9	0.1	1.2
Balance at 31 December 2014	21.1	5.1	0.3	26.5
Balance at 1 January 2015	21.1	5.1	0.3	26.5
Additions	0.8	0.7	-	1.5
Balance at 31 December 2015	21.9	5.8	0.3	28.0
Accumulated depreciation and impairment losses				
Balance at 1 January 2014	4.5	2.9	0.0	7.4
Depreciation for the year	2.2	1.2	0.1	3.5
Balance at 31 December 2014	6.7	4.1	0.1	10.9
Balance at 1 January 2015	6.7	4.1	0.1	10.9
Depreciation for the year	2.7	0.5	0.1	3.3
Balance at 31 December 2015	9.4	4.6	0.2	14.2
Carrying amounts				
Balance at 31 December 2014	14.4	1.0	0.2	15.6
Balance at 31 December 2015	12.5	1.2	0.1	13.8

Notes to the financial statements

at 31 December 2015

15. Property, plant and equipment (continued)

	Leasehold Improvements US$m	*Personal Computers US$m*	*Furniture &Fixtures US$m*	*Total US$m*
Company				
Cost				
Balance at 1 January 2014	20.9	4.1	0.3	25.3
Additions	0.2	0.9	0.0	1.1
Balance at 31 December 2014	21.1	5.0	0.3	26.4
Balance at 1 January 2015	21.1	5.0	0.3	26.4
Additions	0.8	0.8	-	1.6
Balance at 31 December 2015	21.9	5.8	0.3	28.0
Accumulated depreciation and impairment losses				
Balance at 1 January 2014	4.6	2.9	0.0	7.5
Depreciation for the year	2.1	1.2	0.1	3.4
Balance at 31 December 2014	6.7	4.1	0.1	10.9
Balance at 1 January 2015	6.7	4.1	0.1	10.9
Depreciation for the year	2.7	0.5	0.1	3.3
Balance at 31 December 2015	9.4	4.6	0.2	14.2
Carrying amounts				
Balance at 31 December 2014	14.4	0.9	0.2	15.5
Balance at 31 December 2015	12.5	1.2	0.1	13.8

Notes to the financial statements

at 31 December 2015

16. Other creditors

	Group *2015* *US$m*	*2014* *US$m* *(restated)*	*Company* *2015* *US$m*	*2014* *US$m* *(restated)*
Amounts due to fellow group undertakings	1,370.5	2,188.5	1,369.5	2,188.3
Corporation tax	5.7	-	6.0	-
Other creditors and accruals	190.3	244.5	189.0	242.3
	1,566.5	2,433.0	1,564.5	2,430.6

Pursuant to the terms of each CSA the Group and Company have received cash collateral from non-group counterparties of $ 158.7 million (2014 – $141.9 million), and group undertakings of $ 1,100.0 million (2014 - $1,800.3 million). Collateral is transferred with full re-hypothecation rights.

The Group has restated the 2014 comparatives for 'Other debtors due from group undertakings' to 'Amounts due to fellow group undertakings'. The reduction of $600m reflects netting agreements held with CM Inc. This is a similar reduction in 'Other debtors due from group undertakings' in Note 14.

17. Subordinated debt

	Group and Company *2015* *US$m*	*Group and Company* *2014* *US$m*
Not wholly repayable within five years:		
Subordinated loans from fellow group undertaking	-	150.0

At 31 December 2015, amounts advanced by CM INC under a long term subordinated loan facility were fully repaid.

18. Risk management

Strategy in using financial instruments

The principal activities of the Group include customer facilitation, brokering and trading in primary and secondary debt and equity securities and an extensive range of over-the-counter derivative contracts.

The Group and the Company have no market risk limits for their derivative business which is undertaken on either an agency basis or a back-to-back basis where the market risk arising from customer trades is hedged either with CM INC, or a market counterparty.

The Group's business model is subject to a number of risks which are specific to the Group and generic to the sector.

Cash flow and fair value interest rate risk

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

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk

A detailed analysis of the Group's and Company's credit exposure on cash at banks by financial institution is as follows:

	Group		*Company*	
	2015	*2014*	*2015*	*2014*
S&P rating	*US$m*	*US$m*	*US$m*	*US$m*
A-1+	2.1	106.1	2.1	0.3
A-1	118.5	14.1	6.7	9.0
	120.6	120.2	8.8	9.3

	Group		*Company*	
	2015	*2014*	*2015*	*2014*
Moody's rating	*US$m*	*US$m*	*US$m*	*US$m*
P-1	118.5	120.2	6.7	9.3
Not Rated	2.1	-	2.1	-
	120.6	120.2	8.8	9.3

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk (continued)

A detailed analysis of the Group and Company's credit exposure on Trading Securities by issuer is as follows:

	Group		*Company*	
	2015	*2014*	*2015*	*2014*
S&P rating	*US$m*	*US$m*	*US$m*	*US$m*
AAA	37.8	76.6	37.8	51.6
AA+	205.4	216.5	155.4	166.4
AA	-	-	-	-
AA-	33.6	80.1	5.6	63.1
A+	71.5	70.4	71.5	60.4
A	122.3	32.3	99.7	32.3
A-	22.3	80.4	22.3	70.4
BBB+	79.8	14.6	69.8	14.6
BBB	12.1	-	12.1	-
BBB-	44.0	24.3	44.0	24.3
Not rated	204.2	5.7	204.2	5.7
	833.0	600.9	722.4	488.8

	Group		*Company*	
	2015	*2014*	*2015*	*2014*
Moody's rating	*US$m*	*US$m*	*US$m*	*US$m*
Aaa	246.9	290.9	196.8	215.9
Aa1	10.4	8.8	10.4	8.8
Aa2	32.6	33.2	4.6	16.1
Aa3	3.6	6.9	3.6	6.9
A1	173.8	62.5	151.2	62.5
A2	20.1	24.8	20.1	14.8
A3	36.7	6.9	36.7	6.9
Baa1	81.6	29.2	71.6	29.2
Baa2	28.7	47.6	28.7	37.6
Baa3	5.6	-	5.6	-
Ba1	1.4	-	1.4	-
Not rated	191.6	90.1	191.7	90.1
	833.0	600.9	722.4	488.8

The Group is exposed to credit risk associated with the execution of derivative transactions with CM INC and other counterparties. The notional or contractual values of agreements do not represent exposure to credit risk, which is limited to the current cost of replacing those contracts in a gain position.

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk (continued)

The Group's credit exposure arises from the risk of non-performance of its counterparties in fulfilling their contractual obligations pursuant to its derivative transactions. The risk of non-performance can be directly impacted by volatile or illiquid trading markets, which may impair the counterparties' abilities to satisfy their obligations. As of 31 December 2015, cash collateral of $500 million (2014 – $1,200.0 million), $400 million (2014 – $500.0 million), and $200.0 million (2014 - $100.0 million) was pledged to the Group by SMBC NY Branch, SMBC Cayman Branch, SMBC Tokyo Branch respectively. Cash collateral of $158.7 million (2014 – $141.9 million) was pledged by unaffiliated counterparties. All collateral balances are in relation to derivatives exposures.

A detailed analysis of the Group's and Company's credit exposures to external counterparties in derivative trades by gross replacement cost excluding CVA, DVA and FVA is as follows:

Group

S&P Rating	*Gross replacement cost* 2015 US$m	2014 US$m
AAA	181.0	249.3
AA+	0.5	3.8
AA-	84.1	84.4
A+	44.3	20.3
A	164.4	163.5
A-	137.9	88.9
BBB+	43.5	-
BBB	46.8	59.1
BBB-	7.6	-
BB-	3.7	5.0
Unrated	1,463.6	1,595.4
	2,177.4	2,269.7

Moody's Rating	*Gross replacement cost* 2015 US$m	2014 US$m
Aaa	181.0	249.3
Aa1	0.5	3.8
Aa2	37.2	15.7
Aa3	56.2	58.7
A1	108.1	19.7
A2	58.0	129.3
A3	142.3	62.2
Baa1	17.3	26.3
Baa2	7.1	37.2
Baa3	-	23.0
Ba1	19.5	-
Ba2	-	-
Ba3	6.7	-
B2	3.7	-
Caa1	0	5.0
Unrated	1,539.8	1,639.5
	2,177.4	2,269.7

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk (continued)

Company

	S&P Rating Gross replacement cost 2015 US$m	2014 US$m		*Moody's Rating* Gross replacement cost 2015 US$m	2014 US$m
AAA	181.0	249.3	Aaa	181.0	249.3
AA-	84.1	84.4	Aa2	37.2	15.7
A+	44.3	20.3	Aa3	56.2	58.7
A	164.4	158.1	A1	104.7	13.2
A-	137.9	88.6	A2	58.0	129.3
BBB+	43.5	-	A3	142.3	56.6
BBB	46.8	59.1	Baa1	17.3	26.3
BBB-	0.9	-	Baa2	7.1	37.2
BB-	3.7	5.0	Baa3	-	23.0
Unrated	1,460.2	1,588.9	Ba1	19.5	-
			Ba2	-	-
	2,166.8	2,253.7	B2	3.7	-
			Caa1	-	5.0
			Unrated	1,539.8	1,639.4
				2,166.8	2,253.7

Analysis of credit exposure to external derivative counterparties by maturity

Group

	Gross replacement cost 2015 US$m	2014 US$m	*Notional Principal* 2015 US$m	2014 US$m
Term to maturity				
Up to 5 years	781.2	511.2	26,926.6	16,814.8
Greater than 5 years	1,396.2	1,758.5	9,836.1	13,788.9
	2,177.4	2,269.7	36,762.7	30,603.7

Company

	Gross replacement cost 2015 US$m	2014 US$m	*Notional Principal* 2015 US$m	2014 US$m
Term to maturity				
Up to 5 years	773.9	505.8	21,019.9	10,214.1
Greater than 5 years	1,392.9	1,747.9	9,674.6	13,531.4
	2,166.8	2,253.7	30,694.5	23,745.5

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk (continued)

The maximum maturity of exposures rated BBB+ or lower by S&P is 25 years (2014 – 29 years). The maximum maturity of exposures rated Baa3 or lower by Moody's is 19 years (2014 – 29 years).

Gross replacement cost credit exposure to SMBC related parties is Group: $3,558.5 million (2014 - $2,272.7 million), and Company: $3,541.4 million (2014 - $2,250.2 million)

Credit risk represents the potential losses that the Group would incur if a counterparty failed to perform its obligations under contractual terms and the collateral held was deemed worthless.

Management determines concentrations of counterparty credit risk in accordance with Bank for International Settlements guidance ('BIS Rules'). Management does not believe that the Group is exposed to significant concentrations of risk identified by such factors as geographical area, currency or product. Other trading assets include an exposure to an external counterparty whose credit rating is BBB as at 31 December 2015. The exposure as at 31 December 2015 is $9.5 million (2014 – $11.1 million).

Offsetting financial assets and financial liabilities

The disclosure set out in the following tables include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

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

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk (continued)

Amount related to recognised financial assets and liabilities that do not meet the offsetting criteria (incl. non-cash collateral).

	Amount of recognised financial assets *US$m*	*Amount related to recognised financial liabilities that do not meet the offsetting criteria (incl. non-cash collateral)* *US$m*	*Cash collateral* *US$m*	*Net amount* *US$m*
At 31 December 2015				
Group				
Derivative assets	5,671.2	(4,149.0)	(1,258.7)	263.5
Reverse repurchase agreement	3,763.0	(3,720.7)	(0.3)	42.0
	9,434.2	(7,869.7)	(1,259.0)	305.5
Group				
Derivative liabilities	5,708.7	(3,318.7)	(2,181.1)	208.9
Repurchase agreement	3,492.3	(3,456.8)	(22.7)	12.8
	9,201.0	(6,775.5)	(2,203.8)	221.7
Company				
Derivative assets	5,643.8	(4,133.5)	(1,258.7)	251.6
Reverse repurchase agreement	3,763.0	(3,720.7)	(0.3)	42.0
	9,406.8	(7,854.2)	(1,259.0)	293.6
Company				
Derivative liabilities	5,683.0	(3,303.2)	(2,181.1)	198.7
Repurchase agreement	3,492.3	(3,456.8)	(22.7)	12.8
	9,175.3	(6,760.0)	(2,203.8)	211.5

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Credit risk (continued)

	Amount of recognised financial assets US$m	*Amount related to recognised financial liabilities that do not meet the offsetting criteria (incl. non-cash collateral) US$m*	*Cash collateral US$m*	*Net amount US$m*
At 31 December 2014				
Group				
Derivative assets	4,520.9	(1,808.1)	(1,941.9)	770.9
Reverse repurchase agreement	2,129.4	(2,098.2)	-	31.2
	6,650.3	(3,906.3)	(1,941.9)	802.1
Group				
Derivative liabilities	4,479.7	(1,808.1)	(2,650.6)	21.0
Repurchase agreement	2,011.7	(1,978.2)	-	33.5
	6,491.4	(3,786.3)	(2,650.6)	54.5
Company				
Derivative assets	4,482.6	(1,785.6)	(1,941.9)	755.1
Reverse repurchase agreement	2,129.4	(2,098.2)	-	31.2
	6,612.0	(3,883.8)	(1,941.9)	786.3
Company				
Derivative liabilities	4,443.0	(1,785.6)	(2,650.6)	6.8
Repurchase agreement	2,011.7	(1,978.2)	-	33.5
	6,454.7	(3,763.8)	(2,650.6)	40.3

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Market risk

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

The Group and the Company have no market risk limits for their derivative business which is undertaken on either an agency basis or a back-to-back basis where the market risk arising from customer trades is hedged either with CM INC, or a market counterparty. Market risk arises in both the primary and the secondary securities business. It is mitigated through the monitoring and enforcing position limits with short unwind periods. Businesses that are subject to market risk limits have these approved annually by the board and these are set out in an official risk appetite statement.

The Group invests its capital in cash deposits, treasury bills, and a portfolio of high quality floating rate notes; through the latter it seeks to earn an interest margin and, when the opportunity arises, to realise a trading profit. In addition, the Group places cash collateral with derivative trading counterparts, upon which it earns overnight interest. The Group has interest-bearing liabilities of cash collateral held on behalf of derivative trading counterparts and inter-group borrowings.

The weighted average yield on the cash deposits was 0.11% as of 31 December 2015 (2014: 0.14%). The weighted average yields as of 31 December 2015 on floating rate notes and U.S. treasury securities were 0.67% and 0.04% (2014: 0.90% and 0.12%) respectively. The Group's sensitivity to interest rates is such that a parallel shift of +/-100bp from year end rates would increase net assets by $21.7 million (2014 – $11.0 million) and decrease net assets by $20.6 million (2014 – $3.4 million) respectively.

Fair value hierarchy

When available, the Group uses quoted market prices to determine fair value, and classifies such items within Level 1. Trading securities are classified in Level 1 of the fair value hierarchy since they are valued using quoted market prices.

In some cases where no market price is available the Group will make use of acceptable practical expedients such as matrix pricing to calculate fair value, in which case the items are classified within Level 2.

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

The majority of derivative transactions entered into by the Group are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying reference instrument. The principal techniques used to value these instruments are discounted cash flows, Black-Scholes, and Monte Carlo simulation.

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, exchange rates, the spot price of the underlying, and volatility. A given position is categorised as Level 2 or Level 3 depending on the observability of the significant inputs to the model. Where a valuation incorporates material inputs that are not based on observable market data it will be classified as level 3. Unobservable inputs are determined with reference to observable inputs, historical observations (of, for example, correlations) or the use of other analytical techniques.

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Fair value hierarchy (continued)

The following table presents the fair value hierarchy of financial assets and liabilities as at 31 December 2015:

Group and Company

	Level 1 US$m	*Level 2 US$m*	*Level 3 US$m*	*Total US$m*
At 31 December 2015				
Assets - Group				
Derivative financial instruments net at fair value	-	5,578.6	92.6	5,671.2
Trading securities owned, net at fair value	833.0	-	-	833.0
Trading assets	-	19.1	-	19.1
	833.0	5,597.7	92.6	6,523.3
Liabilities - Group				
Derivative financial instruments net at fair value	-	5,708.7	-	5,708.7
Trading liabilities	-	102.7	-	102.7
Trading securities sold, not yet purchased	242.0	-	-	242.0
	242.0	5,811.4	-	6,053.4
Assets - Company				
Derivative financial instruments net at fair value	-	5,551.2	92.6	5,643.8
Trading securities owned, net at fair value	722.4	-	-	722.4
Trading assets	-	19.1	-	19.1
	722.4	5,570.3	92.6	6,385.3
Liabilities - Company				
Derivative financial instruments net at fair value	-	5,683.0	-	5,683.0
Trading liabilities	-	102.7	-	102.7
Trading securities sold, not yet purchased	242.0	-	-	242.0
	242.0	5,785.7	-	6,027.7

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Fair value hierarchy (continued)

The following table presents the fair value hierarchy of financial assets and liabilities as at 31 December 2014:

	Level 1 US$m (restated)	*Level 2 US$m (restated)*	*Level 3 US$m (restated)*	*Total US$m (restated)*
At 31 December 2014				
Assets - Group				
Derivative financial instruments net at fair value	-	4,427.0	93.9	4,520.9
Trading securities owned, net at fair value	600.9	-	-	600.9
Trading assets	-	23.9	-	23.9
	600.9	4,450.9	93.9	5,145.7
Liabilities - Group				
Derivative financial instruments net at fair value	-	4,479.6	0.1	4,479.7
Trading liabilities	-	79.4	-	79.4
Trading securities sold, not yet purchased	118.6	-	-	118.6
	118.6	4,559.0	0.1	4,677.7
Assets - Company				
Derivative financial instruments net at fair value	-	4,388.7	93.9	4,482.6
Trading securities owned, net at fair value	488.8	-	-	488.8
Trading assets	-	23.9	-	23.9
	488.8	4,412.6	93.9	4,995.3
Liabilities - Company				
Derivative financial instruments net at fair value	-	4,442.9	0.1	4,443.0
Trading liabilities	-	79.4	-	79.4
Trading securities sold, not yet purchased	118.6	-	-	118.6
	118.6	4,522.3	0.1	4,641.0

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Fair value hierarchy (continued)

Transfers between levels are effective as at the end of the reporting period in which they occur. The following table provides a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended 31 December 2015 and 31 December 2014.

	January 1, 2015	*Transfer into level 3*	*Purchases, issuances, and settlements*	*Realized losses*	*Unrealized losses*	*December 31, 2015*
	US$m	*US$m*	*US$m*	*US$m*	*US$m*	*US$m*
Assets:						
Credit derivative	0.1	-	-	(0.1)	-	-
Interest rate swap	93.8	-	-	-	(1.2)	92.6
Total assets at fair value	93.9	-	-	(0.1)	(1.2)	92.6
Liabilities:						
Credit derivative	0.1	-	-	(0.1)	-	-
Total liabilities at fair value	0.1	-	-	(0.1)	-	-

	January 1, 2014	*Transfer into level 3*	*Purchases, issuances, and settlements*	*Realized gain*	*Unrealized gain/(losses)*	*December 31, 2014*
	US$m	*US$m*	*US$m*	*US$m*	*US$m*	*US$m*
Assets:						
Credit derivative	5.0	-	-	0.1	(5.0)	0.1
Interest rate swap	64.5	-	-	17.4	11.9	93.8
Total assets at fair value	69.5	-	-	17.5	6.9	93.9
Liabilities:						
Credit derivative	5.0	-	-	-	(4.9)	0.1
Total liabilities at fair value	5.0	-	-	-	(4.9)	0.1

The table below presents the information of significant unobservable inputs used to value the Group's level 3 financial instruments. These financial instruments are valued using information from third-party pricing sources without adjustment. The valuation techniques and inputs utilised by these third-party pricing sources are assessed by the Group using internal models to evaluate the significance of quantitative unobservable inputs inherent within these instrument's fair value.

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Fair value hierarchy (continued)

The sensitivity of the fair value measurement to changes in these unobservable inputs are considered significant if a change in those inputs to a different amount could result in a significantly higher or lower fair value measurement. The Group's assessment of unobservable inputs that are significant to the fair value measurement are disclosed in the table below.

The following table provides information about significant unobservable inputs for Level 3 fair value measurements:

Level 3 Financial Instruments as of December 31, 2015 and December 31, 2014

Instrument	Valuation techniques	Unobservable inputs
Credit derivatives	• Internal credit derivative model • Dealer marks	• Recovery rates • Correlations between credit spreads
Interest rate swap	• Internal swaption model • Dealer marks	• Liquidity premium

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

Liquidity risk

Liquidity risk is the possibility that the Group may not be able to adjust rapidly the size of its trading portfolio in times of high volatility and financial stress at a reasonable cost. The Group and the Company have no unfunded forward commitments in the one year forward period.

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Maturity of financial liabilities

As at 31 December 2015	*Carrying amount*	*0-1 year*	*1-5 years*	*More than 5 years*
Group				
Non-derivative financial liabilities				
Trading liabilities, at fair value	102.7	0.1	1.0	101.6
Trading securities sold, not yet purchased	242.0	242.0	-	-
Securities sold under agreement to repurchase	3,492.3	3,492.3	-	-
Other creditors	1,566.5	1,566.5	-	-
Derivative financial liabilities				
Derivative Liabilities (excluding reserves and guarantee liabilities)	5,661.0	391.7	1,977.2	3,292.1
Company				
Non-derivative financial liabilities				
Trading liabilities, at fair value	102.7	0.1	1.0	101.6
Trading securities sold, not yet purchased	242.0	242.0	-	-
Securities sold under agreement to repurchase	3,492.3	3,492.3	-	-
Other creditors	1,564.5	1,564.5	-	-
Derivative financial liabilities				
Derivative Liabilities (excluding reserves and guarantee liabilities)	5,633.6	384.9	1,969.2	3,279.5

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Maturity of financial liabilities (continued)

As at 31 December 2014	*Carrying amount*	*0-1 year*	*1-5 years*	*More than 5 years*
Group				
Non-derivative financial liabilities				
Trading liabilities, at fair value	79.4	-	0.3	79.1
Trading securities sold, not yet purchased	118.6	118.6	-	-
Securities sold under agreement to repurchase	2,011.7	2,011.7	-	-
Other creditors	2,433.0	2,433.0	-	-
Derivative financial liabilities				
Derivative Liabilities (excluding reserves and guarantee liabilities)	4,489.7	203.0	1,238.8	3,047.9
Company				
Non-derivative financial liabilities				
Trading liabilities, at fair value	79.4	-	0.3	79.1
Trading securities sold, not yet purchased	118.6	118.6	-	-
Securities sold under agreement to repurchase	2,011.7	2,011.7	-	-
Other creditors	2,430.6	2,430.6	-	-
Derivative financial liabilities				
Derivative Liabilities (excluding reserves and guarantee liabilities)	4,451.2	195.4	1,223.7	3,032.1

Notes to the financial statements

at 31 December 2015

18. Risk management (continued)

Foreign currency risk

The Group economically hedges its significant foreign exchange exposures including its GBP tax position. The foreign exchange risk is transferred to its affiliate CM INC who transacts to fix the exchange rate at the time the liability is incurred. CM INC bears and manages the risk.

Operational risk

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

The primary objective of the Group's and the Company's operational risk management framework is to minimise the occurrence and impact of operational risk events, in particular avoiding extreme events, in order to support the Group's achievement of its strategic objectives.

Operational Risk encompasses areas such as transaction operations, premises and security, external suppliers, payment processes and information, data quality and records management. In accordance with market practice the Group also recognises the importance of ramifications of the way in which the Group operates its business, which might potentially lead to conduct risk failures. Consequences could be regulatory actions including fines, public reprimands, damage to reputation, increased prudential requirements, enforced temporary or permanent suspension of operations and, in extreme cases, withdrawal of authorisation to operate.

The Group has a number of operational risk management specific processes in place, including use of KRIs. The Group recognises the benefits of using scenario analysis to assess and manage the exposure to high severity, low frequency events in order to determine the nature of operational risk losses which could potentially arise in the future.

Notes to the financial statements

at 31 December 2015

19. Classification of financial assets and financial liabilities

Group

As at 31 December 2015	*Designated at fair value*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities*	*Total*
	US$m	*US$m*	*US$m*	*US$m*	*US$m*
Financial assets measured at fair value					
Trading securities	833.0	-	-	-	833.0
Derivative assets	5,671.2	-	-	-	5,671.2
Other trading assets, at fair value	19.1	-	-	-	19.1
	6,523.3	-	-	-	6,523.3
Financial assets not measured at fair value					
Cash at banks	-	120.6	-	-	120.6
Securities purchased under agreements to resell	-	3,763.0	-	-	3,763.0
Due from clients	-	2.7	-	-	2.7
Other debtors	-	2,236.9	-	-	2,236.9
	-	6,123.2	-	-	6,123.2
Financial liabilities measured at fair value					
Derivative liabilities	5,708.7	-	-	-	5,708.7
Trading liabilities, at fair value	102.7	-	-	-	102.7
Trading securities sold, not yet purchased	242.0	-	-	-	242.0
	6,053.4	-	-	-	6,053.4
Financial liabilities not measured at fair value					
Securities sold under agreements to repurchase	-	-	-	3,492.3	3,492.3
Other creditors	-	-	-	1,566.5	1,566.5
	-	-	-	5,058.8	5,058.8

Notes to the financial statements

at 31 December 2015

19. Classification of financial assets and financial liabilities (continued)

Company

As at 31 December 2015	*Designated at fair value*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities*	*Total*
	US$m	*US$m*	*US$m*	*US$m*	*US$m*
Financial assets measured at fair value					
Trading securities	722.4	-	-	-	722.4
Derivative assets	5,643.8	-	-	-	5,643.8
Other trading assets, at fair value	19.1	-	-	-	19.1
	6,385.3	-	-	-	6,385.3
Financial assets not measured at fair value					
Cash at banks	-	8.8	-	-	8.8
Securities purchased under agreements to resell	-	3,763.0	-	-	3,763.0
Due from clients	-	2.6	-	-	2.6
Other debtors	-	2,235.8	-	-	2,235.8
	-	6,010.2	-	-	6,010.2
Financial liabilities measured at fair value					
Derivative liabilities	5,683.0	-	-	-	5,683.0
Trading liabilities, at fair value	102.7	-	-	-	102.7
Trading securities sold, not yet purchased	242.0	-	-	-	242.0
	6,027.7	-	-	-	6,027.7
Financial liabilities not measured at fair value					
Securities sold under agreements to repurchase	-	-	-	3,492.3	3,492.3
Other creditors	-	-	-	1,564.5	1,564.5
	-	-	-	5,056.8	5,056.8

Notes to the financial statements

at 31 December 2015

19. Classification of financial assets and financial liabilities (continued)

Group

As at 31 December 2014	*Designated at fair value*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities*	*Total*
	US$m	*US$m*	*US$m*	*US$m*	*US$m*
Financial assets measured at fair value					
Trading securities	600.9	-	-	-	600.9
Derivative assets	4,520.9	-	-	-	4,520.9
Other trading assets, at fair value	23.9	-	-	-	23.9
	5,145.7	-	-	-	5,145.7
Financial assets not measured at fair value					
Cash at banks	-	120.2	-	-	120.2
Securities purchased under agreements to resell	-	2,129.4	-	-	2,129.4
Due from clients	-	2.0	-	-	2.0
Other debtors	-	2,693.1	-	-	2,693.1
	-	4,944.7	-	-	4,944.7
Financial liabilities measured at fair value					
Derivative liabilities	4,479.7	-	-	-	4,479.7
Trading liabilities, at fair value	79.4	-	-	-	79.4
Trading securities sold, not yet purchased	118.6	-	-	-	118.6
	4,677.7	-	-	-	4,677.7
Financial liabilities not measured at fair value					
Securities sold under agreements to repurchase	-	-	-	2,011.7	2,011.7
Other creditors	-	-	-	2,433.0	2,433.0
Subordinated debt	-	-	-	150.0	150.0
	-	-	-	4,594.7	4,594.7

Notes to the financial statements

at 31 December 2015

19. Classification of financial assets and financial liabilities (continued)

Company

As at 31 December 2014	*Designated at fair value* *US$m*	*Loans and receivables* *US$m*	*Available-for-sale* *US$m*	*Other financial liabilities* *US$m*	*Total* *US$m*
Financial assets measured at fair value					
Trading securities	488.8	-	-	-	488.8
Derivative assets	4,482.6	-	-	-	4,482.6
Other trading assets, at fair value	23.9	-	-	-	23.9
	4,995.3	-	-	-	4,995.3
Financial assets not measured at fair value					
Cash at banks	-	9.3	-	-	9.3
Securities purchased under agreements to resell	-	2,129.4	-	-	2,129.4
Due from clients	-	2.0	-	-	2.0
Other debtors	-	2,692.1	-	-	2,692.1
	-	4,832.8	-	-	4,832.8
Financial liabilities measured at fair value					
Derivative liabilities	4,443.0	-	-	-	4,443.0
Trading liabilities, at fair value	79.4	-	-	-	79.4
Trading securities sold, not yet purchased	118.6	-	-	-	118.6
	4,641.0	-	-	-	4,641.0
Financial liabilities not measured at fair value					
Securities sold under agreements to repurchase	-	-	-	2,011.7	2,011.7
Other creditors	-	-	-	2,430.6	2,430.6
Subordinated debt	-	-	-	150.0	150.0
	-		-	4,592.3	4,592.3

Notes to the financial statements

at 31 December 2015

20. Issued share capital

	2015, Allotted, called up and fully paid 2015 US$m	*2014, Allotted, called up and fully paid 2014 US$m*
Ordinary shares of $1 each	944.0	404.0
Preference shares of $1 each	360.0	250.0
	1,304.0	654.0

On 11th June 2015 the Company issued a further 256,944,444 US$1.00 ordinary shares to its parent SMBC at a premium of $0.44 per share.

On 29th July 2015 the Company issued 118,055,555 US$1.00 ordinary shares at a premium of $0.44 per share and 110,000,000 US$1.00 perpetual, non-cumulative preference shares to an affiliate, SMBC Nikko Securities, Inc.

21. Obligations under operating leases

Annual commitments under non-cancellable operating leases are as follows:

Group

	Land and buildings 2015 US$m	*Other 2015 US$m*	*Land and buildings 2014 US$m*	*Other 2014 US$m*
Operating leases which expire:				
Within one year	5.2	0.1	5.8	0.1
Between one and five years	11.9	0.1	13.2	0.3
Over five years	0.7	-	3.7	-
	17.8	0.2	22.7	0.4

Notes to the financial statements

at 31 December 2015

22. Obligations under operating leases (continued)

Company

	Land and buildings 2015 US$m	*Other 2015 US$m*	*Land and buildings 2014 US$m*	*Other 2014 US$m*
Operating leases which expire:				
Within one year	4.3	0.1	4.5	0.1
Between one and five years	11.3	0.1	12.0	0.3
Over five years	0.7	-	3.7	-
	16.3	0.2	20.2	0.4

23. Capital [amounts in this note are unaudited]

The primary objective of the Group's and the Company's capital management is to ensure compliance with externally imposed capital requirements.

The Group's and the Company's regulatory capital comprises share capital and retained earnings (common equity tier 1 capital ("CET1")), perpetual non-cumulative preference shares (qualifying as additional tier 1 capital ("AT1")). On 24th June 2015 $150,000,000 of long term subordinated debt (qualifying as tier 2 capital) was repaid.

The Group has CET1 capital, after deductions, of $1,186.3 million (2014 - $831.4 million) and total capital of $1,546.3 million (2014 - $981.4 million). Its CET1 capital ratio, i.e. the comparison of total risk weighted assets against common equity tier 1 capital, is 32.1% (2014 – 40%). The Company has CET1 capital, after deductions, of $1,122.3 million (2014 - $608.3 million) and total capital of $1,439.6 million (2014 – $758.3 million). Its CET1 capital ratio is 29.8% (2014 – 31%).

The adequacy of the Company's capital is monitored daily using the rules and ratios established by the BIS rules and enacted through the European Union's Capital Requirement Regulation ("CRR").

The CRR, enacted to codify the Basel III Accord, was designed to promote safety and soundness in the European financial system. It requires regulated financial institutions to maintain appropriate levels of capital to cover the risks inherent in their business model. Basel III is a supervisory framework for risk and capital management and is structured on the basis of three pillars. Pillar 1 specifies minimum capital requirements.

Pillar 2 describes the supervisory review process and outlines the internal capital adequacy assessment process ('ICAAP') required by firms applying Pillar 1 methodologies. Pillar 3 requires disclosure of risk and capital information to the market. These disclosures can be found on the SMBC Capital Markets website.

Management believe that the Group and the Company have been in compliance with externally imposed capital requirements throughout the year.

In order to maintain or adjust the capital structure the Group and the Company may adjust its dividend policy or the structure and liquidity of its trading assets and liabilities. The Group and the Company manages capital so as to ensure that the solvency ratio does not fall below 130%.

Notes to the financial statements

at 31 December 2015

24. Country-by-Country Reporting

The table below shows that the majority of the Groups profits are generated in the United Kingdom, and therefore a higher amount of corporation tax is paid in the United Kingdom. The Group paid \$6.5 million of corporation tax and generated \$72.0 million in profit for 2015 making the global cash tax rate 9%. The cash tax rate is the corporation tax paid in 2015 divided by total profit before tax.

The basis of preparation is as follows:

Country: The geographical location of the Group considers the country of incorporation or residence as well as the relevant tax jurisdiction. In this context, the countries applicable will be:

- United Kingdom where the company is, a wholly owned subsidiary of SMBC Tokyo. The profit of the business is generated from trading securities and derivatives and business advisory activities
- Australia, the branch acts as an agent for the Company in the Australian market.
- Hong Kong, CM Asia acts as an agent and intermediary for the Company and its affiliated entities in Asian markets outside of Japan and in Australia

Turnover: The Group defines operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items:

- Net trading (loss) / gain
- Interest receivable on trading positions
- Interest payable

Profit before tax: As with turnover, the definition of profit or loss before tax is consistent with that in the Group's financial statements.

Corporation Tax Paid: The column discloses the cash amount of corporation tax paid in each country in 2015.

Public Subsidies Received: In the context of CBCR, this is interpreted as direct support by the government. There were no subsidies received by the Group in 2015.

Number of Employees: Employee numbers reported reflect the number of employees on a full time equivalent basis.

Accounting Framework: Amounts reported are based on local statutory financial statements, in accordance with applicable law and IFRS (International Financial Reporting Standards), unless another basis has been stated.

Notes to the financial statements
at 31 December 2015

24. Country-by-Country Reporting (continued)

Country-by-Country Disclosure 2015

Country	*Turnover*	*Profit/(Loss) before tax*	*Corporation tax paid*	*Public subsidies received*	*Average number of employees*
	US$m	*US$m*	*US$m*	*US$m*	
United Kingdom	206.9	72.0	6.5	-	202
Australia	0.4	(0.0)	0.0	-	2
Hong Kong	-	-	-	-	13
Global Total	207.3	72.0	6.5	-	217

Country-by-Country Disclosure 2014

Country	*Turnover*	*Profit/(Loss) before tax*	*Corporation tax paid*	*Public subsidies received*	*Average number of employees*
	US$m	*US$m*	*US$m*	*US$m*	
United Kingdom	235.9	122.9	31.7	-	164
Australia	1.0	0.2	0.2	-	2
Hong Kong	6.9	-	-	-	13
Global Total	243.8	123.1	31.9	-	179

Notes to the financial statements

at 31 December 2015

25. Related party transactions

	2015 *US$ m*	*2014* *US$ m*
SMBC – Parent		
Cash at banks	5.5	1.9
Net derivative assets	410.0	679.5
Cash collateral received	1,100.0	1,800.0
Accrued interest payable	0.2	0.1
Accrued expenses payable - credit service fee	0.4	0.1
Other liabilities	2.8	0.0
Guaranteed liabilities	354.8	367.5
Gain on derivative instruments	14.3	713.0
Interest expense	2.1	1.6
Fees and commissions paid	10.1	3.2
Other personnel expenses	-	0.1
SMBC Nikko Securities		
Securities purchased under resale agreements	3,490.1	2,012.0
Accrued income receivable	2.6	0.5
Other receivables - reimbursements	0.7	1.1
Net interest payable	-	0.3
Other payables - securities trading fees	1.9	1.6
Interest on securities under resale agreements	2.0	-
Fees and commission on securities trading	9.8	35.4
Reimbursements	2.1	1.2
Loss on derivative instruments	-	16.9
Expenses on securities trading	92.0	86.0
Other fees and commissions paid	3.7	6.2

Notes to the financial statements

at 31 December 2015

25. Related party transactions (continued)

	2015 *US$ m*	*2014* *US$ m*
SMBC Capital Markets Inc		
Collateral placed	1,854.2	2,359.7
Accrued interest receivable	0.8	10.0
Other assets - agency fees	1.0	0.9
Net derivative instrument liabilities	1,739.5	2,281.8
Funding loans	270.1	451.2
Trading instrument liabilities	76.9	56.6
Accrued expenses payable - guarantee fees / agency fees	5.9	15.1
Accrued interest payable	-	1.4
Subordinated debt	-	150.0
Creditors - Group relief / other	0.8	0.7
Interest income	5.4	3.1
Fees and commissions on agency trading	8.6	7.0
Other operating income - guarantee termination / intermediation fees	36.1	2.1
Gain on derivative instruments	68.3	-
Loss on derivative instruments	-	1,514.3
Interest expenses	2.7	2.8
Other fees and commissions paid	0.3	0.3
Other operating expenses	13.2	15.0
Trading securities pledged by CM Inc	25.0	3.0
SMBC Nikko Securities America Inc.		
Accrued income receivable	8.0	0.4
Securities sold under repurchase agreements	130.9	40.2
Accrued expenses payable - securities trading fees / agency fees	0.6	0.4
Fees and commission on securities trading	0.4	-
Other fees and commissions paid on securities trading	5.3	3.6
Interest expense on securities sold under repurchase agreements	0.1	0.1
Other operating expenses	0.2	0.6
Sumitomo Mitsui Banking Corporation of Canada		
Net derivative instrument assets	3.3	8.8
Gain on derivative instruments	-	31.2
Loss on derivative instruments	8.6	-

Notes to the financial statements

at 31 December 2015

25. Related party transactions (continued)

	2015 *US$ m*	*2014* *US$ m*
Sumitomo Mitsui Banking Corporation Europe Limited		
Cash at banks	0.0	2.5
Net derivative instrument assets	-	15.1
Net derivative instrument liabilities	115.0	-
Accrued expenses payable - credit service fee	1.1	1.1
Gain on derivative instruments	-	24.7
Loss on derivative instruments	106.1	-
Other fees and commissions paid	1.6	0.4
Other operating expenses	0.9	0.8
Sumitomo Mitsui Banking Corporation (China) Limited		
Net derivative instrument assets	0.1	0.2
Gain on derivative instruments	0.7	0.7
Sumitomo Mitsui Banking Corporation Malaysia Berhad		
Net derivative instrument assets	0.2	-
Gain on derivative instruments	0.2	-
Mithras Leasing		
Group relief paid	16.0	15.8
SMBC Nikko Securities (Hong Kong) Limited		
Other liabilities	1.1	1.6
Fees and commission on securities trading	-	0.2
Other nonpersonnel expenses	5.3	3.3
Nikko Systems Solutions, Ltd.		
Accrued expenses payable	0.0	0.2
Other non-personnel expenses	2.5	2.8
SMBC Friend Securities		
Expenses on securities trading	(0.0)	0.2

Notes to the financial statements

at 31 December 2015

26. Fee in respect of credit guarantee

The Group has entered into unconditional guarantee arrangements with SMBC, acting through its Cayman Branch as guarantor, and with SMBC Tokyo, under which SMBC is obliged to make the full and prompt payment, when due, of any net termination payment payable to the Group under any of the ISDA Master Agreements with specific guaranteed counterparties.

Fees are payable monthly based on a monthly daily average value of the guaranteed transactions. The fee has been computed on a fair value basis, discounted to its present value and recorded as a derivative liability on the balance sheet. The present value of these credit guarantees, and the associated fees recorded against profit and loss, are set out in the table below:

	2015 USD$m Credit Guarantees	*2014 USD$m Credit Guarantees*	*2015 USD$m Fees*	*2014 USD$m Fees*
Guarantor				
SMBC Cayman Branch	5.3	7.4	1.5	2.4
SMBC Tokyo (following 2015 restructuring)	58.0	-	6.5	-
SMBC Tokyo	13.8	4.6	0.7	0.1
	77.1	12.0	8.7	2.5

The guarantees provided by CM INC are accounted for as an effective enhancement to the value of derivative assets. A CVA of $7.3 million (2014 - $36.9 million) would be required if no CM INC guarantees were in place.

In the case of an agreed termination of an existing guarantee the Group books a CVA to ensure that the value of derivative contracts reflects counterparty credit risk. Consequently the Group will charge a termination fee equating to the CVA for any guarantees cancelled. The APA ensures that these guarantee arrangements are treated as arm's length transactions.

27. Financial and other commitments

SMBC, under an agreement dated 25th November 2010, as amended on 25th July 2013, has provided the Group with a $250.0 million multi-currency revolving committed facility which can be terminated by either party on giving six months' notice. For this the Group pays a fee of 0.05% per annum on the undrawn amount of the facility. SMBC also acts as guarantor for some of the Group's transactions. For this the bank is paid a fee based on the notional amount, maturity and deal type for each transaction. Under a loan agreement dated 18 April 2011, CM INC has committed to providing SMBC DP with a $200.0 million revolving credit facility for a five year period. A commitment fee on the amount of the undrawn facility is payable to CM INC until the maturity date of the agreement. At 31 December 2015, the entire facility was unused.

SMBC DP, as an AA-/Aa1 derivative product company, is required by Moody's and S&P to have a Contingent Manager. Under such an agreement, an unaffiliated derivatives dealer would provide portfolio management and other general services to the firm in the event that the long term senior rating of Sumitomo Mitsui Banking Corporation ('the bank') is downgraded to Baa3 or below by Moody's, or the event that the bank's short term rating is downgraded to P-3 or below by Moody's, or the event that the long term senior rating of the bank is downgraded to BB or below by S&P, or the event that the bank's short term rating is downgraded to B or below by S&P. On 7th December 2015 the Contingent Manager Agreement with Blackrock Financial Management, Inc. rolled for twelve months as no notice to terminate was issued by SMBC DP.

Notes to the financial statements

at 31 December 2015

28. Deferred compensation

Employee incentives may include awards from cash and Phantom share scheme (current and deferred).

There are maximum of four parts to any total annual award (50% cash and 50% phantom shares):

a. Non-Deferred cash
b. Non-Deferred phantom shares
c. Deferred cash
d. Deferred phantom shares

The vesting period is the period commencing on the award date and terminating on the third anniversary of the award date. A "Code Staff Member" is eligible for payment of the third of the deferred award on each of the next three anniversary dates. Any payment of the eligible deferred cash and phantom shares is made after the vesting date.

For the year ending 31 December 2015 the amount recognised in income statements under this scheme was $0.4 million (2014 - $0.3 million), of this amount, $0.0 million was reimbursed by CM INC (2014 - $0.1 million) pursuant to an agency agreement.

29. Investment in subsidiary undertakings

The Company has invested $200.0 million in the ordinary shares of SMBC Derivative Products Limited, a 100% subsidiary, registered in England and Wales and $2.0 million in the ordinary shares of SMBC Capital Markets Asia Limited, a 100% subsidiary, registered in Hong Kong, the results of both of which have been included in these Group financial statements.

30. Ultimate parent undertaking and controlling party

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

1-2 Marunouchi
1-chome
Chiyoda-ku

Tokyo

Japan