SMBC NIKKO CAPITAL MARKETS LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 MARCH 2020

Company Number 02418137

SMBC NIKKO CAPITAL MARKETS LIMITED
COMPANY INFORMATION

Registered number: 02418137

Incorporated with limited liability by shares in England and Wales

Directors at the date of signing

P Jackson (Independent Director)

H Kawafune

H Minami

K Nakamura

N Okubo

S Souchon (Independent Director)

J D Thomas

A Yates

T Yazawa

Secretary

P Davé

Auditor

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Banker

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AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

SMBC NIKKO CAPITAL MARKETS LIMITED
STRATEGIC REPORT

The directors present the Group Strategic Report of SMBC Nikko Capital Markets Limited for the 15 month period ended 31 March 2020 ("the period").

Change of the Reporting Date

The reporting period was extended from 12 to 15 months in order to align reporting dates with the parent company which uses 31 March. As a result, the amounts presented in the financial statements are not entirely comparable. Subsequent reports will be prepared annually using the new date.

Principal activities

SMBC Nikko Capital Markets Limited and its subsidiaries (the "Group") is an investment business with derivatives and securities divisions. It is part of the Sumitomo Mitsui Financial Group ("SMBC Group").

The Group includes the following consolidated legal entities:

- SMBC Nikko Capital Markets Limited ("the Company" or "CM Ltd"), company number 02418137 incorporated in England and Wales, is an IFPRU investment firm authorised and regulated by the Financial Conduct Authority ("FCA"). Sumitomo Mitsui Banking Corporation ("SMBC") of Japan is the majority shareholder and controller. During the period the Company had a branch in Sydney, Australia.

- SMBC Derivative Products Limited ("SMBC DP"), company number 02988637 incorporated in England and Wales, is a wholly owned subsidiary of CM Ltd and a full scope investment firm, authorised and 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 on its affiliate.

- SMBC Capital Markets (Asia) Limited ("CM Asia") is incorporated in Hong Kong and is authorised and 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.

Business model and strategy

The Group's business model is to provide customer focused investment banking services including securities and derivatives products and corporate advisory services to investors and customers, including on behalf of SMBC Group.

The Group's strategy is focussed on strengthening its global product offering to meet the needs of its customers and continue to build long term sustainable growth through a strategic plan which recognises the Company's responsibility to a broad range of stakeholders including shareholders, customers, employees and society.

Throughout the period, the Group's business organisation incorporated two divisions, the Securities Products Group ('SPG') and the Derivatives Products Group ('DPG'). SPG's activities are underwriting primary issuances and facilitating secondary market trading in bonds and equities focussed on customer facilitation and maximising order flow. The Group's repo and securities lending activities are predominantly undertaken for customer facilitation purposes rather than a source of funding. The M&A advisory group provides advice and support to SMBC Group customers seeking new business opportunities. DPG provides largely vanilla derivative hedging products to meet the needs of its customers, including those customers of affiliated entities in the SMBC Group.

Corporate Governance Statement

Governance is integral to both our Board environment and organisational culture, and is a key factor in the success of our business. Our governance framework and policies support good decision making thereby contributing to the success of our business over the long term, in the interests of our stakeholders. The Directors acknowledge the importance of a robust corporate governance framework and is committed to ensuring that effective corporate governance procedures are in place for the Company's size and complexity.

The Company is required under the Companies (Miscellaneous Reporting) Regulations 2018, to adopt a corporate governance code, and outline how this has been applied. The Board of Directors of the Company ("the Board") reports against the requirements of Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") as a baseline for good governance and reports on its governance processes against each principle listed below.

Principle One – Purpose and Leadership.

The Company abides by the mission statement of its parent, Sumitomo Mitsui Financial Group, and the Board has agreed a long-term mission specific to the Company. As a gateway to the long-term mission, the Company also releases a yearly management statement as part of our annual strategy and business plan.

The Board is responsible for promoting the values and culture of the Company via initiatives in our ongoing Culture programme, and demonstrates a clear and consistent tone from above by modelling and promoting the desired behaviour for our staff. Members of the Board are included in a staff training video outlining the Company's Five Corporate Values, and our Executive Directors regularly get involved in Town Hall meetings where they speak directly to staff at all levels on the Company's strategy, achievements and long-term plans.

The Board is collectively responsible for the long-term success of the Company by enforcing strategic objectives, ensuring the maintenance of a robust system of internal controls and risk management and for reviewing the overall effectiveness of the systems in place. The Board ensures the Company's mission and principles and is required to satisfy itself that these are aligned with its culture and monitors progress of the strategy with their delivery at meetings. The duties of the Board are detailed in its formal Terms of Reference which is reviewed annually.

Principle Two – Board Composition.

The Nominations Committee is responsible for assessing the composition of the Board and leading the process of appointing new directors to the Board and for succession planning.

The Nominations Committee considers the balance of skills, experience and knowledge required in order to enhance the Board and support the Company in the execution of its strategy.

The Board continues to focus on maintaining a well-balanced membership with the right mix who can apply their diverse business knowledge and experiences. As at the date of this report the Board is comprised of nine Directors including the two Executive Directors, two Independent Non-executive Directors and five Non-executive Directors.

The Directors have a wealth of experience in their fields, and the Directors feel that the Board is an appropriate size given the size and industry of the business. Our Group Directors have spent many years with our parent companies, SMBC and SMBC Nikko Securities, Inc., serving in a variety of business areas and in many countries. Our Independent Directors bring an external perspective to the Board with their deep experience of Risk and Finance within the Financial Services industry, while our Executive Directors have many decades of experience within CM Ltd and in positions of oversight of our Company within our parents. The Chair of the Board ("the Chair") works closely with the Company Secretary, Human Resources and external advisors to assess the effectiveness of the Board in an annual review.

In particular, the Chair holds annual one-to-one effectiveness review meetings with each of the Directors with the aim of identifying any areas in which additional training could bring benefits. Additionally the Board undergoes an Annual Board Effectiveness Review which reviews in detail various aspects of the Board's makeup, competency and effectiveness of governance; based on this review, a comprehensive Director Training programme is tailored to address any gaps identified. Training is delivered to Directors from subject matter experts within our Company, as well as by external specialists. An externally facilitated internal Board effectiveness review was undertaken during 2019. The 2019 externally facilitated internal review was conducted by PwC, where the Board members were required to review and complete a comprehensive questionnaire. The aim of the review was to assess the effectiveness of the Board, both as a collective unitary Board, and at an individual Board member level, in order to implement any actions required to become a more effective board.

The 2019 review focused on areas such as Board composition and succession planning. The recommendations from 2019 include Board Composition, Diversity, Board appointment and succession planning. The Board is making progress on the recommendations and has to date fully implemented some of the action points.

The Board embraces diversity and is considering how to bring about a greater balance in gender as part of succession planning; our Board also consists of a mixture of British and Japanese members, which allows us to benefit from representation from different corners of the globe. The Company's approach to diversity is set out in the Diversity Policy with a commitment to diversity in the widest sense including diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, when seeking to fill vacant positions.

Principle Three – Director Responsibilities.

The Chair is responsible for leading the Board and the Chief Executive is responsible for the day-to-day management of the Company within the parameters of the strategy set by the Board.

The Company has established and maintains corporate governance practices which provide clear lines of accountability and responsibility to support effective decision-making in compliance with the Senior Managers & Certification Regime. Our constitutional documents, such as our Corporate Policy Manual and our Management Responsibilities Map, set out policies and procedures relating to the authority, role and conduct of Directors. CM Ltd has decision-making committees such as the Transaction Approval Committee and the New Policy Committee which ensure that the Company's key stakeholders have input into and decisions on the transactions we undertake, with detailed oversight of any associated risks, reputational and climate considerations, and discussions, challenges and final voting results which record the accountability and responsibility of named individuals as part of this process.

Additionally, our delegated authority framework ensures that decisions are taken by the right people at the right level with accountability up to the Board, and enables an appropriate level of debate, challenge and support in the decision making process.

The Company engages closely with its parent companies, not only via informal communication managed via our dedicated Planning department but also on a formal basis through the establishment of advisory and Board Committees such as the Board Risk and Compliance Committee, the Audit Committee, the Remuneration Committee and the Nominations Committee, all of which have clear Terms of Reference which set out the quorum for decision making in each body. The Independent Chair of the Board steers the Board in a balanced and neutral manner drawing from her experiences as Committee Chair at other companies, while the Board Conflicts of Interest Register provides a clear framework of any conflicts of interest which the Directors should be aware of when taking decisions for the benefit of CM Ltd. The Board and Board Committees receive management information from a number of functions throughout the business, ensuring that they are able to make decisions based on timely and accurate data.

The Board has delegated responsibility for the review of the Company's internal control systems to the Board Risk and Compliance Committee and Audit Committee, which monitor the Group's internal control systems on an ongoing basis and reviews the annual effectiveness assessment of the Company's risk management and internal control systems. This covers all material controls including financial, operational and compliance controls and risk management systems.

Principle Four - Opportunity and risk.

The Company has ensured that it creates and preserves value in the long-term by agreeing a medium-term business plan with its shareholders, outlining the strategy, financial targets and budgets over a three-year period. The decisions taken by the Board, including activities on Brexit and LIBOR discontinuation, have ensured that the Company is able to continue to grow in a changing regulatory environment. CM Ltd recognises innovation and entrepreneurship via the annual Change, Consolidate Technology and Visualise awards ("CCTV"), where individuals and teams are nominated for recognition of solutions they have implemented which add value, maximise efficiency and improve the business overall.

CM Ltd values the input of our dedicated staff when identifying risks and considering the most effective ways to control and mitigate issues which might arise. The Company has established and promotes whistleblowing hotlines and opportunities to speak up and raise issues, comments or suggestions to management. Our Risk Committees and Steering Committees at the Board and Executive levels constitute a robust risk management framework, supported by other large-scale risk management processes such as the Internal Capital Adequacy Assessment Process ("ICAAP") and Individual Liquidity Adequacy Asessment ("ILAA"). There is also shareholder presence at the Board Risk and Compliance Committee to ensure that the Company's shareholders are aware of the risks that the Company is facing and the mitigating actions that the Company is taking.

Principle Five - Remuneration.

The Board has established a clear policy on the transparency of remuneration structures; further, the levels of remuneration for Directors and senior management considers the broader operating context of the company, including the pay and conditions of the wider workforce. In particular, the Board and the Remuneration Committee maintain close oversight of Conduct linkage to remuneration and examine figures around the Gender Pay Gap at all levels of the organisation.

Principle Six - Stakeholders.

Please refer to our s172 Statement below for a comprehensive view of how CM Ltd has identified and engaged with its material stakeholders and how this engagement has affected decision-making at the Board level.

Corporate Governance Framework

The Company is committed to the ongoing enhancement of its corporate governance framework to promote a culture of integrity, good conduct, ethical values and the operation of an effective internal control framework to maintain a disciplined operational environment which meets changing legal and regulatory requirements, client needs, shareholder interests, the wellbeing and conduct of staff and the Company's risk appetite.

The Company's Board members include two Independent Non-Executive Directors, one appointed in June 2017 and a second appointed in January 2018.

The governance framework consists of:

- A Committee structure to oversee and manage the risks of the Group,
- An organisational structure that utilises a "Three Lines Of Defence" model for the management of risks with clearly established responsibilities for the various Lines of Defence, and
- A policy framework that defines the mandatory minimum requirements for the management of risks across the Group.

The Committee structure comprises:

The Board Risk and Compliance Committee ("BRCC")

The BRCC is responsible for assisting the Board in its oversight of risk, reviewing the Company's risk appetite and risk profile, reviewing the effectiveness of the risk management framework, reviewing the methodology used in determining the Company's capital and liquidity requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, working with the Remuneration Committee to ensure that risk is properly considered in setting remuneration policy and monitoring regulatory requirements. The BRCC is supported by and oversees the work of the Prudential Regulation Committee. The BRCC members include independent non-executive directors and meets at least quarterly.

The Nominations Committee

The Nominations Committee is constituted of non-executive directors ("NEDs") and is responsible for assessing the skills, knowledge, experience and capabilities of candidates of the Board, and to senior management positions within the Group.

The Nominations Committee has the responsibility to review on an annual basis the size and composition of the Board. Such a review will cover those areas that the Nominations Committee determines are relevant and shall include: skills, knowledge, experience and diversity of the Board. The Nominations Committee shall provide the Board with the outcome of each review, including the review of the operation of its diversity policies, and where appropriate make recommendations for changes or areas for further development by the Board.

The Remuneration Committee

The Remuneration Committee consists entirely of NEDs and has oversight for the operation of remuneration policies across CM Ltd. It is also responsible for the review, approval and challenge where appropriate of remuneration proposals for members of senior management (including Executive Committee members) and other employees and Directors of CM Ltd who are considered to have a material risk impact on CM Ltd.

The Audit Committee

The Audit Committee is responsible for assisting the Board in i) its oversight and monitoring of the integrity of CM Ltd's financial statements and internal financial controls ii) monitoring and reviewing the effectiveness of the internal audit function. It is chaired by an independent non-executive director.

The Executive Committee

The Board delegates day-to-day management of the Group to the CEO who is further supported by a management committee framework including the following committees:

- an Executive Committee;
- a management risk committee (the Risk Management Steering Committee, "RMSC") and its sub-committees;
- a Prudential Regulatory Committee

The Executive Committee supports the CEO in his responsibility to implement the strategic vision of the Board and to manage the daily operations of the Group. The Executive Committee oversees the operation of the RMSC.

The Company has also established the following sub-committees to support the activities and carry out responsibilities of the executive committees:

- Employee Conduct Review Committee
- Control & Conduct Assessment Forum

The RMSC and sub-committees

The RMSC and associated sub-committees are responsible for assisting the Board in the oversight of its i) risk governance structure; ii) risk management and risk assessment processes; iii) risk appetite and tolerance; iv) capital, liquidity and funding; v) compliance with all applicable laws and regulations; vi) systems risk management and vii) internal controls.

The RMSC sub-committees are summarised as follows:

- Credit Committee is responsible for reviewing and monitoring credit risk exposure against agreed internal limits, as well as risk appetite. Other areas, e.g. analysis of problem credits or portfolio concentrations, are also considered.
- Operational Risk Committee is a specialist forum structured to look more closely at, inter alia, risk events, losses and associated trends, escalated Key Risk Indicators ("KRIs") and Key Performance Indicators ("KPIs"), overdue actions and remedial steps, as well as wider themes around Third Party Vendor Management and, as relevant, Information Security.
- Liquidity Management Committee focuses on issues related to liquidity risk and treasury management, e.g. liquidity stress testing, funds transfer pricing and efficiency of the liquid asset buffer.
- The Transaction Approval and New Product Committees convene to review new business which could potentially be considered to be outside of the norm, e.g. due to size, specific risk considerations such as liquidity, credit or reputational considerations.

The Prudential Regulation Committee ("PRC")

The PRC is a sub-committee reporting to the BRCC which provides additional oversight of important processes within the firm such as the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment ("ILAA") and Recovery and Resolution Plans ("RRP"). The Committee meets to review and challenge metrics, models and results related to risk management and valuation, as well the accuracy of regulatory returns (such as COREP & FSA 047/048) and interpretation of relevant rules and guidelines (e.g. CRR/BIPRU/IFPRU).

Three Lines of Defence

The Group has adopted a "Three Lines of Defence" approach to financial risk management to ensure the adequate oversight of risks and to embed a culture of risk awareness throughout the organisation. This approach separates the ownership and management of risk from the functions that oversee risk and those that provide independent assurance.

Each business function, and its respective head, is required to ensure that all business decisions 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, Compliance, Finance and Legal functions all report to the Board and make up the second line of defence ("2nd LOD") to ensure financial stability and continuity of the Group, by acting as guardian of its risk profile. The 2nd LOD is responsible for designing an appropriate and effective risk and policy framework and day-to-day risk identification, assessment and monitoring. This 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.

Principal risks and uncertainties

The Group is subject to a range of risk factors and uncertainties in the course of conducting its investment business, including credit and counterparty risk, liquidity risk, market risk, cash flow risk, operational risk and other risks, an overview of which is included in Note 22 to the financial statements.

Risks and uncertainties are managed through the Group's Risk Management framework.

Risk Management Framework

The Board of Directors (the "Board") ensures that risk management is embedded throughout the organisation through:

- A formal risk governance framework, with clear and well understood risk ownership, standards and policies,
- A strong risk culture, with personal accountability for decisions,
- The alignment of risk and business objectives through the integration of risk appetite into business planning and capital management,
- The alignment of remuneration within the risk framework and risk outcomes, and
- Daily monitoring by an independent risk function

The Board has established an Enterprise Wide Risk Management Policy that sets out the Group's objectives and defines a framework for how the risks it faces are managed. The framework covers governance arrangements, roles and responsibilities, risk appetite and limits and the processes and reporting that are in place across the Group. It is designed to achieve and assure effective risk governance and management across all business activities.

The responsibilities of the Board Risk and Compliance Committee (BRCC) are summarised above. The BRCC is responsible for providing oversight of the components of the Risk Management Framework:

- Adherence to the Risk Appetite
- Implementation of Risk Strategy
- Risk Identification and Measurement
- Risk Monitoring and Reporting
- Stress Testing and Scenario Analysis
- Capital and Liquidity Management
- Management of Large Exposures

The Group's and the Company's Risk Appetite Framework sets out the broad level of 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. A comprehensive risk assessment process is undertaken annually and is fully documented in the Group's Internal Capital Adequacy Assessment Process (ICAAP).

Credit Risk and Counterparty Credit Risk

Credit risk is the risk of any losses to the Group arising from any credit events caused by a third party's inability or unwillingness, or a change in the market's perception of the third party's ability or willingness, to meet its obligations as they fall due.

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. CCR is one of the most significant risks that the Group is exposed to.

Credit risk mitigation is a high priority for the Group's management and a variety of measures are employed to mitigate this risk, including:

- Collateral and netting agreements are both used to mitigate credit and also liquidity risks. Collateral is predominantly in form of cash, mainly in major currencies and securities collateral is limited to high-grade government bonds.
- Parent guarantees purchased by the Group to cover specifically identified counterparty credit risks. Guarantee arrangements are set-out in Notes 1 and 31.
- Strict credit control procedures and limits monitoring to ensure front office staff incorporate a comprehensive credit assessment in their approach to pricing.

Another element of credit risk management is a rigorous quantitative valuation adjustment process based on scenario simulation and market-risk-adjusted probabilities of default. Such a system cannot by itself assure efficient pricing or monitoring of individual credit exposures but it is a strong incentive for proper trade-off of risk and return at the time of transaction, as well as providing an efficient incentive for assignment and termination of transactions later. The result of this calculation methodology is that the credit valuation adjustment ("CVA") reserve for each counterparty name effectively reflects the market credit spread charged on the expected exposure to the counterparty at each time point. This is a good proxy for the transaction unwinding cost in the market. Management uses this reserve as a tool for credit monitoring on a portfolio basis, supplemented by reports from the Credit department, including breaking news of sharply deteriorating credits. Additionally, management reviews a series of reports on specific exposures identified as high risk.

At each balance sheet date, the Group assesses whether financial and other assets which are not accounted for at fair value through profit and loss are impaired. Despite significant financial assets held in the balance sheet, the IFRS 9 impairment provision was immaterial at both 31 March 2020 and 31 December 2018 and not adjusted for.

IFRS 9 has not had a material impact on the Group's business partly due to a large portion of the assets being measured at fair value, hence not subject to impairment testing. The remaining assets have nearly full collateral protection, short duration and low-risk counterparties, which result in minimal potential losses.

Liquidity Risk

Liquidity risk is the risk of loss or damage to the Group as a result of being unable to meet obligations when they fall due without incurring material costs in realising liquid assets. Liquidity risk arises primarily from the requirement to fund securities balances and collateral calls on derivatives contracts.

Liquidity risk is mitigated by holding cash and highly liquid securities, including a liquid asset buffer of high quality, unencumbered assets, to cover any unexpected cash outflows. The Group measures and maintains liquidity ratios in accordance with the Individual Liquidity Guidance set by the FCA and the Group's risk appetite.

The Group monitors expected cash flows on its assets and liabilities to identify and address any funding gaps that may arise in the future. The funding requirements are met from its own resources, borrowing from its parent company and, occasionally, through repo market transactions. Potential funding risk is mitigated by a policy of holding significant positions in high quality marketable securities that may be sold to cover any funding gaps. For stress testing purposes, reliance is placed only on a committed facility provided by SMBC to augment the Group's own resources.

Market Risk

Market Risk is the risk of financial loss or damage to the Group's financial position caused by changes to market prices and other market values.

All trading instruments are subject to market risk, the potential that future changes in market conditions and other factors 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 has strict market risk limits for its derivative business which is predominantly undertaken on the basis that the market risk arising from customer trades is hedged either with a group company SMBC Capital Markets, Inc. ("CM Inc."), or a market counterparty, which substantially mitigates market risk in the derivatives business.

Market risk arises in both the primary underwriting activity and the secondary securities held for market making purposes. It is mitigated through the monitoring and enforcing of position limits and management of inventory holding periods. Market risk limits are reviewed regularly and are approved annually by the board, and are set out in the Group's Risk Appetite Statement.

Cash Flow Risk on Currency Expenses

Cash flow risk arises on expenses incurred in currencies other than the functional currency. The Group hedges the risk arising from expected future GBP expense cash flows by entering into forward foreign exchange contracts which effectively fix the exchange rate of the expected GBP expense cash flows to US dollars, its functional and presentational currency. Cash flow hedges are described in Notes 1 and 12.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Broadly, the definition excludes Strategic and Reputational risk, but does include risks from the wider regulatory environment including Legal risk, Compliance risk and, increasingly Conduct Risk.

In applying this definition to its on-going operations, the Group monitors operational risk within its risk appetite and through the following core processes:

- Operational Risk Event reporting,
- Risk and Control Self-Assessments, and
- Key Risk Indicator reporting.

Collectively, these processes help to identify the operational risk events that the Group is subject to and helps build a risk profile that is represented in the Group's Risk Register, as well as providing loss data and scenarios that are considered in the annual ICAAP process.

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

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

Regulatory risk

A significant factor for authorised and regulated firms is the risk of non-compliance to existing regulations and that of changes to applicable regulations or laws having an adverse impact on the business.

Conduct Risk

Conduct risk arises from any activity that the Group or its employees might engage in which would result in unfair treatment of the Group's customers, breaches of conduct of business or financial crime rules or damage to market integrity or competition.

Other Risks

Additionally the Group is exposed to macro-economic, geopolitical and other external business risks which include, but are not limited to, the uncertain economic environment, particularly in regards to an unstable geopolitical environment, and changes to the level and volatility of prices such as foreign exchange rates, credit spreads, commodity and equity prices and interest rates.

Climate change and Environmental, Social and Governance factors

The Group and the SMBC Group assign a high priority to environmental issues and such issues, in particular climate change, have been identified as one of the Group's emerging risks.

Climate change presents risks for the stability of the financial system and risks may manifest through economic losses, for example, from severe weather events (physical risks) and/or through the transition to a low carbon economy (transition risks). The Group is building on its existing risk management framework to strategically address climate change through four key components: analysis; education; policy; and strategy and opportunities.

The SMBC Group has announced its support for the Financial Stability Board's Task Force on Climate-related Financial Information Disclosures (TCFD). The SMBC Group has undertaken initiatives to meet the TCFD's recommendations in the four main areas of: Governance, Strategy, Risk Management and Indicators and Targets. Further details on the SMBC Group's environmental position is available on its website at: https://www.smfg.co.jp/english/responsibility/issue/environment

The Group is working closely alongside its affiliate SMBC Europe Ltd. which has appointed a Director to oversee its response to climate change and has established a business-wide Climate Change Forum with the objective of overseeing all climate change related matters, such as risk management arrangements and the ways it can support its customers with the transition to a lower carbon economy.

Streamlined Energy and Carbon Reporting

Starting from April 2019, the Streamlined Energy and Carbon Reporting ("SECR") scheme requires companies to report its total energy consumption and carbon emissions in CO2 equivalent. The requirements apply only to UK companies, which in the Group comprise CM Ltd and SMBC DP. During the 12 months from April 2019 and March 2020, their environmental footprint included:

- 13 MWh or equivalent of 3 tonnes of carbon dioxide emissions resulting from activities for involving the combustion of gas or the consumption of fuel for transport purposes;
- 2,797 MWh or equivalent of 715 tonnes of carbon dioxide emissions resulting from the purchase of electricity by the company for its own use, excluding for transport purposes;
- 2,810 MWH or equivalent of 718 tonnes of carbon dioxide emissions from combined consumption of fuel for the purposes of transport and energy consumed for its own use;
- The emission intensity of the above footprint is equivalent to 224 kg of CO_2 per square meter of office or 2,052 kg of CO_2 per employee;
- During the period, the following energy and CO_2 emissions savings measures have been implemented by the business:
    - Unlocking of opportunities for heating and cooling energy savings through software and graphic changes to all fan coil units, which enabled better controls of the heating and cooling setpoints.
    - Replacement of fluorescent strip lighting with more efficient new LED fittings in the client reception area.

The Group continues to evaluate opportunities to decrease its carbon footprint further.

Engagement with Employees

The Directors acknowledge the vital role that employees play in the success of the Company and understand the importance of the Directors fostering engagement with the Company's employees, ensuring that they understand their interests and factor these into decision-making.

While the Executive Directors engage directly with employees on a daily basis in all aspects of the business, the Board and Board Committees are instrumental in allowing all Directors to carefully consider employee concerns and how the Company might best meet the diverse needs of staff.

The Directors feel strongly that in order to advocate for employees and their interests, it is important to understand their views and concerns. Accordingly, the Board commissioned an in-depth Culture Survey open to all staff, which was carried out in January 2019. Since that time, senior management and other stakeholders have been involved in intensive study of the results of the survey, presenting quarterly breakdowns and analyses to the Directors at each Board meeting and constructing detailed workplans for further action. In just one example of how the results of this survey have influenced engagement with employees, the Company has restated its commitment to transparency and communication across all levels of the business: frequent town hall meetings are held between management and staff across business lines and seniority levels, while senior management are exploring different methods of reaching out to staff via different avenues to draw attention to any concerns or suggestions for improvement they might have.

The Directors recognise that the diverse employee base have active work and home lives and that in order to attract, develop and retain the best talent, the Company needs to support diverse ways of working. In addition to this, the Directors recognise that in a modern, global and results-based workplace, employees can increasingly work effectively across a range of times and locations. Accordingly, the Directors were pleased to support the decision to adopt the Agile Working scheme across the business.

The Directors strongly support the business case for gender equality, and value diversity as an integral part of driving business performance and growth. With this in mind, the Board signed up to the Women in Finance Charter in January 2018 and has set a target to increase female representation in senior roles to 30% by 2023. As of January 2020, CM Ltd is pleased to announce that this target has been achieved with 30% of senior roles being held by women; the Directors remain at the forefront of discussions to explore ways in which the Company can provide further opportunities and widen access, not only in terms of gender but across a broad and diverse spectrum of the workforce and hiring pool. Promoting equality and diversity is one of the core tenets of the business, and the Directors are committed to ensuring that the Company provides an open and welcoming working environment for all.

Engagement with Suppliers, Customers and others in a Business Relationship with CM Ltd

The SMBC Group list of Corporate Values highlights the commitment to "Customer First": the Company puts its customers at the centre of everything it does.

To honour this commitment, the Company ensures that all customer-facing staff are fully trained in client communication, both upon first joining CM Ltd and on an annual basis thereafter. A fair, balanced, and understandable assessment of the Company's position and prospects is available on an annual basis via the annual report and on the CM Ltd website. In addition, the Directors support a twice-yearly "Japan Series" event for customers, where investors and issuers travel from across the globe for a series of face-to-face meetings in the Company's London offices. The Directors believe that by facilitating close discussions between customers from various areas of our business, CM Ltd can not only increase its own engagement with its clients, but it can directly impact the success of its customers' business and widen the opportunities available to them.

The Directors stress the importance of listening closely to customers, both in order to build further upon good feedback and to quickly address any points where customers feel that the Company could improve. Accordingly, CM Ltd has put in place a policy which covers the way feedback from customers is handled, ensuring that this data is reviewed at the monthly Control & Conduct Assessment Forum.

Alongside the commitment to ensuring customer satisfaction in all areas of the business, the Directors also acknowledge the importance of maintaining good relations with suppliers. The Company complies with the statutory reporting duty on payment practices and performance under The Reporting on Payment Practices and Performance Regulations 2017, acknowledging that paying suppliers promptly and fairly builds trust and goodwill between all parties.

The Company's Outsourcing Management Policy covers all outsourcing and Intra-Group relationships, while the Anti-Bribery and Corruption Policy covers relationships and engagement with suppliers. Anti-bribery wording must be included in contracts or agreements when engaging with all Associated Parties and Suppliers.

The Directors expect that the Company will only engage with suppliers who demonstrate the highest standards in their own workforce and supply chains; accordingly, the Board approves the Company's Statement of compliance with the UK Modern Slavery Act on an annual basis. This statement requires that CM Ltd's robust due diligent processes include anti-slavery checks on all suppliers with whom we do business.

Directors' Section 172 Statement

Section 172 of Companies Act 2006 imposes a general duty on Directors to act in a way that they consider, in good faith, to most likely promote the success of the company for the benefit of stakeholders as a whole. The Board are aware of their duties under the current legislation and received an explanation on their duties on 28 January 2020.

Stakeholder Engagement Model

The Board understands the importance of effective management with all of its stakeholders. The Directors, in setting policies and strategies, continue to have regard to the interests of the Company's shareholders, employees, customers, suppliers, regulators, including the impact of its activities on the community and its reputation. These factors underpin the way in which the Directors discharge their duties and the Board is cognizant of the need to foster strong relationships with all stakeholders to help the Company deliver its strategy in line with its long-term values and operate the business in a sustainable way.

The Board has considered the principal decisions that have been made throughout the period, and has outlined below the impact that consideration of stakeholder interests has had on these principal decisions. The Board papers throughout the period have outlined which stakeholders would be impacted by any decisions taken, enabling the Board to fully understand the impact of these decisions.

To ensure that the Company continues to operate in line with good corporate practice, as part of their induction Directors will receive training on the scope and application of Section 172 to ensure that they are aware of how decision making considers the Company's stakeholders.

Additional information on the Company's engagement with Employees, Suppliers, Customers and others in a business relationship with the Company, as required under The Companies (Miscellaneous Reporting) Regulations 2018, is included within this Strategic Report.

Corporate objectives

The Company's main objective is to serve its EMEA corporate customers while sharing the SMBC Group's mission, vision and identity, which emphasises sustainable value creation both for customers and shareholders.

Stakeholders

The Directors are aware of the requirements of s.172, but also consider the views and interests of a wider set of stakeholders. Reflecting the Company's corporate objectives, the Board has identified its principal stakeholder groups as set out in the below table.

How the Board engages with our stakeholders

The Board delegates to management the authority to run the business on a day-to-day basis. Interactions with stakeholders can therefore take place either by the Board and Directors or by employees in the context of the strategies and policies set by the Company.

Stakeholder group	**How we engage, understand and consider their interests**	**Why they are important**
Customers	The majority of our customers are banks and financial institutions. Our customers are primarily concerned with data privacy, open communication, quality of service, and ensuring that the Company is conducting pricing activities and transacting business in a fair and ethical manner. Our Client Communications strategy includes policies covering written communications, messaging systems, market sounding and complaints handling. We have a robust framework around General Data Protection Regulation ("GDPR") requirements to ensure that we keep our customers' data secure and private. There are regular meetings with customers through various avenues such as visits, seminars and conferences. Through the twice-yearly Japan Series event hosted at our London office, we are also able to speak with issuers and investors and understand their individual needs and interests. Management hold regular discussions with Front Office desks on fair and appropriate pricing as part of overall business activities, and the Company has detailed customer feedback processes in place to address any concerns or feedback raised. Please also refer to the section on Engagement with Customers, Suppliers and others in a Business Relationship in this Strategic Report.	• "Customer First" is a core value • We seek to build our brand by being a reliable and trusted partner to our customers
Workforce	Our employees value a secure, welcoming working environment that treats all people with respect; fairness in remuneration and promotion opportunities, and the chance to have their voices heard. In 2019 we rolled out a company-wide Culture Survey, followed by a Gallup survey in January 2020. We set up focus groups to understand key issues and concerns amongst staff,	• We recognise that our colleagues are central to the Company achieving its sustainable growth objective • Our people are our key resource and we are committed to developing a highly skilled, highly motivated and professional

Stakeholder group	**How we engage, understand and consider their interests**	**Why they are important**
	including Town Hall meetings to share management's views and hear employee voices in turn, and have continued our Speak Up campaign where employees may submit comments, suggestions or concerns on an anonymous basis. To ensure employee engagement in all areas of the business, volunteer Conduct Champions and Operational Risk Champions are nominated to represent their teams in company-wide initiatives; these individuals are able to share the key material issues of their co-workers, and help spearhead the changes we introduce in response to this feedback. In response to feedback obtained from the Culture Survey, the Board supported the addition of further initiatives to improve communication at all levels of the Company. CM Ltd is a proud signatory of the Women in Finance Charter, and the Board considers diversity issues on a regular basis and supports the publication of the Gender Pay Gap in the interests of transparency and fairness to our employees. The Company runs regular mindfulness drop-in sessions and hosts specialist events such as 'Supporting Mental Health Awareness Week'. The Company works closely with others in our Group to support Niji EMEA, our LGBTA inclusion network, alongside our wider Diversity & Inclusion activities. Please also refer to the section on Engagement with Employees in this Strategic Report.	workforce • We seek to provide an excellent service to customers and colleagues through collaboration, teamwork and a sense of shared purpose
Environment and Society	Stakeholders depend on the financial services industry to act with transparency and integrity in their business, to pay fair shares of taxes and to treat individuals fairly regardless of age, race, gender, sexual orientation or background. Further, these stakeholders expect that we will not cause harm to the environment either through direct action or failure to act, and that we will pursue green initiatives and support our local communities. CM Ltd management often attend industry meetings and conferences where wider public concerns are discussed. At a personal level, our staff monitor news and social media, and are encouraged to raise concerns and suggestions via our 'Speak Up' initiative to bring such matters to management's attention. We carefully monitor releases from environmental NGOs such as BankTrack and Rainforest Action Network to understand their ratings of our Group and their recommendations for improvement. Finally, through the activities of our Corporate & Social Responsibility ("CSR") team, we work directly with several local charities in London and can gain an understanding of the issues affecting local people and ways in which we can help. The Board engages with the Gender Pay Gap reporting process and approves publication of the Gender Pay Gap Report.	• We recognise CM Ltd's role in society and the importance of contributing positively to the societies in which we operate

Stakeholder group	How we engage, understand and consider their interests	Why they are important
	We have implemented a number of wide-ranging programmes on good conduct and developing a strong culture within our company to encourage the highest standards of behaviour from our staff in all of their business dealings – these programmes have been widely embraced by staff across all levels of the Company. We contribute to discussions on how we can combat climate change and support green initiatives on a wider Group basis, and we take green issues into account on a deal-by-deal basis before taking a decision on whether to participate in specific deals via our Transaction Approval Committee. At a local level, our CSR team ran a 'Green Week' series of events in 2019 with the support of senior management to encourage our staff to consider ways of living more sustainability, and giving them the opportunity to volunteer with a local environmental initiative. We work hard to support charitable giving through CSR initiatives and also organise opportunities for students from local schools and outreach groups to visit the office and hear presentations from staff about topics such as working in the City, widening access and helping to raise aspirations of students who might not necessarily have considered a career in the financial services industry.	
The markets and our regulators	Our major stakeholders include government authorities and regulators - FCA, HMRC, Japanese Financial Services Authority ("JFSA"), the National Futures Association ("NFA") and the Securities and Futures Commission ("SFC"). We focus closely on engagement with the FCA and hold frequent meetings, for example Annual Strategy Meetings, CEO/Executive Chairman meetings, and Annual Conduct Meetings; we also conduct a series of regulatory reports across multiple functions in line with set notification requirements, and notify the FCA of any material events in a transparent and timely manner. To ensure that we keep abreast of all upcoming changes and are in line with the expectations of the relevant regulators, the Directors also receive regular updates on proposed changes to financial services regulations and laws that are likely to impact the Company and its clients. The Directors are also in regular contact with the regulators to answer questions on matters such as Brexit, LIBOR discontinuation and COVID-19 responses. Regular reports are also made to the Audit Committee regarding our communication with HMRC to allow for detailed consideration and discussion amongst the Directors.	• The regulators require the Company to comply with its rules and to ensure the integrity of the financial markets in which we operate. Failure to comply with these requirements will impact our ability to carry out our business and serve our customers
Suppliers	Our suppliers include external auditors and legal advisors. Our suppliers are concerned with prompt onboarding and timely payment of invoices, as well as assurance that we are managing our supplier relationships with due care and attention and paying sufficient attention to Anti-Bribery and Corruption and Anti-Money Laundering regulations. Contact points for suppliers have been identified within each team within the	• We rely upon external suppliers to provide expertise and services that the Company does not possess

Stakeholder group	How we engage, understand and consider their interests	Why they are important
	Company. 'Know Your Client' ("KYC") matters are discussed on a regular basis at our Executive Committee and by the Directors at our Board Committee meetings. The CM Ltd statement of compliance with the Modern Anti-Slavery Act is approved by the Board on an annual basis. Processes are in place to ensure timely payment of invoices; departments are able to raise any issues on behalf of suppliers at the monthly Control and Conduct Assessment Forum for Finance to follow up in more detail. Please also refer to the section on Engagement with Customers, Suppliers and others in a Business Relationship with CM Ltd within this Strategic Report.	
The SMBC Group (including our shareholders, SMBC, SMBC Nikko Securities Inc. and also SMBC Capital Markets Inc.)	Senior representatives of the SMBC Group are members of the Board. Independent non-executive Directors visit SMBC Head Office annually and meet with SMBC Board and senior management representatives. The Company has adopted and complies with the 'Consultation and Reporting Procedures for SMBC Group Companies' – these comprehensive procedures set out the matters upon which we report to shareholders and the frequency of such reporting. Through this close relationship, shareholders are able to advise and to be advised of major decisions (such as the creation of our medium-term business plan) and ongoing activities within the Company (such as our work to ensure compliance with regulations such as EMIR, MiFID II and GDPR). As members of the Supervisory Board of SMBC Nikko Capital Markets Europe, GmbH, our sister company based in Frankfurt, Mr Yates and Mr Yazawa are able to assist CM Ltd's function as a Global Hub by ensuring that the Company can provide adequate support to other entities in the EMEA region	• We share the SMBC Group's Mission and Vision and contribute to their realisation • We seek to assist the SMBC Group to expand and consolidate its global franchise

How we achieve our objectives

Our culture and values provide a framework of expected behaviours for our employees. The Board believes that a strong and positive culture underpins appropriate conduct which, in turn, helps protect the Company, our customers and other stakeholders and helps preserve the integrity of the financial markets in which we operate.

Our Culture Statement has five components:

- Provide an excellent service to customer and colleagues, through collaboration, teamwork and a sense of shared purpose;
- Build our brand by being a reliable and trusted partner to our customers and contribute positively to the societies in which we operate;

- Protect our customers and markets by conducting our business in a transparent, prudent and compliant manner;
- Treat each other with respect and integrity and embrace diversity in all its forms; and
- Be focused, creative and proactive in evolving our business to meet new challenges.

This Culture Statement is aligned with the corporate values established by the SMBC Group globally, which also guide our behaviours. These are:

- Integrity – as a professional, always act with sincerity and a high ethical standard
- Customer first – always consider the customer's point of view, and provide value based on their individual needs
- Proactive and innovative – embrace new ideas and perspectives, don't be deterred by failure
- Speed and Quality – differentiate ourselves through the speed and quality of our decision-making and service delivery
- Team "SMBC Group" – respect and leverage the knowledge and diverse talent of our global organisation, as a team.

The Board considers at its quarterly meetings metrics assessing overall behaviours across the five components of the Culture Statement and other metrics relating to staff conduct.

Business Environment

The Group operates in a highly regulated business environment with significant requirements in respect of reporting, capital and liquidity management, product design, conduct, customer service and other business aspects from multiple regulators in the countries the Group operates. These regulations constantly change and evolve in response to periods of financial instability, new business practices, economic and political developments and become increasingly stringent in order to promote good practice and stability in global financial markets.

The Group operates in an environment of unprecedented uncertainty with respect to the currently unfolding crisis presented by the COVID-19 pandemic and the continued uncertainty following the UK's withdrawal from the EU ("Brexit"). The Group's strategic plan, which incorporates the challenges and opportunities presented by Brexit, and the Group's response to the COVID-19 crisis are discussed below.

Brexit

Following the UK government's formal notification to the EU on 29 March 2017 of the UK's intention to withdraw from the EU under Article 50 of the Treaty on European Union, and the UK's subsequent exit from the EU at 11pm on the 31 January 2020, the UK financial services industry is expected to lose the passporting rights granted to UK authorised financial institutions under the national transpositions of applicable EU law (in particular the Capital Requirements Directive and the Markets in Financial Instruments Directive) which enabled them to freely provide banking business and financial services within the European Economic Area (EEA).

Upon its exit from the EU, the UK entered a 'transition period' which was agreed as part of the Withdrawal Agreement between the UK and EU. During the transition period EU law will continue to apply to the UK under the terms set out in the Withdrawal Agreement Act and passporting rights for UK firms will continue for the duration of the transition period. Unless extended, the transition period is due to end at 11pm on 31 December 2020.

During the transitional period while the UK negotiates its trade relationship with the EU, uncertainties continue to prevail in respect of the future for passporting type arrangements for the UK financial services industry. However, the Company's and SMBC Group's goal and strategic planning has been, and continues to be, to provide customers with undisrupted financial services following Brexit, including in the scenario of a 'no-deal' Brexit at the end of the transitional period.

SMBC Group's response to Brexit has been to incorporate the challenges into its new Medium Term Management plans as an opportunity to further strengthen SMBC's business in the EEA, as aligned with the vision and strategy. In particular, a new entity which received its securities trading license in October 2018, SMBC Nikko Capital Markets Europe GmbH (CMFRA) is now well established in Frankfurt, Germany, and operating as a cross-border hub for securities business and derivatives arranging with clients in all EEA jurisdictions. CMFRA operates alongside and collaborates with the Group, enabling the SMBC group as a whole to continue to offer, and build upon, the level of financial services currently provided to all its clients in the EEA.

Therefore, while the loss of passporting rights and the costs associated with arrangements to mitigate this are expected to have an impact on profitability, this has been incorporated into the Group's strategy. Strategically, SMBC Group plans to continue to develop the current suite of primary and secondary securities business and derivatives products offered to both UK and EEA clients, and will continue to focus upon diversifying its product offering and customer base. In particular, its plans to expand its securities business services in the UK, and continental Europe remain in place, and the Company and CMFRA work in close collaboration as part of the global financial services group.

The Company will carefully consider the post-Brexit regulatory landscape and the availability of any passporting type arrangements at the end of the transitional period, and the wishes of customers in the process of implementing its strategic Brexit plans.

Coronavirus COVID-19

The global pandemic of the coronavirus disease "COVID-19" and its worldwide spread in late 2019 and early 2020 has required a series of severe and unprecedented actions and measures to be taken in an international effort by people and their governments to protect human life. The measures, which have included 'lock down', severe restrictions on the movement of people, grounding of flights, banning of public gatherings, social distancing, and closing of doors for many businesses, have had a major impact on businesses and economies throughout the world. As governments trial the easing of measures and restrictions, the still present and unfolding impact of COVID-19 presents a high degree of uncertainty in terms of the global macro-economic outlook for businesses and the legacy this crisis will leave for society, economies and geo-politics worldwide.

It is widely expected however that the economic shock caused by the COVID-19 crisis will be deep and long lasting, and the impact on businesses and credit risk is expected to be significant. While COVID-19 is expected to have a future impact on the Group's revenue and net profit, the Group and SMBC Group remain focussed on long-term sustainability, the preservation of its capital base, maintaining its regulatory responsibilities and protecting the interests of its stakeholders alongside supporting its customers.

The Group has in recent years strengthened its position and product offering and is committed to build upon this foundation as it commences its new three year Medium Term Management plan. Delivering this will however be balanced with the short-term need to mitigate risks presented by the impact of COVID-19, to the extent possible. The Group recognises its responsibility to a broad range of stakeholders including shareholders, customers, employees and society at large and is committed to take the actions necessary to protect the Group's business and stakeholder interests with its focus on long-term sustainability. With these factors in focus, the Group will continue to closely monitor this unprecedented situation.

During this crisis, the Group and SMBC Group in EMEA has successfully enacted its comprehensive Business Continuity Plan to ensure the continuity of all business operations in the EMEA region so that, as far as possible, it can continue to provide its products and services to customers during the disruption arising from COVID-19. The Group contingency plan is aligned with government and public health best practice and guidelines. The Group has established and demonstrated a proven and prolonged remote working capability which it is using along with its offices and disaster recovery sites to physically separate staff performing critical functions, prioritising the safety and wellbeing of its employees whilst maintaining the best possible customer services.

Transition from LIBOR

The London Inter-Bank Offered Rate "LIBOR" is a long standing interest rate bench mark currently produced in seven tenors (from overnight to 12 months) across multiple major currencies based on submissions provided by a panel of banks intended to reflect the interest rate at which banks could borrow money on unsecured terms in wholesale markets. The Financial Conduct Authority ("FCA") and the Bank of England's Financial Policy Committee have noted that it has become increasingly apparent that the absence of active underlying markets and the scarcity of term unsecured deposit transactions raised serious questions about the future sustainability of the LIBOR benchmarks. Consequently, following a period of consultation and feedback, the interest rate benchmark LIBOR is expected to cease after the end of 2021.

The FCA have received a voluntary agreement from the LIBOR panel banks to continue to submit to LIBOR until the end of 2021, to enable time for all banks and market participants to transition away from LIBOR and thereby avoid disruption when the publication of LIBOR ceases.

Within the range of products and services offered by the Group to its customers are those which use, or are affected by, the LIBOR benchmark, in particular the derivatives business where derivatives contracts reference LIBOR to determine the settlement amount of derivative cash flows.

The Group is a member of an established multi-affiliate pan-regional collaborative SMBC Group programme, led by a Steering Committee including a Director of the Company and which is supported by a Project Management Team, Subject Matter Experts, a Policy Forum, Communication Team and external specialists, to plan and execute the Group's transition away from the use of LIBOR with the replacement of alternative near Risk Free Rate ("RFR") benchmarks.

The SMBC Group programme has identified and is actively managing a broad range of significant risks and challenges that the transition from LIBOR presents to the Group, its customers and market participants, including: internal and external third party dependencies; information technology and transaction processing system changes; market and customer interest in alternate RFRs; customer communications and engagement; trade valuations and risk management; conduct and reputation considerations; Group readiness for LIBOR discontinuance; financial impact of using alternate RFRs; and education and training. In addition, the impact of the COVID-19 crisis presents a further challenge and increased risk to the delivery timeframe of the LIBOR transition.

Business Performance

The Group takes 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 including 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 earnings, regulatory capital, leverage and liquidity.

Despite the challenges presented by Brexit COVID-19, and the mix of factors affecting the business environment and global markets in which the business operates, the Group reported Total income of $286.0m for the 15 month period to 31 March 2020, a $52.8m increase (23%) on the previous year to 31 December 2018, and reflecting a comparable level to the previous year when adjusting for the extended 15 month period.

Performance in both the primary markets and secondary trading markets remained strong throughout the first 12 months of the period, whilst the impact of COVID-19 presented challenging market conditions, particularly in the secondary trading markets, in the last 3 months of the 15 month period.

The Group continued to secure significant mandates in the capital markets businesses, with steady revenue levels compared to the strong performance in the previous year. The secondary trading businesses reported an increase in trading revenues for the 15 month period compared to the prior year, including reporting an increase on year-on-year revenues in respect of the comparable 12 month periods. The derivatives business reported a strong revenue performance throughout the period, including in the last quarter despite the impact of COVID-19 on global markets.

The Group's operating expenses for the period report an increase compared to the previous year, while adjusting for the extended 15 month period, operating expenses remain at a similar level to 2018.

As a result, the financial performance of the Group has continued to be steady, with income, operating expenses and profit before tax at steady levels compared to the previous year, after adjusting for the extended 15 month period

The Group balance sheet at the end of March 2020 shows an increase in total assets and total liabilities, almost exclusively driven by derivative assets and liabilities largely as a result of falling interest rates in the last quarter of the period affecting the portfolio valuations. Repo levels, driven by client activity, remained steady since the end of December 2018. Cash levels show a moderate increase reflecting increased liquidity positions, while securities assets show a corresponding decrease. Collateral and other balances remain broadly unchanged.

The financial position of the Company at the end of the period was satisfactory.

Key Performance Indicators (KPI's)

In addition to the statutory financial reporting results, management also focuses on various key performance indicators, including the analysis of the management reporting of financial results for revenue and expenses at a business division and business line level, comparisons against budget, liquidity ratios, and capital adequacy ratios. Certain KPI's are shown below.

	15 months to 31/03/2020 prorated[1]	12 months to 31/12/2018
Net trading income change	- 4.1%	+ 8.2%
Total income change	- 1.9%	- 0.2%
Operating expenses change	- 2.1%	+ 0.4%
Profit before taxation change	- 1.3%	- 17.3%
Total capital ratio (Group)	45.7%	40.9%

[1] 15 months to 31 March 2020 versus, where applicable, 12 months to 31 December 2018 prorated to 15 months

Capital ratios are set out in Note 28 and have been maintained at levels that correspond with the Group and Company's risk appetite, as determined by the Board, throughout the period.

By order of the Board

Antony Yates
Director
One New Change
London EC4M 9AF
Date: 23 July 2020

SMBC NIKKO CAPITAL MARKETS LIMITED
DIRECTORS' REPORT

The directors present their report and the financial statements of SMBC Nikko Capital Markets Limited for the 15 month period ended 31 March 2020.

Results and dividends

The Group profit for the period, after taxation, amounted to $61.4 million (2018: $43.7 million). No dividend was paid in the period and none has been declared (2018: $nil).

Directors

The directors who served during the period were as follows:

T Imaeda (resigned on 20 May 2020)

P Jackson

H Kawafune

H Minami

B Miura (resigned on 31 March 2019)

N Okubo (resigned on 31 March 2020)

S Souchon

J D Thomas

A Yates

T Yazawa

In addition, K Nakamura was appointed a Company Director on 1 May 2020.

Each current and former director is indemnified out of the assets of the Company against all costs, charges, losses and liabilities incurred by them in the proper exercise of their duties subject to the provisions of the Company's Articles of Association. 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.

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.

Going Concern

While uncertainties inevitably prevail in respect of the business environment and global economic outlook, Management believe that there is no evidence related to events or conditions that is sufficient to cast significant material doubt upon the ability of the Company or the Group to continue as a going concern. The financial statements have been prepared on a going concern basis.

SMBC NIKKO CAPITAL MARKETS LIMITED
DIRECTORS' REPORT

Events after the reporting date

Events after the reporting date are discussed in Note 36 to the financial statements.

Financial risk management

Financial risk management objectives are included in the Strategic Report.

Future developments

The Company holds a strategically important position within the SMBC Group, providing the Europe Middle East and Africa ("EMEA") region component of a comprehensive, global and diverse suite of financial products and services. This allows the Company to both benefit from and play a key role in contributing towards the strategy of the SMBC Group.

The Group is committed to delivering it's new medium term management plan to strengthen its customer offering and distribution capability, and to pro-actively provide solutions to meet the diverse and evolving needs of customers; develop and diversify revenue opportunities; strengthen sustainable profitability; and continue the development of its governance and control framework.

The impact upon future developments in respect of Brexit and COVID-19 are discussed in the Strategic Report.

Auditor

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

Antony Yates
Director
One New Change
London EC4M 9AF
Date: 23 July 2020

SMBC NIKKO CAPITAL MARKETS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report, 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 International Financial Reporting Standards as adopted by the European Union (IFRSs 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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

Opinion

We have audited the financial statements of SMBC Nikko Capital Markets Limited ("the company") for the period ended 31 March 2020 which comprise the group income statement, group statement of comprehensive income, group statement of financial position, company statement of financial position, group statement of changes in equity, company statement of changes in equity, group statement of cash flows, company statement of cash flows and related notes, including the accounting policies in Note 1.

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 March 2020 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 24, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Simon Clark (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

United Kingdom

Date: 23 July 2020

SMBC NIKKO CAPITAL MARKETS LIMITED
GROUP STATEMENT OF PROFIT OR LOSS
FOR THE 15 MONTHS ENDED 31 MARCH 2020

	Notes	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Net trading income	2	185.5	154.8
Fees and commissions income		156.6	122.7
Fees and commissions expense		(68.8)	(49.2)
Net fees and commissions income		87.8	73.5
Interest income	4	135.2	69.9
Interest expense	5	(122.5)	(65.0)
Net interest income		12.7	4.9
Total income		286.0	233.2
Staff costs	6	(112.9)	(99.1)
Depreciation and amortisation	17, 18	(13.0)	(4.0)
Other operating expenses	3	(86.8)	(70.7)
Operating expenses		(212.7)	(173.8)
Profit before taxation		73.3	59.4
Taxation	8	(11.9)	(15.7)
Profit for the financial period		61.4	43.7
Profit for the financial period (Company)		61.3	31.8

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

The notes on pages 35 to 93 form an integral part of these financial statements.

SMBC NIKKO CAPITAL MARKETS LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE 15 MONTHS ENDED 31 MARCH 2020

	Notes	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Profit for the financial period		61.4	43.7
Other comprehensive income, net of tax, including			
Items that will never be reclassified to profit or loss:			
- Actuarial gains arising on a defined benefit pension plan, net of tax	9	0.1	0.3
Items that will be reclassified to profit or loss:			
- Net gains / (losses) from cash flow hedges, net of tax		2.5	(2.0)
Total comprehensive income for the financial period attributable to equity holders of the Group		64.0	42.0

The notes on pages 35 to 93 form an integral part of these financial statements.

SMBC NIKKO CAPITAL MARKETS LIMITED
GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Notes	31 March 2020 US$m	31 December 2018 US$m
Assets			
Cash at banks	10	1,429.8	839.5
Trading securities	11	1,454.2	1,890.3
Derivative assets	12	12,243.8	6,937.4
Other trading assets, at fair value	13	195.1	119.9
Securities purchased under agreements to resell	14	2,832.7	2,867.2
Collateral placed	15	2,470.7	2,457.5
Other debtors	16	117.0	28.0
Intangible assets	17	6.7	7.2
Property, plant and equipment	18	16.6	13.4
Deferred tax asset	8	2.6	2.3
Total assets		20,769.2	15,162.7
Liabilities			
Trading securities sold, not yet purchased	11	380.7	548.2
Derivative liabilities	12	11,654.1	6,921.0
Other trading liabilities, at fair value	13	350.5	192.8
Securities sold under agreements to repurchase	14	2,402.7	2,287.8
Collateral received	19	3,164.9	2,877.4
Other creditors	20	1,022.4	605.6
Pension scheme liability	9	2.6	2.6
Total liabilities		18,977.9	13,435.4
Net assets		1,791.3	1,727.3
Equity attributable to equity holders of the parent			
Called up share capital	21	1,139.0	1,139.0
Share premium		165.0	165.0
Retained earnings		487.3	425.9
Other reserves		-	(2.6)
Total equity		1,791.3	1,727.3

The notes on pages 35 to 93 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 July 2020 and were signed on its behalf by:

Antony Yates

Director

Company number 02418137

SMBC NIKKO CAPITAL MARKETS LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Notes	31 March 2020 US$m	31 December 2018 US$m
Assets			
Cash at banks	10	1,347.6	720.3
Trading securities	11	1,297.5	1,772.8
Derivative assets	12	12,226.5	6,922.2
Other trading assets, at fair value	13	195.1	119.9
Securities purchased under agreements to resell	14	2,832.7	2,867.2
Collateral placed	15	2,470.7	2,457.5
Other debtors	16	116.1	17.1
Investment in subsidiary undertaking	34	202.0	202.0
Intangible assets	17	6.7	7.2
Property, plant and equipment	18	14.2	13.3
Deferred tax asset	8	2.6	2.3
Total assets		20,711.7	15,101.8
Liabilities			
Trading securities sold, not yet purchased	11	380.7	548.2
Derivative liabilities	12	11,637.8	6,907.0
Other trading liabilities, at fair value	13	350.5	192.8
Securities sold under agreements to repurchase	14	2,402.7	2,287.8
Collateral received	19	3,164.9	2,877.4
Other creditors	20	1,022.9	600.3
Pension scheme liability	9	2.6	2.6
Total liabilities		18,962.1	13,416.1
Net assets		1,749.6	1,685.7
Equity attributable to equity holders of the parent			
Called up share capital	21	1,139.0	1,139.0
Share premium		165.0	165.0
Retained earnings		445.6	384.3
Other reserves		-	(2.6)
Total equity		1,749.6	1,685.7

The notes on pages 35 to 93 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 July 2020 and were signed on its behalf by:

Antony Yates

Director

Company number 02418137

SMBC NIKKO CAPITAL MARKETS LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE 15 MONTHS ENDED 31 MARCH 2020

	Notes	Called up share capital US$m	Share premium US$m	Retained earnings US$m	Other reserves: Pension reserve US$m	Other reserves: Cash flow hedges reserve US$m	Total equity US$m
At 1 January 2018		1,139.0	165.0	382.2	(1.4)	0.5	1,685.3
Profit for the year		-	-	43.7	-	-	43.7
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	-	-	0.3	-	0.3
Net losses arising on cash flow hedges		-	-	-	-	(2.0)	(2.0)
Total comprehensive income for the year		-	-	43.7	0.3	(2.0)	42.0
At 31 December 2018		1,139.0	165.0	425.9	(1.1)	(1.5)	1,727.3
At 1 January 2019		1,139.0	165.0	425.9	(1.1)	(1.5)	1,727.3
Profit for the period		-	-	61.4	-	-	61.4
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	-	-	0.1	-	0.1
Net gains arising on cash flow hedges		-	-	-	-	2.5	2.5
Total comprehensive income for the period		-	-	61.4	0.1	2.5	64.0
At 31 March 2020		1,139.0	165.0	487.3	(1.0)	1.0	1,791.3

The notes on pages 35 to 93 form an integral part of these financial statements.

SMBC NIKKO CAPITAL MARKETS LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE 15 MONTHS ENDED 31 MARCH 2020

	Notes	Called up share capital US$m	Share premium US$m	Retained earnings US$m	Other reserves: Pension reserve US$m	Other reserves: Cash flow hedges reserve US$m	Total equity US$m
At 1 January 2018		1,139.0	165.0	352.5	(1.4)	0.5	1,655.6
Profit for the year		-	-	31.8	-	-	31.8
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	-	-	0.3	-	0.3
Net losses arising on cash flow hedges		-	-	-	-	(2.0)	(2.0)
Total comprehensive income for the year		-	-	31.8	0.3	(2.0)	30.1
At 31 December 2018		1,139.0	165.0	384.3	(1.1)	(1.5)	1,685.7
At 1 January 2019		1,139.0	165.0	384.3	(1.1)	(1.5)	1,685.7
Profit for the period		-	-	61.3	-	-	61.3
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	-	-	0.1	-	0.1
Net gains arising on cash flow hedges		-	-	-	-	2.5	2.5
Total comprehensive income for the period		-	-	61.3	0.1	2.5	63.9
At 31 March 2020		1,139.0	165.0	445.6	(1.0)	1.0	1,749.6

The notes on pages 35 to 93 form an integral part of these financial statements.

SMBC NIKKO CAPITAL MARKETS LIMITED
GROUP STATEMENT OF CASH FLOWS
FOR THE 15 MONTHS ENDED 31 MARCH 2020

	Notes	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Cash flows from operating activities			
Profit for the financial period		61.4	43.7
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	17, 18	13.0	4.0
Tax expense	8	11.9	15.7
Change in trading securities and repurchase contracts	11, 14	418.0	(574.2)
Change in trading assets, at fair value	13	(75.2)	(43.3)
Change in trading liabilities, at fair value	13	157.7	16.8
Change in collateral placed and other debtors	15, 16	(96.2)	604.6
Change in derivative assets	12	(5,306.4)	99.3
Change in deferred tax assets	8	(0.3)	(1.3)
Change in derivative liabilities	12	4,733.1	(84.2)
Change in collateral received and other creditors	19, 20	691.9	(55.2)
Net gains/(losses) arising on cash flow hedges		2.5	(2.0)
Corporation tax paid	29	(17.8)	(18.7)
Net cash flows from operating activities		532.2	(38.5)
Cash flows from investing activities			
Purchase of intangible assets	17	(1.6)	(5.3)
Purchase of property, plant and equipment	18	(1.7)	(6.4)
Net cash outflow from investing activities		(3.3)	(11.7)
Net change in cash		590.3	(6.5)
Cash and cash equivalents at beginning of period	10	839.5	846.0
Cash and cash equivalents at end of period	10	1,429.8	839.5
Net (decrease) / increase in cash		590.3	(6.5)

The notes on pages 35 to 93 form an integral part of these financial statements.

SMBC NIKKO CAPITAL MARKETS LIMITED
COMPANY STATEMENT OF CASH FLOWS
FOR THE 15 MONTHS ENDED 31 MARCH 2020

	Notes	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Cash flows from operating activities			
Profit for the financial period		61.3	31.8
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	17, 18	11.5	3.9
Tax expense	8	10.2	14.4
Change in trading securities and repurchase contracts	11, 14	457.2	(548.6)
Change in trading assets, at fair value	13	(75.2)	(43.3)
Change in trading liabilities, at fair value	13	157.7	16.8
Change in collateral placed and other debtors	15, 16	(106.2)	615.8
Change in derivative assets	12	(5,304.3)	100.8
Change in deferred tax assets	8	(0.3)	(1.3)
Change in derivative liabilities	12	4,730.8	(85.5)
Change in collateral received and other creditors	19, 20	700.5	(57.4)
Net gains/(losses) arising on cash flow hedges		2.5	(2.0)
Corporation tax paid		(16.2)	(15.8)
Net cash flows from operating activities		568.2	(2.2)
Cash flows from investing activities			
Purchase of intangible assets	17	(1.6)	(5.3)
Purchase of property, plant and equipment	18	(0.6)	(6.3)
Net cash outflow from investing activities		(2.2)	(11.6)
Net change in cash		627.3	18.0
Cash and cash equivalents at beginning of period	10	720.3	702.3
Cash and cash equivalents at end of period	10	1,347.6	720.3
Net increase in cash		627.3	18.0

The notes on pages 35 to 93 form an integral part of these financial statements.

1. Accounting policies

Reporting entity

These financial statements are prepared for SMBC Nikko Capital Markets Limited ("the Company") and its subsidiaries, SMBC Derivative Products Limited and SMBC Capital Markets Asia Limited (together "the Group"), under Section 399 of the Companies Act 2006. The Company is domiciled in England and Wales with the registered office as stated on page 1 and principal activities as set out in the Strategic Report.

Basis of consolidation

The Group consolidates all entities it controls. Control exists 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.

Consolidation presents the financial position and results of operations of the group as those of a single economic entity. On consolidation, intercompany balances and transactions are eliminated in full; investments in subsidiaries are written off against pre-acquisition reserves, giving rise, if required, to goodwill and non-controlling interest.

Going concern

The Directors have undertaken an assessment of the Group's ability to continue as a going concern under various stress scenarios including the impact of COVID-19 and are satisfied that it has the resources to continue in business for the foreseeable future. Further information regarding this assessment is given in the Directors' report. No material uncertainties that present sufficient evidence to cast significant doubt upon the Group's ability to continue as a going concern have arisen. Therefore, the financial statements continue to be prepared on the going concern basis.

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 period 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 $61.3 million in the period ended 31 March 2020 and a profit of $31.8 million in the period ended 31 December 2018.

Functional and presentational currency

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.

New accounting standards

i) IFRS 16 Leases

On 1 January 2019, the Group adopted IFRS 16 Leases. The new standard has been applied in preparing the current period financial statements but, as permitted, comparative information for the previous year was not restated. The application of IFRS 16 did not have a material impact on the reserves at the transition date.

ii) Amendments to IAS 12 Income Taxes

Annual amendments to IAS 12 Income Taxes which clarify the income tax consequences of dividends became effective on 1 January 2019. The amendments had no effect on the Group financial statements.

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 is mandatory for businesses whose debt or equity is publicly traded and optional for all others, including the Group. Accordingly, the Group has elected not to prepare such analysis.

Interest income

Interest income is earned on collateral, trading securities and cash at banks. Interest income is recorded at the effective interest rate, which 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

The Group earns fees and commissions for booking securities transactions on behalf of customers, where its main performance obligation is to execute the customer's order, and for advisory business, where the performance obligation is to secure an equity or debt issuance within an agreed price range. In both cases, performance obligations are substantially satisfied upon completion of the deals, which is the point in time when the revenue is recognised.

Intermediation fees

The Group receives intermediation fees from its affiliate SMBC Capital Markets, Inc. ("CM Inc.") for derivative transactions, which are recognised as the present value of estimated future cash flows on a trade date.

Fees charged by affiliates

The Group pays fees to related companies for support services, which include trade execution, product control, marketing, risk management, planning, system development and others. The fees are recognised as an expense when incurred.

Financial instruments

Financial instruments at the reporting date are accounted for under IFRS 9, except for hedging arrangements where the Group has elected to keep the rules of IAS 39.

Financial instruments are also governed by IFRS 7, IFRS 13 and IAS 32 which define their disclosures, fair value measurement, classification as debt or equity and offsetting.

i) Categories

The following categories of financial instruments held by the Group are within the scope of IFRS 9:

- Cash and cash equivalents;
- Trading securities and trading securities sold, not yet purchased;
- Derivative instruments, including credit guarantees;

- Other trading assets and liabilities;
- Securities purchased under agreements to resell and sold under agreements to repurchase;
- Collateral placed and received; and
- Other debtors and creditors.

iii) Classification and measurement

Under IFRS 9, financial assets are classified into three categories, measured at:

a) amortised cost;
b) fair value through other comprehensive income; or
c) fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other assets are classified as measured at fair value through profit or loss.

IFRS 9 permits designation of any financial assets at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch.

Financial liabilities are classified as measured at:

a) fair value through profit or loss (either designated or held for trading); or
b) amortised cost.

At the reporting date, financial instruments measured at amortised cost included:

- cash at banks;
- securities purchased under agreements to resell and sold under agreements to repurchase;
- collateral placed and received;
- other debtors and other creditors.

Instruments measured at fair value through profit or loss comprised

- trading securities;
- derivatives;
- other trading assets and other trading liabilities.

Trading securities contain assets held for liquidity purposes which were designated, rather than mandatory classified, at fair value through profit or loss.

There were no assets measured at fair value through other comprehensive income.

iv) Recognition and derecognition

Under IFRS 9, 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.

The standard permits a choice between trade date and settlement date accounting for recording regular way transactions. 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 is taken to profit and loss or to other comprehensive income depending upon the classification of the asset. Expected settlement date is used for transactions with trading securities and repurchase transactions. Trade date is used for derivatives.

Assets are derecognised when the entity transfers its contractual rights to receive the cash flows and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation is either discharged or cancelled or expires.

v) Fair value

Fair value is the price to sell an asset or settle a liability (exit price) in an orderly transaction between market participants at the measurement date under current market conditions which takes place 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.

The Group makes adjustments to the valuation of their derivatives by calculating credit, debit and funding valuation adjustments consistent with IFRS 13.

vi) Impairment

The Group recognises an impairment allowance for expected credit losses for financial assets carried at amortised cost and fair value through other comprehensive income.

IFRS 9 establishes three impairment categories:

a) low risk assets ("stage 1");
b) instruments whose credit risk has significantly increased since initial recognition ("stage 2"); and
c) credit-impaired ("stage 3").

Impairment provision of assets in stage 1 is measured for the 12-month future expected credit losses. Impairment provision for assets in stages 2 and 3 is calculated over the lifetime of the asset. IFRS 9 sets criteria for classification as low, significantly increased risk and credit-impaired. They include rebuttable presumptions of a significant increase in credit risk for instruments over 30 days in arrears and credit impairment for instruments over 90 days in arrears.

At the reporting date, the Group had no assets in stages 2 or 3. Where the Group's assets in scope have a life span of less than 12 months, the impairment provision is calculated for the shorter of the asset lifetime and 12 months.

vii) Hedging

As permitted by IFRS 9, the Group retained hedge accounting of IAS 39.

Hedge accounting under IAS 39 requires formal designation, documentation and ongoing effectiveness assessment of the hedging relationship. IAS 39 requires hedges to be highly effective, within a range of 80% to 125%, at inception and, at a minimum, at each reporting date. For cash flow hedges, it also requires the hedged forecast transactions to be highly probable and ultimately affect profit or loss.

The Group uses derivatives to hedge its exposure to variability in forecast operating expenses expressed in foreign currencies. These derivatives are designated as cash flow hedges. The effective portion of the fair value changes of the hedging derivatives is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. The amounts accumulated in other comprehensive income are recycled to profit or loss when the hedged forecast transactions take place or are no longer expected to occur.

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

In the ordinary course of business, the Group sells securities under agreements to repurchase them at a predetermined price ("repos" or "direct repos"). Since substantially all of the risks and rewards are retained by the Group, such transfers fail derecognition criteria. Therefore, 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 buys 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 measured at amortised cost.

ix) Credit guarantees

The Group has unconditional guarantees with its parent Sumitomo Mitsui Banking Corporation ("SMBC"), acting through its Cayman and Tokyo branches (the 'Guarantor'), which guarantees the prompt and complete payment when due of any net termination payment payable to the Group under any of the International Swaps and Derivatives Association ("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 based on the average value and expected life of the guaranteed transactions.

x) Borrowed securities

Securities borrowed or received as collateral are not recognised in the statement of financial position, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded at fair value as trading securities sold, not yet purchased. Any subsequent gains or losses are included in "Net trading profit" within profit or loss.

Intangible assets

Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. The carrying values of intangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable.

External expenditure on intangible assets is capitalised as incurred. Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Computer software	3-5 years

Property, plant and equipment

Property, plant and equipment are 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	3-5 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 and replacement of the assets.

Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss or other comprehensive income, consistently with the recognition of items it relates to.

Current tax is the expected tax charge or credit on the taxable income or loss in the period and any adjustments in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amounts of assets or liabilities for accounting purposes and carrying amounts for tax 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.

Pensions

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.

Payments to the defined contribution pension scheme are recognised within staff costs in profit or loss as incurred.

Defined benefit scheme expenses recognised within staff costs consist of service costs attributable to the current and past periods, interest on plan liabilities and return on plan assets.

The obligation under the defined benefit plan at the reporting date is determined by independent actuarial valuation using the projected unit 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 net of tax in other comprehensive income.

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

Deferred compensation

Deferred bonuses, further described in Note 33, are accrued for as the employees render their services, taking into consideration expected attrition and time value of money over the vesting period. The estimated amounts of bonuses are reviewed on a regular basis; the effect of any re-measurements is taken to profit or loss.

Leases

Lease arrangements at the reporting date are accounted for under IFRS 16, adopted on 1 January 2019. As permitted by IFRS 16, comparative information for the previous reporting period has not been restated and presented under IAS 17, in force at that time. The transition to IFRS 16 is explained in more detail in Note 26.

Under IAS 17, leases were classified as operating if they did not transfer substantially all the risks and rewards incidental to ownership.

Under IFRS 16, the lessees are required to recognise all leases, other than short-term leases and leases of low-value items, in the statement of financial position as right-of-use ('ROU') assets and lease liabilities. Both are initially measured as the present value of the future lease payments discounted at the interest rate implicit in the lease or, if such rate cannot be readily determined, the lessee's incremental borrowing rate. The lease assets are adjusted for any lease payments made at or before the commencement date, less any lease incentives received; any initial costs incurred; and expected costs to be incurred in dismantling, removing or restoring the underlying asset at the end of the lease.

Subsequent to initial recognition, ROU assets are depreciated on a straight-line or another appropriate basis. Lease liabilities are amortised on an effective interest rate basis, increasing by the amount of interest and decreasing by the amount of lease payments. The latter are no longer expensed, but instead treated as instalment payments of lease interest and principal.

Under IAS 17, all of the Group's leases were classified as operating leases. Rentals paid were charged to expenses on a straight-line basis over the term of the lease.

On adoption of IFRS 16, the Group used exemptions of IFRS 16 to:

- Exclude from the scope leases of low-value items and leases maturing within 12 months of initial application;
- Use incremental borrowing rates to discount lease liabilities;
- Measure the ROU assets at the amount of lease liabilities, adjusted for prepaid or accrued payments; and
- Rely on its previous assessment of onerous leases under IAS 37 in place of a new impairment review.

The adoption of IFRS 16 increased the Group's assets and liabilities as at 1 January 2019 by $12.4 million with no material impact on retained earnings. The effect on profit or loss comprised replacing $5.0 million rental costs and $0.9 million other operating costs with a $6.0 million depreciation charge and $0.3 million lease interest expense, an overall additional expense of $0.4 million.

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.

i) Judgements

Judgments do not usually directly address measurement. The management exercises judgements when accounting standards allow a range of possible measurement methods. A different judgement might lead to a materially different accounting treatment and valuation.

Judgement is exercised in respect of the methodology for valuing the Group's collateralised derivative contracts. The management has chosen to use, in line with market practice, the Overnight Indexed Swap curve ("OIS") in order to more consistently manage the associated interest rate and funding risks.

Judgement is exercised as to whether unobservable inputs constitute a significant part of the total value of derivative instruments and therefore the level at which the instruments should be classified in the fair value hierarchy.

ii) Estimates

Estimates use uncertain information and sometimes subjective assumptions to measure carrying values. As a result, estimates bear a risk of material adjustments to the carrying amounts in subsequent accounting periods.

Estimates are used where the fair value of derivative assets and liabilities cannot be derived from active markets and 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 are not available, unobservable inputs are used. The estimates 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 market data and 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 and involves similar estimates of exposure at default, probability of default and recovery rates.

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 wholly 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.

During the period, the FVA methodology was changed from using an average funding curve of market dealers to the SMBC funding transfer pricing ("FTP") curve, which is a better representation of the Group's cost of funding. It was treated as a change in estimates and applied prospectively to the current and future periods. The change resulted in an increase in the FVA reserve and additional charge to profit or loss of $9.3 million.

The FVA, CVA and DVA are calculated independently of each other.

Future accounting developments

i) IFRS 17 Insurance Contracts

IFRS 17 was published in May 2017 but continues to be revised. Due to the ongoing revisions and COVID-19 pandemic, its effective date has been deferred from 1 January 2021 to 1 January 2023. The Group continues to monitor the standard's impact on its financial statements.

ii) LIBOR replacement

During 2019, the IASB finalised phase I of amendments to IFRS 9, IAS 39 and IFRS 7 in response to the proposed replacement of London Inter-Bank Offered Rate ("LIBOR") with alternative interest rates ("IBOR reform"). The amendments are effective for annual periods beginning on or after 1 January 2020. Phase I of the amendments pertains to LIBOR-based hedge accounting and as such does not apply to the Group. The Group continues to monitor the development of the IBOR reform project.

2. Net trading income

This comprises the following items of income and expense:

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Net gains on financial instruments held for trading	185.0	155.4
Centralised activities	0.5	(0.6)
	185.5	154.8

3. Other operating expenses

Other operating expenses include

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Auditor remuneration		
audit fees to KPMG LLP	0.7	0.5
audit related service fees to KPMG LLP	0.1	0.2
credit rating assurance fees to KPMG LLP NY	0.3	0.4
	1.1	1.1
Operating lease rentals	1.1	4.5

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

As explained in Note 1, operating lease rentals in the current period comprise only leases outside the scope of IFRS 16, the new standard on leases, whereas the prior year comprises all leases.

4. Interest income

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Interest on collateral	67.2	47.0
Interest on reverse repo transactions	28.3	6.0
Interest on securities	37.5	14.8
Interest on deposits	2.2	2.1
	135.2	69.9

5. Interest expense

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Interest on collateral	84.5	54.4
Interest on repo transactions	22.4	2.0
Interest on borrowings	15.3	8.6
Interest on lease liabilities	0.3	-
	122.5	65.0

6. Staff costs

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Wages and salaries	89.3	75.0
Social security costs	7.8	7.2
Pension costs: Defined benefit scheme (Note 9)	0.2	0.2
Pension costs: Defined contribution scheme	5.7	5.8
Other staff costs	9.9	10.9
	112.9	99.1

The average monthly number of Group and Company employees during the period was 378 (2018: 359) and 364 (2018: 346) respectively.

7. Directors' emoluments

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 (restated)* US$m
Emoluments	3.6	3.6
Group pension contributions	-	-
Total	3.6	3.6

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 (restated)* US$m
Emoluments of the highest paid director	1.7	1.7
Group pension contributions	-	-
Total	1.7	1.7

** The Group's performance evaluation year for remuneration runs from April to March, in line with the SMBC Group. In previous years, directors' bonuses for the performance year were finalised after the financial statements were authorised for issue. As a result, the emoluments note was prepared using the bonuses paid in the year in respect of the previous performance year. Following the change of the accounting reference date, it became possible to report bonuses as awarded. The change has been applied retrospectively to the current and previous periods.*

The highest paid director belonged to the Group's defined benefit pension scheme with the Group's contribution of $39 thousand (2018: one director with contribution of $31 thousand) in the period. See Note 9 for more details.

Three directors received a bonus (2018: four directors).

8. Taxation

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Current tax		
Current period	11.2	14.2
Adjustments for prior years	0.8	0.8
Foreign tax suffered	1.5	1.5
Double tax relief	(0.4)	(0.1)
Current tax charge	13.1	16.4
Deferred tax		
Origination and reversal of temporary difference	(0.9)	(0.2)
Adjustments for prior years	(0.3)	(0.5)
Deferred tax charge / (credit)	(1.2)	(0.7)
Total tax charge in income statement	11.9	15.7

Disclosure of tax in other comprehensive income

	15 months to 31/03/2020		12 months to 31/12/2018	
	Before tax US$m	Net of tax US$m	Before tax US$m	Net of tax US$m
Actuarial gains / (losses) on defined benefit pension plan	0.2	0.1	(1.4)	(1.1)
Cash flow hedges	3.3	2.5	(2.0)	(1.5)
	3.5	2.6	(3.4)	(2.6)

Reconciliation of effective tax rate

The tax charge on profit for the period differs from the nominal amount that would arise at the standard weighted average rate of corporation tax in the UK. The differences are explained below:

	15 months to 31/03/2020		12 months to 31/12/2018	
	US$m	Effective tax rate	US$m	Effective tax rate
Profit before taxation	73.3		59.4	
Tax using the UK weighted average corporation tax rate of 19% (2018: 19%)	13.9	19.0%	11.3	19.0%
Banking surcharge	2.6	3.5%	3.9	6.6%
Advance Pricing Agreement adjustment	(5.3)	(7.3)%	0.3	0.5%
Adjustments for prior years	0.8	1.1%	0.3	0.5%
Other	(0.1)	(0.1)%	(0.1)	(0.2)%
	11.9	16.2%	15.7	26.4%

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 derivative products group profits.

Corporation tax rate

The corporation tax rate remained at 19% throughout the period ended 31 March 2020 (2018: 19%). The UK government reversed its earlier decision to reduce the rate to 17% from 1 April 2020 and decided to keep it at 19% until at least 31 March 2022.

In addition, the Finance (No. 2) Act 2015 introduced a bank surcharge of 8% on the profits of companies within banking groups, with effect from 1 January 2017. The Group has been allocated a portion of a £25m bank surcharge allowance that covers entities within the SMBC UK Group.

The deferred tax asset at 31 March 2020 has been calculated based on the above rates, including the bank surcharge. The effect of the bank surcharge is reflected in this period's current tax charge.

Deferred tax assets (Group and Company)

	31 March 2020 US$m	31 December 2018 US$m
Property, plant & equipment	1.3	0.9
Employee benefits	0.7	0.6
Deferred compensation	1.0	0.3
Cash flow hedges	(0.4)	0.5
Deferred tax assets	2.6	2.3

Movement in deferred tax assets (Group and Company)

	1 January 2019	Recognised in income	Recognised in reserves	31 March 2020
Property, plant and equipment	0.9	0.4	-	1.3
Employee benefits	0.6	0.1	-	0.7
Deferred compensation	0.3	0.7	-	1.0
Cash flow hedges	0.5	-	(0.9)	(0.4)
Deferred tax assets	2.3	1.2	(0.9)	2.6

	1 January 2018	Recognised in income	Recognised in reserves	31 December 2018
Property, plant and equipment	0.5	0.4	-	0.9
Employee benefits	0.7	-	(0.1)	0.6
Deferred compensation	-	0.3	-	0.3
Cash flow hedges	(0.2)	-	0.7	0.5
Deferred tax assets	1.0	0.7	0.6	2.3

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 Markets Limited Group Personal Plan, is open to new entrants and future contributions. The pension cost for this scheme for the period was $5.7 million (2018: $5.8 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 pension has the following features:

- Payable from the age of 60, at one-sixtieth of pensionable salary for each year of service, subject to the earnings cap;
- Guaranteed for 5 years once in payment;
- Increases at the lower of retail price index or 5% p.a.;
- Attaches a 50% spouse's pension.

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

	15 months to 31/03/2020 %	12 months to 31/12/2018 %
Rate of increase in salaries	4.0	4.7
Rate of increase in pension payment	2.5	3.2
Discount rate	2.3	2.8
Inflation assumption	2.5	3.2

Salary is assumed to increase at a rate of 1.5% per annum in excess of the inflation assumption. The assumption allows for both general increases in pay (due to inflation) and career progression. However, because the salary is capped, this assumption has no impact. The cap is assumed to increase in line with inflation Retail Price Index ("RPI").

The inflation assumption is set by having regard to the difference in yields between fixed-interest and index-linked investments. The difference is adjusted for an inflation risk premium of 0.2% per annum. There is no allowance for using Consumer Price Index ("CPI"), rather than RPI.

The discount rate used to value scheme liabilities is set at the current rate of return on high quality corporate bonds, for this purpose AA rated.

Values of the EPP scheme assets and liabilities were as follows:

Group and Company

	31 March 2020 US$m	31 December 2018 US$m
Total fair value of pension scheme assets	1.2	1.1
Present value of pension scheme liabilities	(3.8)	(3.7)
Pension scheme liability	(2.6)	(2.6)
Related deferred tax asset (Note 8)	0.7	0.6
Net pension scheme liability	(1.9)	(2.0)

Movements in the fair value of EPP scheme assets are shown below:

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Fair value of pension scheme assets at the beginning of the period	1.1	1.1
Expected return on pension scheme assets	-	-
Employer contributions	-	-
Actuarial loss on pension scheme assets	-	-
Exchange differences	0.1	-
Fair value of pension scheme assets at the end of the period	1.2	1.1

The assets of the Scheme are invested in three Aegon funds: Mixed Fund, With Profits Endowment Fund and High Equity With Profits Fund. The Mixed Fund is diversified by investing in a variety of underlying funds. The with-profits funds invest in a wide range of bonds and equities but smooth the investment returns together with the use of underlying guarantees. The table below analyses the allocation of assets by instrument type:

	31 March 2020		31 December 2018	
	%	US$m	%	US$m
Quoted instruments	25.0	0.3	27.3	0.3
Unquoted instruments*	75.0	0.9	72.7	0.8
Cash	-	-	-	-
	100.0	1.2	100.0	1.1

*Aegon With-Profit funds

Movements in the fair value of the defined benefit obligations are below:

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Defined benefit obligations at the beginning of the period	3.7	4.1
Service cost / interest expense recognised in staff costs	0.3	0.2
Actuarial gain on pension scheme liabilities	(0.2)	(0.4)
Exchange differences	-	(0.2)
Fair value of pension scheme liabilities at the end of the period	3.8	3.7

Actuarial loss movements are summarised in the following table:

	15 months to 31/03/2020 US$m	12 months to 31/12/2018 US$m
Cumulative actuarial loss at the beginning of the period	(2.2)	(2.6)
Actuarial gain for the period	0.2	0.4
Cumulative actuarial loss at the end of the period	(2.0)	(2.2)
Actuarial gain for the period, net of tax (Note 8)	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 March 2020. 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.

The expected contributions to the plan for the next annual reporting period are expected to grow by 3.2%, in line with the principal assumptions described earlier.

The maturity profile of the defined benefit obligation assumes payments increasing at the lower of RPI or 5% per annum over the weighted average duration of the obligation. The average duration of the obligation represents the life expectancy of a male aged 60 at the time of retirement and at the reporting date equals 30 years (2018: 30 years).

Sensitivity Analysis

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

Assumption variations	31 March 2020		31 December 2018	
	Defined Benefit Obligation		Defined Benefit Obligation	
	%	US$m	%	US$m
Discount Rate 0.5% p.a. lower	12.0	0.5	12.0	0.4
Inflation Rate 0.5% p.a. lower	(10.0)	(0.4)	(10.0)	(0.4)
Minimum rate of improvement of mortality 0.5% p.a. lower	(3.0)	(0.1)	(3.0)	(0.1)

10. Cash at banks

	Group		Company	
	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Current accounts	669.2	160.1	659.5	148.7
Short-term deposits	760.6	679.4	688.1	571.6
	1,429.8	839.5	1,347.6	720.3

At the reporting date, $20.4 million of Group (2018: $25.6 million), and $15.2 million of Company (2018: $20.2 million) current accounts were placed with related companies.

Short-term deposits placed with related companies amounted to $338.4 million (2018: $272.6 million) for the Group and $336.9 million (2018: $271.1 million) for the Company.

A detailed analysis of the Group's and Company's credit exposure on cash at banks is included in Note 22.

11. Trading securities

Trading securities assets ("long positions") represent short-term investments in debt and equity instruments, held for the purpose of facilitating customer orders and which also generate income from value fluctuations, dividends and coupons.

Trading securities sold, not yet purchased, liabilities ("short positions") arise when the Group sells securities held as collateral under agreements to resell ("reverse repos") or borrowed in the market. They represent an obligation to return the underlying securities, measured at their market value, when the repo contracts mature or the lender recalls the collateral.

Fair value as at 31 March 2020 **Group**	Listed on London Stock Exchange US$m	Listed on non UK Exchanges US$m	Not listed US$m	Total US$m
Assets				
Floating rate notes	15.3	232.5	-	247.8
U.S. treasury securities	-	317.8	-	317.8
Other foreign government securities	1.7	117.7	-	119.4
Corporate bonds	121.1	582.5	64.7	768.3
Equity securities	-	0.9	-	0.9
Total	138.1	1,251.4	64.7	1,454.2
Liabilities				
Floating rate notes	5.1	3.0	-	8.1
U.S. treasury securities	-	49.0	-	49.0
Other foreign government securities	0.6	78.6	-	79.2
Corporate bonds	49.5	124.7	1.9	176.1
Equity securities	-	68.3	-	68.3
Total	55.2	323.6	1.9	380.7

Fair value as at 31 March 2020 **Company**	Listed on London Stock Exchange US$m	Listed on non UK Exchanges US$m	Not listed US$m	Total US$m
Assets				
Floating rate notes	15.3	125.8	-	141.1
U.S. treasury securities	-	267.9	-	267.9
Other foreign government securities	1.7	117.7	-	119.4
Corporate bonds	121.1	582.4	64.7	768.2
Equity securities	-	0.9	-	0.9
Total	138.1	1,094.7	64.7	1,297.5
Liabilities				
Floating rate notes	5.1	3.0	-	8.1
U.S. treasury securities	-	49.0	-	49.0
Foreign government securities	0.6	78.6	-	79.2
Corporate bonds	49.5	124.7	1.9	176.1
Equity securities	-	68.3	-	68.3
Total	55.2	323.6	1.9	380.7

Fair value as at 31 December 2018 **Group**	Listed on London Stock Exchange US$m	Listed on non UK Exchanges US$m	Not listed US$m	Total US$m
Assets				
Floating rate notes	33.7	237.5	8.6	279.8
U.S. treasury securities	-	704.4	-	704.4
Other foreign government securities	4.9	188.7	4.6	198.2
Corporate bonds	60.3	575.7	70.4	706.4
Equity securities	-	1.5	-	1.5
Total	98.9	1,707.8	83.6	1,890.3
Liabilities				
Floating rate notes	3.4	18.1	-	21.5
U.S. treasury securities	-	164.5	-	164.5
Other foreign government securities	-	69.6	-	69.6
Corporate bonds	19.2	160.8	-	180.0
Equity securities	-	112.6	-	112.6
Total	22.6	525.6	-	548.2

Fair value as at 31 December 2018 **Company**	Listed on London Stock Exchange US$m	Listed on non UK Exchanges US$m	Not listed US$m	Total US$m
Assets				
Floating rate notes	33.7	169.9	8.6	212.2
U.S. treasury securities	-	654.5	-	654.5
Other foreign government securities	4.9	188.7	4.6	198.2
Corporate bonds	60.3	575.7	70.4	706.4
Equity securities	-	1.5	-	1.5
Total	98.9	1,590.3	83.6	1,772.8
Liabilities				
Floating rate notes	3.4	18.1	-	21.5
U.S. treasury securities	-	164.5	-	164.5
Other foreign government securities	-	69.6	-	69.6
Corporate bonds	19.2	160.8	-	180.0
Equity securities	-	112.6	-	112.6
Total	22.6	525.6	-	548.2

12. Derivative assets and liabilities

Derivatives are financial instruments which derive their value from other assets, rates, prices, indices or other variables and which settlement does not usually involve the delivery of the underlying instrument. Derivative assets represent contracts with positive fair values and liabilities represent those with negative fair values.

In line with the requirements of IFRS 13, the Group booked a Debit Valuation Adjustment ("DVA"), Credit Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") when calculating the fair value of its derivatives. Collectively, these are classified as "Derivative reserves".

As explained in Note 1, during the period the FVA methodology was refined to reflect more accurately the Group's cost of funding. The change resulted in an increase in the FVA reserve of $9.3 million.

The tables below provide an analysis of carrying values and principal amounts by type of contract:

	Carrying value		Notional principal	
Group	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Interest rate and currency swaps	12,097.9	6,824.0	134,892.0	150,103.5
Options	105.8	103.8	10,874.9	10,424.2
Forward contracts	44.6	20.0	2,980.3	1,328.1
Commodity swaps	40.7	12.0	138.9	194.4
Derivative reserves	(45.2)	(22.4)	-	-
Derivative assets	12,243.8	6,937.4	148,886.1	162,050.2
Interest rate and currency swaps	11,494.4	6,777.9	131,102.6	151,689.2
Options	97.5	80.6	10,763.0	8,674.0
Forward contracts	50.5	38.0	3,329.9	2,258.4
Commodity swaps	38.6	11.9	137.0	198.6
Credit guarantees (see Note 31)	-	54.3	-	-
Derivative reserves	(26.9)	(41.7)	-	-
Derivative liabilities	11,654.1	6,921.0	145,332.5	162,820.2

	Carrying value		Notional principal	
Company	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Interest rate and currency swaps	12,080.5	6,809.5	134,836.0	150,046.6
Options	105.8	103.1	9,555.1	7,857.5
Forward contracts	44.6	20.0	2,980.3	1,328.1
Commodity swaps	40.7	12.0	138.9	194.4
Derivative reserves	(45.1)	(22.4)	-	-
Derivative assets	12,226.5	6,922.2	147,510.3	159,426.6
Interest rate and currency swaps	11,477.4	6,763.8	131,037.8	151,625.1
Options	97.5	79.8	9,443.2	7,113.4
Forward contracts	50.5	38.0	3,329.9	2,258.4
Commodity swaps	38.6	11.9	137.0	198.6
Credit guarantees (see Note 31)	-	54.3	-	-
Derivative reserves	(26.2)	(40.8)	-	-
Derivative liabilities	11,637.8	6,907.0	143,947.9	161,195.5

The tables below analyse the carrying values of derivatives, excluding reserves and credit guarantees, by contractual maturities:

	Group		Company	
Carrying values	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Due within 1 year	844.7	555.3	841.2	555.3
Due within 1 to 5 years	2,802.3	2,100.2	2,802.3	2,097.7
Due within 5 to 10 years	3,416.4	1,993.2	3,402.6	1,993.2
Due within 10 to 15 years	2,090.9	772.8	2,090.9	760.0
Due in more than 15 years	3,134.7	1,538.3	3,134.6	1,538.4
Derivative assets	12,289.0	6,959.8	12,271.6	6,944.6
Due within 1 year	832.2	566.1	828.7	566.1
Due within 1 to 5 years	2,560.9	2,088.6	2,560.9	2,086.2
Due within 5 to 10 years	3,656.9	1,988.4	3,643.4	1,988.4
Due within 10 to 15 years	1,755.2	739.1	1,755.2	726.6
Due in more than 15 years	2,875.8	1,526.2	2,875.8	1,526.2
Derivative liabilities	11,681.0	6,908.4	11,664.0	6,893.5

Derivatives are usually used by market participants to hedge risks in non-derivative financial or non-financial contracts. When the host contracts expire, the related derivatives are settled as well. Due to that, contractual maturities represent the maximum expected duration of derivative instruments.

The derivative instruments above include those held to hedge expenses expressed in foreign currencies and designated as cash flow hedges:

	Carrying value		Notional principal	
Group and Company	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Forward contracts	1.3	-	8.6	-
Derivative assets	1.3	-	8.6	-
Forward contracts	-	2.0		25.0
Derivative liabilities	-	2.0		25.0

During the reported periods, there were no hedged forecast transactions which were no longer expected to occur.

Gains or losses transferred during the period from the cash flow hedging reserve to operating expenses were as follows:

Group and Company	2020 US$m	2018 US$m
Gain / (loss)	(1.2)	(2.8)

The paragraphs below 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. Inflation swaps are included in this category.

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.

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/or interest in two currencies, agreeing to re-exchange any principal amounts at a future date and agreed upon exchange rate. These currency swaps primarily relate to major foreign currencies such as Yen, Canadian dollars, Australian dollars, Sterling and Euros.

Options

The Group holds positions in options, which give the holder the right, but not an obligation, to execute a transaction at pre-agreed terms. Currency options allow the holder to buy or sell principals at the contractual exchange rates. Interest rate options –

floors and caps – fix respectively the lowest and highest interest rates on deposits and borrowings. Equity index options involve payments determined by reference to the movement in an equity index.

Forward contracts

The Group's forward contracts, mainly in respect of currency exchanges, are agreements to exchange amounts in different currencies in the future at the rates determined at the time of the agreement.

Commodity derivatives

The Group holds 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 customer positions are fully hedged with a market maker.

As of 31 March 2020, for almost all of the Group's interest rate and currency swaps, interest rate and currency options with customers, back-to-back transactions were made with CM Inc. For commodity and equity and other index trades with customers, back-to-back transactions were made with other market counterparties. Note 22 describes the risks associated with derivative products.

13. Other trading assets and liabilities

Other trading assets and liabilities comprise derivative contracts or their components which do not meet the accounting definition of a derivative, with either positive or negative carrying values. Below is their analysis by contractual maturity.

Group and Company	31 March 2020 US$m	31 December 2018 US$m
Due within 1 year	1.1	4.8
Due within 1 to 5 years	18.5	14.3
Due within 5 to 10 years	11.0	14.8
Due within 10 to 15 years	20.4	0.8
Due in more than 15 years	144.1	85.2
Other trading assets	195.1	119.9
Due within 1 year	5.6	1.0
Due within 1 to 5 years	41.3	14.2
Due within 5 to 10 years	27.3	20.9
Due within 10 to 15 years	75.5	37.3
Due in more than 15 years	200.8	119.4
Other trading liabilities	350.5	192.8

14. Repurchase agreements

Repurchase agreements represent purchases or sales of securities with a condition to resell or repurchase at a pre-determined price. As such, repurchase transactions are treated as collateralised lending or borrowing, supported by the underlying securities and, if required, additional collateral.

	31 March 2020 US$m	31 December 2018 US$m
Group and Company		
Amounts due from related parties	2,411.5	2,426.9
Amounts due from external parties	421.2	440.3
Securities purchased under agreements to resell	2,832.7	2,867.2
Amounts due to related parties	183.3	158.6
Amounts due to external parties	2,219.4	2,129.2
Securities sold under agreements to repurchase	2,402.7	2,287.8

The contractual maturity profile of repurchase agreements is as follows:

	31 March 2020 US$m	31 December 2018 US$m
Group and Company		
Due on demand	216.7	258.7
Due within one month	1,735.4	1,923.0
Due within one to three months	856.6	674.4
Due within three to six months	24.0	11.1
Securities purchased under agreements to resell	2,832.7	2,867.2
Due on demand	5.5	-
Due within one month	1,608.2	1,675.3
Due within one to three months	789.0	601.4
Due within three to six months	-	11.1
Securities sold under agreements to repurchase	2,402.7	2,287.8

Most repurchase agreements are renewed on maturity. Therefore, contractual maturities represent the minimum expected duration of these instruments.

15. Collateral placed

Placed collateral represents cash deposits in respect of derivative and repo transactions required under Credit Support Annexes ("CSAs") and Global Master Repurchase Agreements ("GMRAs").

Group and Company	31 March 2020 US$m	31 December 2018 US$m
Collateral placed with related parties	1,585.9	1,818.0
Collateral placed with external parties	884.8	639.5
	2,470.7	2,457.5

As at 31 December 2018, collateral with related parties included an amount of $310.0 million in respect of an 'Independent Amount' received from an affiliate, which was offset against collateral placed under the same CSA.

In addition to the cash collateral, the Group placed collateral in the form of securities, as presented below. Such collateral is not recognised in the statement of financial position.

Group and Company	31 March 2020 US$m	31 December 2018 US$m
Voluntary derivative collateral placed with related parties	34.0	-
Regulatory derivative collateral placed with third parties	46.6	42.5
	80.6	42.5

16. Other debtors

	Group		Company	
	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Prepayments	7.2	9.4	7.0	9.1
Corporation tax	2.3	-	2.1	(1.8)
Other related party debtors	55.7	7.3	54.9	(0.9)
Other external debtors	51.8	11.3	52.1	10.7
	117.0	28.0	116.1	17.1

17. Intangible assets

	Computer software US$m
Group and Company	
Cost	
Balance at 1 January 2018	2.1
Additions	5.3
Balance at 31 December 2018	7.4
Balance at 1 January 2019	7.4
Additions	1.6
Balance at 31 March 2020	9.0
Accumulated amortisation and impairment losses	
Balance at 1 January 2018	0.1
Charge for the year	0.1
Balance at 31 December 2018	0.2
Balance at 1 January 2019	0.2
Charge for the period	2.1
Balance at 31 March 2020	2.3
Carrying amounts	
Balance at 31 December 2018	7.2
Balance at 31 March 2020	6.7

No internal development costs were capitalised during the period.

18. Property, plant and equipment

As explained in Note 1, lease arrangements at the reporting date are accounted for under IFRS 16, adopted on 1 January 2019. The adoption of IFRS 16 increased the Group's reported fixed assets and corresponding lease liabilities as at 1 January 2019 by USD 12.4 million with no material impact on retained earnings.

	Leasehold property US$m	Personal computers US$m	Furniture and fixtures US$m	Total US$m
Group				
Cost				
Balance at 1 January 2018	23.0	8.1	0.4	31.5
Additions	-	6.4	-	6.4
Balance at 31 December 2018	23.0	14.5	0.4	37.9
Transition to IFRS 16	10.3	2.1	-	12.4
Balance at 1 January 2019	33.3	16.6	0.4	50.3
Additions	1.1	0.6	-	1.7
Disposals	(0.6)	-	-	(0.6)
Balance at 31 March 2020	33.8	17.2	0.4	51.4
Accumulated depreciation and impairment losses				
Balance at 1 January 2018	14.2	6.1	0.3	20.6
Depreciation for the year	2.7	1.1	0.1	3.9
Balance at 31 December 2018	16.9	7.2	0.4	24.5
Balance at 1 January 2019	16.9	7.2	0.4	24.5
Depreciation for the period	8.4	2.5	-	10.9
Disposals	(0.6)	-	-	(0.6)
Balance at 31 March 2020	24.7	9.7	0.4	34.8
Carrying amounts				
Balance at 31 December 2018	6.1	7.3	-	13.4
Balance at 31 March 2020	9.1	7.5	-	16.6

	Leasehold property US$m	Personal computers US$m	Furniture and fixtures US$m	Total US$m
Company				
Cost				
Balance at 1 January 2018	23.0	8.0	0.3	31.3
Additions	-	6.3	-	6.3
Balance at 31 December 2018	23.0	14.3	0.3	37.6
Transition to IFRS 16	7.6	2.1	-	9.7
Balance at 1 January 2019	30.6	16.4	0.3	47.3
Additions	-	0.6	-	0.6
Balance at 31 March 2020	30.6	17.0	0.3	47.9
Accumulated depreciation and impairment losses				
Balance at 1 January 2018	14.2	6.0	0.3	20.5
Depreciation for the year	2.7	1.1	-	3.8
Balance at 31 December 2018	16.9	7.1	0.3	24.3
Balance at 1 January 2019	16.9	7.1	0.3	24.3
Depreciation for the period	6.9	2.5	-	9.4
Balance at 31 March 2020	23.8	9.6	0.3	33.7
Carrying amounts				
Balance at 31 December 2018	6.1	7.2	-	13.3
Balance at 31 March 2020	6.8	7.4	-	14.2

Property, plant and equipment above include leased assets, which analysis is presented below.

	Leasehold property US$m	Personal computers US$m	Furniture and fixtures US$m	Total US$m
Group				
Cost				
Balance at 1 January 2019	10.3	2.1	-	12.4
Additions	1.1	-	-	1.1
Disposals	(0.6)	-	-	(0.6)
Balance at 31 March 2020	10.8	2.1	-	12.9
Accumulated depreciation and impairment losses				
Balance at 1 January 2019	-	-	-	-
Depreciation for the period	5.0	1.0	-	6.0
Disposals	(0.6)	-	-	(0.6)
Balance at 31 March 2020	4.4	1.0	-	5.4
Carrying amounts				
Balance at 31 March 2020	6.4	1.1	-	7.5

	Leasehold property US$m	Personal computers US$m	Furniture and fixtures US$m	Total US$m
Company				
Cost				
Balance at 1 January 2019	7.6	2.1	-	9.7
Balance at 31 March 2020	7.6	2.1	-	9.7
Accumulated depreciation and impairment losses				
Balance at 1 January 2019	-	-	-	-
Depreciation for the period	3.6	1.0	-	4.6
Balance at 31 March 2020	3.6	1.0	-	4.6
Carrying amounts				
Balance at 31 March 2020	4.0	1.1	-	5.1

19. Collateral received

Collateral received represents cash received to support either trading balances (arising from derivative and repurchase transactions) or the SMBC group credit guarantee, explained further in Note 31. Collateral is transferred with full re-hypothecation rights.

Group and Company	31 March 2020 US$m	31 December 2018 US$m
Collateral received from related parties in respect of:		
- derivative transactions	1,083.9	1,236.3
- credit guarantee	1,672.1	1,483.0
	2,756.0	2,719.3
Collateral received from external parties in respect of:		
- derivative transactions	390.9	151.8
- repurchase transactions	18.0	6.3
	408.9	158.1
	3,164.9	2,877.4

In addition to the cash collateral, the Group received collateral in the form of securities, as presented below. Such collateral is not recognised in the statement of financial position, but can be used to mitigate credit risk. The arrangement for which SMBC DP received the indemnity securities is further explained in Note 30.

Group and Company	31 March 2020 US$m	31 December 2018 US$m
Collateral received from related parties:		
Independent Amount on derivative contracts	1,448.7	1,564.5
Margin Deficit Securities on repo contracts	32.0	2.0
Voluntary derivative collateral	29.0	
SMBC DP guarantees indemnity	7.0	180.6
	1,516.7	1,747.1
Regulatory derivative collateral received from third parties	64.5	61.9
	1,581.2	1,809.0

20. Other creditors

	Group		Company	
	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Funding loans from related parties	813.7	528.5	813.7	528.5
Corporation tax	-	1.7	-	0.1
Lease liabilities	8.3	-	5.9	-
Other related party creditors	68.7	29.2	73.5	27.2
Other external creditors	131.7	46.2	129.8	44.5
	1,022.4	605.6	1,022.9	600.3

21. Called up share capital

	Allotted, called up and fully paid 31 March 2020 US$m	Allotted, called up and fully paid 31 December 2018 US$m
779 million ordinary shares of $1 each	779.0	779.0
360 million preference shares of $1 each	360.0	360.0
	1,139.0	1,139.0

22. Risk management

i) 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 undertake their derivative business on either an agency basis or 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.

ii) Cash flow and fair value risk

As the Group and the Company operates a primarily balanced 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 in the derivative portfolio to changes in cash flow or fair value due to interest rate risk.

iii) Credit risk

a) Credit quality and collateral

Credit risk represents the potential losses that the Group would incur if a counterparty failed to perform its obligations under contractual terms and collateral held was not sufficient to cover them.

Cash at banks

Credit risk of cash at banks, appropriate to its maturity profile, is characterised by the short-term ratings of the financial institutions it was held at:

	Group		Company	
S&P rating	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
A-1+	196.8	182.9	141.2	91.5
A-1	1,231.9	613.6	1,206.4	591.8
A-2	1.1	43.0	-	37.0
	1,429.8	839.5	1,347.6	720.3

	Group		Company	
Moody's rating	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
P-1	1,293.3	749.3	1,212.1	631.3
P-2	1.1	1.2	-	-
Not Rated	135.4	89.0	135.5	89.0
	1,429.8	839.5	1,347.6	720.3

Trading securities

Credit risk of trading securities is characterised by their long-term ratings:

	Group		Company	
S&P rating	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
AAA	106.6	128.7	106.6	128.7
AA+	317.8	706.4	267.9	656.6
AA	16.9	85.2	16.9	85.2
AA-	50.7	46.3	5.0	24.2
A+	95.0	90.8	46.0	60.2
A	76.0	89.0	64.0	84.0
A-	239.8	235.3	239.8	225.2
BBB+	106.5	137.3	106.5	137.3
BBB	90.0	34.9	90.0	34.9
BBB-	16.3	8.6	16.3	8.6
BB+	6.2	1.5	6.2	1.5
BB-	0.8	-	0.8	-
B+	0.7	0.3	0.7	0.3
Not rated	330.9	326.0	330.8	326.1
	1,454.2	1,890.3	1,297.5	1,772.8

	Group		Company	
Moody's rating	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Aaa	424.5	835.1	374.5	785.3
Aa2	43.9	92.0	23.7	82.0
Aa3	107.6	86.8	33.1	46.7
A1	230.6	319.1	218.5	311.5
A2	55.3	22.7	55.3	22.7
A3	48.4	138.4	48.4	128.4
Baa1	69.7	85.5	69.7	85.5
Baa2	136.7	61.5	136.7	61.5
Baa3	22.9	42.7	22.9	42.7
Ba1	1.0	1.5	1.0	1.5
Ba2	11.1	0.1	11.1	0.1
B1	1.2	0	1.2	0
B2	0.2	0	0.2	0
Not rated	301.1	204.9	301.2	204.9
	1,454.2	1,890.3	1,297.5	1,772.8

Reverse repos

Credit risk on securities purchased under agreements to resell ("reverse repos") arises from a potential inability of customers to fully repay the amounts they received in exchange for the underlying securities. This risk is mitigated by the quality and current value of purchased securities which serve as collateral.

The table below summarises short-term credit ratings of customers in reverse repo agreements, which corresponds to the maturity profile of these agreements:

Group and Company *S&P rating*	31 March 2020 US$m	31 December 2018 US$m
Related parties		
A-1	2,411.5	2,426.9
External parties		
A-1+	12.2	4.9
A-1	301.0	5.9
A-2	108.0	429.5
	421.2	440.3
	2,832.7	2,867.2

Group and Company *Moody's rating*	31 March 2020 US$m	31 December 2018 US$m
Related parties		
P-1	2,411.5	2,426.9
External parties		
P-1	313.2	319.4
P-2	108.0	84.3
P-3	-	31.7
Not rated	-	4.9
	421.2	440.3
	2,832.7	2,867.2

The table below analyses the types and fair value of securities purchased under reverse repo agreements:

	31 March 2020 US$m Related parties	31 March 2020 US$m External parties	31 March 2020 US$m Total	31 December 2018 US$m Related parties	31 December 2018 US$m External parties	31 December 2018 US$m Total
US Treasury bills	24.0	54.8	78.8	69.7	149.3	219.0
European government bonds	2,147.4	97.4	2,244.8	2,121.0	32.9	2,153.9
Japanese government bonds	219.1	-	219.1	228.7	-	228.7
US corporate bonds	-	45.6	45.6	-	96.6	96.6
European corporate bonds	11.6	169.8	181.4	-	132.5	132.5
Japanese corporate equity	-	45.9	45.9	-	22.6	22.6
Securities purchased	2,402.1	413.5	2,815.6	2,419.4	433.9	2,853.3
Carrying value	2,411.5	421.2	2,832.7	2,426.9	440.3	2,867.2
Over/(under)collateralised	(9.4)	(7.7)	(17.1)	(7.5)	(6.4)	(13.9)

In order to cover the residual under-collateralised credit risk, the Group held additional collateral in the form of securities ("Margin Deficit Securities" or "MDS") from related parties amounting to $32.0 million (2018: $2.0 million) and cash collateral from external customers amounting to $18.0 million (2018: $6.3 million).

These underlying securities had the following long-term ratings at the reporting date:

Group and Company S&P rating	31 March 2020 US$m Related parties	31 March 2020 US$m External parties	31 March 2020 US$m Total	31 December 2018 US$m Related parties	31 December 2018 US$m External parties	31 December 2018 US$m Total
AAA	515.4	69.0	584.4	826.6	17.4	844.0
AA+	-	54.8	54.8	69.7	147.6	217.3
AA	1,466.1	31.4	1,497.5	1,294.4	19.8	1,314.2
AA-	-	14.1	14.1	-	12.1	12.1
A+	254.7	13.2	267.9	228.7	18.8	247.5
A	11.0	15.7	26.7	-	21.9	21.9
A-	-	82.1	82.1	-	108.9	108.9
BBB+	-	63.8	63.8	-	47.8	47.8
BBB	154.9	7.0	161.9	-	4.9	4.9
BBB-	-	4.5	4.5	-	1.8	1.8
BB+	-	1.1	1.1	-	-	-
BB-	-	5.2	5.2	-	-	-
Not rated	-	51.6	51.6	-	32.9	32.9
	2,402.1	413.5	2,815.6	2,419.4	433.9	2,853.3

Group and Company Moody's rating	31 March 2020 US$m Related parties	31 March 2020 US$m External parties	31 March 2020 US$m Total	31 December 2018 US$m Related parties	31 December 2018 US$m External parties	31 December 2018 US$m Total
Aaa	515.4	123.8	639.2	896.3	165.0	1,061.3
Aa2	1,208.4	30.6	1,239.0	1,220.0	28.5	1,248.5
Aa3	257.7	17.7	275.4	74.4	3.2	77.6
A1	254.7	71.6	326.3	228.7	118.0	346.7
A2	-	15.8	15.8	-	7.5	7.5
A3	-	25.8	25.8	-	35.8	35.8
Baa1	11.0	53.2	64.2	-	35.4	35.4
Baa2	-	15.2	15.2	-	13.6	13.6
Baa3	154.9	7.3	162.2	-	2.9	2.9
Ba2	-	8.1	8.1	-	-	-
Not rated	-	44.4	44.4	-	24.0	24.0
	2,402.1	413.5	2,815.6	2,419.4	433.9	2,853.3

Derivatives

The Group's credit exposure on derivatives 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. The notional or contractual values of agreements do not represent exposure to credit risk, which is limited to the current cost of replacing the contracts with a positive market value.

The tables below analyse the carrying value of derivative assets before reserves by long-term credit rating, in line with long-term contractual durations of these instruments:

	Group		Company	
S&P	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Related parties				
A	9,720.7	4,685.8	9,703.4	4,670.6
Unrated	4.5	4.1	4.5	4.1
	9,725.2	4,689.9	9,707.9	4,674.7
External parties				
AAA	3.0	0.2	3.0	0.2
AA+	-	0.7	-	0.7
AA	0.6	-	0.6	-
AA-	137.7	37.6	137.7	37.6
A+	202.1	98.2	202.1	98.2
A	228.1	121.2	228.1	121.2
A-	122.1	67.5	122.1	67.5
BBB+	24.9	633.3	24.9	633.3
BBB	20.3	-	20.3	-
BBB-	235.5	0.2	235.4	0.2
BB+	8.7	1.4	8.7	1.4
BB	-	0.4	-	0.4
BB-	-	0.3	-	0.3
Unrated	1,580.8	1,308.9	1,580.8	1,308.9
	2,563.8	2,269.9	2,563.7	2,269.9
	12,289.0	6,959.8	12,271.6	6,944.6

Moody's	Group 31 March 2020 US$m	Group 31 December 2018 US$m	Company 31 March 2020 US$m	Company 31 December 2018 US$m
Related parties				
A1	9,720.7	4,685.8	9,703.4	4,670.6
Unrated	4.5	4.1	4.5	4.1
	9,725.2	4,689.9	9,707.9	4,674.7
External parties				
Aaa	3.0	0.2	3.0	0.2
Aa1	0.6	1.4	0.6	1.4
Aa2	179.2	89.5	179.2	89.5
Aa3	154.9	26.9	154.9	26.9
A1	223.4	113.4	223.4	113.4
A2	47.4	137.6	47.4	137.6
A3	32.0	196.9	31.9	196.9
Baa1	22.9	26.9	22.9	26.9
Baa2	68.3	63.3	68.3	63.3
Baa3	9.1	0.3	9.1	0.3
Ba1	-	384.0	-	384.0
Ba2	-	0.4	-	0.4
Ba3	-	0.3	-	0.3
Unrated	1,823.0	1,228.8	1,823.0	1,228.8
	2,563.8	2,269.9	2,563.7	2,269.9
	12,289.0	6,959.8	12,271.6	6,944.6

Credit risk is further mitigated by holding cash and securities collateral for the net balance with each counterparty. Details of collateral received are disclosed in Note 19.

Other trading assets

As at 31 March 2020, other trading assets include an exposure to external counterparties rated BBB and lower or unrated by S&P amounting to $64.7 million (2018: $53.3 million).

b) Credit risk concentration

Management determines concentrations of counterparty credit risk in accordance with the European Banking Authority guidance ("EBA Rules"). Management does not believe that the Group is exposed to significant concentrations of risk identified by currency or product. The notes below analyse concentration of credit risk by geographical areas.

Geographical analysis

Below is a geographical analysis of cash at banks by their countries of operation:

	Group 31 March 2020 US$m	Group 31 December 2018 US$m	Company 31 March 2020 US$m	Company 31 December 2018 US$m
United Kingdom	146.6	93.9	146.6	93.9
Japan	708.5	603.4	691.5	586.9
United States	514.0	44.2	509.4	39.4
Other	60.7	98.0	0.1	0.1
	1,429.8	839.5	1,347.6	720.3

Geographical analysis of trading securities is based on the countries of the issuers:

	Group		Company	
	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
United Kingdom	98.2	33.6	72.5	11.1
France	38.9	77.8	38.9	77.8
Germany	55.3	128.9	55.3	128.9
Japan	434.5	442.0	434.5	442.0
Netherlands	128.1	55.3	116.0	50.3
United States	425.7	808.8	363.8	745.9
Other	273.5	343.9	216.5	316.8
	1,454.2	1,890.3	1,297.5	1,772.8

Geographical analysis of reverse repos is based on the countries of the customers:

Group and Company	31 March 2020 US$m	31 December 2018 US$m
United Kingdom	324.4	285.0
Japan	2,412.4	2,400.6
United States	19.5	175.9
Other	76.4	5.7
	2,832.7	2,867.2

Derivative assets before reserves are analysed by reference to the countries of the customers:

	Group		Company	
	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
United Kingdom	1,377.7	1,540.1	1,377.7	1,540.1
France	245.6	212.2	245.6	212.2
Japan	4,743.5	2,487.2	4,743.5	2,487.2
Netherlands	381.0	280.9	381.0	280.9
United States	5,129.5	2,211.7	5,112.2	2,196.4
Other	411.7	227.7	411.6	227.8
	12,289.0	6,959.8	12,271.6	6,944.6

c) Impairment

At the reporting date, the Group had no financial assets which were credit-impaired or which credit risk had significantly increased since initial recognition.

iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities, at a reasonable cost. The Group and the Company have no unfunded forward commitments in the one year period.

The tables below show maturities of undiscounted contractual cash flows in respect of financial liabilities of the Group and Company.

As at 31 March 2020 Group	Carrying value US$m	On demand US$m	Less than 1 year US$m	1-5 years US$m	More than 5 years US$m	Total US$m
Non-derivative financial liabilities						
Trading securities sold, not yet purchased[1]	380.7	229.3	151.9	-	-	381.2
Trading liabilities, at fair value[2]	350.5	-	5.6	41.3	303.6	350.5
Securities sold under agreement to repurchase	2,402.7	5.5	2,396.4	-	-	2,401.9
Collateral received	3,164.9	-	57.6	1,715.9	1,391.4	3,164.9
Other creditors, excluding lease liabilities	1,014.1	38.1	980.4	1.9	-	1,020.4
Lease liabilities	8.3	-	4.9	3.6	-	8.5
	7,321.2	272.9	3,596.8	1,762.7	1,695.0	7,327.4
Derivative financial liabilities						
Derivative liabilities (excluding reserves and guarantee liabilities)[2]	11,681.0	-	832.2	2,560.9	8,287.9	11,681.0

As at 31 March 2020 Company	Carrying value US$m	On demand US$m	Less than 1 year US$m	1-5 years US$m	More than 5 years US$m	Total US$m
Non-derivative financial liabilities						
Trading securities sold, not yet purchased[1]	380.7	229.3	151.9	-	-	381.2
Trading liabilities, at fair value[2]	350.5	-	5.6	41.3	303.6	350.5
Securities sold under agreement to repurchase	2,402.7	5.5	2,396.4	-	-	2,401.9
Collateral received	3,164.9	-	57.6	1,715.9	1,391.4	3,164.9
Other creditors, excluding lease liabilities	1,017.0	38.1	982.9	1.9	-	1,022.9
Lease liabilities	5.9	-	4.0	2.0	-	6.0
	7,321.7	272.9	3,598.4	1,761.1	1,695.0	7,327.4
Derivative financial liabilities						
Derivative liabilities (excluding reserves and guarantee liabilities)[2]	11,664.0	-	828.7	2,560.9	8,274.4	11,664.0

[1] *The maturities of trading security liabilities were derived from the respective reverse repo contracts which provided the securities to sell.*

[2] *The maturities of trading liabilities and derivative liabilities were prepared using present values rather than undiscounted cash flows.*

As at 31 December 2018 **Group**	Carrying value US$m	On demand US$m	Less than 1 year US$m	1-5 years US$m	More than 5 years US$m	Total US$m
Non-derivative financial liabilities						
Trading securities sold, not yet purchased[1]	548.2	338.5	210.1	-	-	548.6
Trading liabilities, at fair value[2]	192.8	-	1.0	14.2	177.6	192.8
Securities sold under agreement to repurchase	2,287.8	1,674.6	610.4	-	-	2,285.0
Collateral received	2,877.4	-	25.8	1,491.4	1,360.3	2,877.5
Other creditors	605.6	4.9	603.4	3.1	-	611.4
	6,511.8	2,018.0	1,450.7	1,508.7	1,537.9	6,515.3
Derivative financial liabilities						
Derivative liabilities (excluding reserves and guarantee liabilities)[2]	6,908.4	-	566.1	2,088.6	4,253.7	6,908.4

As at 31 December 2018 **Company**	Carrying value US$m	On demand US$m	Less than 1 year US$m	1-5 years US$m	More than 5 years US$m	Total US$m
Non-derivative financial liabilities						
Trading securities sold, not yet purchased[1]	548.2	338.5	210.1	-	-	548.6
Trading liabilities, at fair value[2]	192.8	-	1.0	14.2	177.6	192.8
Securities sold under agreement to repurchase	2,287.8	1,674.6	610.4	-	-	2,285.0
Collateral received	2,877.4	-	25.8	1,491.4	1,360.3	2,877.5
Other creditors	600.3	4.9	599.9	3.1	-	607.9
	6,506.5	2,018.0	1,447.2	1,508.7	1,537.9	6,511.8
Derivative financial liabilities						
Derivative liabilities (excluding reserves and guarantee liabilities)[2]	6,893.5	-	566.1	2,086.2	4,241.2	6,893.5

[1] *The maturities of trading security liabilities were derived from the respective reverse repo contracts which provided the securities to sell.*

[2] *The maturities of trading liabilities and derivative liabilities were prepared using present values rather than undiscounted cash flows.*

v) Market risk

All trading instruments are subject to market risk, the potential that future changes in market conditions and other factors 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 undertake their derivative business on either an agency basis or 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 of strict 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 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 group borrowings.

The weighted average yield on the cash deposits was 1.54% for the period to 31 March 2020 (2018: 0.24%). The weighted average yields for the period to 31 March 2020 on floating rate notes and U.S. treasury securities were 1.97% (2018: 1.91%). The Group's sensitivity to interest rates is such that a parallel increase / decrease of +/-100bp from period end rates would decrease or increase net assets by $10.8 million (2018: $2.6 million) respectively.

vi) Foreign currency risk

The Group hedges its foreign exchange exposures including GBP expenses using forward exchange contracts. Further details of those contracts are disclosed in Note 12.

vii) 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, 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.

23. Offsetting financial assets and financial liabilities

The disclosure below demonstrates the effect and potential effect of netting arrangements on the Group's financial position.

Financial assets and liabilities should be offset when, and only when, there is a legally enforceable right to set off and intention to settle on a net basis.

Amounts that meet the offsetting criteria comprise derivative assets and liabilities within a settlement-to-market ("STM") arrangement, under which the parties settle on a daily basis their net mark-to-market exposures by making payments equal to the amount of the exposure, with no further recourse to the transferred funds.

Amounts that do not meet the offsetting criteria include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position, because they create a right to set off 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.

In the tables below, the amounts that do not meet the offsetting criteria and collateral have been capped for each counterparty as follows:

- Trading balances: at the lower of assets and liabilities;
- Cash collateral: at the net balance after offsetting assets and liabilities;
- Non-cash collateral: at the residual balance after offsetting assets, liabilities and cash collateral.

At 31 March 2020	Gross recognised amounts US$m	Amounts that meet the offsetting criteria US$m	Amounts in the statement of financial position US$m	Amounts that do not meet the offsetting criteria US$m	Capped cash collateral US$m	Capped non-cash collateral US$m	Net amount US$m
Group							
Derivative assets (excluding reserves)	14,112.2	(1,823.2)	12,289.0	(7,136.4)	(1,371.8)	(13.3)	3,767.5
Reverse repurchase agreements	2,832.7	-	2,832.7	(368.9)	(0.3)	(2,463.5)	-
	16,944.9	(1,823.2)	15,121.7	(7,505.3)	(1,372.1)	(2,476.8)	3,767.5
Derivative liabilities (excluding reserves and guarantees)	14,001.5	(2,320.5)	11,681.0	(7,136.4)	(1,958.3)	(4.2)	2,582.1
Repurchase agreements	2,402.7	-	2,402.7	(368.9)	(1.8)	(2,028.6)	3.4
	16,404.2	(2,320.5)	14,083.7	(7,505.3)	(1,960.1)	(2,032.8)	2,585.5

At 31 March 2020	Gross recognised amounts US$m	Amounts that meet the offsetting criteria US$m	Amounts in the statement of financial position US$m	Amounts that do not meet the offsetting criteria US$m	Capped cash collateral US$m	Capped non-cash collateral US$m	Net amount US$m
Company							
Derivative assets (excluding reserves)	14,094.8	(1,823.2)	12,271.6	(7,119.2)	(1,371.8)	(13.3)	3,767.3
Reverse repurchase agreements	2,832.7	-	2,832.7	(368.9)	(0.3)	(2,463.5)	-
	16,927.5	(1,823.2)	15,104.3	(7,488.1)	(1,372.1)	(2,476.8)	3,767.3
Derivative liabilities (excluding reserves and guarantees)	13,984.5	(2,320.5)	11,664.0	(7,119.2)	(1,975.6)	(4.2)	2,565.0
Repurchase agreements	2,402.7	-	2,402.7	(368.9)	(1.8)	(2,028.6)	3.4
	16,387.2	(2,320.5)	14,066.7	(7,488.1)	(1,977.4)	(2,032.8)	2,568.4

As at 31 December 2018 (restated) *	Amounts in the statement of financial position US$m	Amounts that do not meet the offsetting criteria US$m	Capped cash collateral US$m	Capped non-cash collateral US$m	Net amount US$m
Group					
Derivative assets (excluding reserves)	6,959.8	(3,720.9)	(1,125.8)	(630.6)	1,482.5
Reverse repurchase agreements	2,869.0	(322.5)	-	(2,536.7)	9.8
	9,828.8	(4,043.4)	(1,125.8)	(3,167.3)	1,492.3
Derivative liabilities (excluding reserves and guarantees)	6,908.4	(3,720.9)	(2,231.0)	(11.8)	944.7
Repurchase agreements	2,289.6	(322.5)	(0.1)	(1,959.3)	7.7
	9,198.0	(4,043.4)	(2,231.1)	(1,971.1)	952.4

As at 31 December 2018 (restated) *	Amounts in the statement of financial position US$m	Amounts that do not meet the offsetting criteria US$m	Capped cash collateral US$m	Capped non-cash collateral US$m	Net amount US$m
Company					
Derivative assets (excluding reserves)	6,944.6	(3,705.7)	(1,125.8)	(630.6)	1,482.5
Reverse repurchase agreements	2,869.0	(322.5)	-	(2,536.7)	9.8
	9,813.6	(4,028.2)	(1,125.8)	(3,167.3)	1,492.3
Derivative liabilities (excluding reserves and guarantees)	6,893.5	(3,705.7)	(2,231.0)	(11.8)	945.0
Repurchase agreements	2,289.6	(322.5)	(0.1)	(1,959.3)	7.7
	9,183.1	(4,028.2)	(2,231.1)	(1,971.1)	952.7

** Comparative information has been restated to take into account the effect of additional non-cash collateral.*

24. 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 and option volatilities, the valuation model used depends upon 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 instrument 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.

Fair values of financial instruments measured at amortised cost approximate their carrying values.

The following tables present the fair value hierarchy of financial assets and liabilities, measured at fair value in the statement of financial position, at 31 March 2020 and 31 December 2018:

At 31 March 2020	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Group				
Financial assets				
Trading securities *	1,185.1	269.1	-	1,454.2
Derivative assets	-	12,216.0	27.8	12,243.8
Other trading assets	-	195.1	-	195.1
	1,185.1	12,680.2	27.8	13,893.1
Financial liabilities				
Trading securities *	278.3	102.4	-	380.7
Derivative liabilities	-	11,634.8	19.3	11,654.1
Other trading liabilities	-	347.8	2.7	350.5
	278.3	12,085.0	22.0	12,385.3
Company				
Financial assets				
Trading securities *	1,028.4	269.1	-	1,297.5
Derivative assets	-	12,198.7	27.8	12,226.5
Other trading assets	-	195.1	-	195.1
	1,028.4	12,662.9	27.8	13,719.1
Financial liabilities				
Trading securities *	278.3	102.4	-	380.7
Derivative liabilities	-	11,618.5	19.3	11,637.8
Other trading liabilities	-	347.8	2.7	350.5
	278.3	12,068.7	22.0	12,369.0

** COVID-19 pandemic created extreme market conditions, significantly reducing trading volumes of normally liquid securities around the reporting date. As a result, unadjusted quoted prices, required for classification as Level 1, were not available for some otherwise highly graded instruments and caused their reclassification to Level 2. A significant portion of those instruments was disposed of after the reporting date, which confirms their quality.*

At 31 December 2018	Level 1 US$m	Level 2 (restated) US$m	Level 3 (restated) US$m	Total US$m
Group				
Financial assets				
Trading securities	1,890.3	-	-	1,890.3
Derivative assets	-	6,910.7	26.7	6,937.4
Other trading assets	-	116.7	3.2	119.9
	1,890.3	7,027.4	29.9	8,947.6
Financial liabilities				
Trading securities	548.2	-	-	548.2
Derivative liabilities	-	6,917.6	3.4	6,921.0
Other trading liabilities	-	189.7	3.1	192.8
	548.2	7,107.3	6.5	7,662.0
Company				
Financial assets				
Trading securities	1,772.8	-	-	1,772.8
Derivative assets	-	6,895.5	26.7	6,922.2
Other trading assets	-	116.7	3.2	119.9
	1,772.8	7,035.5	6.6	8,814.9
Financial liabilities				
Trading securities	548.2	-	-	548.2
Derivative liabilities	-	6,903.6	3.4	6,907.0
Other trading liabilities	-	189.7	3.1	192.8
	548.2	7,093.3	6.5	7,648.0

Amounts classified as Level 3 comprise certain interest rate swaps and covered warrants. The swaps represent vanilla derivative trades whose notional size is expected to be reduced before the maturity date (e.g. through syndication of the trade). A reserve has therefore been created in respect of the future cash flows that are not expected to occur as a result of the reduction to the notional trade size. The swaps are valued using inputs that are readily observable in the market, except only for the expected notional size reduction which is an internally known factor and is not therefore an externally observable input. Under IFRS 13, the value of the unobservable reserve and the observable mark-to-market valuation of the underlying trade are considered as one accounting unit, and, where the reserve represents a significant portion of the total value of the unit, the entire unit is classified as Level 3.

Covered warrants are options to buy underlying securities at an agreed price. They are classified as Level 3 because their valuation includes an unobservable trading desk premium. Their hierarchy level was reassessed during the current period and applied to the prior period.

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 periods ended 31 March 2020 and 31 December 2018.

Period ended 31 March 2020 **Group and Company**	1 January 2019 US$m	Transfers in/(out) US$m	Settlements US$m	Realised gains/(losses) US$m	Unrealised gains/(losses) US$m	31 March 2020 US$m
Assets:						
Interest rate swaps	3.4	(7.7)	-	2.1	21.5	19.3
Options	23.3	-	(20.1)	-	5.3	8.5
Other trading instruments	3.2	(2.8)	-	0.6	(1.0)	-
Total assets at fair value	29.9	(10.5)	(20.1)	2.7	25.8	27.8

Period ended 31 March 2020 Group and Company	1 January 2019 US$m	Transfers in/(out) US$m	Settlements US$m	Realised (gains)/losses US$m	Unrealised (gains)/losses US$m	31 March 2020 US$m
Liabilities:						
Interest rate swaps	3.4	(7.9)	-	2.3	21.5	19.3
Other trading instruments	3.1	(1.8)	(2.7)	0.1	4.0	2.7
Total liabilities at fair value	6.5	(9.7)	(2.7)	2.4	25.5	22.0

Year ended 31 December 2018 (restated) Group and Company	1 January 2018 US$m	Transfers in/(out) US$m	Settlements US$m	Realised gains/(losses) US$m	Unrealised gains/(losses) US$m	31 December 2018 US$m
Assets:						
Interest rate swaps	65.7	3.4	(64.6)	(1.1)	-	3.4
Options	4.7	-	(2.1)	-	20.8	23.3
Other trading instruments	-	3.2	-	-	-	3.2
Total assets at fair value	70.4	6.6	(66.7)	(1.1)	20.8	29.9

Year ended 31 December 2018 (restated) Group and Company	1 January 2018 US$m	Transfers in/(out) US$m	Settlements US$m	Realised (gains)/losses US$m	Unrealised (gains)/losses US$m	31 December 2018 US$m
Liabilities:						
Interest rate swaps	-	3.4	-	-	-	3.4
Other trading instruments	-	3.1	-	-	-	3.1
Total liabilities at fair value	-	6.5	-	-	-	6.5

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

Instrument	Valuation techniques	Unobservable inputs
Interest rate swaps	Internal swap model	Expected reduction to notional size before maturity Amortisation schedule of reference bonds
Options	Internal options model	Trading desk premium
Other trading instruments	Internal swap model	Expected reduction to notional size before maturity

The Product Control department is responsible for the valuation policies and procedures. This department is responsible for running daily valuations of the Company's derivatives and securities, and reports into the Chief Financial Officer. The Company's Risk Management department is responsible for managing model risk and its related policies and procedures. It reports into the Chief Risk 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 Group, 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.

25. Classification of financial assets and financial liabilities

Financial instruments at the reporting date are classified in accordance with IFRS 9.

Group **As at 31 March 2020**	Amortised cost US$m	FVTPL* US$m	Total US$m
Assets			
Cash at banks	1,429.8	-	1,429.8
Trading securities	-	1,454.2	1,454.2
Other trading assets, at fair value	-	195.1	195.1
Derivative assets	-	12,243.8	12,243.8
Securities purchased under agreements to resell	2,832.7	-	2,832.7
Other debtors	117.0	-	117.0
Total assets	4,379.5	13,893.1	18,272.6
Liabilities			
Derivative liabilities	-	11,654.1	11,654.1
Other trading liabilities, at fair value	-	350.5	350.5
Trading securities sold, not yet purchased	-	380.7	380.7
Securities sold under agreements to repurchase	2,402.7	-	2,402.7
Other creditors	1,022.4	-	1,022.4
Total liabilities	3,425.1	12,385.3	15,810.4

Company **As at 31 March 2020**	Amortised cost US$m	FVTPL* US$m	Total US$m
Assets			
Cash at banks	1,347.6	-	1,347.6
Trading securities	-	1,297.5	1,297.5
Other trading assets, at fair value	-	195.1	195.1
Derivative assets	-	12,226.5	12,226.5
Securities purchased under agreements to resell	2,832.7	-	2,832.7
Other debtors	116.1	-	116.1
Total assets	4,296.4	13,719.1	18,015.5
Liabilities			
Derivative liabilities	-	11,637.8	11,637.8
Other trading liabilities, at fair value	-	350.5	350.5
Trading securities sold, not yet purchased	-	380.7	380.7
Securities sold under agreements to repurchase	2,402.7	-	2,402.7
Other creditors	1,022.9	-	1,022.9
Total liabilities	3,425.6	12,369.0	15,794.6

** Fair value through profit or loss*

Group **As at 31 December 2018**	Amortised cost US$m	FVTPL* US$m	Total US$m
Assets			
Cash at banks	839.5	-	839.5
Trading securities	-	1,890.3	1,890.3
Other trading assets, at fair value	-	119.9	119.9
Derivative assets	-	6,937.4	6,937.4
Securities purchased under agreements to resell	2,867.2	-	2,867.2
Other debtors	2,485.5	-	2,485.5
Total assets	6,192.2	8,947.6	15,139.8
Liabilities			
Derivative liabilities	-	6,921.0	6,921.0
Other trading liabilities, at fair value	-	192.8	192.8
Trading securities sold, not yet purchased	-	548.2	548.2
Securities sold under agreements to repurchase	2,287.8	-	2,287.8
Other creditors	3,483.0	-	3,483.0
Total liabilities	5,770.8	7,662.0	13,432.8

Company **As at 31 December 2018**	Amortised cost US$m	FVTPL* US$m	Total US$m
Assets			
Cash at banks	720.3	-	720.3
Trading securities	-	1,772.8	1,772.8
Other trading assets, at fair value	-	119.9	119.9
Derivative assets	-	6,922.2	6,922.2
Securities purchased under agreements to resell	2,867.2	-	2,867.2
Other debtors	2,474.6	-	2,474.6
Total assets	6,062.1	8,814.9	14,877.0
Liabilities			
Derivative liabilities	-	6,907.0	6,907.0
Other trading liabilities, at fair value	-	192.8	192.8
Trading securities sold, not yet purchased	-	548.2	548.2
Securities sold under agreements to repurchase	2,287.8	-	2,287.8
Other creditors	3,477.7	-	3,477.7
Total liabilities	5,765.5	7,648.0	13,413.5

** Fair value through profit or loss*

26. Transition to IFRS 16 Leases

The tables below reconcile operating lease commitments under IAS 17 Leases, the previous standard, at 31 December 2018 and lease liabilities under IFRS 16 at 1 January 2019, the adoption date.

Group	Land and buildings US$m	Other US$m	Total US$m
Operating lease commitments at 31 December 2018	14.6	0.2	14.8
Agreements not in scope of IFRS 16	(3.0)	-	(3.0)
Lease arrangements within operating expenses	-	2.0	2.0
Discounting effect	(0.4)	-	(0.4)
Lease liabilities at 1 January 2019	11.2	2.2	13.4

Company	Land and buildings US$m	Other US$m	Total US$m
Operating lease commitments at 31 December 2018	11.5	0.2	11.7
Agreements not in scope of IFRS 16	(2.7)	-	(2.7)
Lease arrangements within operating expenses	-	2.0	2.0
Discounting effect	-	-	-
Lease liabilities at 1 January 2019	8.8	2.2	11.0

Agreements not in scope of IFRS 16 consist of the provision of services within lease contracts and leases maturing within 12 months of the adoption date.

Lease arrangements within operating expenses consist of office and IT equipment provided under service and maintenance contracts.

27. Obligations under operating leases

Annual commitments under non-cancellable operating leases at the reporting date are as follows:

Group	Land and buildings 31 March 2020 US$m	Other 31 March 2020 US$m	Land and buildings 31 December 2018 US$m	Other 31 December 2018 US$m
Operating leases which expire:				
Within one year	1.3	-	6.4	0.1
Between two and five years	0.3	-	8.1	0.1
Over five years	-	-	0.1	-
	1.6	-	14.6	0.2

Company	Land and buildings 31 March 2020 US$m	Other 31 March 2020 US$m	Land and buildings 31 December 2018 US$m	Other 31 December 2018 US$m
Operating leases which expire:				
Within one year	1.2	-	5.1	0.1
Between two and five years	0.2	-	6.4	0.1
Over five years	-	-	-	-
	1.4	-	11.5	0.2

As explained in notes 1 and 26, most operating leases were recognised in the statement of financial position at 1 January 2019 due to the adoption of IFRS 16. Operating lease commitments shown above represent the remainder of the leases which do not meet the recognition criteria of the new standard.

28. Regulatory capital (unaudited)

The primary objective of the Group's and the Company's capital management is to ensure compliance with capital requirements imposed by external regulators. Regulatory capital comprises ordinary share capital, share premium, retained earnings (including externally verified interim profits) as common equity tier 1 capital ("CET1") and perpetual non-cumulative preference shares qualifying as additional tier 1 capital ("AT1"). Balance sheet assets and some off-balance sheet items are assigned regulatory risk weights to arrive at the total risk exposure. The business must maintain capital ratios, the proportion of relevant capital to total risk weighted assets ("RWA"), above minimum thresholds.

Regulatory capital, risk weighted assets and capital ratios are summarised below:

	Group		Company	
	31 March 2020 US$m	31 December 2018 US$m	31 March 2020 US$m	31 December 2018 US$m
Common equity tier 1 (CET1) capital				
Called up share capital	779.0	779.0	779.0	779.0
Share premium	165.0	165.0	165.0	165.0
Retained earnings	487.3	425.9	445.6	384.3
Other reserves	-	(2.6)	-	(2.6)
	1,431.3	1,367.3	1,389.6	1,325.7
CET1 regulatory adjustments				
Intangible assets	(6.7)	(7.2)	(6.7)	(7.2)
Cash flow hedges	(1.0)	1.5	(1.0)	1.5
Other	(29.0)	(44.3)	(28.1)	(43.3)
CET1 instruments of financial sector entities where the institution has a significant investment	-	-	(72.8)	(73.6)
	(36.7)	(50.0)	(108.6)	(122.6)
Total CET1 capital	1,394.6	1,317.3	1,281.0	1,203.1
Additional tier 1 (AT1) capital				
Perpetual non-cumulative preference shares	360.0	360.0	360.0	360.0
Other adjustments	-	-	-	-
	360.0	360.0	360.0	360.0
Total regulatory capital	1,754.6	1,677.3	1,641.0	1,563.1
Risk-weighted assets (unaudited)	3,839.2	4,100.1	3,995.2	4,228.2
CET1 capital ratio (unaudited)	36.3%	32.1%	32.1%	28.5%
Total capital ratio (unaudited)	45.7%	40.9%	41.1%	37.0%

The capital adequacy 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 authorised and 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 by the regulators and outlines the internal capital adequacy assessment process ("ICAAP") required of firms applying methodologies that are deemed appropriate by firms to assess capital adequacy.

Pillar 3 requires disclosure of risk and capital information to the market. These disclosures can be found on the Company's website.

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

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 capital ratio does not fall below 25% (2018: 30%).

29. Country-by-country reporting

Country-by-Country Reporting ("CBCR") was introduced by Article 89 of the Capital Requirements Directive IV ("CRD IV"), an EU legislative package for groups in financial services. It was further enhanced by Action 13 of the Base Erosion and Profit Shifting ("BEPS") Report by the Organisation for Economic Co-operation and Development ("OECD"). CBCR is aimed at greater transparency and demonstrating in which countries groups earn revenue, keep operations and pay taxes.

CBCR requires groups to publish the constituent entities' names, country of incorporation, country of tax residence and main activities. These are presented in the table below:

Entity	Country of incorporation	Country of tax residence	Main activities
SMBC Nikko Capital Markets Limited	United Kingdom	United Kingdom	Investment banking
SMBC Derivative Products Limited	United Kingdom	United Kingdom	Investment banking
SMBC Capital Markets (Asia) Limited	Hong Kong	Hong Kong	Agency and intermediary services
SMBC Nikko Capital Markets Limited, Sydney branch	United Kingdom	Australia	Agency and intermediary services

CBCR also requires groups to publish a number of economic indicators, presented in the tables below. The basis of preparation is as follows:

Accounting framework: Amounts reported are based on local statutory financial statements, in accordance with applicable law and IFRS.

Revenue: The Group defines revenue as its total net trading, fee and interest income.

Current period corporation tax accrued: The amount of corporation tax in respect of the current period, excluding prior year adjustments and deferred tax.

Corporation tax paid: The cash amount of corporation tax paid in each country in the period.

Stated capital: Called up share capital and share premium.

Accumulated earnings: Retained earnings and other reserves.

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 the period (2018: nil).

Number of employees: Employee numbers reported reflect the number of employees on a full-time-equivalent ("FTE") basis.

Other indicators: The definitions of other indicators are consistent with that in the Group's financial statements.

15 months to 31/03/2020:	United Kingdom	Australia	Hong Kong	Group
Revenue from related parties	259.7	0.2	15.3	275.2
Revenue from third parties	8.3	2.5	-	10.8
Total revenue	268.0	2.7	15.3	286.0
Profit before tax	65.5	1.3	6.5	73.3
Current period corporation tax accrued	10.7	0.5	1.1	12.3
Corporation tax paid /(refunded)	16.1	0.2	1.5	17.8
Average number of employees	362	2	14	378
31 March 2020:				
Stated capital	1,302.0	-	2.0	1,304.0
Accumulated earnings	477.8	-	9.5	487.3
Tangible fixed assets excluding cash and cash equivalents	14.1	0.1	2.4	16.6
Public subsidies received	-	-	-	-

12 months to 31/12/2018:	United Kingdom	Australia	Hong Kong	Group
Revenue from related parties	118.1	-	15.6	133.7
Revenue from third parties	98.1	1.4	-	99.5
Total revenue	216.2	1.4	15.6	233.2
Profit before tax	50.7	0.5	8.2	59.4
Current year corporation tax accrued	14.1	0.1	1.4	15.6
Corporation tax paid /(refunded)	16.4	(0.1)	2.4	18.7
Average number of employees	343	2	14	359
31 December 2018:				
Stated capital	1,302.0	-	2.0	1,304.0
Accumulated earnings	412.8	-	13.1	425.9
Tangible fixed assets excluding cash and cash equivalents	13.3	-	0.1	13.4
Public subsidies received	-	-	-	-

The table above show that the majority of the Groups profits are recorded in the United Kingdom, and therefore a higher amount of corporation tax is paid in the United Kingdom. The Group recorded $73.3 million in profit for 2020 (2018: $59.4 million) and paid $17.8 million of corporation tax (2018: $18.7 million), producing the global cash tax rate (corporation tax paid in the period divided by total profit before tax) of 24% (2018: 31%). The cash tax rate is usually lower than the UK nominal corporation tax rate because the Advanced Pricing Agreement generates a reduction in the tax charge (see Note 8 for details). In the current period, the Company made overpayments of corporation tax which increased the cash tax rate.

30. Related party transactions

Related parties of the Group comprise subsidiaries and affiliates of the wider SMBC Group and members of the key management personnel of the Group or its parents. The tables below set out related party balances at the reporting date and transactions during the period.

	31 March 2020 US$m	31 December 2018 US$m
Sumitomo Mitsui Banking Corporation - Parent		
Balances receivable / (payable)		
Cash at banks	346.1	293.6
Net derivative assets	1,098.7	1,149.5
Trading instruments (liabilities) / assets	(13.4)	33.4
Cash collateral received	(2,755.1)	(2,713.2)
Funding loans	(813.7)	(528.5)
Other liabilities	(0.6)	(7.0)
Amounts outside the statement of financial position		
Independent Amount securities received (Note 19)	1,448.7	1,564.5
Guaranteed derivative balances (Note 31)	768.1	421.2
Income / (expense) during the period		
Loss on derivative instruments	(48.6)	(395.0)
Interest income	7.6	5.0
Other trading income	-	31.7
Interest expense	(102.6)	(66.4)
Fees and commissions received	0.5	-
Fees and commissions paid	(5.9)	(9.8)
Other expenses	(0.4)	(5.3)

	31 March 2020 US$m	31 December 2018 US$m
SMBC Nikko Securities Inc. - Parent		
Balances receivable / (payable)		
Securities purchased under resale agreements	2,411.5	2,401.9
Collateral placed	-	1.0
Accrued income receivable	8.1	7.6
Net interest payable	(1.0)	(7.4)
Other receivables - reimbursements	14.8	6.5
Other payables - securities trading fees	(3.8)	(0.2)
Securities sold under repurchase agreements	(1.0)	-
Net derivative liabilities	-	(0.7)
Amounts outside the statement of financial position		
Margin Deficit Securities received (Note 19)	32.0	2.0
Income / (expense) during the period		
Interest income on securities under resale agreements	1.1	0.2
Interest expense on securities under repurchase agreements	(12.7)	-
Fees and commission on securities trading	26.6	13.3
Reimbursements	5.1	4.0
Gain / (loss) on securities trading	3.1	(49.8)
Other fees and commissions paid	(14.4)	(6.3)
Other expenses	(3.6)	(1.2)

	31 March 2020 US$m	31 December 2018 US$m
SMBC Capital Markets Inc		
Balances receivable / (payable)		
Trading instruments assets	22.4	23.1
Securities purchased under resale agreements	-	26.5
Collateral placed	1,472.6	2,088.9
Independent Amount cash collateral received	-	(310.0)
Accrued interest receivable	-	3.8
Other assets - agency fees	-	0.9
Net derivative liabilities	(1,292.7)	(1,936.4)
Trading loans	-	(17.6)
Securities sold under repurchase agreements	(182.2)	(158.5)
Trading instruments liabilities	(135.1)	(106.3)
Accrued expenses payable - guarantee fees / agency fees	(12.3)	(6.5)
Amounts outside the statement of financial position		
Termination value of guaranteed transactions *	4.8	89.2
Guarantee indemnity securities (Note 19) *	7.0	180.6
Income / (expense) during the period		
Gain on derivative instruments	346.7	596.8
Interest income	55.3	40.5
Fees and commissions on agency trading	4.4	3.7
Other operating income - guarantee termination / intermediation fees	30.2	13.3
Fees and commissions on securities trading	18.8	2.2
Other fees and commissions paid	(0.2)	(0.2)
Other operating expenses	(12.8)	(13.2)

**In the ordinary course of business SMBC DP guarantees the performance of its affiliate, CM Inc., in relation to interest rate caps sold by CM Inc.to third parties. To protect itself against the risk, SMBC DP has obtained an indemnity from CM Inc. To support this indemnity, CM Inc. pledges securities collateral in the form of US Treasury bills. The guarantees are accounted for as financial guarantees.*

	31 March 2020 US$m	31 December 2018 US$m
SMBC Nikko Securities America Inc.		
Balances receivable / (payable)		
Accrued income receivable	2.4	0.3
Other assets	12.2	0.8
Accrued securities trading fees and agency fees	(2.0)	(0.4)
Other liabilities	(31.7)	(8.7)
Income / (expense) during the period		
Fees and commission income on securities trading	9.0	5.3
Fees and commissions expense on securities trading	(10.0)	(1.3)
Other operating expenses	(0.9)	(0.4)

	31 March 2020 US$m	31 December 2018 US$m
Sumitomo Mitsui Banking Corporation Europe Limited		
Balances receivable / (payable)		
Cash at banks	11.6	4.8
Collateral placed	113.3	34.3
Net derivative instrument liabilities	(110.0)	(34.7)
Other liabilities	(3.2)	(1.6)
Income / (expense) during the period		
Loss on derivative instruments	(42.8)	(69.7)
Interest income	-	0.1
Loss on derivative instruments	-	-
Other fees and commissions paid	(1.9)	(0.6)
Other operating expenses	(2.2)	(1.8)
Interest expense	-	(0.1)
Sumitomo Mitsui Banking Corporation Malaysia Berhad		
Balances receivable / (payable)		
Net derivative instrument assets	0.2	0.3
Cash collateral received	(0.4)	(0.4)
Income / (expense) during the period		
Gain on derivative instruments	0.4	0.1
SMBC Nikko Securities (Hong Kong) Limited		
Balances receivable / (payable)		
Accrued income receivable	1.2	1.0
Other receivables / (payables)	0.1	(0.2)
Accrued expenses payable	(1.0)	(1.4)
Other liabilities	(2.7)	(0.1)
Income / (expense) during the period		
Fees and commission on securities trading	0.4	1.3
Other fees and commissions paid	(4.2)	(0.4)
Other non-personnel expenses	(3.3)	(4.5)
Nikko Systems Solutions, Ltd.		
Income / (expense) during the period		
Other non-personnel expenses	(4.4)	(1.8)

	31 March 2020 US$m	31 December 2018 US$m
SMBC Nikko Securities (Singapore) Pte. Ltd		
Balances receivable / (payable)		
Accrued income receivable / (payable)	0.1	(0.1)
Income / (expense) during the period		
Other fees and commissions paid	(0.4)	(0.4)
SMBC Nikko Capital Markets Europe GmbH		
Balances receivable / (payable)		
Accrued income receivable	7.8	1.7
Accrued expenses payable	(4.8)	-
Income / (expense) during the period		
Fees and commission on securities trading	1.8	-
Other operating income	5.8	-
Other fees and commissions paid	(10.8)	-
SMBC Bank EU AG		
Balances receivable / (payable)		
Derivative assets	0.1	-
Collateral received	(0.5)	-
Amounts outside the statement of financial position		
Securities placed as voluntary derivative collateral (Note 15)	34.0	-
Securities received as voluntary derivative collateral (Note 19)	29.0	-
Income / (expense) during the period		
Loss on derivative instruments	(1.1)	-

	31 March 2020 US$m	31 December 2018 US$m
DMG MORI Finance GmbH		
Balances receivable / (payable)		
Derivative assets	4.5	4.0
Income / (expense) during the period		
Gain on derivative instruments	3.5	4.1
The Bank of East Asia, Limited		
Balances receivable / (payable)		
Cash at banks	1.1	1.2
Derivative assets	-	0.1
Income / (expense) during the period		
Gain on derivative instruments	0.1	0.1

Other related parties include a number of unconsolidated structured entities, income from which is disclosed in Note 35 and the Group's directors which emoluments are disclosed in Note 7.

31. Credit guarantee

The Group has entered into unconditional guarantee arrangements with SMBC, acting through its Cayman and Tokyo branches, under which SMBC is obliged to make the full and prompt payment of any net termination payment payable to the Group under any of the ISDA Master Agreements with specific guaranteed counterparties, totalling $768.1 million (2018: $421.2 million). In order to support the guarantee, SMBC has provided the Group cash collateral, disclosed in Note 19.

In 2018, fees were settled monthly based on the average value of the guaranteed transactions. The expected future fee payable over the life of the transaction was computed on a fair value basis, discounted to its present value and recorded as a derivative liability on the balance sheet.

In the current period, the Group changed its guarantee fee payment arrangement to pay upfront the full fee amount of the guaranteed transaction in respect of the expected life of the transaction, computed on a fair value basis. This involved the upfront settlement of the existing guaranteed transactions and the discharging of the accrued derivative liability, resulting in no gain or loss.

Below is the amount of credit guarantees at the reporting dates and associated expense in profit or loss:

	31 March 2020 US$m Credit guarantee liability	31 December 2018 US$m Credit guarantee liability	15 months to 31/03/2020 US$m Fees	12 months to 31/12/2018 US$m Fees
SMBC	-	54.3	5.2	8.9

In the case of an agreed termination of an existing guarantee the Group will receive a proportionate reimbursement of the upfront guarantee fee and will record a CVA reserve to ensure that the value of derivative contracts reflects counterparty credit risk.

32. Borrowing facilities

In 2017, SMBC and the Group signed an agreement to provide the Group with a $2.0 billion multi-currency uncommitted facility. At 31 March 2020, $758.1 million (2018: $504.7 million) of the facility was utilised.

In 2017, SMBC and the Group also signed an agreement to provide the Group with a JPY300.0 billion uncommitted facility. At 31 March 2020, $55.6 million (2018: $23.7 million) of the facility was utilised.

The Group has an earlier agreement with SMBC made in 2010 to provide the Group with a $250.0 million multi-currency revolving committed facility which can be terminated by either party at six months' notice. For this the Group pays a fee of 0.05% per annum on the undrawn amount of the facility. The facility was not utilised during the current or prior period.

SMBC acts as guarantor for some of the Group's transactions. For this the Group pays a fee based on the notional amount, maturity and deal type for each transaction, as detailed in Note 31.

Under a loan agreement dated 18 April 2016, 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 March 2020 and 31 December 2018, the entire facility was unused.

As explained in Note 30, SMBC DP guarantees interest rate caps of CM Inc. In return, CM Inc. provides an indemnity to SMBC DP supported by collateral in the form of US Treasury bills.

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 2019, the Contingent Manager Agreement with Blackrock Financial Management, Inc. rolled for twelve months as no notice to terminate was issued by SMBC DP.

33. Deferred compensation

The Company operates a bonus deferral scheme. Senior employees at the Executive Director level and above, whose bonuses exceed 100% of the fixed pay and £100,000 in value, have 20% of their bonuses deferred: 10% - for one year and the remaining 10% - for two years.

In 2020, the Company has announced an extension to the deferral scheme in response to COVID-19 and its potential adverse impact on the business. Managing Directors and above have the full amount of their bonuses for the period deferred: 90% is deferred for one year and the remaining 10% - for two years.

In addition, for Managing Directors and above, previously deferred bonuses that were due to be paid in 2020 have been deferred until 2021.

34. Investment in subsidiary undertakings

The Company has invested $200.0 million in the ordinary shares of SMBC Derivative Products Limited, a 100% subsidiary, incorporated in England and Wales, registered office One New Change, London EC4M 9AF, and $2.0 million in the ordinary shares of SMBC Capital Markets Asia Limited, a 100% subsidiary, incorporated in Hong Kong, registered office 7/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, the results of both of which have been included in these Group financial statements. There were no changes in investments in subsidiary undertakings in the period.

35. Sponsored unconsolidated structured entities

The Group sponsors certain structured entities in which it has no interest. The Group is deemed to be a sponsor of a structured entity when it takes a leading role in determining its purpose and design and provides operational support to ensure its continued operation.

Income from sponsored unconsolidated structured entities, where the Group did not have an interest at the end of the period, amounted to $20.5 million (2018: $5.3 million).

36. Events after the reporting date

On 1 May 2020, the Group transferred its Sydney branch to another SMBC entity for a nominal consideration. The value of transferred assets comprising an office lease and equipment, together with an associated lease liability, was negligible.

37. Ultimate parent undertaking and controlling party

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

1-2 Marunouchi

1-chome

Chiyoda-ku

Tokyo, Japan