SMBC

SMBC Group

SMBC NIKKO CAPITAL MARKETS LIMITED

A trusted partner for the long term

Annual report and financial statements 2021

Registration

Registered as a limited company in England and Wales under company number 02418137.

Auditor

KPMG LLP
15 Canada Square
London E14 5GL

Website

The Company's website is: http://www.smbcnikko-cm.com/

Pillar 3 document

The Company's Pillar 3 disclosures can be found at: http://www.smbcnikko-cm.com/corporate/financial-information.html

Overview

Understanding SMBC Nikko Capital Markets Ltd

Our purpose

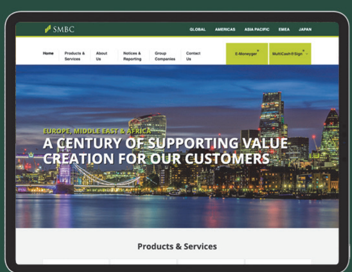
A trusted partner for the long term.

We believe this reflects the long-term relationship-based approach we adopt in carrying out our business for the benefit of our customers and all our stakeholders.

About us

SMBC Nikko Capital Markets Ltd is an investment firm incorporated in England and Wales with offices in London and a branch in Abu Dhabi.

SMBC Nikko Capital Markets Ltd is majority owned by Sumitomo Mitsui Banking Corporation, a Japanese bank, which is a core member and a wholly owned subsidiary of SMFG, a company that is also incorporated in Japan.



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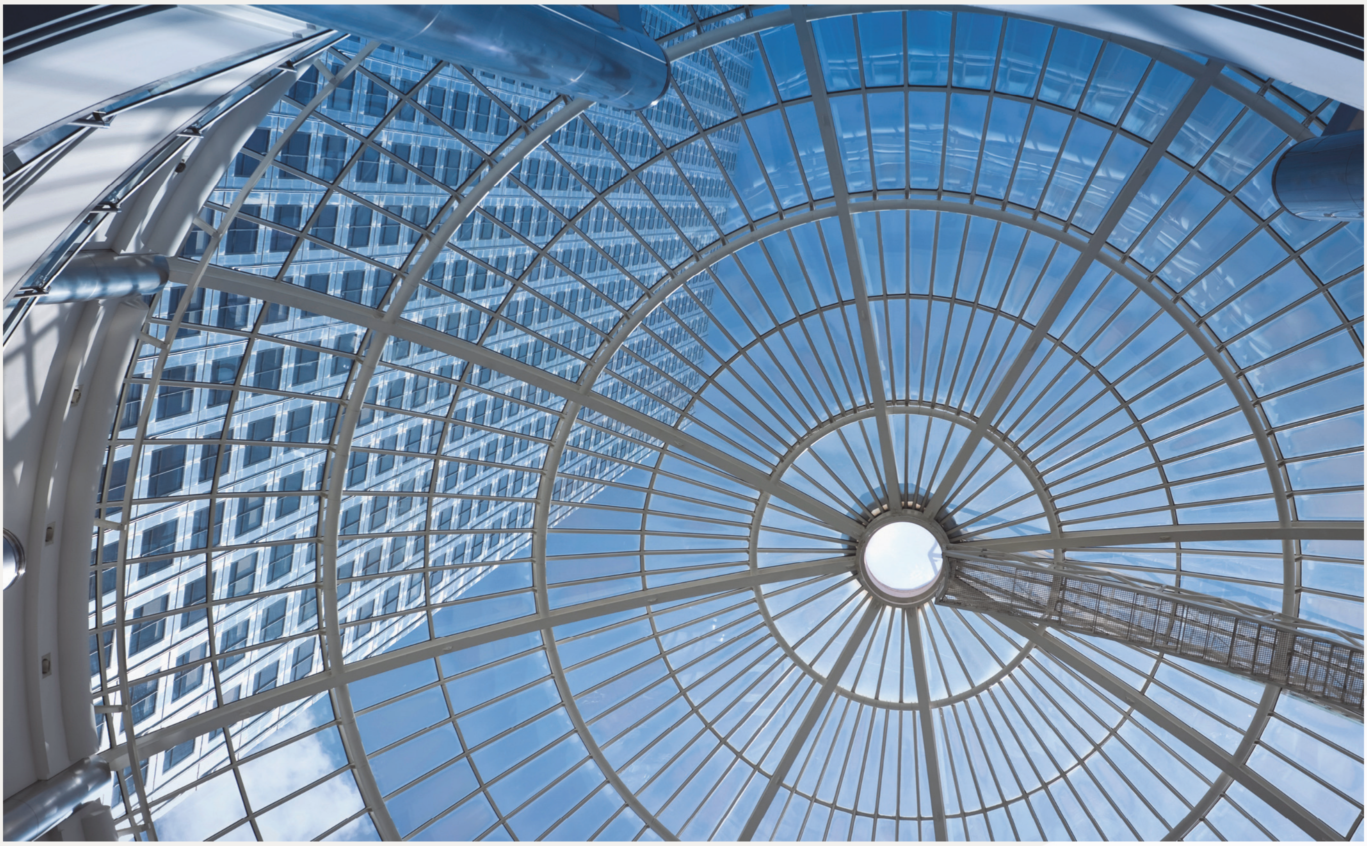

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Use of terms in the annual report and accounts

In this document the terms "CM Ltd", "Company", "we", "us" or "our" refers to SMBC Nikko Capital Markets Limited. "The Group" refers to SMBC Nikko Capital Markets Limited and its subsidiaries: SMBC Derivative Products Limited and SMBC Capital Markets (Asia) Limited. Our parent company is Sumitomo Mitsui Banking Corporation, which is shown as "SMBC". "SMBC Group" refers to the corporate group of companies of Sumitomo Mitsui Financial Group, shown as "SMFG", and of which we are a part. The term "EMEA" refers to Europe, Middle East and Africa.

Overview
About the Group and its activities

The Directors present the Strategic Report of SMBC Nikko Capital Markets Limited for the year ended 31 March 2021 (the "Period").

SMBC Nikko Capital Markets Limited and its subsidiaries (the "Group") undertake investment banking activities, offering its customers derivatives and securities products as well as merger and acquisition advisory services.

The Group includes the following consolidated legal entities:

– SMBC Nikko Capital Markets Limited (the "Company"), company number, 02418137 incorporated in England and Wales. The Company 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.

– SMBC Derivative Products Limited ("SMBC DP"), company number 02988637, incorporated in England and Wales, is a wholly owned subsidiary of the Company. SMBC DP is a full scope investment firm, authorised and regulated by the FCA. It is structured as a bankruptcy remote derivative products company 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 with respect to 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 for the Company and its affiliated entities in offering customers with derivatives solutions in Asian markets outside of Japan and in Australia.

The Group is organised into the following business lines:

– Global Markets comprising Derivatives, Fixed Income and Equity trading departments:
  - Derivatives: The Company is a derivatives specialist providing hedging options to customers, including the wholesale customers of SMBC Group.
  - Fixed Income and Equity: The Company offers a variety of products and services related to sales and trading of both secondary debt instruments and securities.

– Capital Markets and Advisory comprising Debt Capital Markets, Equity Capital Markets and Mergers & Acquisitions:
  - Debt and Equity Capital Markets offer a variety of products and services related to primary issuances in both debt and equity capital markets.
  - Mergers & Acquisitions provide advice and support to SMBC Group customers seeking new business opportunities.

Business model, objectives and strategy

The Group's business model is to service its wholesale and institutional customer base with focused investment banking services including securities and derivatives products as well as corporate advisory services, 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 to continue to build long-term sustainable growth through a strategic plan which recognises the Group's responsibility to a broad range of stakeholders including shareholders, customers, regulators, employees and society.

The Group's strategy is built around four corporate objectives:

- Serving Customers: To provide high-quality value-added services to EMEA customers as the partner of choice.
- "Edges" as SMBC Group: These 'Edges' are areas where the Group has a particularly strong position in terms of its customer relationships; product capabilities; and global reach (particularly in terms of Japanese/Asian origination). The Group is well underway to strengthening its positions with the Middle East region, both broadening its customer base as well as product offering to service this increasingly important customer base.
- Sustainable Growth: To run the business in a way that is appropriately balanced and sustainable; and to develop an efficient and effective infrastructure to support sound business growth and to provide services to other SMBC Group companies across EMEA through Service Level Agreements.
- Team SMBC Group: To share SMBC Group's Mission and Vision and to contribute to their realisation.
  - The Group's Mission is defined as: "we grow and prosper together with customers by providing services of greater value to them; we aim to maximise shareholder value through the continuous growth of the business; we create a work environment that encourages and rewards diligent and highly-motivated employees; and we contribute to a sustainable society by addressing environmental and social issues".
  - The Group's Vision is to "become a trusted global solution provider committed to the growth of our customers and advancement of society".

Purpose
"A trusted partner for the long-term"

This Statement reflects the long-term relationship-based approach the Group has adopted in carrying out its business for the benefit of its customers and stakeholders.

The Group is committed to the following guiding principles that shape how it works and does business every day:

- providing expertise in the derivatives and securities markets to customers;
- striving for sustainable and balanced growth in business strategies in order to make a steady contribution to the profitability and reputation of stakeholders and business partners;
- governing and executing business with the highest integrity and following SMBC's organisational values in order to create an environment and culture that enhances the Group's franchise and develops its employees; and
- managing risk in a prudent, proactive and professional manner in order to protect stakeholders and their investments.

Overview of performance

Key performance indicators

Performance

The Group uses a broad range of financial and non-financial measures to help understand how it is performing. In particular, Key Performance Indicators (KPIs) are widely used by the Board and its Committees and across the Group more generally. Set out below are the main financial KPIs.

The full year results for the year are set out in the Statement of Profit or Loss on page 40.

Return on equity
3.9%
31 March 2020: 3.5%

Return on Risk Assets
2.2%
31 March 2020: 1.8%

Tier 1 capital ratio
48.1%
31 March 2020: 45.7%

Cost: income ratio
66.5%
31 March 2020: 74.4%

Leverage ratio
10.2%
31 March 2020: 12.0%

Net profit
USD 70.7 million
31 March 2020: USD 61.4 million

Gross income
USD 251.9 million
31 March 2020: USD 286.0 million

Total assets
USD 18,834.0 million
31 March 2020: USD 20,769.2 million

* The results of 2020 are for 15 months and may not be directly comparable with 2021.

Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2021 (2020: $nil).

Review of the year

The Group and Company considers a range of strategic, regulatory and operational factors 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 compliance with regulation.

Effectiveness is measured using financial indicators such as budgeted revenue targets and new deal revenue. The Group also uses 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 Board reviews management information relating to, inter alia, earnings, regulatory capital, leverage and liquidity.

Global Markets business lines, being Derivatives, Fixed Income and Equity benefitted from a low interest rate environment and a strong bounce back in the credit markets during the first quarter of the financial year. Strong monetary and liquidity support as a response to COVID-19 risks helped the credit markets including the Middle East markets.

Capital Markets & Advisory had a very solid performance with the financial performance considering the impact of UK's exit from EU ("Brexit"). Brexit resulted in a significant proportion of debt issuance customers being transferred from the Group into a newly created entity in Frankfurt, Germany. Despite this, the Board feels a strong momentum in the debt capital markets area, specifically with an increased focus on customers based in the Middle East. To support this strategy, the Group opened the Abu Dhabi Global Markets branch office, an international financial centre in Abu Dhabi in January 2021 to service local customers.

In terms of expenses, the Group was able to manage operating expenses through careful cost control initiatives as well as COVID-19 enforced reduction in Travel and Entertainment.

Future Developments

The Board is realistic about the uncertainties in 2021 but excited about the opportunities. The Group's strategy for the year ahead remains consistent with that pursued in 2020. The Group will continue to focus on balanced growth and to pursue efficiency, while utilising its competitive edges as a subsidiary of SMBC and SMBC Nikko Securities Inc. The Group will continue to focus on adding value to services through its Solutions/Advisory and a Cross-Product approach. It will also continue to enhance and broaden its product base in each business area to allow it to serve customers' needs in a more comprehensive manner.

SMBC Group plans to simplify its international derivatives booking methodology and as a consequence, there will be a significant reduction in remotely booked transactions and therefore lower revenues to be shared with the Group. This change will cause a noticeable reduction in the Group's overall profitability next year. The Group plans to continue its organic growth to service EMEA-based clients and wider product offering.

The Group will look to strengthen its climate change commitments and further develop its governance and risk management frameworks to ensure these remain commensurate with the size and complexity of the business.

The full year results for the year are set out in the Statement of Profit or Loss on page 40.

The Group's operating and business environment

Response to COVID-19

In responding to the COVID-19 pandemic, the health and wellbeing of employees has been, and remains, a top priority. The Group has provided a range of resources to support them with their physical and mental wellbeing and aims to continue supporting staff through the introduction of a hybrid working policy when government guidance allows office workers to return to their offices.

During the government enforced COVID-19 lockdowns, the Group successfully enacted its Agile Working Plan to ensure the continuity of all business operations. This allowed the Group to achieve an uninterrupted provision of products and services to customers. The Group prioritised the safety and wellbeing of employees whilst maintaining the best possible level of customer service and responsiveness to customers' evolving needs throughout the crisis period.

Both COVID-19 and the Government's response to the pandemic can have significant impacts on financial markets and the business environment. Therefore, the Board continues to monitor the situation closely and manage positions and risks appropriately. Throughout the ongoing crisis, the Group has and continues to manage its risk appropriately in order to ensure compliance with regulatory capital and liquidity requirements at all times ensuring risks are managed to our risk management framework.

Risk management and controls

Three Lines of Defence

The Group risk management and controls framework is based on 'Three Lines of Defence' to ensure adequate oversight of risks and embed a culture of risk awareness throughout the organisation. This approach separates ownership and management of risk from the functions that oversee risk and those that provide independent assurance.

Each business function constitutes the first line of defence (1st LOD) who are responsible for owning and effectively managing the risk in line with the overall risk management framework. This entails identifying and managing risks directly and are held 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.

Risk environment

While COVID-19 has impacted all principal risk types (liquidity, credit, market, operational), the Group's strong balance sheet and conservative risk levels have allowed it to navigate the challenging environment while continuing to support the needs of customers.

The current and future impact of COVID-19 has been incorporated into capital and liquidity adequacy planning documents and into recovery and resolution planning.

With most staff working remotely during the Period, the Board recognises that cybersecurity risk has increased over the last year. The Group has therefore sought to implement best practices for keeping home environment working secure and reflected these new challenges within its annual mandatory Information Security training which all staff must complete.

There remains a high degree of uncertainty in the economic outlook despite recent improvements in economic forecasts. Given this uncertainty, the Group will continue to give a high level of focus to the market environment, especially interest rates and periods of sporadic volatility on concerns around inflation and tapering of monetary policy. The Board continues to manage the Group's capital and liquidity positions to ensure that it is well-positioned to navigate the current business environment.

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 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 Board Risk and Compliance Committee ("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 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 30.
- 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. However, 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 2021 and 31 March 2020 and was 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 SMBC 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 low 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 overall VAR limits at a portfolio level as well as 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 Group's functional currency. The Group hedges the risk arising from expected future GBP expense cash flows by transacting 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. Additionally, the Group continues its enhance focus on operational resilience and cyber security risks.

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
- 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. The Group is executing on detailed plans to prepare for forthcoming changes on the prudential regulatory rules applicable to Investment firms.

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 macroeconomic, 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 climate change has 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.

Approach to climate change

In recognition that addressing climate change is one of the foremost global issues of the 21st century, the Group supports the Task Force on Climate-related Financial Disclosures (TCFD). It has published on its website the Group's 2020 TCFD Report and related documents. This includes the Group Statement on Sustainability and the Group Environmental Policy.

In April 2020, SMBC Group also updated its Mission to add "We contribute to a sustainable society by addressing environmental and social issues" and also announced a Sustainability Statement, which defines sustainability as, "creating a society in which today's generation can enjoy economic prosperity and wellbeing, and pass it on to future generations". At the same time, SMBC Group established 'GREEN×GLOBE 2030', a ten-year plan that focuses on three key areas: sustainability initiatives that are directed towards customers/society; internal initiatives that contribute to sustainability management; and enhancing engagement with investors. The Group fully supports these initiatives and continues to liaise with colleagues in SMBC Group to further SMBC Group's sustainability and environmental objectives.

As a global financial group, SMBC Group is working to strengthen its structure for managing environmental and social risks. The SMBC Group has established policies for sectors that are likely to have a significant impact on the environment and society. These policies have also been implemented in SMBC Group companies including the Group. These policies are publicly available on SMFG's Management of Environmental Risks website. The following policy topics are considered most likely to have an impact on climate change: coal-fired power generation; oil & gas; coal mining; palm oil plantations; and deforestation. SMBC has internal procedures and training to support the implementation of these policies.

SMBC Group has also adopted the Equator Principles, a set of principles for determining, assessing and managing social and environmental risks in finance to large-scale development projects. SMBC Group has established the Environment & Social Analysis Department (ESAD) to assess the social and environmental risks in accordance with the principles. The Group's marketing departments liaise closely with ESAD on relevant transactions.

Climate change is identified as one of the top risks and is a topic of considerable Board and management focus. This section sets out the approach to managing the risks and opportunities arising from climate change. This is structured on the recommendations put forward by the TCFD to disclose: "governance", "strategy", "risk management" and "metrics and targets".

Status of measures to address the TCFD recommendations

Item	Recommended disclosure	Status of initiatives
Governance	Governance around climate-related risks and opportunities	– Clearly defined and documented the roles and responsibilities of the Board and management in the oversight and management of climate-related risks. – Carrying out activities based on these roles and responsibilities. – Appointment of a Senior Manager Function (SMF) officer responsible for response to climate change. – Sustainability is discussed at all Board meetings.
Strategy	Impacts of climate-related risks and opportunities on businesses, strategy and financial planning	– Developed an initial Climate Change Strategy, which has been approved by the Board.
Risk management	How climate-related risks are identified, assessed and managed	– A holistic risk management approach has been developed to ensure climate risks are considered in key risk processes.
Metrics and Targets	Metrics and targets used to assess and manage climate-related risks and opportunities	– Initial identification of metrics is underway, including developing targets such as for new business, our net zero ambition. – Further enhancement and evolution of metrics over time.

Governance

Oversight

The Board is responsible for setting and monitoring the Group's Sustainability Strategy and for overseeing its overall response to the risks and opportunities posed by climate change. The Board receives quarterly reports on the development of this strategy, including management information on exposures to certain sectors and obligors. It also reviews broader sustainability initiatives and provides appropriate challenge as needed. The Board is supported by the Audit Committee, which is responsible for considering climate and sustainability disclosures, and BRCC, which is responsible for considering the risk impact of climate change and the development of climate stress testing.

Execution

The Board has appointed an SMF officer responsible for climate change, who is supported in this work by the EMEA Sustainability Programme (ESP). The key components of the ESP are a Sustainability Steering Committee and a Sustainability Management Forum. These governance bodies have responsibility for considering all aspects of the Group's climate response. This includes alignment with SMBC Group initiatives, risk management arrangements, the ways the Group can support its customers with the transition to a lower carbon economy and the reduction in the Group's own greenhouse gas emissions.

Strategy

The Board has approved the Group's initial Climate Change Strategy which sets out an action plan to:

– develop a business strategy that adapts to the realities of climate change and is innovative in developing products to assist customers within an ESG framework;

– develop a risk management framework around this evolving business strategy; and

– introduce and extend disclosures in regard to climate change exposures.

The Board has also noted the EMEA Sustainability Strategy which is based on four strategic ambitions:

– Customers: Supporting customers in their journey to sustainability;

– Solutions: Being recognised as a leading provider of green and sustainable finance solutions;

– Business: Embedding sustainability management and culture in all aspects of business operations; and

– Operations: Proactively pursuing own greenhouse gas emission reductions with an aim to be net zero by 2030 or sooner (Scope 1 and 2).

The Group recognises that its Climate Change Strategy and the EMEA Sustainability Strategy will need to be developed as it grows its capabilities and knowledge and in response to external developments. The Board will oversee work in progressing these goals.

Governance
continued

Risk management

The Group has implemented, and continues to develop, a holistic risk management approach to identify, assess, monitor, measure, report and escalate climate change risks. This approach is illustrated and explained more fully below:

Risk Register: This is the internal taxonomy of key risks and controls, which is used to inform the ongoing identification of risks. The Group recognises that climate change risks are inherent across the spectrum of risk categories and no longer regard them as a standalone risk. This has allowed the Board and senior management to consider how climate change risk impacts each of the Group's risk drivers and the control environment in place to manage them.

Governance
continued

Top 10 risks: Climate Change risk features in the Top 10 emerging risks framework. This is considered on a quarterly basis by the Risk Management Steering Committee and the BRCC.

CCRA: The Climate Change Rating Assessment (CCRA) tool is used to assign a climate change score (reflecting the transition and physical risk profile) to some of the Group's obligors, with a view to supplementing this with a higher-level sectoral analysis for those not yet covered. Transition risk represents the financial risks/losses that arise from the process of adjusting towards a low carbon economy. This includes changes in technology, social preferences and policy. Physical risk represents the financial risks/losses that arise as a result of climate and weather-related events, such as heatwaves, floods, tornadoes and sea level rises.

The combination of the CCRA and broader consideration of ESG risks in transactions allow the Group to understand its customers' energy transition plans and inform credit assessment decisions.

Stress Testing and scenario analysis is used to determine the physical and transition climate change impact on the Group's credit portfolio over a 25 to 30-year period. The Group's scenario analysis approach is broadly aligned with the Bank of England's Climate Biennial Exploratory Scenario (announced in November 2020), through which the Group analyses the stress impact on the portfolio of three scenarios: No additional policy (>4°C temperature change), Early Policy adoption (<2°C) and Late Policy adoption (<2°C). Risk adjusted portfolios are created to calculate the Climate Risk Value-at-Risk ("VaR") impact of each scenario. The stress scenarios inform the potential credit impact of climate change in the existing portfolio over the long term, and the results are included within the Internal Capital Adequacy Assessment Process (ICAAP) document.

Key Risk and Key Performance Indicators: The Group is in the process of establishing quantitative measures to monitor the four pillars of its Sustainability Strategy. These metrics will be developed as the Group enhances its understanding of the climate change risks facing customers and their ability to manage or mitigate them.

Risk assessment results

Through risk identification and assessment processes, the Group has determined that transition risk and, to a lesser extent physical risk, are two important risk elements in the Group's credit portfolio. The Risk team have started monitoring higher risk obligors with a focus on high transition risk sectors, including energy and automotive. The Risk team also seek to differentiate between customers in higher risk sectors but with well-developed transition plans and those with less well-developed plans. They will use this to manage and monitor risks and opportunities.

The Group has also completed an assessment of the physical risks of its own operations based on the location of its offices and SMBC Group data centres in North America, UK and Japan. For all regions where a data centre is located, the Group has in place primary and secondary sites, so any disruption to a primary data centre is mitigated by having a secondary data centre in place. Amongst the Group's sites, Japan has the highest risk of physical climate change impact, while North America has a relatively moderate risk, and the UK a relatively low risk. Based on this assessment, the Board considers the overall physical risk of the Group's operations to be low.

How the Group monitors and mitigates risk related to climate change

The group monitors the risks related to Climate Change primarily through its transaction approvals process including compliance with SMBC group policies relating to climate change.

Governance
continued

Streamlined Energy and Carbon Reporting

Starting from April 2019, the Streamlined Energy and Carbon Reporting ("SECR") scheme requires companies to report their total energy consumption and carbon emissions in CO_2 equivalent. The requirements apply only to UK companies, which in the Group comprise CM Ltd and SMBC DP. During the year ended 31 March 2021, their environmental footprint included:

– 2 MWh or equivalent of 0.6 tonnes of carbon dioxide emissions resulting from activities for involving the combustion of gas or the consumption of fuel for transport purposes (2020: 13MWh or 3 tonnes of CO_2);

– 2,431 MWh or equivalent of 566 tonnes of carbon dioxide emissions resulting from the purchase of electricity by the company for its own use, excluding for transport purposes (2020: 2,797 MWh or 715 tonnes of CO_2);

– 2,433 MWH or equivalent of 567 tonnes of carbon dioxide emissions from combined consumption of fuel for the purposes of transport and energy consumed for its own use (2020: 2,810 MWH or 718 tonnes of CO_2);

– The emission intensity of the above footprint is equivalent to 177 kg of CO_2 per square meter of office or 1,620 kg of CO_2 per employee (2020: 224 kg of CO_2 per square meter or 2,052 kg per employee);

– During the period, energy and CO_2 emissions savings were attributable to low occupancy and measures implemented by the business:

  - Removal of 50% of vending machines.
  - Reduced lighting consumption with low occupancy and movement sensors.
  - Reduced use of audio-video equipment in meeting rooms.

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

Section 172(1) statement and the Company's stakeholders

Overview

The Directors recognise the need to ensure that the Company's business is run for the benefit of all its stakeholders. The Directors are aware of their duty under section 172(1) of the Companies Act 2006 to act in the way in which they consider, in good faith, would be most likely to promote the Company's success for the benefit of its members as a whole and, in so doing, to have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;
(b) the interests of the Company's employees;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment;
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between members.

The following sets out how the Directors have had regard to the above matters when performing their duties.

Stakeholder engagement

As required, the Board considers the views and interests of the Company's stakeholders when exercising their duties under section 172(1) of the Companies Act 2006. The Company's stakeholders, which were unchanged during the Period, are those that most materially impact the Company's strategy or are impacted by it. These are: customers, employees, the environment and society, markets and regulators, suppliers and shareholders (SMBC group below).

The Board delegates to management the authority to run the business on a day-to-day basis. Therefore, interactions with external stakeholders take place via senior management and employees in the context of the strategies and policies set by the Board and Board Committees. As necessary, significant interactions with employees and other stakeholders are reported to the Board and its Committees.

Customers

"Customer First" is a core value of the Company and the Company seeks to build its brand by being a reliable and trusted partner to its customers.

Senior management contact customers regularly and report these interactions to the Board, as appropriate. At the beginning of the COVID-19 pandemic, the Company refocused its strategy of expanding the customer base; instead increasing focus on providing support to existing customers. This was implemented by prioritising a range of customers to whom capital and liquidity solutions could be provided, along with leveraging the capabilities of other SMBC Group entities to offer additional financial instruments. This initiative was aimed at allowing customers to successfully weather challenging times.

COVID-19 has required senior management to change the ways they keep in touch with customers: customer conferences now take place via electronic means. Senior management and business representatives also continue to attend seminars and conferences via digital means. In this way, the Company can keep in touch with customers, remaining engaged with their concerns and interests.

The Board, Board Risk and Compliance Committee, Executive Committee and Risk Management Steering Committee have continued to focus on the ways in which the Company conducts its business. These Committees review Key Risk Indicators which set out the Company's adherence to conduct related policies and procedures. Policies include customer outcomes and customer expressions of dissatisfaction.

Section 172(1) statement and the Company's stakeholders continued

Management hold regular discussions with business heads 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. The Customer Communications strategy includes policies covering written communications, messaging systems, market sounding and complaints handling. The Company also has a robust framework around GDPR requirements to ensure that it keeps customers' data secure and private.

The Company's workforce

The Board recognises that employees and colleagues are central to the Company achieving its sustainable growth objective. The Company regards its people as its key resource and is committed to developing a highly-skilled, highly-motivated and professional workforce. The Company seeks to provide an excellent service to customers and colleagues through collaboration, teamwork and a sense of shared purpose.

The Board has considered the three methods for workforce engagement set out in the UK Corporate Governance Code and has decided to adopt alternative arrangements to understand the views of the workforce.

Engagement with the Company's workforce involves regular consideration by the Board of matters impacting the workforce, including the Company's diversity and inclusion initiatives and human resources initiatives. There is also regular senior management engagement with employees through employee engagement forums and regular emails sent by the executive Directors on matters such as business strategy.

Senior management host Town Halls throughout the year on specific topics of interest to staff, as well as general Town Halls aimed at keeping staff informed and engaged during the home working period. Recognising the challenges faced by staff during the COVID-19 period, senior management also hosted special Town Hall sessions for new joiners and for Japanese employees.

Regular pulse surveys were sent to staff during the COVID-19 work from home period to ensure that employees were being properly supported during this challenging time. These surveys enjoyed a high response rate from employees, who were keen to share their views. Senior management made particular efforts to encourage good communication at all levels of the Company during the COVID-19 period. They have led by example via several all-staff Town Halls hosted by the CEO and other members of the senior management team. The Corporate & Social Responsibility ("CSR") team also worked to organise virtual events such as quiz nights to ensure that staff were able to remain engaged with their colleagues.

Environment and society

The Board recognises the Company's role in society and the importance of contributing positively to the societies in which the Company operates. The Board is focused on how the Company can participate in combatting climate change and support green initiatives on a wider Group basis. Senior management consider green issues when reviewing transactions. The Board receives regular updates on the activities of the Company's response to the business impact arising from climate change.

Senior management often attend industry meetings and conferences where wider public concerns are discussed. Staff are encouraged to raise concerns and suggestions via the Company's 'Speak Up' initiative to bring such matters to management's attention. The Company monitors releases from environmental NGOs such as BankTrack and Rainforest Action Network to understand their views on the Group and their recommendations for improvement. Finally, through the activities of the Company's CSR team, staff 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 Company supports charitable giving through CSR initiatives, and the Board invites the CSR Committee to present an annual report on its activities to allow the Directors to understand how they can support the team's outreach efforts.

Section 172(1) statement and the Company's stakeholders continued

The Board engages with the Gender Pay Gap reporting process and reviews and approves publication of the Gender Pay Gap Report.

The Company has implemented a number of wide-ranging programmes on good conduct and developing a strong culture within the Company to encourage the highest standards of behaviour from staff in all of their business dealings – these programmes have been widely embraced by staff across all levels of the Company.

The markets and regulators

The Company's regulators require compliance with rules to ensure the integrity of the financial markets in which the Company operates. The Board recognises that failure to comply with these requirements will impact the Company's ability to carry out its business and serve its customers.

Members of the Board and senior management engage regularly with the Company's regulators. The Directors are updated on recent communications with the FCA at each Board meeting, and the Board and its Committees receive regular updates on developments in financial services regulation. The Company also provides a series of regulatory reports across multiple functions as required by the regulator and notifies the FCA of any material events impacting the Company in a transparent and timely manner.

To ensure that the Board keeps abreast of all upcoming changes and is aware of 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 customers. The Directors are also in regular contact with the regulators to answer questions on matters such as Brexit, LIBOR discontinuation and COVID-19 responses.

During the year, the Board's training programme included topics on sanctions, where overall EMEA sanctions developments were considered. The Board was also briefed on the regulatory expectations for financial institutions to manage climate risk.

Suppliers

The Company relies upon external suppliers to provide expertise and services that the Company does not possess. Contact points for suppliers have been identified within the Company to ensure that regular contact is maintained and that named individuals have responsibility for these important relationships.

During the year, the Executive Committee considered a report on the steps being taken to develop its procurement function, which should enhance the ways in which the Company engages with its suppliers.

The Company's supplier engagement policies require suppliers to confirm that they are complying with applicable laws and regulations including those related to Modern Slavery concerns. The Company has maintained a Modern Slavery Policy since December 2016 which has enabled the Company to meet the requirements of the UK Modern Slavery Act (2015). The policy is reviewed on an annual basis and sets out the ways in which the Company seeks reasonable assurance that none of its customers, business partners, suppliers and other third parties are involved in the commission or facilitation of slavery and/or human trafficking.

Know Your Customer ("KYC") matters are discussed and monitored during Executive Committee meetings and key issues are also considered by the Board.

Processes are in place to ensure timely payment of invoices; departments are encouraged to raise any payment issues on behalf of suppliers at the monthly Control and Conduct Assessment Forum for further action.

Section 172(1) statement and the Company's stakeholders continued

The SMBC Group (including ordinary shareholders, SMBC and SMBC Nikko Securities Inc.)

As a part of the SMBC Group, the Company shares the Group's Mission and Vision and contributes to their realisation. The Company also seeks to assist the SMBC Group to expand and consolidate its global franchise, as appropriate. A Service Level Agreement framework for the provision and receipt of services between the Company and the SMBC Group is in place.

The Company's independent non-executive Directors have regular meetings with senior management of the parent entities. In addition, three group non-executive Directors hold positions within the SMBC Group. Their participation in the Board's decision making ensures that decisions are consistent with the needs of the Company's shareholders, whilst being in the best interests of the Company.

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 its 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 the Medium-Term business plan) and ongoing activities within the Company (such as 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, the Company's German affiliate, Antony Yates and Takahiro Yazawa (Executive Chairman) are able to assist the Company's function as a global hub for SMBC Group, by ensuring that the Company can provide adequate support to other entities in the EMEA region.

Stakeholder engagement case studies

Highlighted below are some examples of matters considered by the Board and how stakeholder interests were taken into account.

Transfer of people

During the year, the Board agreed to develop integrated control and support functions with its affiliated company, SMBC Bank International plc (Bank). This involved the transfer of approximately 190 staff in various control and support functions, from the Company to the Bank. This was carefully managed by senior management to ensure relevant services can continue to be provided to the Company.

In making this decision, the Board considered the impact on the individuals to be transferred, confirmation that no significant concerns had been raised by the affected employees through the employee consultation process, the regulatory implications and the views of shareholders. The Board also focused to the impact of the transfer on the Company's risk management and controls. The Board concluded that the transfer was consistent with shareholder expectations and in line with the Company's overall strategy.

Employee engagement – Black Employees and Allies Network

The Board supported the establishment of the Company's Black Employees and Allies Network in the summer of 2020. This network has been established to advocate and support a more inclusive and representative workplace for Black people throughout SMBC Group. The Board also held a discussion with an advisory firm setting out race and ethnicity diversity and inclusion best practices for boards and companies. During the year, the Company conducted a series of anonymous listening groups, inviting colleagues from different racial and ethnic backgrounds to provide insight and feedback on their experience of inclusion at the Company. As a result of these sessions, the Company has asked a group of employees, reporting to SMBC's EMEA Group-wide Diversity & Inclusion Steering Committee, to consider race and ethnicity issues within the EMEA Group entities. The Board will oversee this work through its quarterly review of diversity and inclusion matters.

Section 172(1) statement and the Company's stakeholders continued

Culture and values

The Company's culture is shaped by its clearly defined purpose, and as a provider of financial services. The Company seeks to earn trust by acting with integrity and a sense of responsibility. It looks to build relationships with all stakeholders based on openness and transparency. The Company's culture and values provide a framework of expected behaviours for its employees. The Company's Culture Statement has five components:

1. Provide an excellent service to customers and colleagues, through collaboration, teamwork and a sense of shared purpose.
2. Build the brand by being a reliable and trusted partner to customers and contribute positively to the societies in which we operate.
3. Protect customers and markets by conducting business in a transparent, prudent and compliant manner.
4. Treat each other with respect and integrity and embrace diversity in all its forms.
5. Be focused, creative and proactive in evolving the business to meet new challenges.

At its quarterly meetings, the Board considers metrics assessing overall behaviours across the Company against the five components of the Culture Statement. Other metrics relating to staff conduct are reviewed and discussed in detail by the Directors at the Board Risk & Compliance Committee.

The Directors are supported in the discharge of their duties by:

– A bespoke training and induction programme for all new members of the Board and ongoing training in specific areas of focus as well as results of Board Effectiveness Reviews.

– Senior management, who present proposals to the Board and its Committees for decision. Documentation presented in support of proposals is expected to set out the factors to be considered in determining the action that would be most likely to promote the success of the Company.

– Agendas, which are developed by the Board and Committee Chairs in conjunction with the Company Secretariat, with the aim of ensuring that there is enough time to appropriately consider and discuss key matters. Standard agendas have been created for each Board Committee meeting to ensure that important items are presented at an agreed time during the year, and there is no risk of key matters being missed or overlooked.

Corporate Social Responsibility

The Company is committed to its CSR activities at a local level and continues to provide up to six paid days per year for employees volunteering to support charitable or community activities.

In addition, the Company has established a Corporate Giving Fund. This scheme provides an annual fund from which donations are made to carefully selected community organisations and charities that have long-term volunteering relationships with employees. The Company will also match contributions made by employees and funds raised by employees from other charitable fund-raising events, subject to eligibility criteria.

In response to COVID-19, the Company launched a fundraising campaign in partnership with other SMBC Group entities in the UK. The 'Give Back – Change Lives' campaign was established to support three charitable organisations for homeless, medical research and ambulance services, directly involved in the response to COVID-19.

During the year, employees across the Group entities raised £16,746.51 as part of the 'Give Back – Change Lives' campaign. Of this figure, the first £10,000 was matched by the Company and related UK Group entities.

Approved by the Board of Directors

Antony Yates
Chief Executive Officer
23 July 2021

Directors' Report

The Directors present their report and the financial statements of SMBC Nikko Capital Markets Limited for the year ended 31 March 2021.

Results and dividends

The Group profit for the period, after taxation, amounted to $70.7 million (2020: $61.4 million). No dividend was paid in the period and none has been declared (2020: $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
K Nakamura (appointed on 1 May 2020)
S Souchon
J D Thomas (resigned on 31 December 2020)
M Turner (appointed on 21 January 2021)
A Yates
T Yazawa

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.

Events after the reporting date

There were no events after the reporting date which would have a material impact on the financial statements.

Financial risk management

Financial risk management objectives are included in the Strategic Report.

Future developments

Future developments are discussed on page 7 in the Strategic Report.

Directors' Report
continued

The Group 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 Group to both benefit from and play a key role in contributing towards the strategy of the SMBC Group.

The Group is committed to delivering its 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 climate change risk and COVID-19 impact 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 Group's auditor.

By order of the Board

Antony Yates
Chief Executive Officer
23 July 2021

Corporate Governance Report

Our Corporate Governance Report describes how the Board and its Committees operated during year ended 31 March 2021.

The Wates Principles

The Board is committed to maintaining high standards of corporate governance to support the delivery of the Company's strategy, positive stakeholder relationships and the creation of long-term sustainable value for shareholders. For the year ended 31 March 2021, the Company applied the Wates Corporate Governance Principles for Large Private Companies. Included within this section is a description of how, in practice, the Board has applied the Wates Principles and the activities of the Board and its Committees. Where reference is made to disclosures made elsewhere in this document, these are incorporated by reference.

Principle 1 – Purpose and leadership

"An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose."

The Board has approved a Corporate Purpose Statement, which is for the Company to be "a trusted partner for the long term". The Board believes that this Statement reflects the relationship-based approach adopted in carrying out the business for the benefit of the Company's customers and stakeholders.

The Board is collectively responsible for the long-term success of the Company by steering to its 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.

The Company abides by the mission statement of its ultimate parent, Sumitomo Mitsui Financial Group. The Board is responsible for promoting the values and culture of the Company via initiatives in its ongoing Culture programme. The Board and senior management demonstrate a clear and consistent tone from the top by modelling and promoting the desired behaviour of staff.

The Board approves a corporate strategy annually. The yearly strategy process includes consideration of high-level strategic principles, including those of the SMBC Group, a strategy discussion meeting, and the draft and final versions of the strategy document. In an enhancement to the strategy setting process, this year's strategy discussion meeting included representatives of the SMBC Group's other principal subsidiary companies in EMEA. The purpose of this change was to facilitate a common understanding of the strategy amongst those boards. The Company's strategy is underpinned by its corporate objectives and culture. Business developments and progress against the strategy are considered by the Board quarterly and by the Executive Committee monthly.

The Company's corporate strategy and developments in the business are communicated to employees in a variety of ways including regular update emails from the EMEA Group Head, Keiichiro Nakamura, to all staff and through the Company's intranet site.

Corporate Governance Report
continued

Principle 2 – Board composition

"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company."

The Board has appointed an independent, non-executive Chair to ensure there is clear division of responsibilities between the leadership of the Board and the executive leadership of the business.

The Directors have a wealth of expertise in their fields, and the Directors feel that the Board is an appropriate size given the scale of the business. The 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. The Company's Independent Directors bring an external perspective to the Board with their deep knowledge of Risk and Finance within the Financial Services industry, while the Executive Directors have many decades of experience within the Company and in positions of oversight within SMBC Group.

During the year, the Board and its Committees undertook a review of their effectiveness. This review identified many elements where the Board and Committees are effective in carrying out their work, but highlighted that they had the potential to become more effective through development of the Directors' training programme, reviewing Board and Committee composition, and further promotion of free flowing discussion and debate in meetings. The Board has discussed these findings and has put in place measures to address them. This also included the appointment of Maria Turner as Independent Director and Chair of BRCC during the Period.

The Board embraces diversity and is considering how to bring about a greater balance in gender as part of succession planning. The Company's approach is set out in the Diversity Policy, with a commitment to diversity in the widest sense including diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths, when seeking to fill vacant positions. The Diversity Policy also sets out the approach for the selection and appointment of individuals to Board Director and senior executive management positions. This Policy states a target that 25 per cent of the Board will be made up of women, while also ensuring an appropriate mix of skills, experiences and competencies on the Board. The Board currently meets this target.

Principle 3 – Director responsibilities

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge."

All Directors have in place a role description and have individual regulatory responsibilities in accordance with the Senior Managers' Regime. These responsibilities are documented within the individuals' Statement of Responsibilities and within the Company's Management Responsibilities Map.

The Board meets quarterly and as necessary. Between these meetings there is regular contact between the executive and non-executive Directors. The Board has delegated to its Committees certain responsibilities and these are set out in terms of reference that are regularly reviewed by the Board and its Committees. The Board and the BRCC, Audit, Nominations and Remuneration Committees are all Chaired by independent non-executive Directors.

Corporate Governance Report
continued

The independent non-executive Chair is responsible for leading the Board and the Board has delegated to the executive Directors the responsibility for the management and day-to-day running of the Company. The CEO and Executive Chairman oversee all key decision-making in the Company.

All Directors have access to the advice of the Company Secretary and General Counsel have the right to seek independent professional advice at the Company's expense in the furtherance of their duties. These rights are set out in the Company's Independent Professional Advice policy.

All Directors are required annually to review and, at the subsequent Board meeting, approve the Company's Conflicts Register which any potential conflicts of interest are recorded. In addition, the independent non-executive Directors are required to notify the Company in advance of them being appointed to the board of any other company in order to ensure that any potential conflicts of interest with the Company can be identified and, as necessary, managed.

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. The Company's constitutional documents, such as its Corporate Policy Manual and Management Responsibilities Map, set out policies and procedures relating to the authority, role and conduct of Directors.

The Company 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 ESG considerations, and discussions, challenges and final voting results which record the accountability and responsibility of named individuals as part of this process.

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

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.

Principle 4 – Opportunity and Risk

"A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks."

Opportunity

Medium- and long-term strategic opportunities are identified through the annual corporate strategy development process. Any expansion of the business into new areas is considered in conjunction with the Company's risk appetite. Short-term strategic opportunities are considered by the executive management team and reported to the Board on a regular basis.

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 oversight of Brexit impact and LIBOR transition project, have ensured that the Company is able to continue to grow in a changing regulatory environment. The Company also recognises innovation and entrepreneurship via the annual Change, Consolidate, Technology and Visualise ("CCTV") awards, where employees and teams are nominated for recognition of solutions they have implemented which add value, maximise efficiency and improve the business overall.

Corporate Governance Report
continued

Risk

The Risk Management and Controls section of the Strategic Report on pages 8 to 12 set out the key risks to which the Company is exposed. The Company's key risks are considered by the BRCC and by the Executive Committee and the Risk Management Steering Committee. During the Period, the focus for risk management has been to assess the risks arising as a result of COVID-19, Brexit impact, LIBOR transition, global geopolitical events and cyber threats.

The Company values the input of its 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. 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.

Principle 5 – Remuneration

"A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company."

The Remuneration Committee is responsible for overseeing the development and implementation of the Company's remuneration policies and practices.

The Company has put in place a Remuneration Policy that applies to all locally-hired employees. This Policy is reviewed annually by the Remuneration Committee and the Board. It is the Company's intention that the Remuneration Policy will support the Company's long-term aims and that it will seek to encourage and support long-term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness. The Remuneration Policy for the Company clearly and transparently sets out the remuneration process and framework.

When approving the levels of remuneration for Directors and senior management, the Directors consider 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 6 – Stakeholders relationship and engagement

"Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions."

Information on the way in which the Board considers stakeholders' interests is set out in the Section 172(1) statement in the Strategic Report on pages 19 to 23.

Corporate Governance Report
continued

The Board

The Board is Chaired by Patricia Jackson, an independent non-executive Director. The Board is also comprised of the two other independent non-executive Directors, two executive Directors, and three group non-executive Directors.

The Board is responsible for the long-term success of the Company and sets and monitors the Company's performance against strategic objectives. The Board meets formally on a regular basis and at each meeting considers items such as business performance, risk appetite and oversight of systems of internal control and corporate governance policies and their application, as well as sustainability and diversity initiatives. Those matters which are not reserved are delegated by the Board to its Committees.

The delegated authority framework ensures that there is an appropriate level of Board contribution to, and oversight of, key decisions and that day-to day management is conducted effectively.

Key business and senior management members are invited to attend and present to the Board on matters relating to, inter alia, business, conduct, risk, compliance, operational issues and strategic projects. This allows the Board the opportunity to debate and challenge key issues and initiatives directly with senior management and the executive Directors.

The Company has set out matters reserved for the Board, which contains details of its remit and responsibilities. These matters, together with the terms of reference for its Committees, were reviewed and updated during the Period.

During the year, the Board met four times and its principal activities were:

Strategy and business

- Approving the annual Budget, Business Plan and Information Strategy for the year
- Deep-dive reviews of areas of strategic business focus
- An ongoing focus on the way in which the Company was responding to COVID-19, considering the working arrangements of the Company's staff
- Approving the transfer of staff in selected departments to the Company's sister entity, SMBC Bank International plc
- Considering the status of significant project activity
- Considering the work being undertaken to develop the Company's climate change risk management arrangements and climate change strategy
- Considering the approach to the Company's IT strategy and closely following progress on IT-related projects and investment.

Capital, liquidity and recovery and resolution

- Approving, based on recommendations from the BRCC, the ICAAP, ILAA and recovery and resolution documents.

Financial and accounting

- Approving, based on recommendations from the Audit Committee, the annual report and financial statements, Pillar 3 disclosures and UK Tax Strategy.

Long-term decision making

The Board approves the Budget and Business Plan on an annual basis, together with the ICAAP and ILAA documents. In addition, the Board considers and approves the Company's Medium-Term Business Plan every three years, while keeping apprised of the SMBC Group's longer-term strategy. In considering these documents, the Board considers whether they are each in line with shareholder expectations and are consistent with the Company's overall corporate objectives and business model.

Corporate Governance Report
continued

In considering the Budget and Business Plan, as well as the Medium-Term Business Plan, the Board reviews detailed information on potential Conduct Risks associated with the strategy for each product line. In addition, the Chief Risk Officer and the Risk Management team are closely involved in the production of the annual targets and strategy set out in these documents to ensure that they align with the Company's overall risk appetite.

Throughout the year, the Board, BRCC and Executive Committee review the Company's risks relative to the Board approved risk appetite and carefully monitor how risks are mitigated.

Board Committees

The Board has established the Committees listed below to provide oversight and make recommendations on the matters delegated to them by the Board.

Details of the roles and responsibilities of the Board Committees and their respective memberships and activities are shown below. These are detailed more fully in each Committee's terms of reference, which are reviewed regularly and updated on an annual basis and as required.

The Chairs of each Board Committee provide a report on the Committee's activities at each Board meeting, including any matters being recommended by the Committee for Board approval.

Audit Committee

The Audit Committee is Chaired by Stephen Souchon, with the other members being Patricia Jackson, Maria Turner, Hitoshi Minami and Hideo Kawafune. On the invitation of the Audit Committee Chair, meetings are also attended by members of management, including the Chief Financial Officer, Internal Audit Department and the General Counsel. A representative of the external auditors, KPMG, also attends meetings.

The Audit Committee is principally responsible for considering matters related to the preparation and audit of the Company's financial statements, internal financial controls and engagement with the Company's external auditors. It is also responsible for safeguarding the independence and overseeing the performance of the Internal Audit Department, considering the results of Internal Audit activity, and for assessing the effectiveness of the Company's whistleblowing arrangements.

The Audit Committee has responsibility for managing the Company's relationship with its external auditors, KPMG. The Company's policy is that external audit is put out to tender at least as often as required by applicable laws, rules, regulations and best practice.

Board Risk and Compliance Committee ("BRCC")

The BRCC is Chaired by Maria Turner, with the other members being Patricia Jackson, Stephen Souchon, Keiichiro Nakamura, Hideo Kawafune and Hitoshi Minami. On the invitation of the Committee Chair, meetings are also attended by members of management, including Antony Yates and Takahiro Yazawa, the Co-Heads of Internal Audit Department, the Chief Risk Officer, the Chief Financial Officer, the Local Compliance Officer and the General Counsel.

The BRCC is principally responsible for considering the Company's risk management structure and systems, the main areas of risk faced by the Company and regulatory engagement and compliance. BRCC is also responsible for review and recommendation to the Board of the ICAAP, ILAA, and the Recovery Plan and Resolution Plan documents.

Corporate Governance Report continued

Nominations Committee

The Nominations Committee is Chaired by Patricia Jackson, with the other members being Stephen Souchon, Hideo Kawafune, Keiichiro Nakamura and Hitoshi Minami. On the invitation of the Committee Chair, meetings are also attended by Antony Yates, Takahiro Yazawa, Maria Turner, the General Counsel and the Head of Human Resources.

The Nominations Committee is responsible for assessing Board composition and performance and skills of Board members. It also leads the process of appointing new Directors and members of senior management. 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.

Remuneration Committee

The Remuneration Committee is Chaired by Stephen Souchon, with the other members being Patricia Jackson, Maria Turner, Keiichiro Nakamura, Hideo Kawafune and Hitoshi Minami. On the invitation of the Committee Chair, meetings are also attended by members of management, including Antony Yates, Takahiro Yazawa, the Head of Human Resources and the Head of Remuneration. The Chief Risk Officer is also invited to attend certain meetings where his input is required for assessing risk related to remuneration matters.

The Remuneration Committee is responsible for overseeing the development and implementation of the Company's remuneration policies and practices, which includes specific responsibility for recommending the Remuneration Policy to the Board for approval. The Committee also considers other Board level remuneration matters, such as approval of remuneration for Material Risk Takers and the bonus pool methodology.

Executive Committee

The Executive Committee is Chaired by Antony Yates, with the other members being Takahiro Yazawa and members of the Company's senior management team.

The Executive Committee is responsible for the supervision and management of the Company's daily operations and for overseeing the work of the RMSC and its sub-committees. The Executive Committee meets monthly and reports to the Board of Directors. The Company's independent non-executive Directors receive a copy of the papers and minutes of all Executive Committee meetings.

Corporate Governance Report continued

Annual review of internal controls

The Directors, via the Board Risk and Compliance Committee, consider annually the adequacy and appropriateness of the Company's risk management framework. Based on the annual review undertaken in respect of the year ended 31 March 2021, the Directors have formed the view that the Company's Risk Management framework is adequate.

In addition, through the Audit Committee, the Directors undertake an annual review of the effectiveness of the Company's systems of internal controls via the SOX assessment process on Internal Controls over Financial Reporting ("ICoFR"), which is part of the wider assessment plan in place at a global Group level.

Based on these assessments, the Board considers the Company's system of internal controls to be appropriate. The Company's system of internal controls is designed to identify, evaluate and manage, rather than eliminate, the Company's risks.

Approved by the Board of Directors and signed by order of the Board

Antony Yates

Chief Executive Officer
23 July 2021

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 Group and parent company 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 the Group's 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 international accounting standards in conformity with the requirements of the Companies Act 2006;

– 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 year ended 31 March 2021 which comprise the Group statement of profit or loss, 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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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).

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.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

Independent Auditor's Report continued

To the members of SMBC NIKKO Capital Markets Limited

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Review of the Group's internal audit reports, and Board Minutes of the Group; and
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation;
- Evaluating the design and implementation and operating effectiveness of relevant internal controls;
- Assessing significant accounting estimates for bias; and
- Substantive procedures to address the fraud risk.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Independent Auditor's Report continued

To the members of SMBC NIKKO Capital Markets Limited

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate.

We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, specific areas of regulatory capital and liquidity, conduct, money laundering and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach. As part of these procedures we considered the impact on our work from regulatory audits performed over the Company's compliance with the FCA's Client Asset Sourcebook (CASS) rules.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report continued

To the members of SMBC NIKKO Capital Markets Limited

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 35, 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.

Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London E14 5GL
United Kingdom
23 July 2021

Group statement of profit or loss
For the year ended 31 March 2021

	Notes	**Year ended 31/03/2021 US$m**	15 months to 31/03/2020 US$m
Net trading income	2	**184.9**	185.5
Fees and commissions income		**130.0**	156.6
Fees and commissions expense		**(67.3)**	(68.8)
Net fees and commissions income		**62.7**	87.8
Interest income	4	**34.5**	135.2
Interest expense	5	**(30.2)**	(122.5)
Net interest income		**4.3**	12.7
Total income		**251.9**	286.0
Staff costs	6	**(96.9)**	(112.9)
Depreciation and amortisation	17, 18	**(11.2)**	(13.0)
Other operating expenses	3	**(59.3)**	(86.8)
Operating expenses		**(167.4)**	(212.7)
Profit before taxation		**84.5**	73.3
Taxation	8	**(13.8)**	(11.9)
Profit for the financial period		**70.7**	61.4
Profit for the financial period (Company)		**72.8**	61.3

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 48 to 105 form an integral part of these financial statements.

Group statement of comprehensive income
For the year ended 31 March 2021

	Notes	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Profit for the financial period		**70.7**	61.4
Other comprehensive income, net of tax, including			
Items that will never be reclassified to profit or loss:			
– Actuarial (losses) / gains arising on a defined benefit pension plan, net of tax	9	**(0.6)**	0.1
Items that will be reclassified to profit or loss:			
– Net (losses) /gains from cash flow hedges, net of tax		**(1.0)**	2.5
Total comprehensive income for the financial period attributable to equity holders of the Group		**69.1**	64.0

The notes on pages 48 to 105 form an integral part of these financial statements.

Group statement of financial position
As at 31 March 2021

	Notes	31 March 2021 US$m	31 March 2020 US$m
Assets			
Cash at banks	10	**1,127.4**	1,429.8
Trading securities	11	**1,330.9**	1,454.2
Derivative assets	12	**8,932.7**	12,243.8
Other trading assets, at fair value	13	**270.7**	195.1
Securities purchased under agreements to resell	14	**3,550.0**	2,832.7
Collateral placed	15	**3,500.5**	2,470.7
Other debtors	16	**100.9**	117.0
Intangible assets	17	**7.7**	6.7
Property, plant and equipment	18	**9.6**	16.6
Deferred tax asset	8	**3.6**	2.6
Total assets		**18,834.0**	20,769.2
Liabilities			
Trading securities sold, not yet purchased	11	**605.3**	380.7
Derivative liabilities	12	**8,354.2**	11,654.1
Other trading liabilities, at fair value	13	**389.4**	350.5
Securities sold under agreements to repurchase	14	**2,507.3**	2,402.7
Collateral received	19	**4,210.9**	3,164.9
Other creditors	20	**902.7**	1,022.4
Pension scheme liability	9	**3.8**	2.6
Total liabilities		**16,973.6**	18,977.9
Net assets		**1,860.4**	1,791.3
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		**558.0**	487.3
Other reserves		**(1.6)**	–
Total equity		**1,860.4**	1,791.3

The notes on pages 48 to 105 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 July 2021 and were signed on its behalf by:

Antony Yates
Director

Company number 02418137

Company statement of financial position
As at 31 March 2021

	Notes	31 March 2021 US$m	31 March 2020 US$m
Assets			
Cash at banks	10	**1,002.3**	1,347.6
Trading securities	11	**1,215.6**	1,297.5
Derivative assets	12	**8,922.6**	12,226.5
Other trading assets, at fair value	13	**270.7**	195.1
Securities purchased under agreements to resell	14	**3,550.0**	2,832.7
Collateral placed	15	**3,500.5**	2,470.7
Other debtors	16	**98.3**	116.1
Investment in subsidiary undertaking	33	**202.0**	202.0
Intangible assets	17	**7.5**	6.7
Property, plant and equipment	18	**8.0**	14.2
Deferred tax asset	8	**3.6**	2.6
Total assets		**18,781.1**	20,711.7
Liabilities			
Trading securities sold, not yet purchased	11	**605.3**	380.7
Derivative liabilities	12	**8,344.2**	11,637.8
Other trading liabilities, at fair value	13	**389.4**	350.5
Securities sold under agreements to repurchase	14	**2,507.3**	2,402.7
Collateral received	19	**4,210.6**	3,164.9
Other creditors	20	**899.7**	1,022.9
Pension scheme liability	9	**3.8**	2.6
Total liabilities		**16,960.3**	18,962.1
Net assets		**1,820.8**	1,749.6
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		**518.4**	445.6
Other reserves		**(1.6)**	–
Total equity		**1,820.8**	1,749.6

The notes on pages 48 to 105 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 July 2021and were signed on its behalf by:

Antony Yates
Director
Company number 02418137

Group statement of changes in equity
For the year ended 31 March 2021

	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 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
At 1 April 2020		**1,139.0**	**165.0**	**487.3**	**(1.0)**	**1.0**	**1,791.3**
Profit for the year		**–**	**–**	**70.7**	**–**	**–**	**70.7**
Actuarial losses arising on a defined benefit pension plan, net of tax	9	**–**	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Net losses arising on cash flow hedges		**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Total comprehensive income for the year		**–**	**–**	**70.7**	**(0.6)**	**(1.0)**	**69.1**
At 31 March 2021		**1,139.0**	**165.0**	**558.0**	**(1.6)**	**–**	**1,860.4**

The notes on pages 48 to 105 form an integral part of these financial statements.

Company statement of changes in equity
For the year ended 31 March 2021

	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 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
At 1 April 2020		**1,139.0**	**165.0**	**445.6**	**(1.0)**	**1.0**	**1,749.6**
Profit for the year		**–**	**–**	**72.8**	**–**	**–**	**72.8**
Actuarial losses arising on a defined benefit pension plan, net of tax	9	**–**	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Net losses arising on cash flow hedges		**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Total comprehensive income for the year		**–**	**–**	**72.8**	**(0.6)**	**(1.0)**	**71.2**
At 31 March 2021		**1,139.0**	**165.0**	**518.4**	**(1.6)**	**–**	**1,820.8**

The notes on pages 48 to 105 form an integral part of these financial statements.

Group statement of cash flows
For the year ended 31 March 2021

	Notes	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Cash flows from operating activities			
Profit for the financial period		**70.7**	61.4
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	17, 18	**11.2**	13.0
Tax expense	8	**13.8**	11.9
Change in trading securities and repurchase contracts	11, 14	**(264.8)**	418.0
Change in trading assets, at fair value	13	**(75.6)**	(75.2)
Change in trading liabilities, at fair value	13	**38.9**	157.7
Change in collateral placed	15	**(1,029.8)**	(13.2)
Change in other debtors	16	**19.1**	(83.0)
Change in derivative assets	12	**3,311.1**	(5,306.4)
Change in deferred tax assets	8	**(1.0)**	(0.3)
Change in derivative liabilities	12	**(3,299.9)**	4,733.1
Change in collateral received	19	**1,046.0**	287.5
Change in other creditors	20	**(121.1)**	404.4
Net (losses) / gains arising on cash flow hedges		**(1.0)**	2.5
Corporation tax paid	27	**(16.8)**	(17.8)
Net cash flows from operating activities		**(299.2)**	593.6
Cash flows from investing activities			
Purchase of intangible assets	17	**(2.9)**	(1.6)
Purchase of property, plant and equipment	18	**(0.3)**	(1.7)
Net cash outflows from investing activities		**(3.2)**	(3.3)
Net change in cash		**(302.4)**	590.3
Cash and cash equivalents at beginning of period	10	**1,429.8**	839.5
Cash and cash equivalents at end of period	10	**1,127.4**	1,429.8
Net (decrease)/increase in cash		**(302.4)**	590.3

The notes on pages 48 to 105 form an integral part of these financial statements.

Company statement of cash flows
For the year ended 31 March 2021

	Notes	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Cash flows from operating activities			
Profit for the financial period		**72.8**	61.3
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	17, 18	**10.1**	11.5
Tax expense	8	**13.1**	10.2
Change in trading securities and repurchase contracts	11, 14	**(306.2)**	457.2
Change in trading assets, at fair value	13	**(75.6)**	(75.2)
Change in trading liabilities, at fair value	13	**38.9**	157.7
Change in collateral placed	15	**(1,029.8)**	(13.2)
Change in other debtors	16	**20.4**	(93.0)
Change in derivative assets	12	**3,303.9**	(5,304.3)
Change in deferred tax assets	8	**(1.0)**	(0.3)
Change in derivative liabilities	12	**(3,293.6)**	4,730.8
Change in collateral received	19	**1,045.7**	287.5
Change in other creditors	20	**(124.2)**	413.0
Net (losses) / gains arising on cash flow hedges		**(1.0)**	2.5
Corporation tax paid		**(15.7)**	(16.2)
Net cash flows from operating activities		**(342.2)**	629.5
Cash flows from investing activities			
Purchase of intangible assets	17	**(2.7)**	(1.6)
Purchase of property, plant and equipment	18	**(0.4)**	(0.6)
Net cash outflows from investing activities		**(3.1)**	(2.2)
Net change in cash		**(345.3)**	627.3
Cash and cash equivalents at beginning of period	10	**1,347.6**	720.3
Cash and cash equivalents at end of period	10	**1,002.3**	1,347.6
Net increase in cash		**(345.3)**	627.3

The notes on pages 48 to 105 form an integral part of these financial statements.

Notes to the financial statements For the year ended 31 March 2021

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 a private company incorporated, domiciled and registered in England and Wales, the registered number is 02418137 and the registered office is One, New Change, London, EC4M 9AF.

The Group financial statements consolidate those of the Company and its subsidiaries. The parent company financial statements present information about the Company as a separate entity and not about its group.

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 financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow and profitability forecasts for a period of three years from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period.

The Directors have considered the impact of the UK exit from the European Union ("Brexit") and associated changes in SMBC Group structure to address the challenges arising from it. Whilst the loss of passporting rights and the costs associated with arrangements to mitigate this are expected to have an impact on profitability, SMBC Group remains committed to providing and further expanding its services in the UK and continental Europe, and the CM Ltd Group continues to play an important part in this strategy.

The Directors have considered the impact of the change in the derivative booking model described in the Strategic Report. Despite the anticipated short-term reduction in revenues, the business is expected to remain profitable and gradually recover trading volumes through organic business growth.

COVID-19 has not had a significant adverse impact on the Group's profitability to-date. Unlike retail or corporate banks, for which credit risk is the main risk factor, the Group's most pertinent risks are the potential market disruption due to a change in market perceptions of inflationary risk or change in rates. Whilst the full effect of COVID-19 remains uncertain, the short-term recovery in financial markets has boosted the Group's performance during the year.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

During the COVID-19 crisis, the Group and SMBC Group in EMEA have successfully enacted their comprehensive Business Continuity Plans to ensure the continuity of all business operations in the EMEA region so that, as far as possible, they can continue to provide their 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 will utilise 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. The Directors are confident that the Group will be able to continue to provide the same volume and quality of services as before the pandemic.

The Group's latest Internal Capital Adequacy Assessment Process ("ICAAP") results demonstrate that even under a severe stress scenario the Group maintains adequate capital resources. The considered scenarios comprised global recession caused by a trade war between US and China, Japanese/Asian economic crisis and pan-European instability, each modelled on its own and combined with additional negative effect of COVID-19.

The ICAAP Reverse Stress Test results ("RST", an extreme stress test scenario that might cause the business to fail or the business model to become unviable) highlights that:

- Business failure due to capital erosion would require an extremely severe event to cause losses of a sufficient magnitude to breach Internal Capital Guidance. Such events would effectively represent a collapse of the Japanese financial markets combined with a withdrawal of USD payment systems worldwide;
- Business failure due to liquidity exhaustion would effectively require not only an immediate and unexpected parental default, but also subsequent absence of Japanese governmental support (SMBC Group is considered a global systemically important bank or "G-SIB") and unsuccessful execution of the SMBC Group's recovery and resolution plan.

The Group is well capitalised, as disclosed in Note 27, with regulatory capital ratios far above the minimum requirements. It has access to a number of borrowing facilities, described in Note 31, all of which are far from being fully used. Therefore, the Group can draw down significant additional funding at short notice. After the reporting date, one of these facilities was renewed for another five-year period.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a 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) in conformity with the requirements of the Companies Act 2006 and applicable law. 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 $72.8 million in the year ended 31 March 2021 and a profit of $61.3 million in the period ended 31 March 2020.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

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

Changes in accounting standards which occurred during the year did not have a significant impact 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.

Net trading income

Net trading income includes all gains and losses on the existing portfolio of trading financial instruments, including Day 1 profit or loss on newly entered derivative contracts, related fees, interest, dividends and foreign exchange differences.

Day 1 profit or loss equals the fair value of new derivative contracts upon initial recognition less transaction price (usually nil or negligible) of entering into such contracts.

Booking fees

Booking fees are earned on booking securities transactions on behalf of the customers and included within the quoted prices. For such fees, the main performance obligation is the execution of the customer's order. It is substantially satisfied upon completion of the transaction, which is when the revenue is recognised. These fees are reported in net trading income.

Intermediation fees

Intermediation fees are earned from an affiliate entity, SMBC Capital Markets, Inc. ("CM Inc."), for derivative transactions registered through SMBC DP, as a percentage of their notional amount and maturity. The main performance obligation, acceptance of the trade risks by SMBC DP, is satisfied on the trade date and is the point in time when the revenue is recognised in net trading income.

Fees and commissions income and expense

Fees and commissions relate to fee-generating activities: underwriting or arrangement of securities issuances and advisory services for business transactions such as mergers and acquisitions. Fees and commissions income and expenses are shown on a gross basis in the statement of profit or loss.

For underwriting and arrangement fees, the main performance obligation is to secure an equity or debt issuance within an agreed price range. This performance obligation is substantially satisfied upon completion of the deals, which is the point in time when the revenue is recognised.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

For advisory services, performance obligations relate to both ongoing support and specific events such as completion of business transactions. Accordingly, some fees, e.g. retainer fees, are recognised over a period of time and some are recognised at a point in time when performance obligations are substantially satisfied.

Interest income and expense

Interest income is earned on collateral placed, liquidity securities, securities purchased under agreements to resell and cash at banks. Interest expense is incurred on collateral received, securities sold under agreements to repurchase, borrowings and lease liabilities. Both interest income and expense are calculated at the effective interest rate, which exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or a shorter period, where appropriate, to its net carrying amount.

Fees charged by affiliates

The Group pays fees to related companies for support services, which include trade support, product control, marketing, risk management, planning, system development and others. The fees are recognised within operating expenses 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.

ii) 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.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

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; and
- other debtors and other creditors.

Instruments measured at fair value through profit or loss comprised

- trading securities;
- derivatives; and
- 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.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

iii) 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. Trade date is used for derivatives and repurchase transactions.

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.

The Group enters into transactions whereby it transfers or receives assets without a transfer of all or substantially all of the risks and rewards of their ownership. In such cases, the transferred assets are not derecognised and received assets are not recognised in the statement of financial position. Examples of such transactions are securities collateral, borrowing and sale-to-repurchase agreements.

iv) 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.

v) 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.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

vi) 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.

vii) Collateral placed and received

Cash received as collateral is recognised in the statement of financial position with a corresponding liability in collateral received if the Group has the right to re-use it for own purposes (re-hypothecation). Accordingly, cash transferred to other entities as collateral with re-hypothecation rights is derecognised as cash and reclassified to collateral placed. Cash transferred without re-hypothecation rights does not transfer the risks and rewards of ownership and therefore remains in the transferor’s statement of financial position.

Non-cash collateral received, such as debt or equity instruments, is accounted for depending on the right to re-use and whether the transferor has defaulted. If the Group has the right to re-use and sells the collateral received, it recognises proceeds from the sale and a liability measured at fair value for its obligation to return the collateral, with any subsequent value changes included in net trading profit within profit or loss. If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, the Group recognises the collateral as its asset at fair value or, if it has already sold the collateral, derecognises its obligation to return it. In all other instances, the Group does not recognise the non-cash collateral received and does not derecognise non-cash collateral placed in its statement of financial position.

viii) Borrowed securities

Similar to non-cash collateral, borrowed securities 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.

ix) Securities sold under agreement to repurchase and securities purchased 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.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

x) 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.

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, per supplier invoices including non-recoverable VAT. Internal expenditure is capitalised when there is an ability and intention to complete the asset for intended use and comprises the share of employees' salaries directly attributable to the asset development.

Assets under construction are not amortised until ready for use. Completed 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.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

Leases

The Group acts as a lessee in a number of lease arrangements, which include office space, other space and IT equipment. In accordance with IFRS 16 Leases, most leases are capitalised in the statement of financial position as right-of-use ("ROU") assets and lease liabilities.

Both ROU assets and lease liabilities are initially measured as the present value of the future lease payments. Lease assets are adjusted for any additional payments, lease incentives, initial costs and expected decommissioning costs at the end of the lease.

Subsequent to initial recognition, ROU assets are depreciated on a straight-line basis. Lease liabilities are amortised on an effective interest rate basis.

Leases lasting 12 months or less and those for low-value underlying items continue to be treated as operating leases, with rental payments being expensed as incurred.

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.

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

Deferred compensation

Deferred bonuses, further described in Note 32, 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.

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

Judgements 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.

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

Notes to the financial statements continued
For the year ended 31 March 2021

1. Accounting policies continued

Future accounting developments

i) Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

During the year, the IASB finalised phase II 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 2021 and therefore will become mandatory for the Group from the next year. The additional disclosure requirements will be addressed in the next annual report.

ii) 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.

2. Net trading income

This comprises the following items of income and expense:

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Net gains on financial instruments held for trading	**185.3**	185.0
Centralised activities	**(0.4)**	0.5
Total	**184.9**	185.5

3. Other operating expenses

Other operating expenses include

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Auditor remuneration		
Audit of these financial statements	**0.6**	0.6
Audit of financial statements of subsidiaries of the Company	**0.2**	0.1
Audit-related assurance services	**0.1**	0.1
Other assurance services	**0.4**	0.3
Total	**1.3**	1.1
Operating lease rentals	**1.0**	1.1

Audit fees relate to the audit of the financial statements payable to KPMG LLP. Audit-related assurance services include CASS assurance and quarterly financial reviews payable to KPMG LLP. Other assurance services relate to fees payable to KPMG LLP's US affiliate for agreed-upon procedures relating to credit agency ratings.

4. Interest income

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Interest on collateral	**2.9**	67.2
Interest on reverse repo transactions	**14.1**	28.3
Interest on securities	**17.3**	37.5
Interest on deposits	**0.2**	2.2
Total	**34.5**	135.2

Notes to the financial statements continued
For the year ended 31 March 2021

5. Interest expense

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Interest on collateral	**6.8**	84.5
Interest on repo transactions	**16.1**	22.4
Interest on borrowings	**7.2**	15.3
Interest on lease liabilities	**0.1**	0.3
Total	**30.2**	122.5

6. Staff costs

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Wages and salaries	**74.2**	89.3
Social security costs	**8.2**	7.8
Pension costs: Defined benefit scheme (Note 9)	**0.2**	0.2
Pension costs: Defined contribution scheme	**4.9**	5.7
Other staff costs	**9.4**	9.9
Total	**96.9**	112.9

The average monthly number of Group and Company employees during the period was 325 (2020: 378) and 311 (2020: 364) respectively.

7. Directors' emoluments

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Emoluments	**4.3**	3.6
Group pension contributions	**–**	–
Total	**4.3**	3.6

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Emoluments of the highest paid Director	**2.8**	1.7
Group pension contributions	**–**	–
Total	**2.8**	1.7

Directors' emoluments comprise salaries and bonuses, some of which are deferred as stated in Note 32. During the year, two Directors received a bonus (2020: three Directors).

The highest paid Director belonged to the Group's defined benefit pension scheme with the Group's contribution of $35 thousand (2020: one Director with contribution of $39 thousand) in the period. See Note 9 for more details.

No other benefits, long-term incentives or pension contributions were paid to Directors during the year (2020: $nil).

Notes to the financial statements continued
For the year ended 31 March 2021

8. Taxation

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Current tax		
Current period UK tax	**13.7**	11.2
Adjustments for prior years	**(0.2)**	0.8
Foreign tax suffered	**0.7**	1.5
Double tax relief	**–**	(0.4)
Total current tax	**14.2**	13.1
Deferred tax		
Origination and reversal of temporary difference	**(0.4)**	(0.9)
Adjustments for prior years	**–**	(0.3)
Total deferred tax	**(0.4)**	(1.2)
Total tax	**13.8**	11.9

Disclosure of tax in other comprehensive income

	Year ended 31/03/2021		15 months to 31/03/2020	
	Before tax US$m	Net of tax US$m	Before tax US$m	Net of tax US$m
Actuarial (losses)/gains on defined benefit pension plan	**(0.8)**	**(0.6)**	0.2	0.1
Cash flow hedges	**(1.3)**	**(1.0)**	3.3	2.5
Total	**(2.1)**	**(1.6)**	3.5	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:

	Year ended 31/03/2021		15 months to 31/03/2020	
	US$m	Effective tax rate	US$m	Effective tax rate
Profit before taxation	**84.5**		73.3	
Tax using the UK weighted average corporation tax rate of 19% (2020: 19%)	**16.0**	**19.0%**	13.9	19.0%
Banking surcharge	**3.0**	**3.5%**	2.6	3.5%
Advance Pricing Agreement adjustment	**(5.5)**	**(6.5)%**	(5.3)	(7.3)%
Adjustments for prior years	**(0.1)**	**(0.1)%**	0.5	1.1%
Other	**0.4**	**0.4%**	0.2	(0.1)%
Total	**13.8**	**16.3%**	11.9	16.2%

An Advance Pricing Agreement ("APA") between the Group, its affiliate CM Inc., the UK tax authorities and US tax authorities defines the basis on which UK tax is charged on the profits of the global derivative products group.

Notes to the financial statements continued
For the year ended 31 March 2021

8. Taxation continued

Corporation tax rate

The corporation tax rate remained at 19% throughout the year ended 31 March 2021 (2020: 19%).

In the Budget on 3 March 2021, the Chancellor of the Exchequer announced an increase in the headline rate of corporation tax from 19% to 25% from 1 April 2023. In addition to this, it was announced in the Budget that the bank surcharge rate of 8% applicable to profits of banking companies under the Finance (No.2) Act 2015 is being reviewed by the Government, indicating a possible reduction from 1 April 2023. A consultation on this will take place later on this year.

Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force at the time when the temporary difference is expected to unwind. In line with the requirements of IAS 12, the impact of the change in the headline rate of corporation tax has not been reflected in the deferred tax balances at 31 March 2021 and will be recognised once it has been substantively enacted by the UK Parliament. The estimated impact of the change in the headline corporation tax rate would be an increase in the deferred tax asset of circa $0.8 million.

Deferred tax assets (Group and Company)

	Year ended 31 March 2021 US$m	15 months to 31 March 2020 US$m
Property, plant & equipment	**1.9**	1.3
Employee benefits	**1.0**	0.7
Deferred compensation	**0.7**	1.0
Cash flow hedges	**–**	(0.4)
Total	**3.6**	2.6

There is an unutilised tax loss of $3.9 million (2020: $4.0 million), for which no deferred tax asset is recognised.

Movement in deferred tax assets (Group and Company)

	1 April 2020	**Recognised in income**	**Recognised in reserves**	**31 March 2021**
Property, plant & equipment	**1.3**	**0.6**	**–**	**1.9**
Employee benefits	**0.7**	**0.1**	**0.2**	**1.0**
Deferred compensation	**1.0**	**(0.3)**	**–**	**0.7**
Cash flow hedges	**(0.4)**	**–**	**0.4**	**–**
Total	**2.6**	**0.4**	**0.6**	**3.6**

	1 January 2019	Recognised in income	Recognised in reserves	31 March 2020
Property, plant & 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)
Total	2.3	1.2	(0.9)	2.6

Notes to the financial statements continued
For the year ended 31 March 2021

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 year was $4.9 million (2020: $5.7 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 five years once in payment;
- Increases at the lower of retail price index or 5% p.a.; and
- Attaches a 50% spouse's pension.

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

	Year ended 31/03/2021 %	15 months to 31/03/2020 %
Rate of increase in salaries	**n/a**	4.0
Rate of increase in pension payment	**3.2**	2.5
Discount rate	**2.0**	2.3
Inflation assumption	**3.2**	2.5

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.

Notes to the financial statements continued
For the year ended 31 March 2021

9. Pension costs continued

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

Group and Company

	31 March 2021 US$m	31 March 2020 US$m
Total fair value of pension scheme assets	**1.5**	1.2
Present value of pension scheme liabilities	**(5.3)**	(3.8)
Pension scheme liability	**(3.8)**	(2.6)
Related deferred tax asset (Note 8)	**1.0**	0.7
Net pension scheme liability	**(2.8)**	(1.9)

The Group has undertaken to settle these pension obligations with the members of the scheme and has recognised the expense and associated liability in its financial statements for agreements reached as at 31 March 2021. Subsequent to the year end, further agreements were reached for the settlement of all remaining pension obligations under the scheme. This resulted in an additional charge which will be accounted for in the financial statements for the year ending 31 March 2022.

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

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Fair value of pension scheme assets at the beginning of the period	**1.2**	1.1
Expected return on pension scheme assets	**–**	–
Employer contributions	**–**	–
Actuarial gain on pension scheme assets	**0.1**	–
Exchange differences	**0.2**	0.1
Fair value of pension scheme assets at the end of the period	**1.5**	1.2

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:

	1 March 2021		31 March 2020	
	%	US$m	%	US$m
Quoted instruments	**33.3**	**0.5**	25.0	0.3
Unquoted instruments*	**66.7**	**1.0**	75.0	0.9
Cash	**–**	**–**	–	–
Total	**100.0**	**1.5**	100.0	1.2

* Aegon With-Profit funds

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

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Defined benefit obligations at the beginning of the period	**3.8**	3.7
Service cost/interest expense recognised in staff costs	**0.2**	0.3
Actuarial loss on pension scheme liabilities	**0.9**	(0.2)
Exchange differences	**0.4**	–
Fair value of pension scheme liabilities at the end of the period	**5.3**	3.8

Notes to the financial statements continued
For the year ended 31 March 2021

9. Pension costs continued

Actuarial loss movements are summarised in the following table:

	Year ended 31/03/2021 US$m	15 months to 31/03/2020 US$m
Cumulative actuarial loss at the beginning of the period	**(2.0)**	(2.2)
Actuarial (loss)/gain for the period	**(0.8)**	0.2
Cumulative actuarial loss at the end of the period	**(2.8)**	(2.0)
Actuarial (loss)/gain for the period, net of tax (note 8)	**(0.6)**	0.1

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 2021. 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 (2020: 30 years).

Sensitivity Analysis

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

	31 March 2021 Defined Benefit Obligation		31 March 2020 Defined Benefit Obligation	
Assumption variations	**%**	**US$m**	%	US$m
Discount rate 0.5% p.a. lower	**12.0**	**0.6**	12.0	0.5
Inflation rate 0.5% p.a. lower	**(10.0)**	**(0.5)**	(10.0)	(0.4)
Minimum rate of improvement of mortality 0.5% p.a. lower	**(3.0)**	**(0.2)**	(3.0)	(0.1)

10. Cash at banks

	Group		Company	
	31 March 2021 US$m	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Current accounts	**563.9**	669.2	**555.0**	659.5
Short-term deposits	**563.5**	760.6	**447.3**	688.1
Total	**1,127.4**	1,429.8	**1,002.3**	1,347.6

At the reporting date, $24.8 million of Group (2020: $20.4 million), and $19.6 million of Company (2020: $15.2 million) current accounts were placed with related companies.

Short-term deposits placed with related companies amounted to $148.8 million (2020: $338.4 million) for the Group and $147.3 million (2020: $336.9 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.

Notes to the financial statements continued
For the year ended 31 March 2021

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.

Liabilities for trading securities sold, not yet purchased ("short positions") arise when the Group sells securities held as collateral under agreements to resell ("reverse repos") or those 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 2021 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	3.5	159.8	2.2	165.5
US treasury securities	–	257.8	–	257.8
Other foreign government securities	2.1	119.6	–	121.7
Corporate bonds	19.3	759.9	6.7	785.9
Equity securities	–	–	–	–
Total	24.9	1,297.1	8.9	1,330.9
Liabilities				
Floating rate notes	–	11.1	–	11.1
US treasury securities	–	173.9	–	173.9
Other foreign government securities	0.8	164.1	–	164.9
Corporate bonds	1.8	253.6	–	255.4
Equity securities	–	–	–	–
Total	2.6	602.7	–	605.3

Fair value as at 31 March 2021 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	3.5	108.3	2.2	114.0
US treasury securities	–	207.9	–	207.9
Other foreign government securities	2.1	119.6	–	121.7
Corporate bonds	19.3	746.0	6.7	772.0
Equity securities	–	–	–	–
Total	24.9	1,181.8	8.9	1,215.6
Liabilities				
Floating rate notes	–	11.1	–	11.1
US treasury securities	–	173.9	–	173.9
Other foreign government securities	0.8	164.1	–	164.9
Corporate bonds	1.8	253.6	–	255.4
Equity securities	–	–	–	–
Total	2.6	602.7	–	605.3

Notes to the financial statements continued
For the year ended 31 March 2021

11. Trading securities continued

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
US 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
US 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
US 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
US 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

Notes to the financial statements continued
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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 books 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".

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

	Carrying value		Notional principal	
Group	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Interest rate and currency swaps	**8,830.5**	12,097.9	**151,414.6**	134,892.0
Options	**43.3**	105.8	**12,189.2**	10,874.9
Forward contracts	**85.3**	44.6	**1,952.9**	2,980.3
Commodity swaps	**7.2**	40.7	**86.0**	138.9
Derivative reserves	**(33.6)**	(45.2)	**–**	–
Derivative assets	**8,932.7**	12,243.8	**165,642.7**	148,886.1
Interest rate and currency swaps	**8,251.6**	11,494.4	**143,626.2**	131,102.6
Options	**46.6**	97.5	**12,532.5**	10,763.0
Forward contracts	**63.9**	50.5	**1,154.4**	3,329.9
Commodity swaps	**5.9**	38.6	**87.3**	137.0
Derivative reserves	**(13.8)**	(26.9)	**–**	–
Derivative liabilities	**8,354.2**	11,654.1	**157,400.4**	145,332.5

	Carrying value		Notional principal	
Company	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Interest rate and currency swaps	**8,820.6**	12,080.5	**151,381.1**	134,836.0
Options	**42.9**	105.8	**10,655.3**	9,555.1
Forward contracts	**85.3**	44.6	**1,952.9**	2,980.3
Commodity swaps	**7.2**	40.7	**86.0**	138.9
Derivative reserves	**(33.4)**	(45.1)	**–**	–
Derivative assets	**8,922.6**	12,226.5	**164,075.3**	147,510.3
Interest rate and currency swaps	**8,241.8**	11,477.4	**143,589.6**	131,037.8
Options	**46.2**	97.5	**10,998.6**	9,443.2
Forward contracts	**63.9**	50.5	**1,154.4**	3,329.9
Commodity swaps	**5.9**	38.6	**87.3**	137.0
Derivative reserves	**(13.6)**	(26.2)	**–**	–
Derivative liabilities	**8,344.2**	11,637.8	**155,829.9**	143,947.9

Notes to the financial statements continued
For the year ended 31 March 2021

12. Derivative assets and liabilities continued

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

	Group		Company	
Carrying values	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Due within 1 year	**486.1**	844.7	**486.1**	841.2
Due within 1 to 5 years	**2,721.3**	2,802.3	**2,720.9**	2,802.3
Due within 5 to 10 years	**2,266.4**	3,416.4	**2,256.5**	3,402.6
Due within 10 to 15 years	**1,526.5**	2,090.9	**1,526.5**	2,090.9
Due in more than 15 years	**1,966.0**	3,134.7	**1,966.0**	3,134.6
Derivative assets	**8,966.3**	12,289.0	**8,956.0**	12,271.6
Due within 1 year	**454.1**	832.2	**454.1**	828.7
Due within 1 to 5 years	**2,539.1**	2,560.9	**2,538.7**	2,560.9
Due within 5 to 10 years	**2,334.4**	3,656.9	**2,324.5**	3,643.4
Due within 10 to 15 years	**1,208.6**	1,755.2	**1,208.6**	1,755.2
Due in more than 15 years	**1,831.8**	2,875.8	**1,831.9**	2,875.8
Derivative liabilities	**8,368.0**	11,681.0	**8,357.8**	11,664.0

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 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Forward contracts	**–**	1.3	**–**	8.6
Derivative assets	**–**	1.3	**–**	8.6

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

Group and Company	**Year ended 31/03/2021 US$m**	15 months to 31/03/2020 US$m
Gain/(loss)	**3.2**	(1.2)

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 SONIA. Inflation swaps are included in this category.

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For the year ended 31 March 2021

12. Derivative assets and liabilities continued

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 2021, 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.

Notes to the financial statements continued
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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 2021 US$m	31 March 2020 US$m
Due within 1 year	**5.6**	1.1
Due within 1 to 5 years	**28.3**	18.5
Due within 5 to 10 years	**11.9**	11.0
Due within 10 to 15 years	**35.0**	20.4
Due in more than 15 years	**189.9**	144.1
Other trading assets	**270.7**	195.1
Due within 1 year	**24.9**	5.6
Due within 1 to 5 years	**53.3**	41.3
Due within 5 to 10 years	**33.0**	27.3
Due within 10 to 15 years	**72.6**	75.5
Due in more than 15 years	**205.6**	200.8
Other trading liabilities	**389.4**	350.5

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 2021 US$m	31 March 2020 US$m
Group and Company		
Amounts due from related parties	**2,502.8**	2,411.5
Amounts due from external parties	**1,047.2**	421.2
Securities purchased under agreements to resell	**3,550.0**	2,832.7
Amounts due to related parties	**332.4**	183.3
Amounts due to external parties	**2,174.9**	2,219.4
Securities sold under agreements to repurchase	**2,507.3**	2,402.7

The contractual maturity profile of repurchase agreements is as follows:

	31 March 2021 US$m	31 March 2020 US$m
Group and Company		
Due on demand	**150.3**	216.7
Due within one month	**2,487.3**	1,735.4
Due within one to three months	**849.6**	856.6
Due within three to six months	**62.8**	24.0
Securities purchased under agreements to resell	**3,550.0**	2,832.7
Due on demand	**–**	5.5
Due within one month	**1,706.2**	1,608.2
Due within one to three months	**738.3**	789.0
Due within three to six months	**62.8**	–
Securities sold under agreements to repurchase	**2,507.3**	2,402.7

Notes to the financial statements continued
For the year ended 31 March 2021

14. Repurchase agreements continued
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 2021 US$m**	31 March 2020 US$m
Collateral placed with related parties	**3,011.3**	1,585.9
Collateral placed with external parties	**489.2**	884.8
Total	**3,500.5**	2,470.7

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, as explained in Note 1.

Group and Company	**31 March 2021 US$m**	31 March 2020 US$m
Voluntary collateral in respect of derivative transactions placed with related parties	**156.5**	34.0
Regulatory collateral in respect of derivative transactions placed with third parties	**66.6**	46.6
Total	**223.1**	80.6

Regulatory collateral is placed in accordance with requirements of the European Market Infrastructure Regulation ("EMIR") in support of derivative transactions.

Voluntary collateral is placed under a bilateral agreement between the Group and a related entity, SMBC Bank EU AG, for the same purpose, although both entities have exemptions from exchanging regulated collateral under the EMIR.

16. Other debtors

	Group		Company	
	31 March 2021 US$m	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Prepayments	**7.5**	7.2	**7.2**	7.0
Corporation tax	**8.4**	2.3	**7.0**	2.1
Other related party debtors	**37.9**	55.7	**36.8**	54.9
Other external debtors	**47.1**	51.8	**47.3**	2.1
Total	**100.9**	117.0	**98.3**	116.1

Notes to the financial statements continued
For the year ended 31 March 2021

17. Intangible assets

	Computer software US$m	
	Group	Company
Cost		
Balance at 1 January 2019	7.4	7.4
Additions	1.6	1.6
		–
Balance at 31 March 2020	**9.0**	**9.0**
Balance at 1 April 2020	**9.0**	**9.0**
Additions	**2.9**	**2.7**
Balance at 31 March 2021	**11.9**	**11.7**
Accumulated amortisation and impairment losses		
Balance at 1 January 2019	0.2	0.2
Charge for the period	2.1	2.1
Balance at 31 March 2020	**2.3**	**2.3**
Balance at 1 April 2020	**2.3**	**2.3**
Charge for the period	**1.9**	**1.9**
Balance at 31 March 2021	**4.2**	**4.2**
Carrying amounts		
Balance at 31 March 2020	6.7	6.7
Balance at 31 March 2021	**7.7**	**7.5**

$0.8 million of internal development costs was capitalised during the period (2020: nil).

Notes to the financial statements continued
For the year ended 31 March 2021

18. Property, plant and equipment

	Leasehold property US$m	IT equipment US$m	Furniture and fixtures US$m	Total US$m
Group				
Cost				
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
Balance at 1 April 2020	**33.8**	**17.2**	**0.4**	**51.4**
Additions	**2.2**	**0.5**	**–**	**2.7**
Disposals	**(2.3)**	**–**	**–**	**(2.3)**
Balance at 31 March 2021	**33.7**	**17.7**	**0.4**	**51.8**
Accumulated depreciation and impairment losses				
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
Balance at 1 April 2020	**24.7**	**9.7**	**0.4**	**34.8**
Depreciation for the period	**6.7**	**2.6**	**–**	**9.3**
Disposals	**(1.9)**	**–**	**–**	**(1.9)**
Balance at 31 March 2021	**29.5**	**12.3**	**0.4**	**42.2**
Carrying amounts				
Balance at 31 March 2020	9.1	7.5	–	16.6
Balance at 31 March 2021	**4.2**	**5.4**	**–**	**9.6**

Notes to the financial statements continued
For the year ended 31 March 2021

18. Property, plant and equipment continued

	Leasehold property US$m	IT equipment US$m	Furniture and fixtures US$m	Total US$m
Company				
Cost				
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
Balance at 1 April 2020	**30.6**	**17.0**	**0.3**	**47.9**
Additions	**2.1**	**0.5**	**–**	**2.6**
Disposals	**(2.1)**	**–**	**–**	**(2.1)**
Balance at 31 March 2021	**30.6**	**17.5**	**0.3**	**48.4**
Accumulated depreciation and impairment losses				
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
Balance at 1 April 2020	**23.8**	**9.6**	**0.3**	**33.7**
Depreciation for the period	**5.6**	**2.6**	**–**	**8.2**
Disposals	**(1.5)**	**–**	**–**	**(1.5)**
Balance at 31 March 2021	**27.9**	**12.2**	**0.3**	**40.4**
Carrying amounts				
Balance at 31 March 2020	**6.8**	**7.4**	**–**	**14.2**
Balance at 31 March 2021	**2.7**	**5.3**	**–**	**8.0**

Notes to the financial statements continued
For the year ended 31 March 2021

18. Property, plant and equipment continued

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

	Leasehold property US$m	IT equipment US$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
Balance at 1 April 2020	**10.8**	**2.1**	**–**	**12.9**
Additions	**2.3**	**0.1**	**–**	**2.4**
Disposals	**(2.3)**	**–**	**–**	**(2.3)**
Balance at 31 March 2021	**10.8**	**2.2**	**–**	**13.0**
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
Balance at 1 April 2020	**4.4**	**1.0**	**–**	**5.4**
Depreciation for the period	**3.9**	**0.9**	**–**	**4.8**
Disposals	**(1.7)**	**–**	**–**	**(1.7)**
Balance at 31 March 2021	**6.6**	**1.9**	**–**	**8.5**
Carrying amounts				
Balance at 31 March 2020	6.4	1.1	–	7.5
Balance at 31 March 2021	**4.2**	**0.3**	**–**	**4.5**

Notes to the financial statements continued
For the year ended 31 March 2021

18. Property, plant and equipment continued

	Leasehold property US$m	IT equipment US$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
Balance at 1 April 2020	**7.6**	**2.1**	**–**	**9.7**
Additions	**2.1**	**0.1**	**–**	**2.2**
Disposals	**(2.1)**	**–**	**–**	**(2.1)**
Balance at 31 March 2021	**7.6**	**2.2**	**–**	**9.8**
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
Balance at 1 April 2020	**3.6**	**1.0**	**–**	**4.6**
Additions	**2.9**	**0.9**	**–**	**3.8**
Disposals	**(1.5)**	**–**	**–**	**(1.5)**
Balance at 31 March 2021	**5.0**	**1.9**	**–**	**6.9**
Carrying amounts				
Balance at 31 March 2020	4.0	1.1	–	5.1
Balance at 31 March 2021	**2.6**	**0.3**	**–**	**2.9**

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 30. Collateral is transferred with full re-hypothecation rights.

Group and Company	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Collateral received from related parties in respect of:				
– derivative transactions	**2,279.1**	1,083.9	**2,278.8**	1,083.9
– credit guarantee	**1,620.2**	1,672.1	**1,620.2**	1,672.1
Total related parties	**3,899.3**	2,756.0	**3,899.0**	2,756.0
Collateral received from external parties in respect of:				
– derivative transactions	**307.3**	390.9	**307.3**	390.9
– repurchase transactions	**4.3**	18.0	**4.3**	18.0
Total external parties	**311.6**	408.9	**311.6**	408.9
	4,210.9	3,164.9	**4,210.6**	3,164.9

Notes to the financial statements continued
For the year ended 31 March 2021

19. Collateral received continued

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 29.

Group and Company	31 March 2021 US$m	31 March 2020 US$m
Collateral received from related parties:		
Independent Amount in respect of derivative transactions	**1,308.3**	1,448.7
Margin Deficit Securities in respect of repurchase transactions	**10.0**	32.0
Voluntary collateral in respect of derivative transactions	**169.3**	29.0
SMBC DP guarantees indemnity	**27.0**	7.0
Total from related parties	**1,514.6**	1,516.7
Regulatory collateral in respect of derivative transactions received from third parties	**87.1**	64.5
Total	**1,601.7**	1,581.2

Independent Amount collateral is provided per ISDA CSA between SMBC and the Company in order to collateralise the regulatory add-on portion of the derivative exposures for regulatory capital purposes.

Margin Deficit Securities are received from SMBC Nikko Securities Inc. to mitigate the residual counterparty credit risk associated with repo transactions between the companies.

Voluntary collateral (see Note 15) is received under a bilateral agreement between the Group and a related entity, SMBC Bank EU AG, to support derivative transactions, in the same manner as required under the EMIR, but on a voluntary basis.

20. Other creditors

	Group		Company	
	31 March 2021 US$m	31 March 2020 US$m	31 March 2021 US$m	31 March 2020 US$m
Funding loans from related parties	**704.7**	813.7	**704.7**	813.7
Corporation tax	**–**	–	**–**	–
Lease liabilities	**5.0**	8.3	**3.3**	5.9
Other related party creditors	**59.2**	68.7	**60.1**	73.5
Other external creditors	**133.8**	131.7	**131.6**	129.8
Total	**902.7**	1,022.4	**899.7**	1,022.9

21. Called up share capital

	Allotted, called up and fully paid 31 March 2021 US$m	Allotted, called up and fully paid 31 March 2020 US$m
779 million ordinary shares of $1 each	**779.0**	779.0
360 million preference shares of $1 each	**360.0**	360.0
Total	**1,139.0**	1,139.0

Notes to the financial statements continued
For the year ended 31 March 2021

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 2021 US$m**	31 March 2020 US$m	**15 months to 31/03/2020 US$m**	31 March 2020 US$m
A-1+	**526.4**	196.8	**427.1**	141.2
A-1	**593.5**	1,231.9	**575.2**	1,206.4
A-2	**7.5**	1.1	**–**	–
Total	**1,127.4**	1,429.8	**1,002.3**	1,347.6

	Group		Company	
Moody's rating	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
P-1	**706.6**	1,293.3	**581.4**	1,212.1
P-2	**394.9**	1.1	**394.9**	–
Not rated	**25.9**	135.4	**26.0**	135.5
Total	**1,127.4**	1,429.8	**1,002.3**	1,347.6

Notes to the financial statements continued
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22. Risk management continued

Trading securities

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

	Group		Company	
S&P rating	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
AAA	**69.3**	106.6	**69.3**	106.6
AA+	**263.2**	317.8	**213.2**	267.9
AA	**18.7**	16.9	**18.7**	16.9
AA-	**93.3**	50.7	**64.8**	5.0
A+	**72.9**	95.0	**48.7**	46.0
A	**119.7**	76.0	**107.2**	64.0
A-	**190.4**	239.8	**190.3**	239.8
BBB+	**96.6**	106.5	**96.6**	106.5
BBB	**111.5**	90.0	**111.5**	90.0
BBB-	**34.6**	16.3	**34.6**	16.3
BB+	**8.0**	6.2	**8.0**	6.2
BB	**6.0**	–	**6.0**	–
BB-	**–**	0.8	**–**	0.8
B+	**17.2**	0.7	**17.2**	0.7
B	**2.9**	–	**2.9**	–
Not rated	**226.6**	330.9	**226.6**	330.8
Total	**1,330.9**	1,454.2	**1,215.6**	1,297.5

	Group		Company	
Moody's rating	**31 March 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Aaa	**315.3**	424.5	**265.3**	374.5
Aa1	**4.9**	–	**4.9**	–
Aa2	**45.8**	43.9	**24.9**	23.7
Aa3	**118.5**	107.6	**86.6**	33.1
A1	**228.3**	230.6	**215.8**	218.5
A2	**106.1**	55.3	**106.1**	55.3
A3	**90.1**	48.4	**90.1**	48.4
Baa1	**112.9**	69.7	**112.9**	69.7
Baa2	**72.4**	136.7	**72.4**	136.7
Baa3	**53.3**	22.9	**53.3**	22.9
Ba1	**7.6**	1.0	**7.6**	1.0
Ba2	**2.8**	11.1	**2.8**	11.1
Ba3	**24.4**	–	**24.4**	–
B1	**7.5**	1.2	**7.5**	1.2
B2	**0.6**	0.2	**0.6**	0.2
Not rated	**140.4**	301.1	**140.4**	301.2
Total	**1,330.9**	1,454.2	**1,215.6**	1,297.5

Notes to the financial statements continued
For the year ended 31 March 2021

22. Risk management continued

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 2021 US$m	31 March 2020 US$m
Related parties		
A-1	**2,502.8**	2,411.5
External parties		
A-1+	–	12.2
A-1	**937.9**	301.0
A-2	**109.3**	108.0
Total external parties	**1,047.2**	421.2
Total	**3,550.0**	2,832.7

Group and Company Moody's rating	31 March 2021 US$m	31 March 2020 US$m
Related parties		
P-1	**2,502.8**	2,411.5
External parties		
P-1	**937.9**	313.2
P-2	**109.3**	108.0
Total external parties	**1,047.2**	421.2
Total	**3,550.0**	2,832.7

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

	31 March 2021 US$m Related parties	31 March 2021 US$m External parties	31 March 2021 US$m Total	31 March 2020 US$m Related parties	31 March 2020 US$m External parties	31 March 2020 US$m Total
US Treasury bills	**60.5**	**175.2**	**235.7**	24.0	54.8	78.8
European government bonds	**2,019.0**	**515.0**	**2,534.0**	2,147.4	97.4	2,244.8
Japanese government bonds	**396.4**	**0.5**	**396.9**	219.1	–	219.1
Non-European government bonds	–	**25.4**	**25.4**	–	–	–
US corporate bonds	–	**89.5**	**89.5**	–	45.6	45.6
European corporate bonds	–	**94.5**	**94.5**	11.6	169.8	181.4
Japanese corporate bonds	–	**55.5**	**55.5**	–	–	–
Non-European corporate bonds	–	**81.8**	**81.8**	–	–	–
Japanese corporate equity	–	–	–	–	45.9	45.9
Securities purchased	**2,475.9**	**1,037.4**	**3,513.3**	2,402.1	413.5	2,815.6
Carrying value	**2,502.8**	**1,047.2**	**3,550.0**	2,411.5	421.2	2,832.7
Over/(under)collateralised	**(26.9)**	**(9.8)**	**(36.7)**	(9.4)	(7.7)	(17.1)

Notes to the financial statements continued
For the year ended 31 March 2021

22. Risk management continued

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 $10.0 million (2020: $32.0 million) and cash collateral from external customers amounting to $4.3 million (2020: $18.0 million).

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

Group and Company S&P rating	31 March 2021 US$m Related parties	31 March 2021 US$m External parties	31 March 2021 US$m Total	31 March 2020 US$m Related parties	31 March 2020 US$m External parties	31 March 2020 US$m Total
AAA	**648.0**	**144.9**	**792.9**	515.4	69.0	584.4
AA+	**60.5**	**175.2**	**235.7**	–	54.8	54.8
AA	**1,112.1**	**378.0**	**1,490.1**	1,466.1	31.4	1,497.5
AA-	**–**	**21.9**	**21.9**	–	14.1	14.1
A+	**396.4**	**17.3**	**413.7**	254.7	13.2	267.9
A	**12.8**	**17.5**	**30.3**	11.0	15.7	26.7
A-	**–**	**59.0**	**59.0**	–	82.1	82.1
BBB+	**–**	**30.9**	**30.9**	–	63.8	63.8
BBB	**246.1**	**25.9**	**272.0**	154.9	7.0	161.9
BBB-	**–**	**21.1**	**21.1**	–	4.5	4.5
BB+	**–**	**9.1**	**9.1**	–	1.1	1.1
BB-	**–**	**–**	**–**	–	5.2	5.2
B+	**–**	**1.9**	**1.9**	–	–	–
Not rated	**–**	**134.7**	**134.7**	–	51.6	51.6
Total	**2,475.9**	**1,037.4**	**3,513.3**	2,402.1	413.5	2,815.6

Group and Company Moody's rating	31 March 2021 US$m Related parties	31 March 2021 US$m External parties	31 March 2021 US$m Total	31 March 2020 US$m Related parties	31 March 2020 US$m External parties	31 March 2020 US$m Total
Aaa	**708.5**	**322.3**	**1,030.8**	515.4	123.8	639.2
Aa2	**758.4**	**319.5**	**1,077.9**	1,208.4	30.6	1,239.0
Aa3	**353.7**	**92.5**	**446.2**	257.7	17.7	275.4
A1	**396.4**	**95.3**	**491.7**	254.7	71.6	326.3
A2	**–**	**42.2**	**42.2**	–	15.8	15.8
A3	**–**	**31.4**	**31.4**	–	25.8	25.8
Baa1	**12.8**	**36.2**	**49.0**	11.0	53.2	64.2
Baa2	**–**	**24.1**	**24.1**	–	15.2	15.2
Baa3	**246.1**	**18.9**	**265.0**	154.9	7.3	162.2
Ba1	**–**	**3.8**	**3.8**	–	–	–
Ba2	**–**	**17.9**	**17.9**	–	8.1	8.1
Ba3	**–**	**5.1**	**5.1**	–	–	–
B2	**–**	**1.5**	**1.5**	–	–	–
B1	**–**	**1.0**	**1.0**	–	–	–
Not rated	**–**	**25.7**	**25.7**	–	44.4	44.4
Total	**2,475.9**	**1,037.4**	**3,513.3**	2,402.1	413.5	2,815.6

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

Notes to the financial statements continued
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22. Risk management continued

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 2021 US$m**	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
Related parties				
A	**6,787.3**	9,720.7	**6,777.0**	9,703.4
Unrated	**3.6**	4.5	**3.6**	4.5
Total related parties	**6,790.9**	9,725.2	**6,780.6**	9,707.9
External parties				
AAA	**–**	3.0	**–**	3.0
AA+	**–**	–	**–**	–
AA	**–**	0.6	**–**	0.6
AA-	**66.3**	137.7	**66.3**	137.7
A+	**86.2**	202.1	**86.2**	202.1
A	**159.0**	228.1	**159.0**	228.1
A-	**80.2**	122.1	**80.2**	122.1
BBB+	**60.4**	24.9	**60.4**	24.9
BBB	**133.9**	20.3	**133.9**	20.3
BBB-	**0.5**	235.5	**0.5**	235.4
BB+	**6.3**	8.7	**6.3**	8.7
BB	**–**	–	**–**	0
BB-	**164.8**	–	**164.8**	–
Unrated	**1,417.8**	1,580.8	**1,417.8**	1,580.8
Total external parties	**2,175.4**	2,563.8	**2,175.4**	2,563.7
Total	**8,966.3**	12,289.0	**8,956.0**	12,271.6

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22. Risk management continued

Moody's	Group 31 March 2021 US$m	Group 31 March 2020 US$m	Company 31 March 2021 US$m	Company 31 March 2020 US$m
Related parties				
A1	**6,787.3**	9,720.7	**6,777.0**	9,703.4
Unrated	**3.6**	4.5	**3.6**	4.5
Total related parties	**6,790.9**	9,725.2	**6,780.6**	9,707.9
External parties				
Aaa	**–**	3.0	**–**	3.0
Aa1	**–**	0.6	**–**	0.6
Aa2	**82.8**	179.2	**82.8**	179.2
Aa3	**70.2**	154.9	**70.2**	154.9
A1	**155.6**	223.4	**155.6**	223.4
A2	**27.2**	47.4	**27.2**	47.4
A3	**42.5**	32.0	**42.5**	31.9
Baa1	**26.6**	22.9	**26.6**	22.9
Baa2	**156.5**	68.3	**156.5**	68.3
Baa3	**–**	9.1	**–**	9.1
Ba1	**–**	–	**–**	–
Ba2	**–**	–	**–**	–
Ba3	**164.8**	–	**164.8**	–
Unrated	**1,449.2**	1,823.0	**1,449.2**	1,823.0
Total external parties	**2,175.4**	2,563.8	**2,175.4**	2,563.7
Total	**8,966.3**	12,289.0	**8,956.0**	12,271.6

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 2021, other trading assets include an exposure to external counterparties rated BBB and lower or unrated by S&P amounting to $128.3 million (2020: $64.7 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 2021 US$m	Group 31 March 2020 US$m	Company 31 March 2021 US$m	Company 31 March 2020 US$m
United Kingdom	**40.3**	146.6	**40.3**	146.6
Japan	**467.8**	708.5	**450.9**	691.5
United States	**513.1**	514.0	**509.4**	509.4
Other	**106.2**	60.7	**1.7**	0.1
Total	**1,127.4**	1,429.8	**1,002.3**	1,347.6

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

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22. Risk management continued

	Group		Company	
	31 March 2021 US$m	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
United Kingdom	**86.0**	98.2	**86.0**	72.5
France	**82.8**	38.9	**82.8**	38.9
Germany	**104.9**	55.3	**104.9**	55.3
Japan	**137.9**	434.5	**137.9**	434.5
Netherlands	**35.7**	128.1	**10.7**	116.0
United States	**328.7**	425.7	**278.7**	363.8
Other	**554.9**	273.5	**514.6**	216.5
Total	**1,330.9**	1,454.2	**1,215.6**	1,297.5

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

Group and Company	**31 March 2021 US$m**	31 March 2020 US$m
United Kingdom	**303.6**	324.4
Japan	**2,504.2**	2,412.4
United States	**38.3**	19.5
Other	**703.9**	76.4
Total	**3,550.0**	2,832.7

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

	Group		Company	
	31 March 2021 US$m	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$m
United Kingdom	**1,297.9**	1,377.7	**1,297.9**	1,377.7
France	**197.8**	245.6	**197.8**	245.6
Japan	**4,141.4**	4,743.5	**4,141.4**	4,743.5
Netherlands	**247.1**	381.0	**247.1**	381.0
United States	**2,634.0**	5,129.5	**2,623.6**	5,112.2
Other	**448.1**	411.7	**448.2**	411.6
Total	**8,966.3**	12,289.0	**8,956.0**	12,271.6

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.

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22. Risk management continued

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 2021 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]	605.3	76.6	529.0	–	–	605.6
Trading liabilities, at fair value[2]	389.4	–	24.9	53.3	311.3	389.5
Securities sold under agreement to repurchase	2,507.3	–	2,506.3	–	–	2,506.3
Collateral received	4,210.9	–	70.1	1,639.2	2,501.6	4,210.9
Other creditors, excluding lease liabilities	897.7	30.0	872.7	1.9	–	903.5
Lease liabilities	5.0	–	3.7	1.4	–	5.1
Total	8,615.6	106.6	4,006.7	1,695.8	2,812.9	8,622.0
Derivative financial liabilities						
Derivative liabilities (excluding reserves)[2]	8,368.0	–	454.1	2,539.1	5,374.8	8,368.0

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 March 2021 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]	605.3	76.6	529.0	–	–	605.6
Trading liabilities, at fair value[2]	389.4	–	24.9	53.3	311.3	389.5
Securities sold under agreement to repurchase	2,507.3	–	2,506.3	–	–	2,506.3
Collateral received	4,210.6	–	70.1	1,639.2	2,501.6	4,210.9
Other creditors, excluding lease liabilities	896.4	30.0	871.6	1.9	–	903.5
Lease liabilities	3.3	–	2.8	0.6	–	3.4
Total	8,612.3	106.6	4,004.7	1,695.0	2,812.9	8,619.2
Derivative financial liabilities						
Derivative liabilities (excluding reserves)[2]	8,357.8	–	454.1	2,538.7	5,365.0	8,357.8

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.

Notes to the financial statements continued
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22. Risk management continued

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
Total	7,321.2	272.9	3,596.8	1,762.7	1,695.0	7,327.4
Derivative financial liabilities						
Derivative liabilities (excluding reserves)[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
Total	7,321.7	272.9	3,598.4	1,761.1	1,695.0	7,327.4
Derivative financial liabilities						
Derivative liabilities (excluding reserves)[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.

Notes to the financial statements continued
For the year ended 31 March 2021

22. Risk management continued

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 0.05% for the year to 31 March 2021 (2020: 1.54%). The weighted average yields for the year to 31 March 2021 on floating rate notes and US treasury securities were 1.19% (2020: 1.97%). The Group's sensitivity to interest rates is such that a parallel increase or decrease of +/-100bp from period end rates would decrease or increase net assets by $3.6 million (2020: $10.8 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.

Notes to the financial statements continued
For the year ended 31 March 2021

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; and
- Non-cash collateral: at the residual balance after offsetting assets, liabilities and cash collateral.

At 31 March 2021	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)	10,432.0	(1,465.7)	8,966.3	(4,934.0)	(2,549.5)	(37.6)	1,445.2
Reverse repurchase agreements	3,550.0	–	3,550.0	(566.7)	–	(2,959.9)	23.4
Total	13,982.0	(1,465.7)	12,516.3	(5,500.7)	(2,549.5)	(2,997.5)	1,468.6
Derivative liabilities (excluding reserves)	10,316.5	(1,948.5)	8,368.0	(4,934.0)	(3,044.6)	(4.5)	384.9
Repurchase agreements	2,507.3	–	2,507.3	(566.7)	–	(1,915.8)	24.8
Total	12,823.8	(1,948.5)	10,875.3	(5,500.7)	(3,044.6)	(1,920.3)	409.7

At 31 March 2021	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 liabilities (excluding reserves)	10,421.7	(1,465.7)	8,956.0	(4,923.7)	(2,549.5)	(37.6)	1,445.2
Reverse repurchase agreements	3,550.0	–	3,550.0	(566.7)	–	(2,959.9)	23.4
Total	13,971.7	(1,465.7)	12,506.0	(5,490.4)	(2,549.5)	(2,997.5)	1,468.6
Derivative liabilities (excluding reserves)	10,306.3	(1,948.5)	8,357.8	(4,923.7)	(3,054.9)	(4.5)	374.7
Repurchase agreements	2,507.3	–	2,507.3	(566.7)	–	(1,915.8)	24.8
Total	12,813.6	(1,948.5)	10,865.1	(5,490.4)	(3,054.9)	(1,920.3)	399.5

Notes to the financial statements continued
For the year ended 31 March 2021

23. Offsetting financial assets and financial liabilities continued

As 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)	–
Total	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)	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
Total	16,404.2	(2,320.5)	14,083.7	(7,505.3)	(1,960.1)	(2,032.8)	2,585.5

As at 31 March 2020	Gross recognised amounts US$m	Amounts that meet the offs etting criteria US$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)	–
Total	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)	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
Total	16,387.2	(2,320.5)	14,066.7	(7,488.1)	(1,977.4)	(2,032.8)	2,568.4

24. Fair value hierarchy

IFRS 13 establishes a hierarchy of valuation inputs used for the fair value measurement of financial instruments. It also encourages the use of higher levels of inputs where possible. These valuation levels are often perceived as indicators of the quality and liquidity of financial instruments.

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly.
- Level 3: Unobservable inputs.

Where an instrument is measured using a combination of inputs, its classification is determined by the lowest level of inputs which make a significant contribution to the overall value.

When available, the Group uses quoted market prices in active markets to determine fair value, and classifies such items within Level 1.

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.

Notes to the financial statements continued For the year ended 31 March 2021

24. Fair value hierarchy continued

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 2021 and 31 December 2020:

At 31 March 2021	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Group				
Financial assets				
Trading securities*	975.6	355.3	–	1,330.9
Derivative assets	–	8,932.7	–	8,932.7
Other trading assets	–	270.7	–	270.7
Total	975.6	9,558.7	–	10,534.3
Financial liabilities				
Trading securities	518.2	87.1	–	605.3
Derivative liabilities	–	8,354.2	–	8,354.2
Other trading liabilities	–	389.4	–	389.4
Total	518.2	8,830.7	–	9,348.9
Company				
Financial assets				
Trading securities*	860.3	355.3	–	1,215.6
Derivative assets	–	8,922.6	–	8,922.6
Other trading assets	–	270.7	–	270.7
Total	860.3	9,548.6	–	10,408.9
Financial liabilities				
Trading securities	518.2	87.1	–	605.3
Derivative liabilities	–	8,344.2	–	8,344.2
Other trading liabilities	–	389.4	–	389.4
Total	518.2	8,820.7	–	9,338.9

* Trading securities of the Group in Level 1 include $228.9 million (Company: $200.0 million) of US treasury bills which were not actively traded on the reporting date. These securities, part of the regulatory liquid asset buffer, are among the most highly-rated and liquid assets available in the market. Their classification within Level 1 is based on their liquidity, rather than trading activity.

Notes to the financial statements continued
For the year ended 31 March 2021

24. Fair value hierarchy continued

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
Total	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
Total	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
Total	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
Total	278.3	12,068.7	22.0	12,369.0

Amounts classified as Level 3 at 31 March 2020 comprised certain interest rate swaps and covered warrants. The swaps represented vanilla derivative trades whose notional size was expected to be reduced before the maturity date (e.g. through syndication of the trade). A reserve had therefore been created in respect of the future cash flows that were not expected to occur as a result of the reduction to the notional trade size. The swaps were valued using inputs that were readily observable in the market, except only for the expected notional size reduction which was an internally known factor and was 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. The reserves are periodically remeasured and if their share in the total value changes between significant and insignificant, the trades move in and out of Level 3.

Covered warrants were options to buy underlying securities at an agreed price. They were classified as Level 3 because their valuation included an unobservable trading desk premium.

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 for the periods ended 31 March 2021 and 31 March 2020. Some trades were transferred from Level 3 to Level 2 because their unobservable inputs became insignificant by the reporting date.

Notes to the financial statements continued
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24. Fair value hierarchy continued

Year ended 31 March 2021 Group and Company	1 April 2020 US$m	Settlements US$m	Realised gains/(losses) US$m	Unrealised gains/(losses) US$m	Transfers in/(out) US$m	**31 March 2021 US$m**
Assets:						
Interest rate swaps	19.3	(1.3)	1.3	(8.3)	(11.0)	–
Options	8.5	(8.5)	–	–	–	–
Other trading instruments	–	–	–	–	–	–
Total	27.8	(9.8)	1.3	(8.3)	(11.0)	–

Year ended 31 March 2021 Group and Company	1 April 2020 US$m	Settlements US$m	Realised gains/(losses) US$m	Unrealised gains/(losses) US$m	Transfers in/(out) US$m	**31 March 2021 US$m**
Liabilities:						
Interest rate swaps	19.3	(0.6)	0.6	(8.3)	(11.0)	–
Other trading instruments	2.7	–	–	3.2	(5.9)	–
Total	22.0	(0.6)	0.6	(5.1)	(16.9)	–

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

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

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 two years and Tier 3 models are validated every three years. Stress tests are run on a weekly/monthly basis.

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For the year ended 31 March 2021

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 2021	Amortised cost US$m	FVTPL* US$m	Total US$m
Assets			
Cash at banks	1,127.4	–	1,127.4
Trading securities	–	1,330.9	1,330.9
Other trading assets, at fair value	–	270.7	270.7
Derivative assets	–	8,932.7	8,932.7
Securities purchased under agreements to resell	3,550.0	–	3,550.0
Collateral placed	3,500.5	–	3,500.5
Other debtors	100.9	–	100.9
Total	**8,278.8**	**10,534.3**	**18,813.1**
Liabilities			
Derivative liabilities	–	8,354.2	8,354.2
Other trading liabilities, at fair value	–	389.4	389.4
Trading securities sold, not yet purchased	–	605.3	605.3
Securities sold under agreements to repurchase	2,507.3	–	2,507.3
Collateral received	4,210.9	–	4,210.9
Other creditors	902.7	–	902.7
Total	**7,620.9**	**9,348.9**	**16,969.8**

Company As at 31 March 2021	Amortised cost US$m	FVTPL* US$m	Total US$m
Assets			
Cash at banks	1,002.3	–	1,002.3
Trading securities	–	1,215.6	1,215.6
Other trading assets, at fair value	–	270.7	270.7
Derivative assets	–	8,922.6	8,922.6
Securities purchased under agreements to resell	3,550.0	–	3,550.0
Collateral placed	3,500.5	–	3,500.5
Other debtors	98.3	–	98.3
Total	**8,151.1**	**10,408.9**	**18,560.0**
Liabilities			
Derivative liabilities	–	8,344.2	8,344.2
Other trading liabilities, at fair value	–	389.4	389.4
Trading securities sold, not yet purchased	–	605.3	605.3
Securities sold under agreements to repurchase	2,507.3	–	2,507.3
Collateral received	4,210.6	–	4,210.6
Other creditors	899.7	–	899.7
Total	**7,617.6**	**9,338.9**	**16,956.5**

* Fair value through profit or loss

Notes to the financial statements continued
For the year ended 31 March 2021

25. Classification of financial assets and financial liabilities continued

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
Collateral placed	2,470.7	–	2,470.7
Other debtors	117.0	–	117.0
Total	**6,850.2**	**13,893.1**	**20,743.3**
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
Collateral received	3,164.9	–	3,164.9
Other creditors	1,022.4	–	1,022.4
Total	**6,590.0**	**12,385.3**	**18,975.3**

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
Collateral placed	2,470.7	–	2,470.7
Other debtors	116.1	–	116.1
Total	**6,767.1**	**13,719.1**	**20,486.2**
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
Collateral received	3,164.9	–	3,164.9
Other creditors	1,022.9	–	1,022.9
Total	**6,590.5**	**12,369.0**	**18,959.5**

* Fair value through profit or loss

Notes to the financial statements continued
For the year ended 31 March 2021

26. Obligations under operating leases

Operating lease commitments represent leases which do not meet the recognition criteria of IFRS 16. Annual commitments under such leases at the reporting date are as follows:

Group	Land and buildings 31 March 2021 US$m	Other 31 March 2021 US$m	Land and buildings 31 March 2020 US$m	Other 31 March 2020 US$m
Operating leases which expire:				
Within one year	**1.4**	**–**	1.3	–
Between two and five years	**0.3**	**–**	0.3	–
Over five years	**–**	**–**	–	–
Total	**1.7**	**–**	1.6	

Company	Land and buildings 31 March 2021 US$m	Other 31 March 2021 US$m	Land and buildings 31 March 2020 US$m	Other 31 March 2020 US$m
Operating leases which expire:				
Within one year	**1.4**	**–**	1.2	–
Between two and five years	**0.3**	**–**	0.2	–
Over five years	**–**	**–**	–	–
Total	**1.7**	**–**	1.4	–

Notes to the financial statements continued
For the year ended 31 March 2021

27. Regulatory capital (unaudited where indicated)

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 2021 US$m	31 March 2020 US$m	**31 March 2021 US$m**	31 March 2020 US$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	**558.0**	487.3	**518.4**	445.6
Other reserves	**(1.6)**	–	**(1.6)**	–
Total	**1,500.4**	1,431.3	**1,460.8**	1,389.6
CET1 regulatory adjustments				
Intangible assets	**(7.7)**	(6.7)	**(7.5)**	(6.7)
Cash flow hedges	**–**	(1.0)	**–**	(1.0)
Other	**(16.0)**	(29.0)	**(15.6)**	(28.1)
CET1 instruments of financial sector entities where the institution has a significant investment	**–**	–	**(65.4)**	(72.8)
Total adjustments	**(23.7)**	(36.7)	**(88.5)**	(108.6)
Total CET1 capital	**1,476.7**	1,394.6	**1,372.3**	1,281.0
Additional tier 1 (AT1) capital				
Perpetual non-cumulative preference shares	**360.0**	360.0	**360.0**	360.0
Other adjustments	**–**	–	**–**	–
Total AT1 capital	**360.0**	360.0	**360.0**	360.0
Total regulatory capital	**1,836.7**	1,754.6	**1,732.3**	1,641.0
Risk-weighted assets (unaudited)	**3,819.7**	3,839.2	**4,018.4**	3,995.2
CET1 capital ratio (unaudited)	**38.7%**	36.3%	**34.2%**	32.1%
Total capital ratio (unaudited)	**48.1%**	45.7%	**43.1%**	41.1%

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").

Notes to the financial statements continued
For the year ended 31 March 2021

27. Regulatory capital (unaudited where indicated) continued

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% (2020: 25%).

28. 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	N/A	Agency and intermediary services
SMBC Nikko Capital Markets Limited, Abu Dhabi branch (United Arab Emirates)	United Kingdom	N/A	Agency and intermediary services

Notes to the financial statements continued
For the year ended 31 March 2021

28. Country-by-country reporting continued

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 (2020: $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.

Year ended 31/03/2021:	United Kingdom	Australia	Hong Kong	United Arab Emirates	Group
Revenue from related parties	71.3	–	10.6	0.4	82.3
Revenue from third parties	169.6	–	–	–	169.6
Total	240.9	–	10.6	0.4	251.9
Profit before tax	80.2	–	4.3	–	84.5
Current period corporation tax accrued	13.7	–	0.7	–	14.4
Corporation tax paid	15.7	0.3	0.8	–	16.8
Average number of employees	308	–	14	3	325
31 March 2021:					
Stated capital	1,302.0	–	2.0	–	1,304.0
Accumulated earnings	552.9	–	5.1	–	558.0
Tangible fixed assets excluding cash and cash equivalents	8.0	–	1.6	–	9.6
Public subsidies received	–	–	–	–	–

Notes to the financial statements continued
For the year ended 31 March 2021

28. Country-by-country reporting continued

15 months to 31/03/2020:	United Kingdom	Australia	Hong Kong	United Arab Emirates	Group
Revenue from related parties	259.7	0.2	15.3	–	275.2
Revenue from third parties	8.3	2.5	–	–	10.8
Total	268.0	2.7	15.3	–	286.0
Profit before tax	65.5	1.3	6.5	–	73.3
Current year corporation tax accrued	10.7	0.5	1.1	–	12.3
Corporation tax paid	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	–	–	–	–	–

The table above shows 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 $84.5 million in profit for 2021 (2020: $73.3 million) and paid $16.8 million of corporation tax (2020: $17.8 million), producing the global cash tax rate (corporation tax paid in the period divided by total profit before tax) of 20% (2020: 24%). The cash tax rate is usually lower than the UK nominal corporation tax rate (19%) 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.

29. Related party transactions

Related parties of the Group comprise subsidiaries and affiliates of the wider SMBC Group and Directors of the Group. The tables below set out related party balances at the reporting date and transactions during the period.

	31 March 2021 US$m	31 March 2020 US$m
Sumitomo Mitsui Banking Corporation – Parent		
Balances receivable / (payable)		
Cash at banks	**158.3**	346.1
Net derivative assets	**2,295.1**	1,098.7
Trading instruments (liabilities) / assets	**28.3**	(13.4)
Cash collateral received	**(3,883.3)**	(2,755.1)
Funding loans	**(704.7)**	(813.7)
Other liabilities	**(5.9)**	(0.6)
Amounts outside the statement of financial position		
Independent Amount securities received (Note 19)	**1,308.3**	1,448.7
Guaranteed derivative balances (Note 30)	**1,517.8**	768.1
Income / (expense) during the period		
Gain / (loss) on derivative instruments	**1,596.8**	(48.6)
Interest income	**0.1**	7.6
Other trading income	**36.8**	–
Interest expense	**(12.8)**	(102.6)
Fees and commissions received	**2.8**	0.5
Fees and commissions paid	**(24.7)**	(5.9)
Other expenses	**(0.3)**	(0.4)

Notes to the financial statements continued
For the year ended 31 March 2021

29. Related party transactions continued

	31 March 2021 US$m	31 March 2020 US$m
SMBC Nikko Securities Inc. – Parent		
Balances receivable / (payable)		
Securities purchased under resale agreements	**2,502.8**	2,411.5
Accrued income receivable	**7.2**	8.1
Other receivables – reimbursements	**2.2**	14.8
Net interest payable	**(1.5)**	(1.0)
Other payables – securities trading fees	**(1.7)**	(3.8)
Securities sold under repurchase agreements	**–**	(1.0)
Amounts outside the statement of financial position		
Margin Deficit Securities received (Note 19)	**10.0**	32.0
Income / (expense) during the period		
Interest income on securities under resale agreements	**0.1**	1.1
Fees and commission on securities trading	**20.4**	26.6
Reimbursements	**0.1**	5.1
Gain / (loss) on securities trading	**–**	3.1
Interest expense on securities under repurchase agreements	**(11.9)**	(12.7)
Other fees and commissions paid	**(2.0)**	(14.4)
Other expenses	**0.7**	(3.6)

	31 March 2021 US$m	31 March 2020 US$m
SMBC Capital Markets Inc.		
Balances receivable / (payable)		
Trading instruments assets	**–**	22.4
Securities purchased under resale agreements	**–**	–
Collateral placed	**2,952.9**	1,472.6
Accrued interest receivable	**(0.2)**	–
Other assets – agency fees	**29.6**	–
Net derivative liabilities	**(2,812.5)**	(1,292.7)
Securities sold under repurchase agreements	**(332.4)**	(182.2)
Trading instruments liabilities	**(159.3)**	(135.1)
Collateral received	**(0.3)**	–
Accrued expenses payable – guarantee fees / agency fees	**(5.0)**	(12.3)
Amounts outside the statement of financial position		
Termination value of guaranteed transactions*	**20.4**	4.8
Guarantee indemnity securities (Note 19)*	**27.0**	7.0
Income/(expense) during the period		
Gain on derivative instruments	**(1,612.6)**	346.7
Interest income	**2.7**	55.3
Fees and commissions on agency trading	**3.5**	4.4
Other operating income – guarantee termination / intermediation fees	**19.0**	30.2
Fees and commissions on securities trading	**(0.2)**	18.8
Other fees and commissions paid	**–**	(0.2)
Other operating expenses	**(11.6)**	(12.8)

* 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.

Notes to the financial statements continued
For the year ended 31 March 2021

29. Related party transactions continued

	31 March 2021 US$m	31 March 2020 US$m
SMBC Nikko Securities America Inc.		
Balances receivable / (payable)		
Accrued income receivable	**3.4**	2.4
Other assets	**1.1**	12.2
Accrued securities trading fees and agency fees	**(3.1)**	(2.0)
Other liabilities	**(7.9)**	(31.7)
Income / (expense) during the period		
Fees and commission income on securities trading	**7.3**	9.0
Fees and commissions expense on securities trading	**(10.9)**	(10.0)
Other operating expenses	**(0.3)**	(0.9)

	31 March 2021 US$m	31 March 2020 US$m
SMBC Bank International plc		
Balances receivable / (payable)		
Cash at banks	**14.3**	11.6
Collateral placed / (received)	**(15.7)**	113.3
Net derivative instrument assets / (liabilities)	**21.6**	(110.0)
Other liabilities	**(15.8)**	(3.2)
Income / (expense) during the period		
Gain / (loss) on derivative instruments	**150.1**	(42.8)
Interest income	**0.1**	–
Interest expense	**(0.2)**	–
Other fees and commissions paid	**(1.1)**	(1.9)
Other operating expenses	**(13.5)**	(2.2)

	31 March 2021 US$m	31 March 2020 US$m
SMBC Nikko Securities (Hong Kong) Limited		
Balances receivable / (payable)		
Accrued income receivable	**0.2**	1.2
Other receivables / (payables)	**–**	0.1
Accrued expenses payable	**(0.2)**	(1.0)
Other liabilities	**–**	(2.7)
Income / (expense) during the period		
Fees and commission on securities trading	**(1.8)**	0.4
Other fees and commissions paid	**(0.8)**	(4.2)
Other non-personnel expenses	**(0.7)**	(3.3)

Notes to the financial statements continued
For the year ended 31 March 2021

29. Related party transactions continued

	31 March 2021 US$m	31 March 2020 US$m
Nikko Systems Solutions, Ltd.		
Income / (expense) during the period		
Other non-personnel expenses	–	(4.4)

	31 March 2021 US$m	31 March 2020 US$m
Sumitomo Mitsui Banking Corporation Malaysia Berhad		
Balances receivable / (payable)		
Net derivative instrument assets	–	0.2
Cash collateral received	–	(0.4)
Income / (expense) during the period		
Gain on derivative instruments	–	0.4

	31 March 2021 US$m	31 March 2020 US$m
SMBC Nikko Securities (Singapore) Pte. Ltd		
Balances receivable / (payable)		
Accrued income receivable / (payable)	**0.5**	0.1
Income / (expense) during the period		
Other fees and commissions paid	–	(0.4)

	31 March 2021 US$m	31 March 2020 US$m
SMBC Nikko Capital Markets Europe GmbH		
Balances receivable / (payable)		
Accrued income receivable	**5.4**	7.8
Other receivables	**7.6**	–
Accrued expenses payable	**(3.1)**	(4.8)
Other payables	**(6.5)**	–
Income / (expense) during the period		
Fees and commission on securities trading	**4.6**	1.8
Other operating income	**11.7**	5.8
Other fees and commissions paid	**(13.2)**	(10.8)

Notes to the financial statements continued
For the year ended 31 March 2021

29. Related party transactions continued

	31 March 2021 US$m	31 March 2020 US$m
SMBC Bank EU AG		
Balances receivable / (payable)		
Net derivative (liabilities) / assets	**(59.4)**	0.1
Collateral placed / (received)	**58.4**	(0.5)
Other receivables	**0.7**	–
Amounts outside the statement of financial position		
Securities placed as voluntary derivative collateral (Note 15)	**156.5**	34.0
Securities received as voluntary derivative collateral (Note 19)	**169.3**	29.0
Income / (expense) during the period		
Loss on derivative instruments	**(73.5)**	(1.1)
Other operating income	**0.7**	–
Interest expense	**(0.1)**	–

	31 March 2021 US$m	31 March 2020 US$m
The Bank of East Asia, Limited		
Balances receivable / (payable)		
Cash at banks	**0.9**	1.1
Income / (expense) during the period		
Gain on derivative instruments	**–**	0.1

	31 March 2021 US$m	31 March 2020 US$m
DMG MORI Finance GmbH		
Balances receivable / (payable)		
Derivative assets	**3.6**	4.5
Income / (expense) during the period		
Gain on derivative instruments	**1.3**	3.5

Other related parties include a number of unconsolidated structured entities, income from which is disclosed in Note 34 and the Group's Directors which emoluments are disclosed in Note 7.

Notes to the financial statements continued
For the year ended 31 March 2021

30. 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 $1,517.8 million (2020: $768.1 million). In order to support the guarantee, SMBC has provided the Group cash collateral, disclosed in Note 19.

Since 2020, the Group pays upfront the full fee amount of the guaranteed transaction in respect of the expected life of the transaction, computed on a fair value basis.

Below is the amount of credit guarantees expense in profit or loss:

	Year ended 31/03/2021 US$m Fees	15 months to 31/03/2020 US$m Fees
SMBC	**23.1**	5.2

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.

31. Borrowing facilities

In 2017, SMBC and the Group signed an agreement to provide the Group with a $2.0 billion multi-currency uncommitted rolling facility. At 31 March 2021, $650.1 million (2020: $758.1 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 rolling facility. At 31 March 2021, $54.4 million (2020: $55.6 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 30.

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 2021 and 31 March 2020, the entire facility was unused. The facility was renewed in April 2021 for another five-year period.

As explained in Note 29, 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 7 December 2020, the Contingent Manager Agreement with BlackRock Financial Management, Inc. rolled for twelve months as no notice to terminate was issued by SMBC DP.

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For the year ended 31 March 2021

32. Deferred compensation

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

33. 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.

34. 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 $10.6 million (2020: $20.5 million).

35. 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