SMBC

SMBC Group

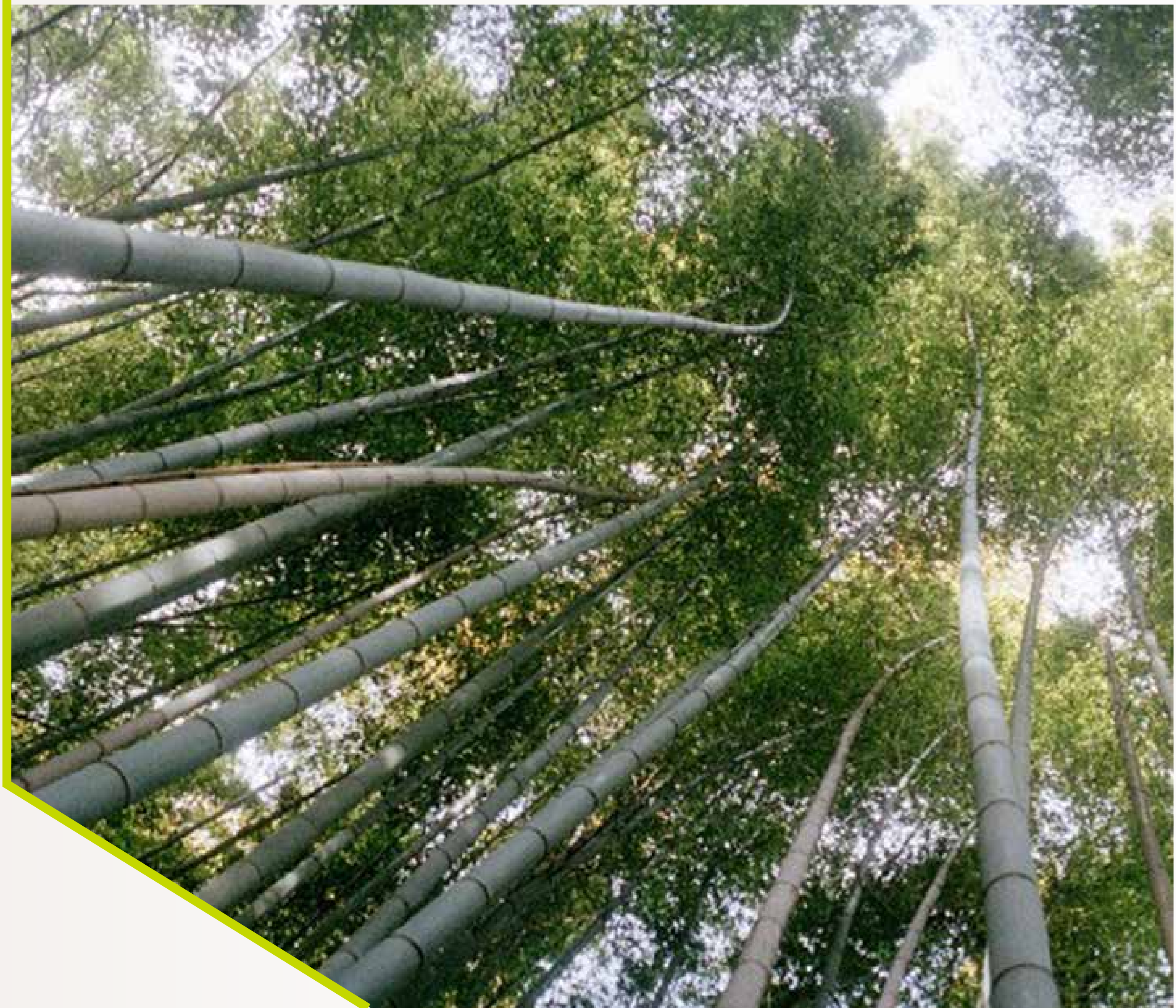
SMBC NIKKO CAPITAL MARKETS LIMITED

SMBC Nikko Capital Markets Ltd

A trusted partner for the long term

Annual report and financial statements
Year ended 31 March 2022

Company number 02418137



SMBC Nikko Capital Markets Limited is an investment firm headquartered in London, with a branch in Abu Dhabi and subsidiaries in London and Hong Kong.

It is majority owned by Sumitomo Mitsui Banking Corporation, a top-tier Japanese bank and core member of Sumitomo Mitsui Financial Group, a Tokyo-based holding company that is ranked amongst the largest 25 banks globally by total assets.

+ Please see the cautionary statement regarding forward-looking statements on **page 119**.

Use of terms in the annual report and financial statements

In this document the terms "CM Ltd", "the Company", "we", "us" or "its" 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.

The Company's 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 the Company is a part.

The term "EMEA" refers to Europe, Middle East and Africa.

Find out more online

+ smbcgroup.com/emea

In this report

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022

About the Group and its activities

The Directors present the Strategic Report of SMBC Nikko Capital Markets Limited for the year ended 31 March 2022 (the Year).

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) 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.

Business overview

The Group's business 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 provides advice and support to SMBC Group customers seeking new business opportunities.

The Group has close connections with SMBC Bank International plc (SMBC BI), the EMEA headquarters for SMBC Group which is responsible for providing a number of services to the Company and various SMBC companies, branches and representative offices in EMEA in support of their activities.

Purpose

To be a trusted partner for the long term

This statement reflects the long-term relationship-based approach the Group adopts in carrying out its business for the benefit of its customers and all its 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 enhance the Group's franchise and develop its employees; and
- managing risk in a prudent, proactive and professional manner in order to protect stakeholders and their investments.

Stakeholders

The Company recognises that the success of its business is dependent on its stakeholders and that its business activities impact its stakeholders in different ways. The Company's stakeholders are:

- **Customers**
- **Workforce**
- **Environment and society**
- **Markets and the regulators**
- **Suppliers**
- **SMBC Group**

SMBC Group's Mission, Vision and core Values

To inform our behaviours and to deliver the best outcomes for our stakeholders

Mission

We grow and prosper together with our customers by providing services of greater value to them.

We aim to maximise our shareholders' value through the continuous growth of our business.

We create a work environment that encourages and rewards diligent and highly motivated employees.

We contribute to a sustainable society by addressing environmental and social issues.

Vision

A trusted global solution provider committed to the growth of our customers and advancement of society.

Five Values

Integrity As a professional, always act with sincerity and a high ethical standard.

Customer First Always look at it from a customer's point of view, and provide value based on their individual needs.

Proactive & Innovative Embrace new ideas and perspectives, don't be deterred by failure.

Speed & Quality Differentiate ourselves through the speed and quality of our decision-making and service delivery.

Team "SMBC Group" Respect and leverage the knowledge and diverse talent of our global organisation as a team.

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 focused 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 its stakeholders.

The strategy is built around four corporate objectives:

Serving customers

To provide high quality value-added services to EMEA customers as the partner of choice.

Competitive edges as SMBC Group

To establish and develop those areas where the Group feels it has a particularly strong position in terms of its customer relationships, product capabilities and global reach.

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 and help realise SMBC Group's Mission and Vision as set out on **page 5**.

Culture

The Company aspires to deliver its purpose and strategy through five cultural pillars:

1. Provide an excellent service to customers and colleagues through collaboration, teamwork and a sense of shared purpose.
2. Build our brand by being a reliable and trusted partner to our customers and contribute positively to the societies in which we operate.
3. Protect our customers and markets by conducting our 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 our business to meet new challenges.

+ Read more about our culture on **pages 17 to 18.**

Review of the year

Market and operating environment

The Group and Company consider 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 regulations.

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 on all relevant areas, including earnings, regulatory capital, leverage and liquidity.

Global Markets business lines, specifically Derivatives and Fixed Income, struggled to gain revenue traction throughout the year due to a range of issues, such as rate rises on the transition to a post-COVID-19 economic environment, withdrawal of liquidity and inflationary pressures across all major economies. The extreme interest rate volatility, exacerbated by the conflict in Ukraine, impacted performance significantly in the last quarter of the financial year. Such unpredictable moves, coupled with unprecedented volatility in US rates, kept customers at bay and investors selling off their portfolios to reduce the risk of depressed fixed income valuations.

Capital Markets and Advisory business lines had a reasonable financial performance considering the impact of the UK's exit from the EU (Brexit). Brexit resulted in a significant proportion of debt issuance work being transferred from the Group into a newly created entity of SMBC Group in Frankfurt, Germany. With the difficult rates environment and conflict in Ukraine, new debt issues had a quiet fourth quarter, which historically tends to be one of the strongest quarters. With debt pricing uncertainty, client activity tends to be significantly lower and at best sporadic.

Despite this, the Board considers there is a strong momentum in the debt capital markets area, specifically with an increased focus on customers based in the Middle East. The Equity franchise had one of its strongest performance years helped by the issuances in the earlier quarters.

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 has implemented a hybrid working policy through which employees can balance days spent working from home and in the office and can start and finish at flexible times.

With the gradual transition to post-pandemic times, the economic outlook changed dramatically with a pull back of government support, lifting of quantitative easing and, later in the year, inflationary pressures not witnessed in decades which led to a significantly hawkish monetary stance. This has impacted the market sentiment with unprecedented volatility in the rates environment.

Risk environment

While COVID-19 has impacted all principal risk types (liquidity, credit, market, operational) in recent years, 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 potential future impacts of COVID-19 have been incorporated into capital and liquidity adequacy planning documents and into recovery and resolution planning.

With most employees working remotely during the pandemic, and with the introduction of hybrid working, the Board recognises that cyber security risk has increased during the year. The Group has therefore sought to implement best practices for keeping working environments secure, and reflected these new challenges within its annual mandatory Information Security training which all employees must complete.

The conflict in Ukraine has also led to periods of market volatility, which resulted in the Group invoking its internal crisis management process as a precautionary measure. This process brings about daily, enhanced monitoring of key risk management information among members of senior management across the Risk, Treasury, Finance, Compliance and Operations functions, and allows the Group to react swiftly to any emerging issues. The Group has little direct exposure to either Russia or Ukraine, but the knock-on volatility in key markets was such that the trading desks temporarily reduced positions during this period. The Group has otherwise continued to carefully monitor its compliance with key sanctions requirements during a difficult period of geopolitical instability.

There remains a high degree of uncertainty in the economic outlook given recent events. The Group will continue to give a high level of focus to the market environment, particularly the impact of rising 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.

Strategic development

The Company made good progress in the year to deliver its strategy, with notable developments below:

Serving customers

The Company has sought to respond to its customers' demands in close collaboration with other SMBC Group companies, including SMBC BI and SMBC Nikko Capital Markets Europe GmbH, an SMBC Group investment banking subsidiary based in Frankfurt that has now merged into SMBC's banking subsidiary, SMBC Bank EU AG, to create a universal bank in Germany. Developments in the year included the following:

- Closer cooperation with SMBC BI in foreign exchange, derivatives and structured credit solutions businesses.
- With SMBC BI, the Company made significant progress in developing its environmental, social and governance ("ESG") capabilities, including the establishment of an ESG Advisory & Solutions Hub to improve its service delivery where its customers require ESG services.
- In conjunction with SMBC BI, the Company developed a high yield business framework through which it works collaboratively to offer its leveraged buyout and leveraged corporate customers access to high yield financing.
- The Company increased its collaboration with SMBC Hong Kong on derivatives business.

Sustainable growth

The Company recognises that a strong governance structure, compliance and risk management framework is crucial if it is to achieve sustainable growth, and this is an ongoing area of focus.

During the year, 189 employees of the Company were transferred to SMBC BI, as part of a joint objective to develop integrated control and support functions. Many employees across SMBC BI now provide services to the Group and the firms work closely at all levels of the business.

Transition to risk-free rates

A significant area of focus for the Company in the year was the transition of its customers to risk-free rates in preparation for the discontinuation of certain reference rates, such as certain settings of the London Interbank Offered Rate (LIBOR) on 31 December 2021. This project required the mobilisation of resources from across SMBC Group.

Further information on the way the Company engaged with its customers on this matter can be found on page 12.

Future developments

On 4 March 2022, four employees of the Company's Japanese shareholder SMBC Nikko Securities Inc (SMBC Nikko Japan) were arrested by the Tokyo District Public Prosecutors Office on suspicion of violating Article 159, paragraph 3 (illegal stabilisation transaction) of the Japanese Financial Instruments and Exchange Act. On 24 March 2022, one additional executive officer of SMBC Nikko Japan was arrested on the same charge. On the same date, the five arrested employees of SMBC Nikko Japan were indicted on the same charges, and SMBC Nikko Japan was also indicted as a legal entity based on the Japanese law concept of dual criminal liability. On 4 March 2022, SMBC Nikko Japan established an independent Investigation Committee of external lawyers. On 24 June 2022, the Investigation Committee issued an investigation report, highlighting, amongst others, certain legal and compliance problems in relation to certain trading activities of SMBC Nikko Japan. SMBC Nikko Japan acknowledges the findings and will work on strengthening its internal controls based on recommendations of the report. The final outcome of such indictments is difficult to predict and could have an adverse effect on the Company's business, financial condition and results of operation.

Notwithstanding this investigation and the potential for challenging market conditions, the Board continues to see significant opportunities to offer existing and new products and services. With that in mind, the Group's strategy for the year ahead remains consistent with that pursued in 2021. 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 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.

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 are set out in the Statement of Profit or Loss on page 54.

Overview of performance

Key performance indicators

The Company uses a 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 Company more generally.

Set out in this section are the main financial KPIs. Information on the key non-financial measures used can be found in the following sections:

– Diversity and inclusion measures on page 16
– Streamlined Energy and Carbon Reporting on page 26

Key financial KPIs

Return on equity	2022	2021
Profit after tax of USD 9.4 million (2021: USD 70.7 million) divided by the average equity in the year of USD 1,864.4 million (2021: USD 1,825.9 million)	0.5%	3.9%
Return on risk assets[1]	**%**	%
Profit before tax of USD 15.0 million (2021: USD 84.5 million) divided by the average risk weighted assets in the year of USD 3,302.3 million (2021: USD 3,829.5 million)	0.5%	2.2%
Tier 1 capital ratio[1]	**%**	%
Tier 1 capital of USD 1,827.8 million (2021: USD 1,836.7 million) divided by total risk weighted assets of USD 2,784.9 million (2021: USD 3,819.7 million)	65.6%	48.1%
Cost income ratio	**%**	%
Net operating expenses of USD 178.1 million (2021: USD 167.4 million) divided by total income of USD 193.1 million (2021: USD 251.9 million)	92.2%	66.5%
Net profit	**USDm**	USDm
Profit after tax	9.4	70.7
Gross income	**USDm**	USDm
Total income	193.1	251.9
Total assets	**USDm**	USDm
Total assets	22,045.2	18,834.0

1 Effective from 1 January 2022, the Group is subject to the FCA's Investment Firms Prudential Regime ("IFPR"). The rules for calculating capital requirements under the IFPR are different from those for Risk Weighted Assets ("RWAs") calculation under the Capital Requirements Regulation ("CRR"). To facilitate comparison with 2021 KPIs, the Company has expressed the IFPR capital requirements in their equivalent RWA and capital ratio terms.

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

This section of the Strategic Report sets out how, during the year, the Directors have acted in a way in which they consider, in good faith, would be most likely to promote the Company's success while having regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (the section 172(1) matters). This section also forms the statement required under section 414CZA of the Companies Act 2006.

In its discussions and decision-making, the Board considers relevant section 172(1) matters. Further information on this is shown below.

The likely consequence of any decision in the long term

The Company seeks to achieve long-term sustainable growth, ensuring that it remains well funded, well controlled and that there is a sensible balance between risk and reward. During the year, the Board approved the annual Budget and Business Plan and considered business targets in light of changes to the market environment.

The interests of employees and the need to foster business relationships with suppliers, customers and others

The Directors recognise the need to ensure the business is run for the benefit of all its stakeholders and the importance of engaging with stakeholders and understanding their views. In discharging their responsibilities, including in decision-making, the Directors seek to understand and have regard to the interests of the Company's stakeholders. When members of management present to the Board and its Committees, they are required to state in the supporting documentation the stakeholder groups relevant to the item. Further information on the Company's stakeholders is set out on pages 12 to 14.

The impact of the Company's operations on the community and the environment

Set out on pages 19 to 26 is the Company's approach to managing the risks and opportunities arising from climate change, which is disclosed in line with the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as a reference. Included on page 18 is information on the activities undertaken by the Company in respect of community matters, upon which the Board receives regular updates.

The Company's tax affairs are managed in a manner that is consistent with SMBC Group's philosophy on corporate social responsibility ("CSR"). SMBC Group recognises its duty to shareholders to minimise business tax inefficiency, but also its social responsibility to pay all applicable taxes in the countries in which it does business.

The desirability to maintain a reputation for high standards of business conduct

The Board recognises that in order to earn the trust of its stakeholders and achieve its objective of long-term sustainable growth, the Company must exercise high standards of business conduct. The Culture and Purpose Statements, together with the Group's core Values, provide a framework of expected behaviours for employees, which in turn drives appropriate conduct to deliver the best outcomes for the Company's stakeholders.

During the year, the Board and Board Risk and Compliance Committee regularly considered metrics assessing overall behaviours across the Company against the components of the Culture Statement and other metrics relating to the conduct of business. Further information on the Company's Culture and Values can be found on pages 17 to 18.

The need to act fairly as between members

As the Company is a subsidiary of SMBC, fairness between members is less relevant to the Directors' discussions than the other section 172(1) matters. The Directors continue to consider which course of action best enables delivery of the Company's strategy in the long term. Directors are required to disclose any potential conflicts including those which may arise where individuals hold positions within multiple Group entities.

For further information on the principal activities of the Board and Committees during the year, please refer to the Governance Report on pages 43 to 45.

Stakeholder engagement

The Company's stakeholders are those groups that most materially impact the Company's strategy or are impacted by it, namely: customers, workforce, environment and society, the markets and regulators, suppliers and SMBC Group.

The Company engages with its stakeholders in many ways and at all levels of the business. The Board delegates to management the authority to run the business on a day-to-day basis and to execute the strategy approved by the Board. Stakeholder interactions therefore take place in the context of the strategies and policies set by the Board and its Committees; they also receive reports as necessary on significant interactions.

Customers

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

In addition to the Company's regular engagement with its customers, in the year the Company worked closely with its customers and took a proactive and leading role to drive the transition from LIBOR to risk-free rates. The Company prepared and executed a communications plan to notify impacted clients of the implications of non-transition, with additional focused communications for any transactions identified to be at high risk of non-transition. Having now passed the initial transition deadline, targeted customer communications continue to encourage prompt transition to a risk-free rate from synthetic LIBOR. Running parallel to these efforts, the Company is also preparing for the cessation of the remaining LIBOR tenors in US Dollars as at 30 June 2023. Engagement with in-scope customers has begun and this is supported by a detailed customer communications package. To supplement this exercise, comprehensive training has been provided to relevant departments.

The Board recognises that listening to customers helps the Company better understand their needs and provide appropriate products and services, including utilising the expertise of the wider SMBC Group. Senior management contact customers regularly and report these interactions to the Board as appropriate. Key policies in place that aid the Company's interactions with its customers include those to ensure the Company identifies, records, investigates, responds to and escalates expressions of dissatisfaction.

The Company's workforce

Information on the Company's workforce and the way in which the Board and Company engaged with its employees can be found on pages 15 to 17.

Environment and society

The Company recognises its role in society and the importance of contributing positively to the society and communities in which it operates. The Company is focused on how it can participate in combatting climate change and supporting green initiatives on a wider SMBC Group basis. Further information on this can be found on pages 19 to 26.

The Corporate Social Responsibility Committee oversees the Group's community engagement. 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 Company's outreach efforts.

Markets and regulators

The Company's regulators require compliance with their 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.

Individual Directors and members of senior management engage regularly with the Company's regulators and discussions cover areas such as strategy, capital, risk and developments in the business. The Directors are updated on communications with the FCA at each Board meeting. 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.

The Directors receive regular updates on proposed changes to financial services regulations and laws that are likely to impact the Company and its customers.

During the year, the Board's education programme included topics on changes to the capital regulations and sanctions and a review of clients in high risk jurisdictions. 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 certain products or services to assist in the running of its business. Suppliers are engaged for a variety of reasons, including the provision of expertise or resource that the Company may or may 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.

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 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.

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

Examples of how stakeholder interests have been considered by the Board

The following are examples of how stakeholder interests and section 172(1) matters have been considered by the Board and its Committees in the year.

Russia-Ukraine conflict

The Board Risk and Compliance Committee has been actively engaged in overseeing the Company's response to the issues arising from the conflict in Ukraine, including:

- Understanding the actions being taken to respond to the imposition of sanctions and other restrictions on certain Russian companies and individuals;
- Assessing which of the Company's customers would be most directly and indirectly impacted by the conflict and requesting management to update the Company's stress testing to reflect the market and macroeconomic impacts;
- Assessing the impacts on liquidity and capital positions and the wider control environment;
- Considering the impact on employees; and
- SMBC Group's approach to managing the risks to ensure alignment within the Group.

While matters of policy remained reserved for the Board and its Committees, the Board delegated to the Crisis Management Team (CMT) responsibility for implementing the Company's response to the risks arising from the conflict. Membership of the CMT includes the executive Directors and Chief Risk Officer. The Board was kept apprised of the CMT's discussions through weekly meetings and written updates as required.

Through the above steps, the Board believes that it has been able to appropriately understand the impact of the conflict on stakeholders, primarily the Company's customers, people, regulators and SMBC Group, and to take action in recognition of these interests. All principal risk types have been considered in connection with this matter.

Office relocation

One of the key strategic deliverables overseen by the Board has been the Company's relocation to a new headquarters building in London, with the majority of the Company's workforce moving into the new building in April and May 2022. This is a building the Company shares with many of the SMBC Group companies located in London.

The programme was branded 'Progress. Together.' to emphasise the importance of the relocation to the Company's future success. Workforce consultation and co-creation have been at the heart of this initiative since inception. For instance, the Company appointed departmental 'Progress Makers', a team of people who acted as the conduit between those responsible for delivering the relocation and employees to ensure that business requirements and employee needs remained a priority through the process.

The Company took the opportunity of a delay to the construction of the building due to the COVID-19 pandemic to re-assess every proposed element of the interior design and fit-out of the new office. The purpose of this was to ensure that lessons from remote working during the pandemic had been learned and that appropriate health and safety practices have been adopted for the future.

Sustainability was an important factor in the selection of the building and its subsequent design and fit-out. For instance, the building only uses renewable energy and has adopted efficient practices in terms of water, lighting, waste disposal and the restriction of single-use products in all aspects of the building's use. Enhanced facilities are also being made available to employees to incentivise more to run, walk or cycle to the office.

The delivery of the relocation has been overseen by the Board, which has considered various aspects of the project, including: the risks to the delivery of the project arising from global supply chain delays, the results of employee engagement and how the Company has responded to that feedback. Members of the Board visited the office in advance of occupation and were briefed by the design consultants and subject matter experts on the design concepts adopted and the use of new technologies in the building.

Workforce

The Board considers the Company's workforce as its key asset and is committed to developing a diverse and highly skilled workforce. The workforce comprises locally hired employees, expatriate colleagues from SMBC Group and colleagues typically engaged for specific projects or activity.

The Board receives regular reports on matters relating to the workforce, including through discussions held by the Remuneration and Nominations Committees. In addition, Directors frequently participate in events through which they are able to engage directly with employees.

Equal opportunities

The Company is an inclusive and equal opportunities employer and committed to providing a safe and tolerant workplace. It is the Company's intention that no potential or current employee receives less favourable treatment on the grounds of age, race, nationality, colour, disability, ethnic background, gender, gender expression or gender identity, sexual orientation, gender reassignment, pregnancy or maternity leave, marital status, religion or belief. All employees have responsibility for the practical application of the Company's Equal Opportunities Policy, which extends to the treatment of employees, customers and suppliers, with special responsibility falling upon those involved in the recruitment, selection, promotion and development of employees.

In the year, the Company launched mandatory 'Inclusion and Respect' training in order to raise awareness of the impact discrimination can have on an individual's ability to thrive at work. The training also provided colleagues with the necessary tools required to enable them to challenge any non-inclusive behaviours they may witness.

The Company recognises the importance of ensuring that all its people have access to the right equipment and software to support them in their roles and engages with a third party service to make workplace adjustments on a case-by-case basis. The Company has also put in place a working group to further improve its workplace adjustment process and internal accessibility guides. Software is available to assist employees who are neurodiverse.

Diversity and inclusion

The Company is committed to operating a diverse and inclusive business, and recognises that diversity of its people, opinions and perspectives is vital for the sustainable growth of the organisation and is to the benefit of stakeholders. The Company's aim is to build an inclusive work environment where everyone feels able to be their authentic self.

The diversity and inclusion strategy is led by the Diversity and Inclusion Steering Committee, which considers matters relating to the Company and SMBC BI. During the year, the next phase of the diversity and inclusion strategy was launched, a four-year approach to evolve the Company's culture, embed inclusion into its business strategy, strengthen its processes and safeguard against reputational and conduct risk.

The Company regularly consults with employees to identify and address any inclusion gaps in its ways of working. Progress in the year has included:

- Enhancing policies on areas including menopause, baby loss and domestic abuse; and improving support for employees going through menopause, experiencing gender dysphoria and/or requiring assisted fertility treatment;
- Broadening the Company's diversity ambitions beyond gender to include cultural diversity, race and ethnicity, sexual orientation and disability;
- Supporting the continuous growth and development of the Company's senior leaders with the launch of a reverse mentoring programme, led by the Black Employees & Allies Network; and
- Continuing to work towards the commitments set out in the Women in Finance Charter.

During the year, SMBC BI became a signatory to the UK's Race at Work Charter, the principles of which are also applied to the Company.

The employee-led diversity networks are collected under the umbrella of Diversity, Respect, Inclusion, Value and Equality (DRIVE). The networks provide a psychologically safe community for employees to share their experiences, provide support and raise awareness. In the year, the Company launched its fifth network, UNIQUE, to support SMBC Group in promoting a greater understanding of mental health challenges, neurodiversity, and visible and invisible disability. The other networks also focus on key aspects of diversity and inclusion: namely Balance (gender), Black Employees & Allies (race and ethnicity), Niji EMEA (LGBTQ+) and Collaborate (inclusion).

SMBC Group is a proud signatory of the Women in Finance Charter. Over the year, senior female representation in the Company increased from 15.6% to 18.6%. The Board recognises that while this progress is a positive outcome, there is still more to do, and several initiatives are in place to drive continuous improvement. On an SMBC Group (EMEA) basis, the increase was from 27% to 29.5%, with the aim being to have 30% of all senior roles filled by female leaders by 2023.

Performance, learning and development

The Company seeks to support enhanced performance and continuous development in its employees through a regular set of conversations between employees and their managers.

The Company encourages its employees to drive their own development and supplements this with a range of individual, leadership and talent development offerings.

The Company ensures oversight and governance of its performance, learning and development approaches through the Talent Review Forum governing group, which comprises several senior executives representing all major divisions and departments. This ensures a fair, consistent and effective approach to the Talent and Development approaches, as well as enabling equitable access to the Company's programmes.

The COVID-19 pandemic has helped to drive user acceptance and the embedding of virtual learning as normal practice. This has created opportunities for colleagues from across SMBC Group in EMEA to collaborate and learn new skills together, wherever they are based.

Wellbeing

The Company is committed to supporting the wellbeing of its workforce and provides a range of fixed and optional benefits, collaboration with external providers and internal training and awareness raising to ensure employees have access to the support they need.

The Company is committed to supporting the wellbeing of its employees with initiatives and services across the following categories:

Physical wellbeing	**Mental wellbeing**
– Private health insurance – Health assessments – Gym membership	– Mental Health First Aiders – Employee Assistance Helpline – Stress awareness training
Financial wellbeing	**Social/community wellbeing**
– Income protection – Pension – Life insurance	– Hybrid working policy – Family care service – Paid volunteering days

An area of focus in the year has been the mental health of the Company's employees with key initiatives including:

- Regular mindfulness sessions with an external facilitator;
- A three-fold increase in the number of Mental Health First Aiders;
- The running of the Thriving Through Change and Uncertainty Programmes to provide employees with the tools and resources needed to work effectively in a hybrid environment and to manage their personal wellbeing;
- The holding of independently facilitated wellbeing focus groups to hear the views of the Company's employees on their wellbeing and what the Company can do to improve it. The focus group's report has been shared with department leadership teams, which have been asked to develop action plans to implement relevant recommendations; and
- Incorporating a 'Wellness Suite' into the design of the new EMEA headquarters at 100 Liverpool Street, London. The suite includes a multi-faith contemplation room, First Aid and parent rooms, and quiet facilities to promote mental health.

Culture and Purpose

The Company has developed a comprehensive framework around culture, where the Group's Five Values and Statement of Purpose support and guide the activities of the business at all levels. Further information on this is set out on pages 5 to 6.

Assessing culture

During the year, the Board considered management information and reports on initiatives related to the Company's culture. In addition, the BRCC each quarter considered metrics showing how well the Company is delivering each of its Five Values.

Conduct risk metrics, which feed into the Five Values, are also examined on a monthly basis at the Company's Control and Conduct Assessment Forum, where management receives updates on the previous month's metrics and regularly challenges the appropriateness of the thresholds and methodology to ensure that all management information remains appropriate and is collected in a robust and considered manner.

The Company's culture is regularly assessed via employee feedback, both to see areas where initiatives are showing positive trends and to highlight areas where more focus is required.

Employee Engagement Surveys and Wellbeing Focus Groups

During the year, the Board received regular reports on the initiatives being undertaken by the Company to understand employee engagement trends and other cultural activities.

The first of these initiatives was the launch of a regular Employee Engagement Survey conducted by an external specialist firm. Each quarter all Group employees in London are invited to participate in an engagement survey which measures areas such as Relationship with the Company, Vision and Strategy, and Health and Wellness. While responses are collected anonymously, results are consolidated on a departmental basis to allow for detailed analysis of trends. Shortly after completing the survey, each participant receives an email detailing their results and their personal 'scores' in each area, along with information on how their scores compare to previous quarters. This allows individuals to track their engagement with the Company over time and identify any trends. Once results are collated, the Company sends a summary to all employees highlighting the overall engagement in terms of the greatest areas of strength and areas where results were less strong, with analysis of specific points that employees highlighted as challenges.

In September 2021, the Company ran a series of independently facilitated confidential Wellbeing Focus Groups to conduct follow-up work from the 2020 Culture Survey and the 2021 Employee Engagement Surveys. All employees were invited to volunteer to participate in these groups with a view to providing management with a greater understanding of employees' views. These groups allowed employees to:

- Explore the sources of challenges at work and share perceptions and perspectives on the underlying causes;
- Confirm or challenge the indications from the survey and other business data;
- Prioritise specific areas in which there is a need for action;
- Explore potential solutions; and
- Develop a set of action plans that improve the wellbeing of employees.

Based on the results of the survey and the additional feedback from the Wellbeing Focus Group, four key themes were identified as follows:

- Creating change (Delegated Authority)
- Capability and Career Development
- Inclusion
- Health and Wellness (Workload/Processes)

An Action Plan has been communicated to all employees explaining the work on these themes, with descriptions of the initiatives being implemented. To build personal ownership amongst employees, each department has also held meetings to discuss these themes and suggest ways to realise improvements on a departmental level.

Communities

The Company is committed to making a positive contribution to the societies in which it operates and has started work to develop and deliver a new Corporate Social Responsibility Strategy. The Company continues to offer employees six days' paid leave each year to volunteer in support of community organisations.

During the year, the Company supported charities focusing on improving social mobility and alleviating homelessness in London. In conjunction with SMBC BI, the Company partnered with Career Ready, a national charity that works with young people facing social mobility challenges who often lack the professional networks needed for career success, culminating in the launch of BOOST (Bank of Opportunities for Students), an outreach programme in London designed to improve social mobility by focusing on heightening the career aspirations, development of and opportunities available to young people, particularly within financial services. As part of this programme, and together with SMBC BI, the Company engaged with 28 student mentees aged 16–18 and multiple groups of diverse students across six schools through seven masterclass sessions.

Approach to climate change

The Company recognises the importance of climate change to its stakeholders and considers it appropriate to report its current approach to managing the risks and opportunities arising from climate change. It has done so using the Task Force on Climate-related Financial Disclosures (TCFD) framework to disclose: governance, strategy, risk management, and metrics and targets as a reference.

Working with SMBC Group

SMBC Group, of which the Company is a part, recognises that addressing climate change issues is one of the most important global concerns of the 21st century and is committed to achieving net zero greenhouse gas (GHG) emissions across its overall investment and loan portfolio by 2050, as well as across its own operations by 2030. The Company fully supports SMBC Group's climate objectives and works closely with colleagues across the Group to ensure alignment in its activities and the application of global policies. As a result, certain aspects of this section show activities the Company has undertaken as part of SMBC Group. Where this is the case, the Company has made this clear in the description. Although there is close cooperation with SMBC Group, the Company's Board and Committees retain responsibility for overseeing and making key decisions in respect of the Company's sustainability activities.

SMBC Group's TCFD Report 2021 can be accessed here:
https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/pdf/tcfd_report_e_2021.pdf

SMBC Group defines sustainability as "creating a society in which today's generation can enjoy economic prosperity and wellbeing and pass it on to future generations". SMBC Group's Statement on Sustainability can be found here:
https://www.smfg.co.jp/english/sustainability/group_sustainability/pdf/smbc_statement_on_sustainability_en.pdf

Status of measures to address the TCFD recommendations

Item	Recommended disclosure	Status of initiatives
Governance	Governance around climate-related risks and opportunities	– The roles and responsibilities of the Board and senior management in the oversight and management of climate-related risks have been defined and documented. – Appointment of a Senior Management Function (SMF) officer (Bruce Railton, General Counsel) responsible for the Company's response to climate change. – Consideration of climate-related risks and sustainable finance business opportunities within the Transaction Approval Committee framework, which provides challenge and detailed discussion around potential transactions before any approval for underwriting activities is granted.
Strategy	Impacts of climate-related risks and opportunities on businesses, strategy and financial planning	– Sustainability Strategy approved by the Board. – Strategy implementation underway, including focus on growing the sustainable finance business. – Consulted with SMBC Group colleagues on the formulation of policy in respect to high emitting business activities.
Risk management	How climate-related risks are identified, assessed and managed	– The Climate Change Ratings Assessment tool has been enhanced and data from the tool is used to develop the Company's scenario analysis, the results of which are included in the Internal Capital Adequacy and Risk Assessment. – Internal and external benchmarking of the outputs from the Climate Change Ratings Assessment tool undertaken. – Introduction of key ESG-related information into the Climate Change Ratings Assessment tool. – Training provided on ESG matters to the Transaction Approval Committee members in order to assist in developing the knowledge and ESG risk appetite of the members.
Metrics and targets	Metrics used to assess and manage climate-related risks and opportunities	– Development of sustainability-related metrics and regular reporting to the Board. – Following SMBC Group's disclosure, commenced data gathering in preparation for calculating financed emissions.

TCFD – Governance

Oversight of climate change

The Board is responsible for setting and monitoring the Sustainability Strategy and for overseeing the overall response to the risks and opportunities posed by climate change. The Board is supported by the Audit Committee, which is responsible for considering climate and sustainability disclosures, and the Board Risk and Compliance Committee, which is responsible for considering climate change risks and the development of climate stress testing. During the year, the amount of time given by the Board, Audit Committee and Board Risk and Compliance Committee to climate matters has continued to increase. The Directors have requested further education on climate matters, including from external advisers in recognition of the need to benefit from external perspectives. The Board expects that briefings on climate matters will remain an important element of its ongoing education plan.

Key activities undertaken by the Board and its Committees in the year in respect of climate change were as follows:

Meeting	Activities
Board	– Considering quarterly updates on progress made in relation to sustainability. – Receiving updates on regulatory expectations in relation to climate change. – Receiving updates of the embedding of environmental and social factors into CM Ltd's reputational risk management procedures. – Receiving updates on the implementation of new products, such as ESG Derivatives. – Considering the Company's own carbon footprint and activities taken to reduce this.
Audit Committee	– Reviewing developments in climate disclosure reporting and the Company's own disclosures.
Board Risk and Compliance Committee	– Considering the progress made to meet the regulators' requirements in respect of risk management, including scenario analysis. – Overseeing the implementation of recommendations arising from an internal audit review of how the Company was managing its approach to climate change. – Receiving updates on the development of the Climate Change Ratings Assessment tool developed in conjunction with SMBC BI. – Considering the framework for the management of reputational risks and the risks of greenwashing.

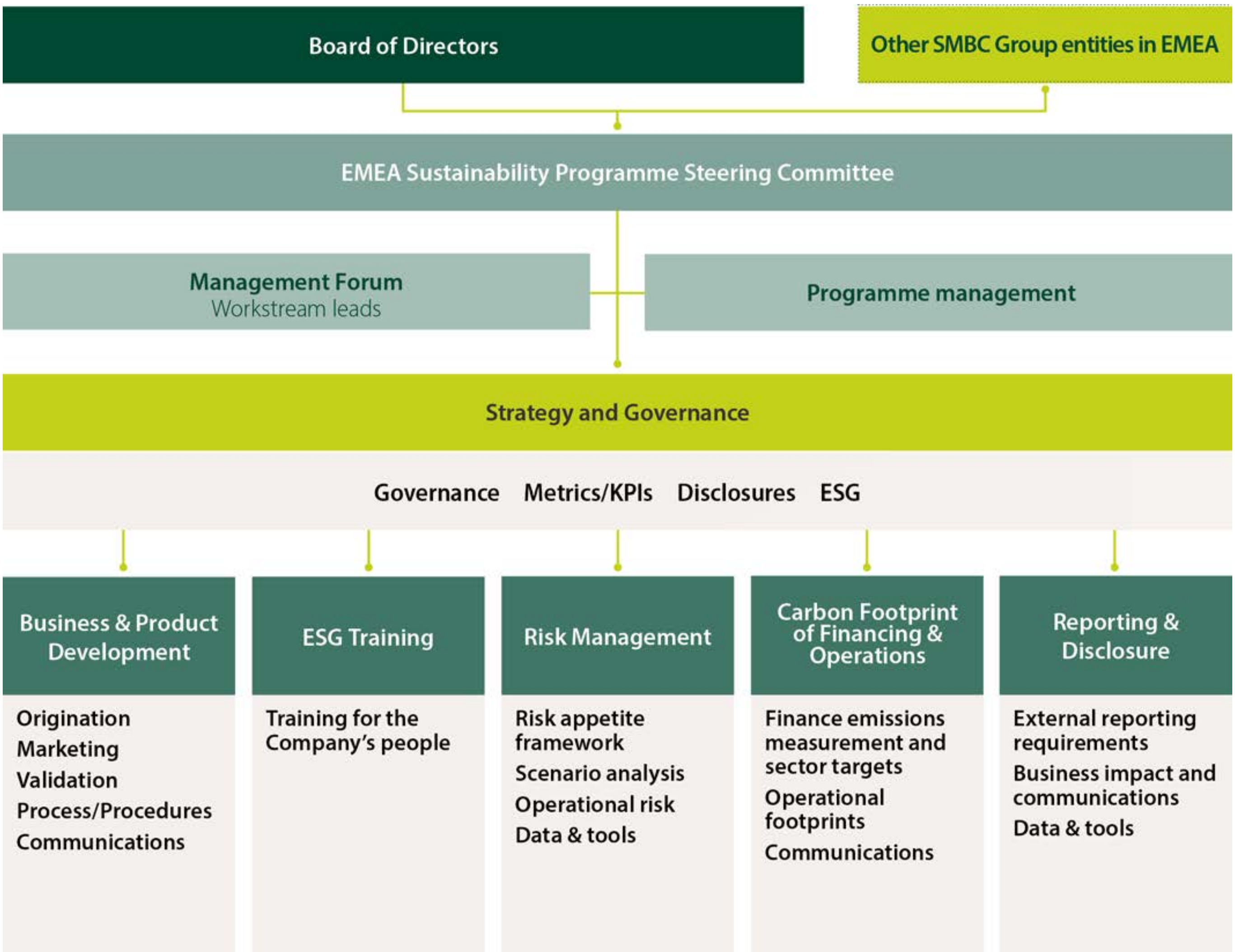
Execution of climate change initiatives

The Board has appointed Bruce Railton, General Counsel, to oversee the Company's response to climate change. His responsibilities include developing the sustainability strategy, ensuring it is embedded within the overall corporate strategy, developing the climate risk appetite statement and framework, escalation of significant business and strategic developments to the Board and overall climate governance. Bruce is supported in this work by the EMEA Sustainability Programme (ESP), the Head of Sustainability Strategy and other functional specialists.

Structure of the EMEA Sustainability Programme

The ESP is the structure through which the Company manages the risks and opportunities arising from climate change and seeks to coordinate these activities across SMBC Group in EMEA.

During the year, the Programme structure was enhanced through the creation of a Reporting and Disclosure workstream, previously included with the Risk Management workstream. This provides more focus to the approach to, and disclosure of, sustainability-related issues.



Meeting	Members	Purpose and responsibilities	Frequency/reporting
Steering Committee	– Head of Sustainability Strategy (Chair) – Head of Capital Markets and Advisory, CM Ltd, General Counsel, CM Ltd – Senior executives from SMBC BI and SMBC EMEA affiliates	– Setting the Sustainability Strategy and overall ownership of the ESP's business plan. – Considering the Company's competitive position and driving strategic progress. – The Committee has delegated day-to-day responsibility for delivering the ESP to the Management Forum. – Challenging the Management Forum and workstreams to ensure timely progress is being made and approving resource needs.	– Monthly meetings and additionally as required. – Significant discussions reported to the Board by Bruce Railton and Head of Sustainability Strategy.

Management Forum	– Head of Sustainability Strategy (Chair) – Workstream leads	– Delivery of the ESP's objectives. – Day-to-day management of the ESP. – Ensuring that business and regulatory requirements are met. – Project planning. – Early identification and management of issues and risks. – Discussion of market updates. – Assessing operating model impacts.	– Monthly meetings and additionally as required. – Reports to the Steering Committee on progress toward agreed goals and notification of issues.
Workstreams	– Each led by a functional specialist	– Progressing the ESP in their areas of expertise. – Developing and delivering on a work plan to support the strategy. – Strategic and governance matters relating to each workstream reviewed by Head of Sustainability Strategy.	– Each workstream reports to the Management Forum.
Programme management	– Overseen by Project Management Office	– Overall ESP governance and planning. – Ensuring robust project management, including issues and actions tracking. – Supporting the Steering Committee and Management Forum.	– As required.

TCFD – Strategy

The Company supports the EMEA Sustainability Strategy, which is based on four strategic ambitions:

- Clients: Supporting clients in their journey to sustainability.
- Solutions: To be recognised as a leading provider of green and sustainable finance solutions.
- Business: Embed sustainability management and culture in all aspects of the Company's business operations.
- Footprint: Proactively pursue GHG emission reductions with an aim to be net zero by 2030 or sooner (Scope 1 and 2) and by 2050 (Scope 3).

Jointly with SMBC BI, the Company introduced the ESG Advisory and Solutions Hub, a dedicated resource of ESG experts who can advise clients on topics such as how to finance their low carbon transition needs, technological and sectoral developments, and the investor perspective on ESG. The Company's Sustainable Finance business has grown because of this strong collaboration. At present the Company offers the following Sustainable Finance solutions:

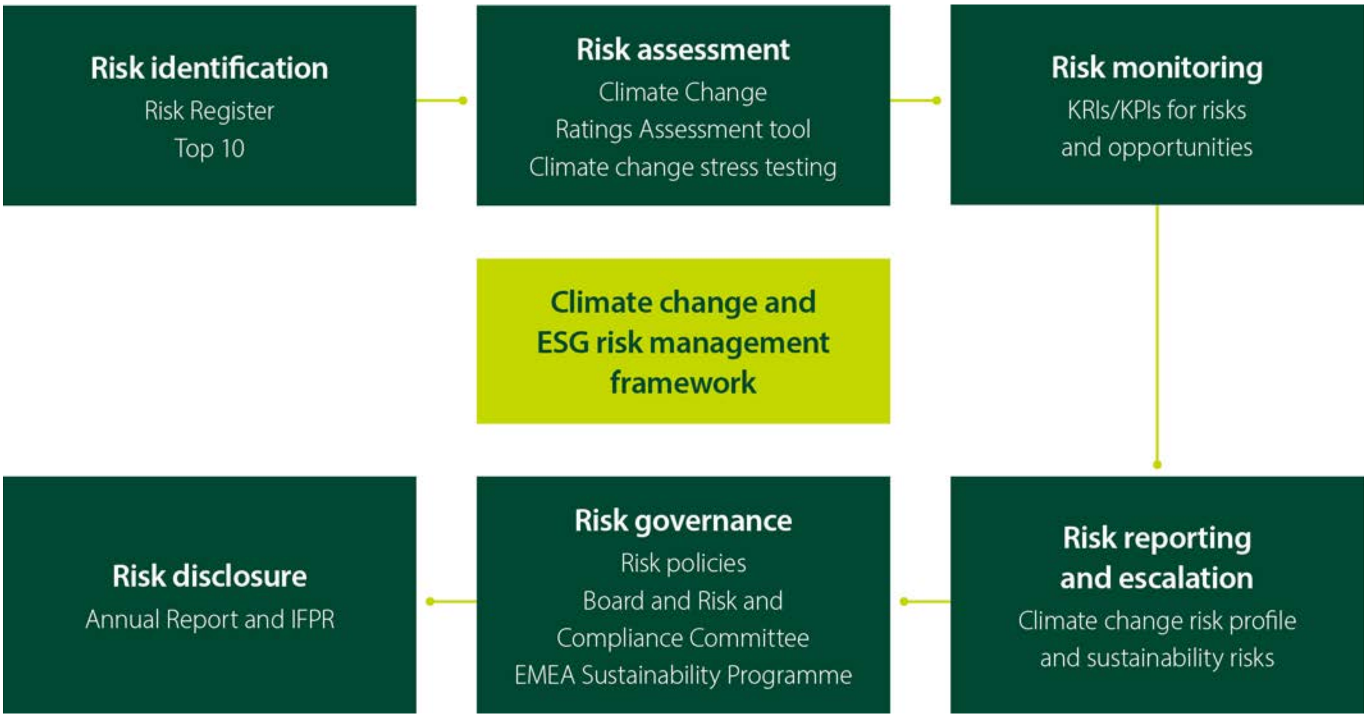
- Green Bonds
- Sustainability-Linked Bonds
- Social Bonds
- ESG Derivatives

Whilst developing the sustainable finance business is important, the Company recognises that the Sustainability Strategy needs to be integrated into all aspects of the business strategy. The Company is taking a two-pronged approach, along with SMBC BI, of beginning to engage with existing clients to understand their transition plans and focusing on growing its business by serving clients who it believes are either embarking on a credible transition or are already engaged in business activities needed to support the future net zero economy.

The Company performs scenario analysis using three of the Network for Greening the Financial System scenarios, reviewing both physical and transition risk. It believes the top risk is transition risk for high emitting sectors, such as Power and Energy, which will likely be impacted by government policy updates or changes in consumer preferences in the medium term. This is reflected in the Company's strategy through the current or planned efforts to engage with clients in these sectors to evaluate and support their transition maturity and offer sustainable finance solutions to meet their needs. The Company believes its main opportunity lies in the historical strength in project finance, given the huge investment in infrastructure that will be needed to achieve Net Zero by 2050.

TCFD – Risk management

The Company 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 Company's internal taxonomy of key risks and controls, which it uses to inform the ongoing identification of risks. The Company recognises that climate change risks are inherent across the spectrum of its risk categories and no longer regards them as a standalone risk. This has allowed the Company to consider how climate change risk impacts each of its risk drivers and the control environment in place to manage them.

Top 10 risks

Climate change risk features in the Company's Top 10 emerging risks framework. This is considered on a quarterly basis by the BRCC.

Climate Change Ratings Assessment ("CCRA") tool

Through the CCRA tool the Company has assigned a climate risk assessment score to the majority of its obligors, reflecting their transition and physical risk profile. 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 or losses that arise as a result of climate- and weather-related events, such as heatwaves, floods, droughts and sea level rises. The combination of the CCRA and broader consideration of ESG risks in transactions will enable the Company to understand clients' energy transition plans.

Stress testing

The scenario analysis approach is broadly aligned with the Bank of England's Climate Biennial Exploratory Scenario (CBES) (announced in November 2020) and through it the Company analyses the stress impact on its portfolio of three scenarios: No Additional Action (>4°C temperature change), Early Action (<2°C) and Late Action (<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 (ICAAP) document.

The current approach maps the grade of each obligor onto a new climate adjusted grade. The portfolio is then processed using a portfolio management tool to obtain expected and unexpected loss. This process is repeated for each year in each scenario to obtain the evolution of climate risk over time. The baseline scenario is also processed via the same tool; the difference between the baseline and the scenarios gives the losses due to climate change.

Climate risk modelling is still in its infancy. Due to a lack of historical data to forecast how climate risk could impact default risk, expert judgement was utilised in the calibration of climate risk-related Probabilities of Default ("PDs"). The macroeconomic impact specific to each scenario is yet to be considered and incorporated into the stress test. Future enhancements to the model will be made including the adoption of regulatory guidance. In light of the publication of the Bank of England CBES results on 24 May 2022, the Company will conduct a gap analysis against the internal approach and to understand the implications of the stress test.

Key risk and key performance indicators

The Company has established quantitative measures to monitor the four pillars of the Sustainability Strategy. These metrics will be developed as the Company enhances its understanding of the climate change risks facing its clients and their ability to manage or mitigate them.

How the Company monitors and mitigates risk

As part of SMBC Group the Company is working to strengthen its structure for managing environmental and social risks. The 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, which includes the Company. 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 and gas; coal mining; palm oil plantations; and deforestation. SMBC Group 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. These are particularly relevant to the Company's provision of hedges for project finance transactions.

TCFD – Metrics

During the year the Company continued to develop its ability to measure and monitor its performance in relation to sustainability and managing climate risk. On a quarterly basis it produces a dashboard that shows its current performance, and presents it to the Board Risk and Compliance Committee and Risk Management Steering Committee so that these bodies can monitor the progress and challenge when issues arise.

Presented below are certain performance or ESG risk indicators from that dashboard.

Metric	Frequency	Notes
Derivatives exposure to TCFD identified sectors	Monthly	TCFD sectors are Energy and Utilities
Sustainability training hours	Monthly	Number of hours per month on sustainability-related training
Debt Capital Markets proportion of revenues from TCFD identified sectors	Quarterly	TCFD sectors are Energy and Utilities. Revenues measured on quarterly basis
Fixed Income proportion of inventory issued by TCFD identified sectors	Monthly	TCFD sectors are Energy and Utilities. Inventory measured at month end
Senior female representation	Quarterly	Female representation measured for Director and above

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 comprises the Company and SMBC DP. During the year ended 31 March 2022, their environmental footprint included:

- No carbon dioxide emissions resulting from activities involving the combustion of gas or the consumption of fuel for transport purposes (2021: 2 MWh or 0.6 tonnes of CO_2). This category, which comprises the use of company, personal and hire cars for business purposes but excludes other transport such as trains, taxis or air travel, was nil due to COVID-19-related travel restrictions and transfer of employees to SMBC BI, resulting in their fuel claims being captured within SMBC BI;
- 2,192 MWh or equivalent of 465 tonnes of carbon dioxide emissions resulting from the purchase of electricity by the Company for its own use, excluding for transport purposes (2021: 2,431 MWh or equivalent of 566 tonnes of CO_2);
- 2,192 MWH or equivalent of 465 tonnes of carbon dioxide emissions from combined consumption of fuel for the purposes of transport and energy consumed for its own use (2021: 2,433 MWH or equivalent of 567 tonnes of CO_2); and
- The emission intensity of the above footprint is equivalent to 145 kg of CO_2 per square metre of office or 1,330 kg of CO_2 per employee (2021: 177 kg of CO_2 per square metre of office or 1,620 kg of CO_2 per employee).

There were no specific energy and CO_2 emissions savings initiatives undertaken during the period. The emissions were lower than in the previous year due to the measures undertaken previously and continued low office occupancy throughout the year. Subsequent to the year-end, the Company moved to new office premises. It expects the move to reduce emissions as the building is more energy efficient. For instance, the electricity and green gas that powers the building is entirely from renewable sources. In addition, the building benefits from a smart energy usage monitoring system through which the Company can make adjustments to its consumption based on usage.

Risk management and controls

Risk strategy and risk appetite

The Company's risk strategy is designed to support the corporate strategy and the achievement of sustainable growth over the long term. The risk strategy comprises four pillars, being the foundations upon which the Company seeks to achieve its strategic objectives: business model (sustainable growth), maintaining solvency and liquidity, conducting business (in accordance with all regulatory requirements) and maintaining operational resilience.

The Company uses a Risk Appetite Framework to define the broad-based level of risk it is able and willing to take in carrying out its business. The Company's risk appetite is arranged according to the four strategic pillars and ensures formal management identification and consensus about the strategic level risks it is facing and, as such, is a key tool for managing the business.

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 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.

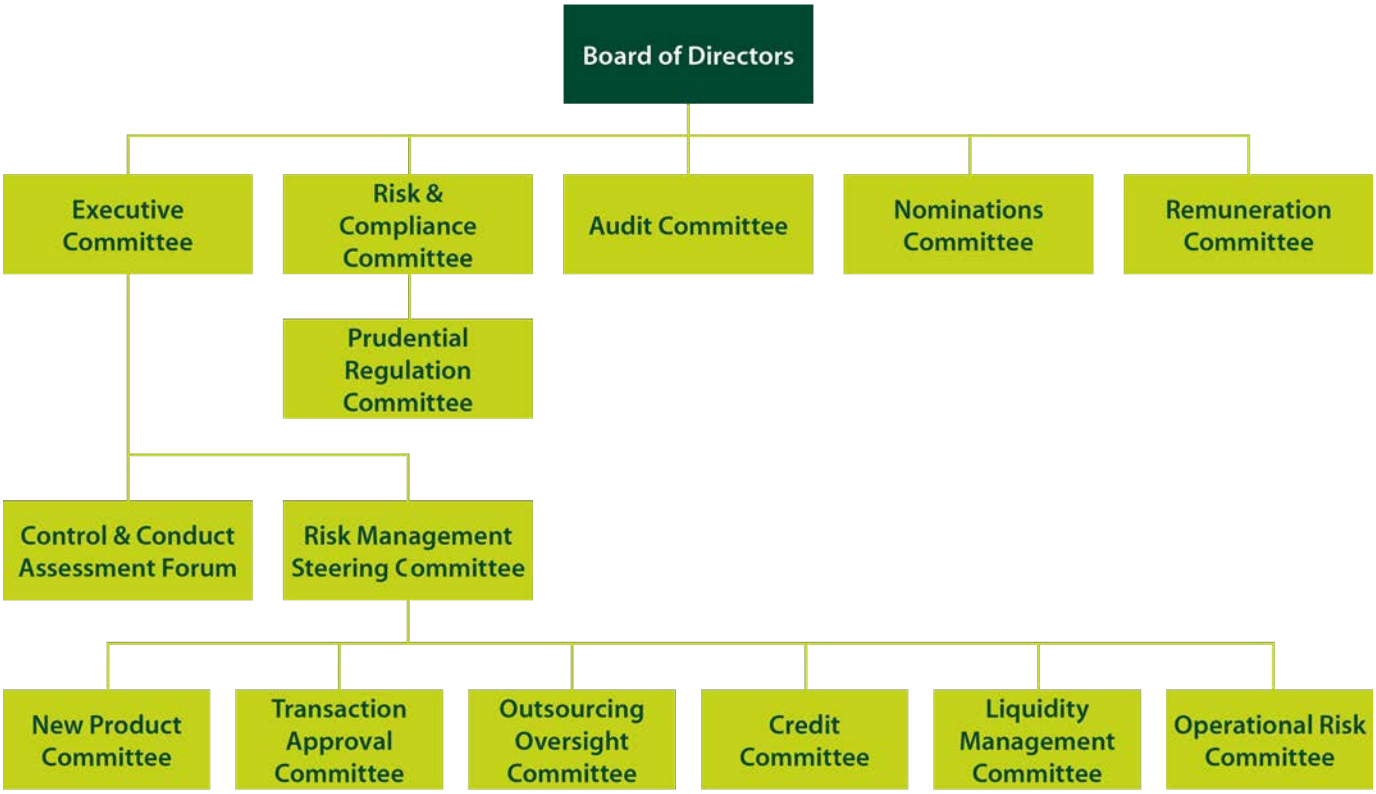
The BRCC is responsible for providing oversight of the components of the Risk Management Framework:

– Adherence to the Risk Appetite
– Implementation of the 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"). In FY2022 the Group will adopt the Internal Capital Adequacy and Risk Assessment ("ICARA") process as part of the transition to the new Investment Firm Prudential Regime.

Risk Management Committee structure

The Board delegates day-to-day management of the Company to the Chief Executive Officer, who is supported by a management committee framework including an Executive Committee, a Prudential Regulatory Committee, a Management Risk Committee (the Risk Management Steering Committee) and its sub-committees. Each Committee shown in the below diagram has documented terms of reference:



The materiality and triggers for escalating information are set out in the individual risk management policies and procedures.

The Risk Management Steering Committee ("RMSC") is the parent committee for overarching risk considerations, and aggregates the output from the other risk committees that report to it. Risk specific items, for example the risk register and risk appetite, are reviewed and approved by the RMSC, alongside the standard reporting of risk management information.

The RMSC also provides reporting into the BRCC covering relevant risk management Information (for instance market, credit, liquidity, operational and conduct risk), reporting of performance against Risk Appetite (and escalation where relevant), and reporting of relevant policies for BRCC approval. This is formally articulated in the terms of reference for the RMSC.

The Prudential Regulation Committee ("PRC") was established to integrate regulatory processes such as the Individual Liquidity Adequacy Assessment ("ILAA") and ICAAP within the Company's overall governance framework. The PRC meets monthly and comprises senior members from relevant departments across the Company including executive Directors and senior members for relevant departments (Chief Risk Officer, Chief Finance Officer, Planning/Treasury, Business Heads), representing the second layer of ICAAP governance.

Key decisions for review and challenge are escalated to the BRCC (such as the appropriateness of stress scenarios and emerging risks), and the CRO reports to the BRCC on overall ICAAP project progress. Further, the PRC is responsible for the review and approval of relevant rules and regulations.

Three Lines of Defence

The Group risk management and controls framework is based on a Three Lines of Defence approach 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") which is responsible for owning and effectively managing the risk in line with the overall risk management framework. This entails identifying and managing risks directly and they 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 function constitutes the third line of defence ("3rd LOD") and provides independent assurance to the Board that the 1st and 2nd LODs are fit for purpose and that the risk-based information provided to the Board and management is accurate and reliable.

Risk profile

At the year-end, the risk profile was within the overall tolerance established by the Board. The risk profile relative to risk appetite is reported monthly at the Executive Committee and quarterly at the BRCC. The Company's appetite for market risk, conduct risk, operational risk and other non-financial risks is low. As a consequence, the main risks the Company proactively acquires are credit risk and liquidity risk.

Principal risks and uncertainties

The Company is exposed to certain risks and uncertainties in conducting its business, and the principal risk categories are classified as below:

Principal risks

Type	Description	How risks are managed
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 the 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; and – Strict credit control procedures and limits monitoring to ensure front office employees incorporate a comprehensive credit assessment in their approach to pricing.

Principal risks

Type	Description	How risks are managed
Liquidity risk	The risk that the Company cannot meet its liabilities, unwind or settle its positions as they become due.	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.
Market risk	The risk of financial loss or damage to the Group's financial position caused by changes to market prices and other market values. 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 otherwise 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.
Conduct risk	The risk of the Company's actions, inactions or behaviours resulting in poor outcomes for its customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.	The Company assesses its conduct and culture against its Culture Statements using a suite of targeted metrics.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks.	Operational risk is managed with a view to maximising resilience and continuity whilst maintaining acceptable levels of residual risk. Example key indicators used to monitor, measure and report operational risk include operational risk losses and an operational risk profile score underpinned by diverse operational risk indicators.
Model risk	The potential loss resulting from errors in the development, implementation or use of internal models.	Model risk is managed through the Model Risk Management framework, which comprises four key components: model governance and control, model management, model development and independent model validation.
Other non-financial risks	As a result of the Company's activities it assumes other potential risk impacts such as reputational, conduct and others which it manages within the overall policy framework.	A number of appropriate approaches are used to manage other non-financial risks.

In the context of the current market environment, the principal risks that the Company is likely to be exposed to are i) market risk, ii) counterparty credit risk and iii) liquidity risk.

Market risk is likely to be a continuing factor in the current financial year due to a number of factors. The Russia–Ukraine conflict is likely to have a significant impact in the coming months, in terms of both general market uncertainty and the direct impact on the cost of living (through raw materials such as wheat and sunflower oil, and in energy costs due to the sanctions on Russia). This is combined with a situation where inflation was already a significant factor in the market, with interest rates expected to rise accordingly. The Group will therefore continue to monitor the impact this has on its securities and derivatives operations.

As a consequence of the factors outlined above, particularly increasing costs, there is likely to be a deterioration in the overall credit worthiness of the market. As noted above, the Group manages its positions through careful monitoring, netting agreements with counterparties and the receipt of cash collateral, and so should be in a strong position to manage this situation. Nonetheless, the Group will continue to remain vigilant during this period.

Liquidity risk will remain an area that all market participants will endeavour to manage carefully. The Group is exposed to liquidity risk primarily through the exchange of collateral under its derivative contracts, and through settlement risk in the securities business. Both of these sources of liquidity risk have been (and are likely to continue to be) impacted by market volatility, and as such require careful management. The Group operates a comprehensive liquidity risk management framework which is monitored by risk management and supported by Treasury and front offices. The Company considers that its current liquid resources and monitoring framework will be sufficient to manage this uncertainty.

Conduct risk

Conduct risk is the risk of the Company's actions, inactions or behaviours resulting in poor outcomes for its customers or other stakeholders, damaging the integrity of the financial markets or undermining effective competition. Conduct compliance is integrated with the wider risk management framework. The Company identifies and assesses current and emerging conduct risks, ensuring effective mitigating controls. These controls include:

- a comprehensive policy and procedure framework providing guidance and setting requirements for various conduct-related risk areas, such as management of conflict of interests, inside information, competition, financial crime prevention and personal account dealing;
- monitoring, reporting and oversight of adherence to the above framework and regulatory expectations;
- providing advice, communications and training so that employees are familiar with the framework as well as potential or emerging conduct risks, and ensuring that understanding is embedded in individual responsibilities and expected behaviours;
- promoting a culture of accountability through senior management communication to the employees of the Company's Values, Purpose and Culture Statements;
- stringent product and services approval processes and customer complaints analysis; and
- a remuneration and appraisal structure that ensures individual remuneration and promotion are at risk if expected levels of conduct are not met.

Beyond the areas outlined above, the Company will continue to monitor any newly developing situations through its forward-looking 'emerging risk' framework. Under this approach, the Risk Management Department consults on a quarterly basis with key members of senior management from across the Company to identify any potential new risks that are relevant at that point in time. The likelihood and impact of such risks are presented to the BRCC, with appropriate mitigations determined and implemented thereafter.

Stress testing

Stress testing is a key forward-looking tool to calculate the impact of severe yet plausible scenarios over differing timeframes. Stress testing and scenario analysis are used across the principal risks to ensure that the Company can adequately understand and quantify risks not only as they currently exist, but as they might develop in times of stress.

The Company is currently preparing its first ICARA document for submission to the FCA in 2022. This document will incorporate stress testing analysis based on three primary scenarios: i) a global recession based on continuing US and China trade conflict; ii) a crisis impacting the Japanese and Asian financial markets; and iii) severe EMEA instability combined with a rising conflict in the Middle East. All of these scenarios are set against the base assumptions of continuing conflict in Ukraine and potential further waves of COVID-19.

The objective of the stress testing exercise will be to evaluate if the Company has adequate financial resources (in terms of both capital and liquidity) to execute its business model and strategy under the above scenarios.

Top and emerging risks

The Top and Emerging Risks Report is produced on a quarterly basis and considered by the BRCC. The purpose of the Report is to provide a high-level overview of the various risk factors already considered to be significant or emerging to be potentially significant for the Company in the near future.

A broad list of risk items is compiled to encompass a range of risk areas from geopolitical and macroeconomic events to more Company specific areas of interest. Each risk item is commented on in terms of both the description of the risk and the management actions in place to manage and/or mitigate against it. Direct input is sought from the relevant areas of the Company in preparation of the report. Scoring is additionally assigned for each risk item based upon the potential impact and the likelihood of the risk.

The table below presents top and emerging risks and their scores as of March 2022:

Risk Item	Score
Global economic pressures	Very high
Russia–Ukraine conflict	Very high
COVID-19	Very high
China property crisis	Very high
Evolving information and cyber security threats	Very high
Project Unity	Very high
Financial crime and sanctions risk	Very high
Risk of disorder arising in post-Brexit trading/tensions remaining with the EU	High
US politics	High
Unauthorised activities	High
Inaccurate and incomplete trade and transaction reporting	High
Middle Eastern instability	Medium
Climate change – green credentials	Medium
Uncertainty on UK regulatory regime	Medium

Approved by the Board of Directors

Antony Yates
Chief Executive Officer
20 July 2022

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 MARCH 2022

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 the shareholders. For the year ended 31 March 2022, the Board has 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 information on the activities of the Board and Board Committees. Where reference is made to disclosures elsewhere in this document, these are incorporated by reference.

Directors

The Directors who were in office during the year and up to the date of signing the financial statements were:

Patricia Jackson

Independent non-executive Director and Chair of the Board
Appointed to the Board: 13 June 2017
Appointed Chair of the Board: 19 July 2019

Skills and experience

Patricia has considerable experience as a non-executive director. She has chaired the risk committees of a variety of financial institutions, including Lloyd's of London, and is currently chair of the Risk Committee of SMBC Bank International. She built up the banking risk practice at EY and was head of the risk governance practice for EMEIA. At the Bank of England, she was the head of the Financial Industry and Regulation Division and represented the UK on the Basel Committee for Banking Supervision. Patricia has extensive knowledge of banking, capital markets, risk management and regulation.

Other and external appointments

Patricia is an Independent Non-executive Director of Handelsbanken PLC and SMBC Bank International plc.

Antony Yates

Executive Director and Chief Executive Officer
Appointed to the Board: 5 July 1995

Skills and experience

Antony served as Head of Trading before he was appointed as a Director of the Company in 1995 and has been involved in day-to-day management of the business at all levels since that time. Antony has overseen the Company's business and strategic direction, providing guidance throughout the challenges of recent years including Brexit, COVID-19 and the implementation of large-scale regulatory changes, as well as providing a strong link to other Group companies both in Europe and on a global basis, leveraging his strong relationships with Head Office and his deep knowledge of the global business.

Other and external appointments

Antony is appointed to the following SMBC Group companies: SMBC Derivative Products Limited (Executive Director), SMBC Capital Markets Inc (Non-executive Director), and SMBC Capital Markets Asia Limited (Executive Director). He is also an Executive Officer of SMBC.

Yukio Ishii

Executive Director

Appointed to the Board: 6 April 2022

Skills and experience

Yukio spent his executive career in the Treasury departments of a wide range of SMBC Group entities spanning London, Tokyo, Hong Kong and New York before joining the Company in 2019 as Head of Global Markets.

Other and external appointments

Yukio is also appointed to the Board of SMBC Derivative Products Limited.

Stephen Souchon

Independent non-executive Director

Appointed to the Board: 26 January 2018

Skills and experience

Stephen is a Chartered Accountant with significant experience as an executive and non-executive director within the financial services sector with a strong focus in finance, regulatory reporting and audit matters. He spent his executive career in the Finance Division of Morgan Stanley and in the Financial Services audit practice of EY. Stephen chairs the Company's Audit and Remuneration Committees.

Other and external appointments

Stephen is the Chair of the Audit Committee and a Non-executive Director of TD Bank Europe Limited and a Non-executive Director of Aberdeen New Dawn Investment Trust plc. He is also treasurer of the registered charity Open Age.

Maria Turner

Independent non-executive Director

Appointed to the Board: 21 January 2021

Skills and experience

Maria has over 30 years' business and risk management experience in wholesale, retail, commercial and investment banking business. She is a mathematician and Chartered Accountant by background, has held senior roles in bank Executive Committees as CRO and has prior Non-executive Director Risk Chair experience. She has global risk management banking experience working in senior positions in top-tier US, European and Asian banks including JPMorgan, Mizuho, Santander and Nordea.

Other and external appointments

None

Takahiro Yazawa

Appointed to the Board as Executive Director: 24 October 2014
Appointed to the Board as Non-executive Director: 4 March 2022

Skills and experience

Prior to being appointed as the Company's Executive Chairman in 2016, Takahiro served as Non-executive Director representing the Company's Japanese parent, SMBC Nikko Securities Inc, and providing guidance and advice to the Board from a global stakeholder perspective. In his earlier career, he was involved in various roles relating to international business, strategic products, investment development and investor relations within the Company's direct parent, SMBC Nikko Securities, and within Sumitomo Mitsui Financial Group, Inc, the Group's ultimate owner. In March 2022 Takahiro left his position as the Company's Executive Chairman and was appointed as a Non-executive Director of the Company in order to allow him to take up a new role as the Head of the Global Planning unit within SMBC Nikko Securities, Inc.; he remains closely involved with the Company and continues to bring insights to the Board from a strategic and business perspective.

Other and external appointments

Takahiro is a Supervisory Board member of SMBC Bank EU AG.

Hideo Kawafune

Non-executive Director
Appointed to the Board: 4 July 2018

Skills and experience

Hideo is the Deputy Chief Executive Officer of SMBC Bank International plc and is an Executive Officer of SMBC. Prior to assuming this position, he was the Chief Operating Officer and responsible for corporate planning, human resources and financial reporting matters for SMBC BI. Hideo's previous experience includes international assignments in strategic and business planning, risk management and business promotion.

Other and external appointments

Hideo holds the following appointments in SMBC Group companies: SMBC Bank International plc (executive Director), JRI Europe Limited (non-executive Director) and SMBC Advisory Services Saudi Arabia (non-executive Director).

Keiichiro Nakamura

Non-executive Director
Appointed to the Board: 1 May 2020

Skills and experience

Keiichiro is the Managing Executive Officer and Head of EMEA Division of SMFG and SMBC. Keiichiro is an experienced international banker having spent the majority of his career in SMBC Group's overseas offices. His past appointments include being head of Western European corporates (2012-2015) and Chief Operating Officer (2015-2018) for SMBC BI. Before rejoining SMBC BI as Chief Executive Officer, he was head of planning for SMBC Group's international banking business. Keiichiro has a deep understanding of the global banking markets, and his skills include strategic development, financial management and regulatory compliance.

Other and external appointments

Keiichiro is a Non-executive Director of The Japanese School Limited and a Supervisory Board member of Shimano Europe B.V. He is also appointed to the following SMBC Group companies: SMBC Bank International plc (executive Director) and SMBC Bank EU AG (Supervisory Board member).

Changes to the Board

The following changes to the Board occurred in the year and after the year-end:

- Hitoshi Minami resigned on 4 March 2022 as a Non-executive Director.
- Takahiro Yazawa was appointed as a Non-executive Director on 4 March 2022, having previously been an executive Director.
- Yukio Ishii was appointed as an Executive Director on 6 April 2022.

The Wates Principles and how the Company applies them

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 this Statement reflects the relationship-based approach the Company adopts in carrying out its business for the benefit of its customers and all its stakeholders.

The Board approves a corporate strategy annually. The strategy setting process involves consideration by the Board of high-level strategic principles, including those of SMBC Group, a strategy discussion meeting and review, and challenge of the draft and final versions of the strategy document. The Board oversees the execution of the strategy and holds executive management to account for its delivery. Business developments, progress against the strategy and relevant SMBC Group strategic developments are considered by the Board quarterly.

The Board receives regular reports on the Company's culture and associated initiatives. In addition, the BRCC undertakes a quarterly review of key risk indicators ("KRIs") which are designed to measure any risks related to each of the Company's Culture Statements. Where issues are identified through those KRIs, management is required to explain the remedial action being taken, which is challenged as required.

Developments in the business are communicated to employees in a variety of ways including townhalls with senior executives and regular emails from SMBC Group's EMEA Head, Keiichiro Nakamura, in which he comments on a range of topics, including strategy, Mission, culture and the impact of geopolitical and macroeconomic developments on the business and the Company's customers. In addition, the intranet site includes a range of information on matters, including business performance and project initiatives, and employees are encouraged to contribute to the content included.

Information on the Company's culture and values can be found on pages 5, 6, 17 and 18.

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."

At the date of this report the Board comprised eight Directors, two of whom were executive and six of whom were non-executive. Three of the non-executive Directors, Patricia Jackson, Stephen Souchon and Maria Turner, are deemed to be independent in that they have no material business or other relationships with the Company that could influence their exercise of independent judgement. Takahiro Yazawa, Keiichiro Nakamura and Hideo Kawafune are not deemed to be independent due to their relationship to other companies within SMBC Group.

The Board has appointed a separate non-executive Chair and Chief Executive to ensure there is clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The Nominations Committee is responsible for assessing the composition of the Board and for making recommendations for appointments to the Board. The Nominations Committee considers the balance of skills, experience and knowledge needed to enhance the Board and support the Company in the execution of its strategy.

The Board's Diversity Policy sets out the approach for the selection and appointment of individuals to Board positions. This Policy states a target that at least 25% 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 also commits to taking positive action to source applications from Asian, Black and other Minority Ethnic candidates for Director vacancies. At the year-end, 25% of the Directors were women.

A structured and tailored induction is prepared for all newly appointed members of the Board and senior management. The purpose of this is to give those individuals the information they need for them to become as effective as possible in their new role within the shortest practicable time. Any knowledge or skill enhancements identified during a Director's regulatory application process would also be addressed through their induction programme.

Ongoing education is provided to the Directors on significant topics. These topics are typically suggested by the Directors through Board Effectiveness Reviews, in Board or Committee meetings or in discussion with the Company Secretary. During the year, these topics have included: financial sanctions, cloud computing, sustainable finance and climate risk, and opportunities arising from new technologies.

The Board Education Plan is compiled by the Company Secretariat based on the results of Board Effectiveness Reviews and details of Directors' competencies, as well as areas of regulatory focus and Director indications of interest. The list is shared with key internal stakeholders for further suggestion and is presented to the Board at the beginning of each financial year. The Nominations Committee also receives a regular update on the progress of the Plan.

The Board Education Plan comprises the following categories:

- Products and services including annual updates from the business. These sessions give the Directors the opportunity to speak directly with Front Office Heads and to review the achievements of the previous year and provide a foundation for Board discussions on the coming year's Budget and Business Plans.
- Competencies aim to inform Directors on control and support matters through discussions with Control and Support function Heads.
- Additional education topics include areas of regulatory focus or matters of particular importance to the Company. Directors may also request education sessions on additional topics at any time, and these will be added to the Plan throughout the year to ensure that it remains relevant to the changing regulatory and market environment.

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."

Roles and responsibilities

The Board's governance structure ensures that it discharges it duties effectively. The roles of the Board Chair and Chief Executive Officer are clearly defined. Patricia Jackson is responsible for leading the Board while Antony Yates is responsible for the day-to-day management of the Company within the parameters of the strategy. He is supported in his management of the Company by the other executive Director and the Executive Committee, an executive forum comprising members of senior management.

The roles and responsibilities are shown below:

Role	Responsibilities
Chairs of the Board and Board Committees	– Ensuring that meeting members operate effectively as a team. – Encouraging, facilitating and managing debate, whilst achieving closure on items. – Ensuring appropriate time is allocated for the consideration of items. – Ensuring that members have sufficient time to consider critical issues and obtain answers to questions or concerns they may have and are not faced with unrealistic deadlines or decision making. – Ensuring that the meeting receives clear, accurate and timely information.
Non-executive Directors	– Provision of independent judgement on all matters related to the Company's strategic direction, leadership, performance, resources, risk management and overall governance. – Independent Directors are particularly encouraged to challenge and test proposals on strategy.
Executive Directors	– Under the leadership of the Chief Executive Officer, responsibility for running the Company's business. – Implementing the strategies and policies approved by the Board. – Ensuring that the Board's decisions are implemented appropriately. – Executive Directors are expected to be knowledgeable on all aspects of the Company's business, notwithstanding any responsibility they have for a particular area of business.

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

Board and Committees

The Board meets quarterly, and additionally when necessary. Between these meetings there is regular contact between the Executive and Non-executive Directors, which includes subject matter 'deep dives'. The Board has delegated certain responsibilities to its Committees as documented in their terms of reference. The Board and the Audit, Risk and Compliance, Nominations and Remuneration Committees are each chaired by an Independent Non-executive Director. Further information on these Committees is shown starting from page 43.

The Company has decision-making committees in place, such as the Transaction Approval Committee, which ensures that the Company's key stakeholders have input into decisions on the transactions the Company undertakes, 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.

Conflicts of interest

All Directors are required annually to complete a questionnaire through which any potential conflicts of interest are identified. 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.

External audit arrangements

The Audit Committee has responsibility for managing the Company's relationship with its external auditor, ensuring that the external audit is put out to tender at least as often as required. Each year, the Audit Committee reviews a letter from the external auditor setting out how, in its view, its objectivity and independence are maintained.

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 and is discussed by the Board. Short-term strategic opportunities are considered by the executive management team and reported to the Board on a regular basis. In addition to business opportunities, the Board considers opportunities to improve the Company's operational efficiency and capability to deliver the strategy.

Risk management

Processes are in place for identifying the risks to the business, assessing the likelihood of risks materialising and their impact should they materialise, and assessing the robustness of the controls that mitigate those risks. These processes are documented in the Enterprise Risk Management Policy, which is reviewed and approved annually by the BRCC and the Board.

In addition, the Executive Committee maintains close oversight of controls via a self-inspection process through the Control & Conduct Assessment Forum (CCAF), which meets monthly.

Each of the Company's departments performs a self-inspection each quarter where they are responsible for performing checks on their processes and attesting that they understand and follow the Company's rules in a variety of areas covering the major risks that have been self-identified as of particular relevance to them. The results of each department's checks are presented to the CCAF meeting, where control areas, including from the Risk Management and Compliance Departments, can provide advice on the findings, and trends across various departments can be identified at an early stage and highlighted for further attention or remediated on a coordinated basis across relevant areas.

In addition to the self-inspection, the CCAF offers an opportunity each month for the heads of all departments to discuss the progress of internal audit findings and to receive a comprehensive update on the Company's conduct metrics. On a periodic basis, the CCAF also receives reports examining specific internal control matters.

During the year, the adequacy and appropriateness of the Company's risk management arrangements and internal control systems were reviewed regularly by the BRCC and Audit Committee. In addition to this ongoing activity, at its July 2022 meeting the Audit Committee received the results of an annual review undertaken by management on the effectiveness of the internal controls in relation to financial reporting, which is part of a wider assessment plan in place at a global Group level.

On the basis of 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 and can only provide reasonable and not absolute assurance against material misstatement or loss.

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 Company's approach to fixed and variable rewards is set out in a Remuneration Policy, which is approved annually by the Remuneration Committee and the Board. With limited exceptions, this Policy does not apply to employees of SMBC seconded to the Company, the remuneration of whom is governed by rules established by SMBC in Japan.

It is the Company's intention that the Remuneration Policy supports the Company's long-term aims and will help deliver long-term stability and sustainability, particularly of the Company's capital base, and promote steady growth and keen risk awareness. All employees are eligible to participate in the annual performance-related bonus scheme with variable pay outcomes determined by the performance of the Company, relevant department and the employee.

The Remuneration Committee has the authority to adjust the bonus pool and individual bonus payments at any stage in the annual pay review process, from the calculation and determination of the fund itself to the final distribution.

When approving the levels of remuneration for Directors and senior management, the Directors consider the broader operating context of the Company. In particular, the Board and the Remuneration Committee maintain close oversight of conduct linkage to remuneration and examine figures around gender pay at all levels of the organisation.

Further information on the role of the Remuneration Committee can be found on page 44.

Principle 6 – Stakeholder relationships 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 11 to 14.

The Board of Directors

The Board has terms of reference and a schedule of matters reserved for its attention, which set out the structure under which it manages its responsibilities and activities and discharges its authority. These documents are reviewed and approved by the Board on an annual basis. The Company's governance framework sets out a process within which decisions can be made and the strategy can be delivered. A framework of delegated authorities ensures that decisions are taken by the right people at the right level with accountability up to the Board, and enables an appropriate level of debate, challenge and support in the decision-making process.

The Board is supported in its work by its Committees, each of which has terms of reference setting out its remit and decision-making powers. The principal Committees of the Board, together with their core responsibilities and respective memberships, are shown below.

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

Membership of the Board and Committees

The membership of the Board and Committees at the date of this report was as follows:

		Committees				
Name	Board of Directors	Audit	Nominations	Remuneration	Risk and Compliance	Executive
Non-Executive Directors						
Patricia Jackson	C	–	C	M	M	–
Stephen Souchon	M	C	M	C	M	–
Maria Turner	M	M	–	M	C	–
Keiichiro Nakamura	M	-	M	M	M	–
Hideo Kawafune	M	M	M	M	M	–
Takahiro Yazawa	M	M	M	M	M	–
Executive Directors						
Antony Yates	M	–	–	–	–	C
Yukio Ishii	M	–	–	–	–	M

C – Chair of Board or Committee
M – Member of Board or Committee

Board activities

During the year, the Board met five times and held a number of calls between formal meetings to discuss business developments. Board members also met executive management on a regular basis outside the formal meeting schedule.

Members of the senior management team and, as appropriate, individuals from relevant business areas are invited to attend Board meetings, allowing the Board the opportunity to engage directly with the executives responsible for business and other initiatives. The principal activities undertaken in the year included:

Area of focus	Matters considered
Strategy and business	– Approving the annual budget, business plan and information technology strategy. – Approving an updated Slavery and Human Trafficking Statement. – Participating in the Annual Strategy event at which medium-term strategy and leveraging strengths across SMBC Group were discussed. – Considering changes to the business and macroeconomic environment and their impact on strategy. – Considering business performance and understanding drivers of performance. – Assessing the impact of the new Investment Firms Prudential Regime and overseeing the Company's response to the new regulatory requirements. – Reviewing the status of significant project activity. – Reviewing the business continuity and incident management arrangements, including the crisis communications plan. – Receiving reports on new products.
People	– Approving the appointments of Takahiro Yazawa as Non-executive Director and Yukio Ishii as Executive Director. – Approving other senior management appointments. – Considering cultural and diversity and inclusion initiatives. – Approving, based on a recommendation from the Remuneration Committee, the Remuneration Policy and Gender Pay Report.
Risk management, recovery and resolution	– Approving, based on recommendations from the BRCC, the capital and liquidity adequacy documents and recovery and resolution documentation. – Approving the Operational Resilience Self-Assessment.
Financial and accounting	– Approving, based on a recommendation from the Audit Committee, the annual report and financial statements, IFPR disclosures and UK Tax Strategy.
Governance	– Approving amendments to the Company's Articles of Association to reflect changes in prudential regulation impacting the terms of the Preference Shares.

Board Committees

The membership of the Board Committees is shown in the table on page 42. On the invitation of the respective Chairs, members of the Board and executive management also attend meetings when it is appropriate for them to do so. Further details on these arrangements are shown below.

Audit Committee
The Audit Committee is Chaired by Stephen Souchon. On the invitation of the Committee Chair, meetings are also attended by Antony Yates, Yukio Ishii, the Chief Financial Officer and the Co-Heads of the Internal Audit Department. The engagement partner of the external auditors, KPMG, also attends meetings.

The Audit Committee is responsible for considering matters related to the preparation and audit of the annual report and accounts, internal financial controls, the relationship with the external auditor and taxation matters. It is also responsible for safeguarding the independence and overseeing the performance of the Audit Department and for considering the results of Internal Audit activity. The Committee is also responsible for assessing the effectiveness of the Company's whistleblowing arrangements.

Board Risk and Compliance Committee (BRCC)
The BRCC is Chaired by Maria Turner. On the invitation of the Committee Chair, meetings are also attended by Antony Yates, Yukio Ishii, the Co-Heads of the Internal Audit Department, the Chief Financial Officer, the Chief Risk Officer, the Compliance Officer and the General Counsel.

The BRCC is 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. The BRCC is also responsible for reviewing and recommending to the Board the Internal Capital Adequacy and Risk Assessment document and the Recovery and Resolution documents.

Nominations Committee
The Nominations Committee is Chaired by Patricia Jackson. On the invitation of the Committee Chair, meetings are also attended by Maria Turner, Antony Yates, Yukio Ishii, the General Counsel and Head of Human Resources.

The Nominations Committee is responsible for assessing Board composition and performance and the skills of Board members. It also leads the process of appointing new Directors and individuals in Senior Manager Function and certain other senior executive management positions. The Committee also 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. On the invitation of the Committee Chair, meetings are also attended by Antony Yates, Yukio Ishii, the Head of Human Resources and, as necessary, the Chief Risk Officer.

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 Yukio Ishii 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 Risk Management Steering Committee and its sub-committees. The Executive Committee meets monthly and reports to the Board of Directors. The Non-executive Directors receive a copy of the papers and minutes of all Executive Committee meetings.

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

Antony Yates
Chief Executive Officer
20 July 2022

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2022

The Directors present their Report and the audited financial statements for the year ended 31 March 2022.

Details of other information that is relevant to the Directors' Report is shown below. Where this information appears elsewhere in this Annual Report, it is incorporated into the Directors' Report by reference.

Directors

The Directors at the date of signing this Report and the changes to the Board in the year are set out in the Corporate Governance Report on pages 33 to 36.

Statement of corporate governance arrangements

The statement of corporate governance arrangements is on pages 33 to 45.

Directors' indemnities and insurance

During the financial year, the Independent Non-executive Directors benefitted from qualifying third party indemnity provisions. These provisions remain in place at the date of this Report. In addition, the Company has directors' and officers' liability insurance in place in respect of certain losses or liabilities to which the Company's officers may be exposed in the discharge of their duties.

Results and dividends

The Group profit for the period, after taxation, amounted to $9.4 million (2021: $70.7 million). No dividends have been declared or paid in the financial year ended 31 March 2022 and no dividend is recommended by the Board.

Risk management

Information on the Company's risk management arrangements can be found in the Risk Management and Controls section on pages 27 to 32.

The Company uses financial instruments extensively as an integral part of its normal business activity. These instruments are exposed to a number of financial risks, including credit, market and liquidity risk. The Company has in place well-defined policies and procedures to mitigate, identify, measure and control these risks in line with its risk management objectives.

As part of the management of these risks the Company uses derivatives to hedge cash flows expressed in foreign currencies. Further information on these derivatives can be found in Note 11 to the financial statements.

Contracts of significance with controlling shareholder

Details of transactions and balances with the Group's parent are presented within the financial statements in the related party note.

Overseas offices

At the date of signing this Report, the Group had one operational branch, established in Abu Dhabi, and a subsidiary incorporated in Hong Kong.

Political donations

The Group made no political donations or contributions during the year (2021: nil).

Employee matters

Information on the way in which the Directors have engaged with employees is set out in the Strategic Report in the Workforce section starting on page 15.

Information on policies in respect of the employment, training, career development and promotion of disabled persons is also set out in the Workforce section of the Strategic Report.

Engagement with suppliers, customers and other stakeholders

Details of the way in which the Company engaged with its suppliers, customers and stakeholders is set out in the Section 172(1) Statement of the Strategic Report on pages 11 to 14.

Streamlined Energy and Carbon Report

The Streamlined Energy and Carbon Report is set out on page 26.

Research and development

The marketing departments develop new products and services in the ordinary course of their business. The Company's policy is that any new or potentially new product or service is subject to a risk assessment and monitoring process.

Going concern

The Directors recognise uncertainties in respect of the business environment and global economic outlook, which may affect the ability of the Company or the Group to continue as a going concern. Factoring in these uncertainties, the Group has prepared cash flow and profitability forecasts for three years from the reporting date, which take into account reasonably possible downsides on its operations, capital and liquidity. Events and circumstances considered in this analysis include the investigation of SMBC Nikko Securities Inc. in Japan, the conflict in Ukraine, the continuing impact of COVID-19, the ongoing impact of Brexit and other factors. The latest Internal Capital Adequacy and Risk Assessment (ICARA) results demonstrate that even under a severe stress scenario the Group maintains adequate capital and liquidity. Its financial stability is based on the amount of available capital, access to borrowing facilities of SMBC Group and a conservative risk appetite. As a result of this analysis, the Directors are confident that the Group and Company will continue to operate for at least 12 months from the date of approval of the financial statements and have therefore prepared the financial statements on a going concern basis.

Future developments

An indication of likely future developments is set out in the Strategic Report.

Events after the reporting date

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

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps that he or she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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.

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

Antony Yates
Chief Executive Officer
20 July 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, the 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 UK-adopted international accounting standards 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 UK-adopted international accounting standards;
- 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.

Board of Directors

Chair of the Board
Patricia Jackson

Executive Directors
Antony Yates
Yukio Ishii

Non-executive Directors
Hideo Kawafune
Keiichiro Nakamura
Stephen Souchon
Maria Turner
Takahiro Yazawa

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 2022 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 2022 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 as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

– Significant reduction in trading revenues associated macro-economic instability and reduction in business referrals
– The impact of Brexit on the Group's revenue streams

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible, downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We assessed the completeness of the going concern disclosure.

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;
- 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.

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 Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition due to the systemised nature of trading revenue streams.

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; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to 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.

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.

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.

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, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. 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.

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.

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 49, 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
Date: 20 July 2022

GROUP STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	**Year ended 31/03/2022 USDm**	Year ended 31/03/2021 USDm
Net trading income		**127.3**	184.9
Fees and commissions income		**88.3**	130.0
Fees and commissions expense		**(33.3)**	(67.3)
Net fees and commissions income		**55.0**	62.7
Interest income	3	**42.1**	34.5
Interest expense	4	**(31.3)**	(30.2)
Net interest income		**10.8**	4.3
Total income		**193.1**	251.9
Staff costs	5	**(80.3)**	(96.9)
Depreciation and amortisation	16, 17	**(9.2)**	(11.2)
Other operating expenses	2	**(88.6)**	(59.3)
Operating expenses		**(178.1)**	(167.4)
Profit before taxation		**15.0**	84.5
Taxation	7	**(5.6)**	(13.8)
Profit for the financial year		**9.4**	70.7
Profit for the financial year (Company)		**4.1**	72.8

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

The notes on pages 62 to 118 form an integral part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	**Year ended 31/03/2022 USDm**	Year ended 31/03/2021 USDm
Profit for the financial year		**9.4**	70.7
Other comprehensive income, net of tax, including			
Items that will never be reclassified to profit or loss:			
– Actuarial losses arising on a defined benefit pension plan, net of tax	8	**–**	(0.6)
Items that will be reclassified to profit or loss:			
– Net losses from cash flow hedges, net of tax		**(1.5)**	(1.0)
Total comprehensive income for the financial year attributable to equity holders of the Group		**7.9**	69.1

The notes on pages 62 to 118 form an integral part of these financial statements.

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2022

	Notes	31 March 2022 USDm	31 March 2021 USDm
Assets			
Cash at banks	9	**868.0**	1,127.4
Trading securities	10	**1,758.7**	1,330.9
Derivative assets	11	**8,154.8**	8,932.7
Other trading assets, at fair value	12	**1,367.3**	270.7
Securities purchased under agreements to resell	13	**6,227.1**	3,550.0
Collateral placed	14	**3,404.3**	3,500.5
Other debtors	15	**241.3**	100.9
Intangible assets	16	**11.6**	7.7
Property, plant and equipment	17	**7.8**	9.6
Deferred tax asset	7	**4.3**	3.6
Total assets		**22,045.2**	18,834.0
Liabilities			
Trading securities sold, not yet purchased	10	**926.4**	605.3
Derivative liabilities	11	**8,195.6**	8,354.2
Other trading liabilities, at fair value	12	**1,006.1**	389.4
Securities sold under agreements to repurchase	13	**4,674.2**	2,507.3
Collateral received	18	**3,998.7**	4,210.9
Other creditors	19	**1,375.9**	902.7
Pension scheme liability	8	**–**	3.8
Total liabilities		**20,176.9**	16,973.6
Net assets		**1,868.3**	1,860.4
Equity attributable to equity holders of the parent			
Called up share capital	20	**1,139.0**	1,139.0
Share premium		**165.0**	165.0
Retained earnings		**565.8**	558.0
Other reserves		**(1.5)**	(1.6)
Total equity		**1,868.3**	1,860.4

The notes on pages 62 to 118 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 19 July 2022 and were signed on its behalf by:

Antony Yates
Director
Date: 20 July 2022

Company number 02418137

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2022

	Notes	31 March 2022 USDm	31 March 2021 USDm
Assets			
Cash at banks	9	**664.9**	1,002.3
Trading securities	10	**1,693.7**	1,215.6
Derivative assets	11	**8,132.3**	8,922.6
Other trading assets, at fair value	12	**1,367.3**	270.7
Securities purchased under agreements to resell	13	**6,227.1**	3,550.0
Collateral placed	14	**3,404.3**	3,500.5
Other debtors	15	**242.8**	98.3
Investment in subsidiary undertaking	33	**202.0**	202.0
Intangible assets	16	**11.5**	7.5
Property, plant and equipment	17	**6.9**	8.0
Deferred tax asset	7	**4.3**	3.6
Total assets		**21,957.1**	18,781.1
Liabilities			
Trading securities sold, not yet purchased	10	**926.4**	605.3
Derivative liabilities	11	**8,173.6**	8,344.2
Other trading liabilities, at fair value	12	**1,006.1**	389.4
Securities sold under agreements to repurchase	13	**4,674.2**	2,507.3
Collateral received	18	**3,975.8**	4,210.6
Other creditors	19	**1,377.6**	899.7
Pension scheme liability	8	**–**	3.8
Total liabilities		**20,133.7**	16,960.3
Net assets		**1,823.4**	1,820.8
Equity attributable to equity holders of the parent			
Called up share capital	20	**1,139.0**	1,139.0
Share premium		**165.0**	165.0
Retained earnings		**520.9**	518.4
Other reserves		**(1.5)**	(1.6)
Total equity		**1,823.4**	1,820.8

The notes on pages 62 to 118 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 19 July 2022 and were signed on its behalf by:

Antony Yates
Director
Date: 20 July 2022

Company number 02418137

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	Called up share capital USDm	Share premium USDm	Retained earnings USDm	Other reserves: Pension reserve USDm	Other reserves: Cash flow hedges reserve USDm	Total equity USDm
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	8	–	–	–	(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
At 1 April 2021		**1,139.0**	**165.0**	**558.0**	**(1.6)**	**–**	**1,860.4**
Profit for the year		**–**	**–**	**9.4**	**–**	**–**	**9.4**
Reclassification of pension reserve on settlement	8	**–**	**–**	**(1.6)**	**1.6**	**–**	**–**
Net losses arising on cash flow hedges		**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Total comprehensive income for the year		**–**	**–**	**7.8**	**1.6**	**(1.5)**	**7.9**
At 31 March 2022		**1,139.0**	**165.0**	**565.8**	**–**	**(1.5)**	**1,868.3**

The notes on pages 62 to 118 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	Called up share capital USDm	Share premium USDm	Retained earnings USDm	Other reserves: Pension reserve USDm	Other reserves: Cash flow hedges reserve USDm	Total equity USDm
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	8	–	–	–	(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
At 1 April 2021		**1,139.0**	**165.0**	**518.4**	**(1.6)**	**–**	**1,820.8**
Profit for the year		**–**	**–**	**4.1**	**–**	**–**	**4.1**
Reclassification of pension reserve on settlement	8	**–**	**–**	**(1.6)**	**1.6**	**–**	**–**
Net losses arising on cash flow hedges		**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Total comprehensive income for the year		**–**	**–**	**2.5**	**1.6**	**(1.5)**	**2.6**
At 31 March 2022		**1,139.0**	**165.0**	**520.9**	**–**	**(1.5)**	**1,823.4**

The notes on pages 62 to 118 form an integral part of these financial statements.

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	**Year ended 31/03/2022 USDm**	Year ended 31/03/2021 USDm
Cash flows from operating activities			
Profit for the financial year		**9.4**	70.7
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	16, 17	**9.2**	11.2
Tax expense	7	**5.6**	13.8
Change in trading securities and repurchase contracts	10, 13	**(616.9)**	(264.8)
Change in trading assets, at fair value	12	**(1,096.6)**	(75.6)
Change in trading liabilities, at fair value	12	**616.7**	38.9
Change in collateral placed	14	**96.2**	(1,029.8)
Change in other debtors	15	**(143.2)**	19.1
Change in derivative assets	11	**777.9**	3,311.1
Change in deferred tax assets	7	**(0.7)**	(1.0)
Change in derivative liabilities	11	**(158.6)**	(3,299.9)
Change in collateral received	18	**(212.2)**	1,046.0
Change in other creditors	19	**464.5**	(121.1)
Net losses arising on cash flow hedges		**(1.5)**	(1.0)
Corporation tax paid	28	**(2.9)**	(16.8)
Net cash flows from operating activities		**(253.1)**	(299.2)
Cash flows from investing activities			
Purchase of intangible assets	16	**(6.1)**	(2.9)
Purchase of property, plant and equipment	17	**(0.2)**	(0.3)
Net cash outflow from investing activities		**(6.3)**	(3.2)
Net change in cash		**(259.4)**	(302.4)
Cash and cash equivalents at beginning of year	9	**1,127.4**	1,429.8
Cash and cash equivalents at end of year	9	**868.0**	1,127.4
Net decrease in cash		**(259.4)**	(302.4)

The notes on pages 62 to 118 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	**Year ended 31/03/2022 USDm**	Year ended 31/03/2021 USDm
Cash flows from operating activities			
Profit for the financial year		**4.1**	72.8
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	16, 17	**8.2**	10.1
Tax expense	7	**4.7**	13.1
Change in trading securities and repurchase contracts	10, 13	**(667.2)**	(306.2)
Change in trading assets, at fair value	12	**(1,096.6)**	(75.6)
Change in trading liabilities, at fair value	12	**616.7**	38.9
Change in collateral placed	14	**96.2**	(1,029.8)
Change in other debtors	15	**(146.7)**	20.4
Change in derivative assets	11	**790.3**	3,303.9
Change in deferred tax assets	7	**(0.7)**	(1.0)
Change in derivative liabilities	11	**(170.6)**	(3,293.6)
Change in collateral received	18	**(234.8)**	1045.7
Change in other creditors	19	**469.0**	(124.2)
Net losses arising on cash flow hedges		**(1.5)**	(1.0)
Corporation tax paid	28	**(2.4)**	(15.7)
Net cash flows from operating activities		**(331.3)**	(342.2)
Cash flows from investing activities			
Purchase of intangible assets	16	**(6.1)**	(2.7)
Purchase of property, plant and equipment	17	**–**	(0.4)
Net cash outflow from investing activities		**(6.1)**	(3.1)
Net change in cash		**(337.4)**	(345.3)
Cash and cash equivalents at beginning of year	9	**1,002.3**	1,347.6
Cash and cash equivalents at end of year	9	**664.9**	1,002.3
Net decrease in cash		**(337.4)**	(345.3)

The notes on pages 62 to 118 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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 100 Liverpool Street, London, EC2M 2AT.

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 three years from the reporting date which indicate that, taking account of reasonably possible downsides on the operations and financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due.

The Directors have considered the impact of the investigation into the activities of the Japanese shareholder SMBC Nikko Inc. in Japan, described in the Strategic Report. The investigation is likely to result in a reduction of underwriting referrals and trading flows from SMBC Nikko Securities Inc., reducing the Japan-related revenue in Equity Capital Markets, Equity, Debt Capital Markets, Fixed Income and Mergers & Acquisitions. The reduction has been incorporated into the Internal Capital Adequacy and Risk Assessment ("ICARA") base case scenario for the next financial year.

The Board Risk and Compliance Committee has been actively engaged in overseeing the Group response to the issues for the business arising from the conflict in Ukraine, including response to sanctions, impact on customers, impact on the Group liquidity, capital and other aspects. The Board believes that it has been able to appropriately understand the impact of the conflict on the stakeholders, primarily customers, employees, regulators and SMBC Group, and to take action in recognition of the arising risks. Whilst the Group has little direct exposure to either Russia or Ukraine, the indirect impact will continue to be monitored and factored into the risk assessment process. A prolonged period of conflict or drastic changes in the war situation may lead to sudden changes in global markets, in which case all products may be affected.

The Directors continue to monitor the developing impact of COVID-19 on the economic landscape. As COVID-19-related restrictions were eased, government support and quantitative easing were curtailed. These actions coincided with a global rise in inflation not witnessed in decades and created unprecedented volatility in the rates environment. Such environment has created challenges for Fixed Income, Debt Capital Markets and Mergers & Acquisitions, which have been reflected in the base case scenario. 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 through the challenging environment while continuing to support the needs of customers.

The Directors continue to monitor the ongoing effect of the UK exit from the European Union (Brexit), which has resulted in a significant proportion of debt issuance work being transferred from the Group into a newly created entity in Frankfurt, Germany. The impact of this for future years has been incorporated in the Group ICARA base case scenario. SMBC Group as a whole remains committed to providing and further expanding the level of financial services to all its clients in the UK and continental Europe, and the CM Ltd Group continues to play an important part in this strategy. In addition, the Board sees a strong momentum in debt capital markets, with an increased focus on customers based in the Middle East.

The Group's latest ICARA process demonstrates that even under a severe stress scenario the Group maintains adequate capital and liquidity. The considered scenarios comprise:

a) global recession caused by a trade war between the US and China;
b) Japanese and Asian economic crisis; and
c) pan-European instability, combined with a rising conflict in the Middle East.

All these scenarios were set against the base assumptions of continuing conflict in Ukraine and potential further waves of COVID-19.

The Group uses Reverse Stress Testing ("RST") to identify and monitor the factors and stress levels which could make its business model unviable. RST is an important part of the overall risk management framework and assists management in understanding potential business model vulnerabilities. The ICARA RST analysis demonstrates that:

- Business failure due to capital erosion would require a sudden default of its affiliate, CM Inc., on its derivative obligations to the Group, and for these trades to remain unhedged for a period of 288 days. It is extremely unlikely that CM Inc. would default without prior notice and an orderly novation of the trade book is likely to take place within this timeframe; and
- Business failure due to liquidity exhaustion would require a simultaneous loss of parental support from SMBC and extreme net outflows of collateral. This would be akin to an event well beyond the magnitude of the failure of Lehman Brothers, to which the Group's scenario is currently calibrated, and is not considered plausible.

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 have significant unused capacity. Therefore, the Group can draw down significant additional funding at short notice.

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 UK-adopted 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 section 408 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 $4.1 million in the year ended 31 March 2022 (2021: $72.8 million).

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 USD millions and has been rounded to one decimal point unless indicated otherwise.

New accounting standards

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

The amendments to IFRS 9, IAS 39 and IFRS 7 due to the replacement of London Interbank Offered Rate ("LIBOR") with alternative interest rates ("IBOR reform") became effective for annual periods beginning on or after 1 January 2021. The transition to alternative rates is disclosed in Note 25.

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 remeasurement 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, 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.

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.

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.

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.

vi) Hedging

As permitted by IFRS 9, the Group retained the rules for 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.

x) Credit guarantees
The Group has unconditional guarantees with its parent 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 comprise computer software and 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. During the year, the Group reassessed the estimated useful lives of its computer software from 3–5 years to 5 years and applied the change prospectively.

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 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.

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

The defined benefit scheme was settled during the year. Further details are given in Note 8.

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 remeasurements 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. 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. 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 over-the-counter 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.

Future accounting developments

i) IFRS 17 Insurance Contracts

IFRS 17 was published in May 2017 but continues to be revised. Due to the ongoing revisions and the COVID-19 pandemic, its effective date has been deferred from 1 January 2021 to 1 January 2023. The standard is not expected to have a material effect on the Group financial statements.

2. Other operating expenses

Other operating expenses include:

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Auditor remuneration		
Audit of these financial statements	**0.6**	0.6
Audit of financial statements of subsidiaries of the Company	**0.2**	0.2
Audit-related assurance services	**0.2**	0.1
Other assurance services	**0.3**	0.4
Total	**1.3**	1.3
Operating lease rentals	**1.0**	1.0

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.

3. Interest income

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Interest on collateral	**3.1**	2.9
Interest on reverse repo transactions	**17.8**	14.1
Interest on securities	**21.1**	17.3
Interest on deposits	**0.1**	0.2
	42.1	34.5

4. Interest expense

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Interest on collateral	**4.4**	6.8
Interest on repo transactions	**21.3**	16.1
Interest on borrowings	**5.5**	7.2
Interest on lease liabilities	**0.1**	0.1
	31.3	30.2

5. Staff costs

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Wages and salaries	**64.6**	74.2
Social security costs	**5.5**	8.2
Pension costs: Defined benefit scheme (Note 8)	**0.2**	0.2
Pension costs: Defined contribution scheme	**3.0**	4.9
Other staff costs	**7.0**	9.4
	80.3	96.9

The average monthly number of Group and Company employees during the period was 192 (2021: 325) and 177 (2021: 311) respectively. The reduction was caused by the transfer of employees to SMBC BI, as discussed in the Strategic Report.

6. Directors' emoluments

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Emoluments	**3.1**	4.3
Group pension contributions	**–**	–
Total	**3.1**	4.3

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Emoluments of the highest paid Director	**1.5**	2.8
Group pension contributions	**–**	–
Total	**1.5**	2.8

Directors' emoluments comprise salaries and bonuses, some of which are deferred as stated in Note 32. During the year, two Directors received a bonus (2021: two Directors).

The highest paid Director belonged to the Group's defined benefit pension scheme with the Group's contribution of USD 35 thousand (2021: one Director with contribution of USD 35 thousand) in the period. See Note 8 for more details.

No other benefits, long-term incentives or pension contributions were paid to Directors during the year (2021: nil).

7. Taxation

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Current tax		
Current year UK tax	**4.7**	13.7
Adjustments for prior years	**0.1**	(0.2)
Foreign tax suffered	**0.9**	0.7
Double tax relief	**–**	–
Current tax charge	**5.7**	14.2
Deferred tax		
Origination and reversal of temporary differences	**(0.1)**	(0.4)
Change in tax rate	**(0.1)**	–
Adjustments for prior years	**0.1**	–
Deferred tax credit	**(0.1)**	(0.4)
Total tax charge in income statement	**5.6**	13.8

Disclosure of tax in other comprehensive income

	Year ended 31/03/2022		Year ended 31/03/2021	
	Before tax USDm	Net of tax USDm	Before tax USDm	Net of tax USDm
Actuarial (losses)/gains on defined benefit pension plan	**–**	**–**	(0.8)	(0.6)
Cash flow hedges	**(2.0)**	**(1.5)**	(1.3)	(1.0)
	(2.0)	**(1.5)**	(2.1)	(1.6)

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 31/03/2022		Year ended 31/03/2021	
	USDm	Effective tax rate	USDm	Effective tax rate
Profit before taxation	**15.0**		84.5	
Tax using the UK weighted average corporation tax rate of 19% (2021: 19%)	**2.9**	**19.0%**	16.0	19.0%
Banking surcharge	**0.7**	**5.0%**	3.0	3.5%
Advance Pricing Agreement adjustment	**1.6**	**10.5%**	(5.5)	(6.5)%
Adjustments for prior years	**0.2**	**1.3%**	(0.1)	(0.1)%
Other	**0.2**	**1.5%**	0.4	0.4%
	5.6	**37.3%**	13.8	16.3%

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.

Corporation tax rate

The corporation tax rate remained at 19% throughout the year ended 31 March 2022 (2021: 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 that the current bank surcharge rate of 8% applicable to profits of banking companies under the Finance (No.2) Act 2015 is to be reduced to 3% from 1 April 2023.

Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force 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 been reflected in the deferred tax balances at 31 March 2022 as this has been substantively enacted by the UK Parliament. The deferred tax asset as at 31 March 2022 has been calculated at the rate of 28%.

Deferred tax assets (Group and Company)

	31 March 2022 USDm	31 March 2021 USDm
Property, plant and equipment	**1.8**	1.9
Employee benefits	**–**	1.0
Deferred compensation	**0.8**	0.7
Cash flow hedges	**0.6**	–
Other creditors	**1.1**	
Deferred tax assets	**4.3**	3.6

There is an unutilised tax loss of USD 4.0 million (2021: USD 3.9 million), for which no deferred tax asset is recognised.

Movement in deferred tax assets (Group and Company)

	1 April 2021 USDm	**Recognised in income USDm**	**Recognised in reserves USDm**	**31 March 2022 USDm**
Property, plant and equipment	**1.9**	**(0.1)**	**–**	**1.8**
Employee benefits	**1.0**	**(0.4)**	**(0.6)**	**–**
Deferred compensation	**0.7**	**0.1**	**–**	**0.8**
Cash flow hedges	**–**	**–**	**0.6**	**0.6**
Other creditors	**–**	**0.5**	**0.6**	**1.1**
Deferred tax assets	**3.6**	**0.1**	**0.6**	**4.3**

	1 April 2020 USDm	Recognised in income USDm	Recognised in reserves USDm	31 March 2021 USDm
Property, plant and 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	–
Deferred tax assets	2.6	0.4	0.6	3.6

8. Pension costs

During the year, the Group operated 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 USD 3.2 million (2021: USD 4.9 million). The Company recognises expenses as employees render services.

During the year, agreements were reached for the settlement of all remaining pension obligations under the EPP scheme. The defined benefit obligation, remeasured at the moment of settlement, was not materially different from that at 31 March 2021. Due to the scheme settlement, the Group recorded an additional charge of USD 0.2 million.

When the EPP scheme was in place, the Group contributed to the policy at the rate of 15% of the capped salary. The defined benefit pension had 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;.
– Increased at the lower of retail price index or 5% p.a.; and
– Attached a 50% spouse's pension.

The principal assumptions in valuing the defined benefit obligation of the EPP were:

	Year ended 31/03/2022 %	Year ended 31/03/2021 %
Rate of increase in salaries	**–**	–
Rate of increase in pension payment	**3.3**	3.2
Discount rate	**2.0**	2.0
Inflation assumption	**3.3**	3.2

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

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

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

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

Group and Company

	31 March 2022 USDm	31 March 2021 USDm
Total fair value of pension scheme assets	**–**	1.5
Present value of pension scheme liabilities	**–**	(5.3)
Pension scheme liability	**–**	(3.8)
Related deferred tax asset (Note 7)	**–**	1.0
Net pension scheme liability	**–**	(2.8)

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

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Fair value of pension scheme assets at the beginning of the year	**1.5**	1.2
Expected return on pension scheme assets	**–**	–
Employer contributions	**–**	–
Actuarial gain on pension scheme assets	**–**	0.1
Settlement**	**(1.5)**	–
Exchange differences	**–**	0.2
Fair value of pension scheme assets at the end of the year	**–**	1.5

The assets of the Scheme were 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, offering minimum guaranteed investment returns and discretionary additional returns depending on the underlying investments performance. The table below analyses the allocation of assets by instrument type:

	31 March 2022		31 March 2021	
	%	**USDm**	%	USDm
Quoted instruments	**–**	**–**	33.3	0.5
Unquoted instruments*	**–**	**–**	66.7	1.0
Cash	**–**	**–**	–	–
	–	**–**	100.0	1.5

* Aegon With-Profit funds.

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

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Defined benefit obligations at the beginning of the year	**5.3**	3.8
Service cost/interest expense recognised in staff costs	**–**	0.2
Actuarial loss on pension scheme liabilities	**–**	0.9
Loss on settlement	**0.2**	–
Settlement**	**(5.4)**	–
Exchange differences	**(0.1)**	0.4
Fair value of pension scheme liabilities at the end of the year	**–**	5.3

Actuarial loss movements are summarised in the following table:

	Year ended 31/03/2022 USDm	Year ended 31/03/2021 USDm
Cumulative actuarial loss at the beginning of the year	**(2.8)**	(2.0)
Actuarial (loss)/gain for the year	**–**	(0.8)
Reclassification**	**2.8**	–
Cumulative actuarial loss at the end of the year	**–**	(2.8)
Actuarial (loss)/gain for the year, net of tax (Note 7)	**–**	(0.6)

** After the settlement agreement was reached, the liability ceased to qualify as pension under IAS 19. It was transferred to other creditors and settled in April 2022. The related cumulative actuarial loss was reclassified from the pension reserve to retained earnings.

The plan valuation was carried out annually until closure. 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 maturity profile of the defined benefit obligation assumed 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 represented the life expectancy of a male aged 60 at the time of retirement (2021: 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 2022 Defined benefit obligation		31 March 2021 Defined benefit obligation	
Assumption variations	**%**	**USDm**	%	USDm
Discount rate 0.5% p.a. lower	**n/a**	**n/a**	12.0	0.6
Inflation rate 0.5% p.a. lower	**n/a**	**n/a**	(10.0)	(0.5)
Minimum rate of improvement of mortality 0.5% p.a. lower	**n/a**	**n/a**	(3.0)	(0.2)

9. Cash at banks

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Current accounts	**587.2**	563.9	**512.0**	555.0
Short-term deposits	**280.8**	563.5	**152.9**	447.3
	868.0	1,127.4	**664.9**	1,002.3

At the reporting date, USD 35.3 million of Group (2021: USD 24.8 million), and USD 30.0 million of Company (2021: USD 19.6 million) current accounts were placed with related companies.

Short-term deposits placed with related companies amounted to USD 154.5 million (2021: USD 148.8 million) for the Group and USD 153.0 million (2021: USD 147.3 million) for the Company.

A detailed analysis of the Group's and Company's credit exposure on cash at banks is included in Note 21.

10. 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 2022 Group	Listed on London Stock Exchange USDm	Listed on non-UK exchanges USDm	Not listed USDm	Total USDm
Assets				
Floating rate notes	18.1	217.5	4.7	240.3
US Treasury securities	–	413.2	–	413.2
Other foreign government securities	13.4	604.4	–	617.8
Corporate bonds	5.2	481.3	0.9	487.4
Equity securities	–	–	–	–
Total	36.7	1,716.4	5.6	1,758.7
Liabilities				
Floating rate notes	–	6.7	–	6.7
US Treasury securities	–	215.0	–	215.0
Other foreign government securities	1.3	438.5	–	439.8
Corporate bonds	2.3	262.6	–	264.9
Equity securities	–	–	–	–
Total	3.6	922.8	–	926.4

Fair value as at 31 March 2022 Company	Listed on London Stock Exchange USDm	Listed on non-UK exchanges USDm	Not listed USDm	Total USDm
Assets				
Floating rate notes	18.1	204.5	2.7	225.3
US Treasury securities	–	363.2	–	363.2
Other foreign government securities	13.4	604.4	–	617.8
Corporate bonds	5.2	481.3	0.9	487.4
Equity securities	–	–	–	–
Total	36.7	1,653.4	3.6	1,693.7
Liabilities				
Floating rate notes	–	6.7	–	6.7
US Treasury securities	–	215.0	–	215.0
Foreign government securities	1.3	438.5	–	439.8
Corporate bonds	2.3	262.6	–	264.9
Equity securities	–	–	–	–
Total	3.6	922.8	–	926.4

Fair value as at 31 March 2021 Group	Listed on London Stock Exchange USDm	Listed on non-UK exchanges USDm	Not listed USDm	Total USDm
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 USDm	Listed on non-UK exchanges USDm	Not listed USDm	Total USDm
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

11. 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:

Group	Carrying value **31 March 2022 USDm**	 31 March 2021 USDm	Notional principal **31 March 2022 USDm**	 31 March 2021 USDm
Interest rate and currency swaps	**7,862.6**	8,830.5	**134,429.7**	151,414.6
Options	**247.6**	43.3	**15,932.9**	12,189.2
Forward contracts	**57.6**	85.3	**2,054.9**	1,952.9
Commodity swaps	**23.2**	7.2	**96.5**	86.0
Derivative reserves	**(36.2)**	(33.6)	**–**	–
Derivative assets	**8,154.8**	8,932.7	**152,514.0**	165,642.7
Interest rate and currency swaps	**7,896.2**	8,251.6	**143,503.3**	143,626.2
Options	**248.3**	46.6	**16,186.3**	12,532.5
Forward contracts	**51.4**	63.9	**2,571.0**	1,154.4
Commodity swaps	**22.7**	5.9	**91.1**	87.3
Derivative reserves	**(23.0)**	(13.8)	**–**	–
Derivative liabilities	**8,195.6**	8,354.2	**162,351.7**	157,400.4

Company	Carrying value **31 March 2022 USDm**	 31 March 2021 USDm	Notional principal **31 March 2022 USDm**	 31 March 2021 USDm
Interest rate and currency swaps	**7,854.9**	8,820.6	**134,415.0**	151,381.1
Options	**232.9**	42.9	**13,937.1**	10,655.3
Forward contracts	**57.6**	85.3	**2,054.9**	1,952.9
Commodity swaps	**23.2**	7.2	**96.5**	86.0
Derivative reserves	**(36.3)**	(33.4)	**–**	–
Derivative assets	**8,132.3**	8,922.6	**150,503.5**	164,075.3
Interest rate and currency swaps	**7,888.6**	8,241.8	**143,484.8**	143,589.6
Options	**233.6**	46.2	**14,216.5**	10,998.6
Forward contracts	**51.4**	63.9	**2,571.0**	1,154.4
Commodity swaps	**22.7**	5.9	**91.1**	87.3
Derivative reserves	**(22.7)**	(13.6)	**–**	–
Derivative liabilities	**8,173.6**	8,344.2	**160,363.4**	155,829.9

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

Carrying values	Group **31 March 2022 USDm**	 31 March 2021 USDm	Company **31 March 2022 USDm**	 31 March 2021 USDm
Due within 1 year	**619.4**	486.1	**619.1**	486.1
Due within 1 to 5 years	**2,931.8**	2,721.3	**2,924.2**	2,720.9
Due within 5 to 10 years	**2,102.7**	2,266.4	**2,088.1**	2,256.5
Due within 10 to 15 years	**1,074.9**	1,526.5	**1,074.9**	1,526.5
Due in more than 15 years	**1,462.2**	1,966.0	**1,462.3**	1,966.0
Derivative assets	**8,191.0**	8,966.3	**8,168.6**	8,956.0
Due within 1 year	**610.3**	454.1	**610.1**	454.1
Due within 1 to 5 years	**3,013.6**	2,539.1	**3,006.1**	2,538.7
Due within 5 to 10 years	**1,985.3**	2,334.4	**1,970.7**	2,324.5
Due within 10 to 15 years	**986.9**	1,208.6	**986.9**	1,208.6
Due in more than 15 years	**1,622.5**	1,831.8	**1,622.5**	1,831.9
Derivative liabilities	**8,218.6**	8,368.0	**8,196.3**	8,357.8

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 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Forward contracts	**2.0**	–	**6.1**	–
Derivative liabilities	**2.0**	–	**6.1**	–

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

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

Group and Company	**Year ended 31/03/2022 USDm**	Year ended 31/03/2021 USDm
(Loss)/gain	**(1.5)**	3.2

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.

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 2022, 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 21 describes the risks associated with derivative products.

12. 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. The table below provides an analysis of carrying values and principal amounts by type of contract:

	Carrying value		Notional principal	
Group and Company	**2022 USDm**	2021 USDm	**2022 USDm**	2021 USDm
Interest rate and currency swaps	**1,367.3**	270.7	**4,172.8**	2,413.8
Other trading assets	**1,367.3**	270.7	**4,172.8**	2,413.8
Interest rate and currency swaps	**1,006.1**	389.4	**2,695.7**	3,840.8
Other trading liabilities	**1,006.1**	389.4	**2,695.7**	3,840.8

Below is further analysis by contractual maturity:

Group and Company	**31 March 2022 USDm**	31 March 2021 USDm
Due within 1 year	**4.9**	5.6
Due within 1 to 5 years	**169.2**	28.3
Due within 5 to 10 years	**124.5**	11.9
Due within 10 to 15 years	**194.2**	35.0
Due in more than 15 years	**874.5**	189.9
Other trading assets	**1,367.3**	270.7
Due within 1 year	**9.8**	24.9
Due within 1 to 5 years	**104.3**	53.3
Due within 5 to 10 years	**65.2**	33.0
Due within 10 to 15 years	**179.6**	72.6
Due in more than 15 years	**647.2**	205.6
Other trading liabilities	**1,006.1**	389.4

13. Repurchase agreements

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

	31 March 2022 USDm	31 March 2021 USDm
Group and Company		
Amounts due from related parties	**2,976.7**	2,502.8
Amounts due from external parties	**3,250.4**	1,047.2
Securities purchased under agreements to resell	**6,227.1**	3,550.0
Amounts due to related parties	**1,052.1**	332.4
Amounts due to external parties	**3,622.1**	2,174.9
Securities sold under agreements to repurchase	**4,674.2**	2,507.3

The contractual maturity profile of repurchase agreements is as follows:

	31 March 2022 USDm	31 March 2021 USDm
Group and Company		
Due on demand	**50.8**	150.3
Due within 1 month	**3,786.5**	2,487.3
Due within 1 to 3 months	**1,893.1**	849.6
Due within 3 to 6 months	**496.7**	62.8
Securities purchased under agreements to resell	**6,227.1**	3,550.0
Due on demand	**32.5**	–
Due within 1 month	**2,991.4**	1,706.2
Due within 1 to 3 months	**1,650.3**	738.3
Due within 3 to s6months	**–**	62.8
Securities sold under agreements to repurchase	**4,674.2**	2,507.3

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

14. 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 2022 USDm**	31 March 2021 USDm
Collateral placed with related parties	**2,326.2**	3,011.3
Collateral placed with external parties	**1,078.1**	489.2
	3,404.3	3,500.5

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 2022 USDm	31 March 2021 USDm
Voluntary collateral in respect of derivative transactions placed with related parties	–	156.5
Regulatory collateral in respect of derivative transactions placed with third parties	**305.4**	66.6
	305.4	223.1

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

In addition, at 31 March 2021 the Group and a related entity, SMBC Bank EU AG, placed voluntary collateral between each other for the same purpose, although both entities have exemptions from exchanging regulated collateral under the EMIR. The arrangement was suspended during the year ended 31 March 2022.

15. Other debtors

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Prepayments	**8.5**	7.5	**8.3**	7.2
Corporation tax	**3.4**	8.4	**2.6**	7.0
Other related party debtors	**40.6**	37.9	**43.3**	36.8
Failed trades with external customers	**171.6**	31.3	**171.6**	31.3
Other external debtors	**17.2**	15.8	**17.0**	16.0
	241.3	100.9	**242.8**	98.3

16. Intangible assets

Computer software	Group USDm	Company USDm
Cost		
Balance at 1 April 2020	9.0	9.0
Additions	2.9	2.7
Balance at 31 March 2021	**11.9**	**11.7**
Balance at 1 April 2021	**11.9**	**11.7**
Additions	**6.1**	**6.1**
Balance at 31 March 2022	**18.0**	**17.8**
Accumulated amortisation and impairment losses		
Balance at 1 April 2020	2.3	2.3
Charge for the year	1.9	1.9
Balance at 31 March 2021	**4.2**	**4.2**
Balance at 1 April 2021	**4.2**	**4.2**
Charge for the year	**2.2**	**2.1**
Balance at 31 March 2022	**6.4**	**6.3**
Carrying amounts		
Balance at 31 March 2021	**7.7**	**7.5**
Balance at 31 March 2022	**11.6**	**11.5**

USD 0.2 million of internal development costs was capitalised during the period (2021: USD 0.8 million).

17. Property, plant and equipment

	Leasehold property USDm	IT equipment USDm	Furniture and fixtures USDm	Total USDm
Group				
Cost				
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
Balance at 1 April 2021	**33.7**	**17.7**	**0.4**	**51.8**
Additions	**5.2**	**0.1**	**–**	**5.3**
Disposals	**(1.2)**	**(2.2)**	**–**	**(3.4)**
Balance at 31 March 2022	**37.7**	**15.6**	**0.4**	**53.7**
Accumulated depreciation and impairment losses				
Balance at 1 April 2020	24.7	9.7	0.4	34.8
Depreciation for the year	6.7	2.6	–	9.3
Disposals	(1.9)	–	–	(1.9)
Balance at 31 March 2021	29.5	12.3	0.4	42.2
Balance at 1 April 2021	**29.5**	**12.3**	**0.4**	**42.2**
Depreciation for the year	**5.1**	**1.9**	**–**	**7.0**
Disposals	**(1.1)**	**(2.2)**	**–**	**(3.3)**
Balance at 31 March 2022	**33.5**	**12.0**	**0.4**	**45.9**
Carrying amounts				
Balance at 31 March 2021	4.2	5.4	–	9.6
Balance at 31 March 2022	**4.2**	**3.6**	**–**	**7.8**

	Leasehold property USDm	IT equipment USDm	Furniture and fixtures USDm	Total USDm
Company				
Cost				
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
Balance at 1 April 2021	**30.6**	**17.5**	**0.3**	**48.4**
Additions	**4.9**	**0.1**	**–**	**5.0**
Disposals	**–**	(2.2)	**–**	(2.2)
Balance at 31 March 2022	**35.5**	**15.4**	**0.3**	**51.2**
Accumulated depreciation and impairment losses				
Balance at 1 April 2020	23.8	9.6	0.3	33.7
Depreciation for the year	5.6	2.6	–	8.2
Disposals	(1.5)	–	–	(1.5)
Balance at 31 March 2021	27.9	12.2	0.3	40.4
Balance at 1 April 2021	**27.9**	**12.2**	**0.3**	**40.4**
Depreciation for the year	**4.3**	**1.8**	**–**	**6.1**
Disposals	**–**	**(2.2)**	**–**	**(2.2)**
Balance at 31 March 2022	**32.2**	**11.8**	**0.3**	**44.3**
Carrying amounts				
Balance at 31 March 2021	2.7	5.3	–	8.0
Balance at 31 March 2022	**3.3**	**3.6**	**–**	**6.9**

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

	Leasehold property USDm	IT equipment USDm	Furniture and fixtures USDm	Total USDm
Group				
Cost				
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
Balance at 1 April 2021	**10.8**	**2.2**	**–**	**13.0**
Additions	**5.1**	**–**	**–**	**5.1**
Disposals	**(1.2)**	**(2.2)**	**–**	**(3.4)**
Balance at 31 March 2022	**14.7**	**–**	**–**	**14.7**
Accumulated depreciation and impairment losses				
Balance at 1 April 2020	4.4	1.0	–	5.4
Depreciation for the year	3.9	0.9	–	4.8
Disposals	(1.7)	–	–	(1.7)
Balance at 31 March 2021	6.6	1.9	–	8.5
Balance at 1 April 2021	**6.6**	**1.9**	**–**	**8.5**
Depreciation for the year	**5.0**	**0.3**	**–**	**5.3**
Disposals	**(1.1)**	**(2.2)**	**–**	**(3.3)**
Balance at 31 March 2022	**10.5**	**–**	**–**	**10.5**
Carrying amounts				
Balance at 31 March 2021	4.2	0.3	–	4.5
Balance at 31 March 2022	**4.2**	**–**	**–**	**4.2**

	Leasehold property USDm	IT equipment USDm	Furniture and fixtures USDm	Total USDm
Company				
Cost				
Balance at 1 January 2019	7.6	2.1	–	9.7
Additions	2.1	0.1	–	2.2
Disposals	(2.1)	–	–	(2.1)
Balance at 31 March 2020	7.6	2.2	–	9.8
Balance at 1 April 2021	**7.6**	**2.2**	**–**	**9.8**
Additions	**5.0**	**–**	**–**	**5.0**
Disposals	**–**	(2.2)	**–**	(2.2)
Balance at 31 March 2022	**12.6**	**–**	**–**	**12.6**
Accumulated depreciation and impairment losses				
Balance at 1 January 2019	3.6	1.0	–	4.6
Depreciation for the year	2.9	0.9	–	3.8
Disposals	(1.5)	–	–	(1.5)
Balance at 31 March 2020	5.0	1.9	–	6.9
Balance at 1 April 2021	**5.0**	**1.9**	**–**	**6.9**
Depreciation for the year	**4.2**	**0.3**	**–**	**4.5**
Disposals	**–**	(2.2)	**–**	(2.2)
Balance at 31 March 2022	**9.2**	**–**	**–**	**9.2**
Carrying amounts				
Balance at 31 March 2021	2.6	0.3	–	2.9
Balance at 31 March 2022	**3.4**	**–**	**–**	**3.4**

18. 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 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Collateral received from related parties in respect of:				
– derivative transactions	**1,884.1**	2,279.1	**1,861.2**	2,278.8
– credit guarantee	**1,770.4**	1,620.2	**1,770.4**	1,620.2
	3,654.5	3,899.3	**3,631.6**	3,899.0
Collateral received from external parties in respect of:				
– derivative transactions	**327.8**	307.3	**327.8**	307.3
– repurchase transactions	**16.4**	4.3	**16.4**	4.3
	344.2	311.6	**344.2**	311.6
	3,998.7	4,210.9	**3,975.8**	4,210.6

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 2022 USDm**	31 March 2021 USDm
Collateral received from related parties:		
Independent Amount in respect of derivative transactions	**1,315.5**	1,308.3
Margin Deficit Securities in respect of repurchase transactions	**70.0**	10.0
Voluntary collateral in respect of derivative transactions	**–**	169.3
SMBC DP guarantees indemnity	**1,505.9**	27.0
	2,891.4	1,514.6
Regulatory collateral in respect of derivative transactions received from third parties	**274.6**	87.1
Margin Deficit Securities in respect of repurchase transactions	**12.9**	–
	3,178.9	1,601.7

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. and third parties to mitigate the residual counterparty credit risk associated with repo transactions between the companies.

Voluntary collateral (see Note 14) was used 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. The arrangement was suspended during the year ended 31 March 2022.

19. Other creditors

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Funding loans from related parties	**1,100.4**	704.7	**1,100.4**	704.7
Lease liabilities	**3.3**	5.0	**2.4**	3.3
Other related party creditors	**74.8**	59.2	**79.7**	60.1
Failed trades with external customers	**126.7**	29.9	**126.7**	29.9
Other external creditors	**70.7**	103.9	**68.4**	101.7
	1,375.9	902.7	**1,377.6**	899.7

20. Called up share capital

	Allotted, called up and fully paid 31 March 2022 USDm	Allotted, called up and fully paid 31 March 2021 USDm
779 million ordinary shares of USD1 each	**779.0**	779.0
360 million preference shares of USD1 each	**360.0**	360.0
	1,139.0	1,139.0

21. 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 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 Company operate 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 2022 USDm**	31 March 2021 USDm	**Year ended 31/03/2021 USDm**	31 March 2021 USDm
A-1+	**486.7**	526.4	**372.3**	427.1
A-1	**380.4**	593.5	**292.6**	575.2
A-2	**0.9**	7.5	**–**	–
	868.0	1,127.4	**664.9**	1,002.3

	Group		Company	
Moody's rating	**31 March 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
P-1	**822.4**	706.6	**619.3**	581.4
P-2	**–**	394.9	**–**	394.9
Not Rated	**45.6**	25.9	**45.6**	26.0
	868.0	1,127.4	**664.9**	1,002.3

Trading securities

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

	Group		Company	
S&P rating	**31 March 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
AAA	**157.9**	69.3	**157.9**	69.3
AA+	**413.2**	263.2	**363.2**	213.2
AA	**364.6**	18.7	**364.6**	18.7
AA-	**69.0**	93.3	**53.9**	64.8
A+	**67.5**	72.9	**67.5**	48.7
A	**72.9**	119.7	**72.9**	107.2
A-	**146.1**	190.4	**146.1**	190.3
BBB+	**101.3**	96.6	**101.3**	96.6
BBB	**134.1**	111.5	**134.2**	111.5
BBB-	**54.5**	34.6	**54.5**	34.6
BB+	**4.2**	8.0	**4.2**	8.0
BB	**7.3**	6.0	**7.3**	6.0
BB-	**15.8**	–	**15.8**	–
B+	**6.3**	17.2	**6.3**	17.2
B	**5.7**	2.9	**5.7**	2.9
B-	**3.4**	–	**3.4**	–
Not rated	**134.9**	226.6	**134.9**	226.6
	1,758.7	1,330.9	**1,693.7**	1,215.6

	Group		Company	
Moody's rating	**31 March 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Aaa	**553.9**	315.3	**503.9**	265.3
Aa1	**3.5**	4.9	**3.5**	4.9
Aa2	**295.6**	45.8	**295.6**	24.9
Aa3	**132.5**	118.5	**117.5**	86.6
A1	**173.9**	228.3	**173.9**	215.8
A2	**36.9**	106.1	**36.9**	106.1
A3	**91.7**	90.1	**91.7**	90.1
Baa1	**83.6**	112.9	**83.6**	112.9
Baa2	**65.4**	72.4	**65.4**	72.4
Baa3	**80.5**	53.3	**80.5**	53.3
Ba1	**7.7**	7.6	**7.7**	7.6
Ba2	**20.1**	2.8	**20.1**	2.8
Ba3	**17.3**	24.4	**17.3**	24.4
B1	**4.3**	7.5	**4.3**	7.5
B2	**9.1**	0.6	**9.1**	0.6
B3	**1.8**	–	**1.8**	–
Not rated	**180.9**	140.4	**180.9**	140.4
	1,758.7	1,330.9	**1,693.7**	1,215.6

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 2022** **USDm**	**31 March 2021** **USDm**
Related parties		
A-1	**2,976.7**	2,502.8
External parties		
A-1+	**2,652.5**	–
A-1	**197.2**	937.9
A-2	**400.7**	109.3
	3,250.4	1,047.2
	6,227.1	3,550.0

Group and Company **Moody's rating**	**31 March 2022** **USDm**	31 March 2021 USDm
Related parties		
P-1	**2,976.7**	2,502.8
External parties		
P-1	**2,849.7**	937.9
P-2	**400.7**	109.3
	3,250.4	1,047.2
	6,227.1	3,550.0

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

	31 March 2022 **USDm** **Related parties**	**31 March 2022** **USDm** **External parties**	**31 March 2022** **USDm** **Total**	31 March 2021 USDm Related parties	31 March 2021 USDm External parties	31 March 2021 USDm Total
US Treasury bills	–	**232.5**	**232.5**	60.5	175.2	235.7
European government bonds	–	**2,159.1**	**2,159.1**	2,019.0	515.0	2,534.0
Japanese government bonds	**2,744.0**	–	**2,744.0**	396.4	0.5	396.9
Non-European government bonds	–	**145.1**	**145.1**	–	25.4	25.4
European local authority bonds	–	**8.8**	**8.8**	–	–	–
Japanese local authority bonds	**174.8**	–	**174.8**	–	–	–
US corporate bonds	–	–	–	–	89.5	89.5
European corporate bonds	–	**513.5**	**513.5**	–	94.5	94.5
Japanese corporate bonds	–	–	–	–	55.5	55.5
Non-European corporate bonds	–	**50.6**	**50.6**	–	81.8	81.8
Japanese corporate equity	–	–	–	–	–	–
Securities purchased	**2,918.8**	**3,109.6**	**6,028.4**	2,475.9	1,037.4	3,513.3
Carrying value	**2,976.7**	**3,250.4**	**6,227.1**	2,502.8	1,047.2	3,550.0
Over/(under)collateralised	(57.9)	(140.8)	(198.7)	(26.9)	(9.8)	(36.7)

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 USD 70.0 million (2021: $10.0 million) and cash collateral from external customers amounting to USD 16.4 million (2021: USD 4.3 million).

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

Group and Company S&P rating	**31 March 2022 USDm Related parties**	**31 March 2022 USDm External parties**	**31 March 2022 USDm Total**	31 March 2021 USDm Related parties	31 March 2021 USDm External parties	31 March 2021 USDm Total
AAA	**396.8**	**122.1**	**518.9**	648.0	144.9	792.9
AA+	**814.8**	**419.5**	**1,234.3**	60.5	175.2	235.7
AA	**764.9**	**1,033.4**	**1,798.3**	1,112.1	378.0	1,490.1
AA–	**–**	**154.8**	**154.8**	–	21.9	21.9
A+	**777.4**	**598.9**	**1,376.3**	396.4	17.3	413.7
A	**47.8**	**81.4**	**129.2**	12.8	17.5	30.3
A-	**–**	**399.9**	**399.9**	–	59.0	59.0
BBB+	**–**	**22.5**	**22.5**	–	30.9	30.9
BBB	**117.1**	**145.9**	**263.0**	246.1	25.9	272.0
BBB-	**–**	**3.9**	**3.9**	–	21.1	21.1
BB+	**–**	**0.5**	**0.5**	–	9.1	9.1
BB-	**–**	**6.8**	**6.8**	–	–	–
B+	**–**	**1.1**	**1.1**	–	1.9	1.9
B	**–**	**2.5**	**2.5**	–	–	–
Not rated	**–**	**116.4**	**116.4**	–	134.7	134.7
	2,918.8	**3,109.6**	**6,028.4**	2,475.9	1,037.4	3,513.3

Group and Company Moody's rating	31 March 2022 USDm Related parties	31 March 2022 USDm External parties	31 March 2022 USDm Total	31 March 2021 USDm Related parties	31 March 2021 USDm External parties	31 March 2021 USDm Total
Aaa	**1,211.6**	**529.8**	**1,741.4**	708.5	322.3	1,030.8
Aa1	**–**	**12.0**	**12.0**	–	–	–
Aa2	**607.7**	**519.3**	**1,127.0**	758.4	319.5	1,077.9
Aa3	**157.2**	**710.5**	**867.7**	353.7	92.5	446.2
A1	**719.5**	**958.9**	**1,678.4**	396.4	95.3	491.7
A2	**–**	**52.8**	**52.8**	–	42.2	42.2
A3	**–**	**54.5**	**54.5**	–	31.4	31.4
Baa1	**26.4**	**149.3**	**175.7**	12.8	36.2	49.0
Baa2	**–**	**34.0**	**34.0**	–	24.1	24.1
Baa3	**117.0**	**56.4**	**173.4**	246.1	18.9	265.0
Ba1	**–**	**–**	**–**	–	3.8	3.8
Ba2	**–**	**–**	**–**	–	17.9	17.9
Ba3	**–**	**10.9**	**10.9**	–	5.1	5.1
B2	**–**	**6.0**	**6.0**	–	1.5	1.5
B1	**–**	**–**	**–**	–	1.0	1.0
Not rated	**79.4**	**15.2**	**94.6**	–	25.7	25.7
	2,918.8	**3,109.6**	**6,028.4**	2,475.9	1,037.4	3,513.3

Derivatives

The Group's credit exposure on derivatives arises from the risk of non-performance of its counterparties in fulfilling their contractual obligations pursuant to its derivative transactions. The risk of non-performance can be directly impacted by volatile or illiquid trading markets, which may impair the counterparties' abilities to satisfy their obligations. The notional or contractual values of agreements do not represent exposure to credit risk, which is limited to the current cost of replacing the contracts with a positive market value.

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

	Group		Company	
S&P	**31 March 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Related parties				
A	**6,329.2**	6,787.3	**6,306.8**	6,777.0
Unrated	**0.3**	3.6	**0.3**	3.6
	6,329.5	6,790.9	**6,307.1**	6,780.6
External parties				
AA-	**43.8**	66.3	**43.8**	66.3
A+	**79.8**	86.2	**79.8**	86.2
A	**76.2**	159.0	**76.2**	159.0
A-	**108.9**	80.2	**108.9**	80.2
BBB+	**61.6**	60.4	**61.6**	60.4
BBB	**2.6**	133.9	**2.6**	133.9
BBB-	**3.8**	0.5	**3.8**	0.5
BB+	**–**	6.3	**–**	6.3
BB	**5.8**	–	**5.8**	0
BB-	**208.1**	164.8	**208.1**	164.8
Unrated	**1,270.9**	1,417.8	**1,270.9**	1,417.8
	1,861.5	2,175.4	**1,861.5**	2,175.4
	8,191.0	8,966.3	**8,168.6**	8,956.0

	Group		Company	
Moody's	**31 March 2022 USDm**	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Related parties				
A1	**6,329.2**	6,787.3	**6,306.8**	6,777.0
Unrated	**0.3**	3.6	**0.3**	3.6
	6,329.5	6,790.9	**6,307.1**	6,780.6
External parties				
Aa2	**75.5**	82.8	**75.5**	82.8
Aa3	**46.1**	70.2	**46.1**	70.2
A1	**53.8**	155.6	**53.8**	155.6
A2	**35.5**	27.2	**35.5**	27.2
A3	**69.4**	42.5	**69.4**	42.5
Baa1	**51.4**	26.6	**51.4**	26.6
Baa2	**2.6**	156.5	**2.6**	156.5
Baa3	**5.8**	–	**5.8**	–
Ba1	**–**	–	**–**	–
Ba2	**5.5**	–	**5.5**	–
Ba3	**208.4**	164.8	**208.4**	164.8
Unrated	**1,307.5**	1,449.2	**1,307.5**	1,449.2
	1,861.5	2,175.4	**1,861.5**	2,175.4
	8,191.0	8,966.3	**8,168.6**	8,956.0

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 18.

Other trading assets

As at 31 March 2022, other trading assets include an exposure to external counterparties rated BBB and lower or unrated by S&P amounting to USD 619.9 million (2021: USD 128.3 million).

b) Credit risk concentration

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

Geographical analysis

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

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
United Kingdom	**68.5**	40.3	**68.5**	40.3
Japan	**174.2**	467.8	**160.7**	450.9
United States	**505.4**	513.1	**435.5**	509.4
Other	**119.9**	106.2	**0.2**	1.7
	868.0	1,127.4	**664.9**	1,002.3

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

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
United Kingdom	**86.0**	86.0	**86.0**	86.0
France	**82.8**	82.8	**82.8**	82.8
Germany	**104.9**	104.9	**104.9**	104.9
Japan	**137.9**	137.9	**137.9**	137.9
Netherlands	**35.7**	35.7	**10.7**	10.7
United States	**328.7**	328.7	**278.7**	278.7
Other	**982.7**	554.9	**992.7**	514.6
	1,758.7	1,330.9	**1,693.7**	1,215.6

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

Group and Company	**31 March 2022 USDm**	31 March 2021 USDm
United Kingdom	**1,796.6**	303.6
Japan	**2,977.1**	2,504.2
France	**810.6**	641.2
United States	**233.2**	38.3
Other	**409.6**	62.7
	6,227.1	3,550.0

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

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
United Kingdom	**965.2**	1,297.9	**965.2**	1,297.9
France	**133.4**	197.8	**133.4**	197.8
Japan	**3,462.3**	4,141.4	**3,462.3**	4,141.4
Netherlands	**146.8**	247.1	**146.8**	247.1
United States	**2,724.1**	2,634.0	**2,701.7**	2,623.6
Other	**759.2**	448.1	**759.2**	448.2
	8,191.0	8,966.3	**8,168.6**	8,956.0

c) Impairment

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

iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities, at a reasonable cost. The Group and 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 2022 Group	**Carrying value USDm**	**On demand USDm**	**Less than 1 year USDm**	**1–5 years USDm**	**More than 5 years USDm**	**Total USDm**
Non-derivative financial liabilities						
Trading securities sold, not yet purchased1	**926.4**	**70.0**	**856.4**	**–**	**–**	**926.4**
Trading liabilities, at fair value2	**1,006.1**	**–**	**9.8**	**104.3**	**892.0**	**1,006.1**
Securities sold under agreement to repurchase	**4,674.2**	**32.5**	**4,641.2**	**–**	**–**	**4,673.7**
Collateral received	**3,998.7**	**–**	**132.9**	**1,862.0**	**2,003.9**	**3,998.8**
Other creditors, excluding lease liabilities	**1,372.6**	**146.5**	**1,229.8**	**2.9**	**–**	**1,379.2**
Lease liabilities	**3.3**	**–**	**3.7**	**1.4**	**–**	**5.1**
	11,981.3	**249.0**	**6,873.8**	**1,970.6**	**2,895.9**	**11,989.3**
Derivative financial liabilities						
Derivative liabilities (excluding reserves)[2]	**8,218.6**	**–**	**610.3**	**3,013.6**	**4,594.7**	**8,218.6**

As at 31 March 2022 Company	**Carrying value USDm**	**On demand USDm**	**Less than 1 year USDm**	**1–5 years USDm**	**More than 5 years USDm**	**Total USDm**
Non-derivative financial liabilities						
Trading securities sold, not yet purchased[1]	**926.4**	**70.0**	**856.4**	**–**	**–**	**926.4**
Trading liabilities, at fair value[2]	**1,006.1**	**–**	**9.8**	**104.3**	**892.1**	**1,006.2**
Securities sold under agreement to repurchase	**4,674.2**	**32.5**	**4,641.2**	**–**	**–**	**4,673.7**
Collateral received	**3,975.8**	**–**	**110.0**	**1,862.0**	**2,003.9**	**3,975.9**
Other creditors, excluding lease liabilities	**1,375.2**	**146.5**	**1,231.5**	**2.9**	**–**	**1,380.9**
Lease liabilities	**2.4**	**–**	**2.8**	**0.6**	**–**	**3.4**
	11,960.1	**249.0**	**6,851.7**	**1,969.8**	**2,896.0**	**11,966.5**
Derivative financial liabilities						
Derivative liabilities (excluding reserves)[2]	**8,196.3**	**–**	**610.1**	**3,006.1**	**4,580.1**	**8,196.3**

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 Group	Carrying value USDm	On demand USDm	Less than 1 year USDm	1–5 years USDm	More than 5 years USDm	Total USDm
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	–	904.6
Lease liabilities	5.0	–	3.7	1.4	–	5.1
	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

As at 31 March 2021 Company	Carrying value USDm	On demand USDm	Less than 1 year USDm	1–5 years USDm	More than 5 years USDm	Total USDm
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
	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.

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 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 SMBC Group borrowings.

The weighted average yield on the cash deposits was 0.05% for the year to 31 March 2022 (2021: 0.05%). The weighted average yields for the year to 31 March 2022 on floating rate notes and US treasury securities were 1.33% (2021: 1.19%). Cash collateral amounts and interest rates are determined by derivative balances with respective counterparties, so the Group has a limited ability to control them and their yields are not a primary business objective.

The Group's sensitivity to interest rates is such that a parallel increase or decrease of +/-100bp from period end rates would both decrease net assets by USD 0.6/USD 0.5 million (2021: USD 3.6 million) respectively.

vi) Foreign currency risk

The Group hedges its foreign exchange exposures including GBP expenses using forward exchange contracts. Further details of those contracts are disclosed in Note 11.

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.

22. 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 financial 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 2022	Gross recognised amounts USDm	Amounts that meet the offsetting criteria USDm	Amounts in the statement of financial position USDm	Amounts that do not meet the offsetting criteria USDm	Capped cash collateral USDm	Capped non-cash collateral USDm	Net amount USDm
Group							
Derivative assets (excluding reserves)	**9,617.1**	**(1,426.1)**	**8,191.0**	**(5,091.5)**	**(1,882.6)**	**–**	**1,216.9**
Reverse repurchase agreements	**6,227.1**	**–**	**6,227.1**	**(1,560.3)**	**(5.9)**	**(4,589.6)**	**71.3**
	15,844.2	**(1,426.1)**	**14,418.1**	**(6,651.8)**	**(1,888.5)**	**(4,589.6)**	**1,288.2**
Derivative liabilities (excluding reserves)	**9,543.8**	**(1,325.2)**	**8,218.6**	**(5,091.5)**	**(2,546.6)**	**(35.8)**	**544.7**
Repurchase agreements	**4,674.2**	**–**	**4,674.2**	**(1,560.3)**	**(36.4)**	**(3,015.1)**	**62.4**
	14,218.0	**(1,325.2)**	**12,892.8**	**(6,651.8)**	**(2,583.0)**	**(3,050.9)**	**607.1**

At 31 March 2022	Gross recognised amounts USDm	Amounts that meet the offsetting criteria USDm	Amounts in the statement of financial position USDm	Amounts that do not meet the offsetting criteria USDm	Capped cash collateral USDm	Capped non-cash collateral USDm	Net amount USDm
Company							
Derivative liabilities (excluding reserves)	**9,594.7**	**(1,426.1)**	**8,168.6**	**(5,069.0)**	**(1,882.6)**	**–**	**1,217.0**
Reverse repurchase agreements	**6,227.1**	**–**	**6,227.1**	**(1,560.3)**	**(5.9)**	**(4,589.6)**	**71.3**
	15,821.8	**(1,426.1)**	**14,395.7**	**(6,629.3)**	**(1,888.5)**	**(4,589.6)**	**1,288.3**
Derivative liabilities (excluding reserves)	**9,521.5**	**(1,325.2)**	**8,196.3**	**(5,069.0)**	**(2,569.0)**	**(35.8)**	**522.5**
Repurchase agreements	**4,674.2**	**–**	**4,674.2**	**(1,560.3)**	**(36.4)**	**(3,015.1)**	**62.4**
	14,195.7	**(1,325.2)**	**12,870.5**	**(6,629.3)**	**(2,605.4)**	**(3,050.9)**	**584.9**

As at 31 March 2021	Gross recognised amounts USDm	Amounts that meet the offsetting criteria USDm	Amounts in the statement of financial position USDm	Amounts that do not meet the offsetting criteria USDm	Capped cash collateral USDm	Capped non-cash collateral USDm	Net amount USDm
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
	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
	12,823.8	(1,948.5)	10,875.3	(5,500.7)	(3,044.6)	(1,920.3)	409.7

As at 31 March 2021	Gross recognised amounts USDm	Amounts that meet the offsetting criteria USDm	Amounts in the statement of financial position USDm	Amounts that do not meet the offsetting criteria USDm	Capped cash collateral USDm	Capped non-cash collateral USDm	Net amount USDm
Company							
Derivative assets (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
	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
	12,813.6	(1,948.5)	10,865.1	(5,490.4)	(3,054.9)	(1,920.3)	399.5

23. 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.

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 2022 and 31 December 2021:

At 31 March 2022	Level 1 USDm	Level 2 USDm	Level 3 USDm	Total USDm
Group				
Financial assets				
Trading securities	929.3	829.4	–	1,758.7
Derivative assets	–	8,154.8	–	8,154.8
Other trading assets	–	1,366.4	0.9	1,367.3
	929.3	10,350.6	0.9	11,280.8
Financial liabilities				
Trading securities	556.5	369.9	–	926.4
Derivative liabilities	–	8,195.6	–	8,195.6
Other trading liabilities	–	1,005.2	0.9	1,006.1
	556.5	9,570.7	0.9	10,128.1
Company				
Financial assets				
Trading securities	864.3	829.4	–	1,693.7
Derivative assets	–	8,132.3	–	8,132.3
Other trading assets	–	1,366.4	0.9	1,367.3
	864.3	10,328.1	0.9	11,193.3
Financial liabilities				
Trading securities	556.5	369.9	–	926.4
Derivative liabilities	–	8,173.6	–	8,173.6
Other trading liabilities	–	1,005.2	0.9	1,006.1
	556.5	9,548.7	0.9	10,106.1

At 31 March 2021	Level 1 USDm	Level 2 USDm	Level 3 USDm	Total USDm
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
	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
	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
	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
	518.2	8,820.7	–	9,338.9

* At 31 March 2021, trading securities of the Group in Level 1 included USD 228.9 million and of the Company USD 200.0 million of liquid asset buffer ("LAB") securities which were not actively traded on the reporting date. These securities are among the most highly rated and liquid assets available in the market. Their classification within Level 1 was based on their liquidity, rather than trading activity. At 31 March 2022, there were no LAB securities reported on such basis.

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

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 years ended 31 March 2022 and 31 March 2021. In both years, the trades were transferred to or from Level 3 because their unobservable inputs became significant or insignificant at the reporting date. Transfers are effective at the end of the reporting period.

Year ended 31 March 2022 Group and Company	**1 April 2021 USDm**	**Settlements USDm**	**Realised gains/(losses) USDm**	**Unrealised gains/(losses) USDm**	**Transfers in/(out) USDm**	**31 March 2022 USDm**
Assets:						
Interest rate swaps	–	–	–	–	–	–
Options	–	–	–	–	–	–
Other trading instruments	–	–	–	–	**0.9**	**0.9**
Total assets at fair value	–	–	–	–	**0.9**	**0.9**

Year ended 31 March 2022 Group and Company	**1 April 2021 USDm**	**Settlements USDm**	**Realised gains/(losses) USDm**	**Unrealised gains/(losses) USDm**	**Transfers in/(out) USDm**	**31 March 2022 USDm**
Liabilities:						
Interest rate swaps	–	–	–	–	–	–
Other trading instruments	–	–	–	–	**0.9**	**0.9**
Total liabilities at fair value	–	–	–	–	**0.9**	**0.9**

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

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

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.

24. 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 2022	Amortised cost USDm	FVTPL* USDm	Total USDm
Assets			
Cash at banks	868.0	–	868.0
Trading securities	–	1,758.7	1,758.7
Other trading assets, at fair value	–	1,367.3	1,367.3
Derivative assets	–	8,154.8	8,154.8
Securities purchased under agreements to resell	6,227.1	–	6,227.1
Collateral placed	3,404.3	–	3,404.3
Other debtors	241.3	–	241.3
Total assets	10,740.7	11,280.8	22,021.5
Liabilities			
Derivative liabilities	–	8,195.6	8,195.6
Other trading liabilities, at fair value	–	1,006.1	1,006.1
Trading securities sold, not yet purchased	–	926.4	926.4
Securities sold under agreements to repurchase	4,674.2	–	4,674.2
Collateral received	3,998.7	–	3,998.7
Other creditors	1,375.9	–	1,375.9
Total liabilities	10,048.8	10,128.1	20,176.9

Company As at 31 March 2022	Amortised cost USDm	FVTPL* USDm	Total USDm
Assets			
Cash at banks	664.9	–	664.9
Trading securities	–	1,693.7	1,693.7
Other trading assets, at fair value	–	1,367.3	1,367.3
Derivative assets	–	8,132.3	8,132.3
Securities purchased under agreements to resell	6,227.1	–	6,227.1
Collateral placed	3,404.3	–	3,404.3
Other debtors	242.8	–	242.8
Total assets	10,539.1	11,193.3	21,732.4
Liabilities			
Derivative liabilities	–	8,173.6	8,173.6
Other trading liabilities, at fair value	–	1,006.1	1,006.1
Trading securities sold, not yet purchased	–	926.4	926.4
Securities sold under agreements to repurchase	4,674.2	–	4,674.2
Collateral received	3,975.8	–	3,975.8
Other creditors	1,377.6	–	1,377.6
Total liabilities	10,027.6	10,106.1	20,133.7

* Fair value through profit or loss.

Group As at 31 March 2021	Amortised cost USDm	FVTPL* USDm	Total USDm
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 assets	**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 liabilities	**7,620.9**	**9,348.9**	**16,969.8**

Company As at 31 March 2021	Amortised cost USDm	FVTPL* USDm	Total USDm
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 assets	**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 liabilities	**7,617.6**	**9,338.9**	**16,956.5**

* Fair value through profit or loss.

25. IBOR reform

Following negative publicity around the quality of published London Interbank Offered Rate ("LIBOR"), the reform and replacement of benchmark interest rates has become a priority for global regulators. As a result, the UK's Financial Conduct Authority (FCA) and other global regulators instructed market participants to prepare for the cessation of most LIBOR rates after the end of 2021, and to adopt "near risk-free rates" ("RFRs"). The Group has material exposure to IBORs on its financial instruments and is reforming them as part of this market-wide initiative.

The Group's IBOR-linked financial instruments comprise derivative, other trading assets and liabilities and related collateral, referenced to GBP, USD, EUR and JPY LIBOR.

The Group has established a Steering Committee led by a Director of the Company and is supported by a project management team, subject matter experts, a policy forum, communication team and external specialists. Under the guidance of this specialised body and subject matter experts, the Group is managing its transition to applicable RFRs away from the use of EUR, CHF, JPY, GBP and some USD LIBOR, which ceased publication on 31 December 2021, and remaining USD LIBOR tenors, which will cease publication on 30 June 2023.

The alternative reference rate for Sterling LIBOR is the Sterling Overnight Index Average (SONIA) and for US Dollar LIBOR is the Secured Overnight Financing Rate (SOFR). Changes to the contractual terms of financial assets referenced to LIBOR to incorporate new benchmark rates were not yet complete as at 31 March 2022. There are some legacy contracts that may be difficult to transition from LIBORs to SONIA or SOFR. These contracts are often part of more complex or structured transactions or arrangements. The FCA has authorised broad usage of synthetic LIBOR as a temporary solution for such contracts for GBP and JPY. The Group continues to monitor total contracts utilising synthetic LIBOR fallbacks and aims to remediate to RFRs as soon as possible. The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include a fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is referenced to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an unreformed contract). The Group has in place detailed plans, processes and procedures to continue to transition contracts to alternative benchmark rates which will be completed in line with official sector expectations and milestones.

The Group's derivative instruments are governed by International Swaps and Derivatives Association (ISDA) definitions. ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The supplement is effective from 25 January 2021 and from that date, all new derivatives that reference the ISDA definitions will also include the fallbacks.

The main risks to which the Group is exposed as a result of IBOR reform are operational – for example, the renegotiation of derivative contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk. The Group continues to have instruments referencing IBOR which could become unrepresented; this will continually be monitored as part of the IBOR project but the liquidity risk arising from this is considered low.

There have been no changes to the risk management strategies as a result the IBOR reform. The transition's objective is to maintain equivalence and business continuity of its contracts with customers.

The following tables shows the Group and Company's exposure to significant IBORs subject to reform that have yet to transition to risk-free rates, as at 31 March 2022. As allowed by the IBOR reform amendments to IFRS 7 and IFRS 9, comparative information has not been presented.

Group **As at 31 March 2022**	**GBP LIBOR** **USDm**	**USD LIBOR** **USDm**	**Total** **USDm**
Derivative assets			
Carrying value (excluding reserves)	**140.6**	**2,666.3**	**2,806.9**
Notional principal	**733.4**	**55,331.4**	**56,064.8**
Other trading assets			
Carrying value (excluding reserves)	**8.7**	**–**	**8.7**
Notional principal	**26.2**	**–**	**26.2**
Total assets			
Carrying value (excluding reserves)	**149.3**	**2,666.3**	**2,815.6**
Notional principal	**759.6**	**55,331.4**	**56,091.0**
Derivative liabilities			
Carrying value (excluding reserves)	**139.3**	**2,868.1**	**3,007.4**
Notional principal	**708.1**	**62,142.4**	**62,850.5**
Total liabilities			
Carrying value (excluding reserves)	**139.3**	**2,868.1**	**3,007.4**
Notional principal	**708.1**	**62,142.4**	**62,850.5**
Financial guarantees linked to derivative contracts			
Carrying value (excluding reserves)	**–**	**653.2**	**653.2**
Notional principal	**–**	**54,143.2**	**54,143.2**

Company **As at 31 March 2022**	**GBP LIBOR USDm**	**USD LIBOR USDm**	**Total USDm**
Derivative assets			
Carrying value	**140.6**	**2,666.3**	**2,806.9**
Notional principal	**733.4**	**55,331.4**	**56,064.8**
Other trading assets			
Carrying value (excluding reserves)	**8.7**	**–**	**8.7**
Notional principal	**26.2**	**–**	**26.2**
Total assets			
Carrying value (excluding reserves)	**149.3**	**2,666.3**	**2,815.6**
Notional principal	**759.6**	**55,331.4**	**56,091.0**
Derivative liabilities			
Carrying value	**139.3**	**2,868.1**	**3,007.4**
Notional principal	**708.1**	**62,142.4**	**62,850.5**
Total liabilities			
Carrying value (excluding reserves)	**139.3**	**2,868.1**	**3,007.4**
Notional principal	**708.1**	**62,142.4**	**62,850.5**
Financial guarantees linked to derivative contracts			
Carrying value (excluding reserves)	**–**	**–**	**–**
Notional principal	**–**	**–**	**–**

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 2022 USDm**	**Other 31 March 2022 USDm**	Land and buildings 31 March 2021 USDm	Other 31 March 2021 USDm
Operating leases which expire:				
Within one year	**0.8**	**–**	1.4	–
Between two and five years	**–**	**–**	0.3	–
	0.8	**–**	1.7	–

Company	**Land and buildings 31 March 2022 USDm**	**Other 31 March 2022 USDm**	Land and buildings 31 March 2021 USDm	Other 31 March 2021 USDm
Operating leases which expire:				
Within one year	**0.8**	**–**	1.4	–
Between two and five years	**–**	**–**	0.3	–
	0.8	**–**	1.7	–

27. Regulatory capital (unaudited where indicated)

Effective from 1 January 2022, the Group and Company are subject to the FCA's Investment Firms Prudential Regime (IFPR). The IFPR is a single prudential regime for all solo regulated investment firms in the UK (FCA investment firms) authorised under the UK Markets in Financial Instruments Directive (MiFID).

The rules for calculating capital requirements under the IFPR are different from those for Risk Weighted Assets ("RWA") calculation under the Capital Requirements Regulation ("CRR"). Capital adequacy under the IFPR is measured using solvency ratio (own funds/IFPR own funds requirements) whilst capital ratio (own funds/RWA) is used under the CRR.

The primary objective of the Group's and the Company's capital management is to ensure compliance with capital requirements imposed by the FCA. 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"). The business must maintain IFPR Solvency ratios, the proportion of relevant capital to the IFPR own funds requirement above the FCA prescribed thresholds.

The table below summarises the Group and Company's capital adequacy positions. The figures as of 31 March 2021 were calculated under the CRR rules, while those as of 31 March 2022 were under the IFPR rules. To ensure comparability, the table below shows both ratios.

	Group		Company	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
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	**565.8**	558.0	**520.9**	518.4
Other reserves	**(1.5)**	(1.6)	**(1.5)**	(1.6)
	1,508.3	1,500.4	**1,463.4**	1,460.8
CET1 regulatory adjustments				
Intangible assets	**(11.6)**	(7.7)	**(11.5)**	(7.5)
Cash flow hedges	**1.5**	–	**1.5**	–
Other	**(30.4)**	(16.0)	**(30.1)**	(15.6)
CET1 instruments of financial sector entities where the institution has a significant investment	**–**	–	**–**	(65.4)
	(40.5)	(23.7)	**(40.1)**	(88.5)
Total CET1 capital	**1,467.8**	1,476.7	**1,423.3**	1,372.3
Additional tier 1 (AT1) capital				
Perpetual non–cumulative preference shares	**360.0**	360.0	**360.0**	360.0
Other adjustments	**–**	–	**–**	–
	360.0	360.0	**360.0**	360.0
Total regulatory capital	**1,827.8**	1,836.7	**1,783.3**	1,732.3
Risk–weighted assets (unaudited)	**2,784.9**	3,819.7	**2,778.8**	4,018.4
IFPR own funds requirement	**222.8**	305.6	**222.3**	321.5
CET1 capital ratio (unaudited)	**52.7%**	38.7%	**51.2%**	34.2%
Total capital ratio (unaudited)	**65.6%**	48.1%	**64.2%**	43.1%
IFPR Solvency ratio	**820.4%**	601.0%	**802.2%**	538.8%

The Group and Company utilise a number of approaches to ensure that it remains compliant with the overall financial adequacy rule under IFPR.

Foremost is the annual assessment of own funds (regulatory capital) and liquidity adequacy conducted during the internal Capital Adequacy and Risk Assessment ("ICARA") process, which considers the Group and Company's resource requirements under 'business as usual' and a variety of stressed scenario contexts. In the case of own funds, these requirements are forecast over a three-year time horizon and test a number of the key sensitivities of the Group's and Company's business lines and balance sheet. The Group and Company then ensure that its current level of financial resources is adequate to remain a going concern during this period under all scenarios considered.

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

Further details of the Company's own funds, own funds requirements and remuneration information can be found in the Company's IFPR Disclosure Document. This report is published on the SMBC Group's corporate website for the EMEA (http://www.smbcgroup.com/emea/notices-reporting/corporate-disclosures).

28. Country-by-country reporting

The Capital Requirements Regulations 2013 ("country-by-country reporting" or "CBCR") came into effect on 1 January 2014. The requirements impose certain reporting obligations on credit institutions and investments firms within the UK and within the scope of EU Capital Requirements Directive IV. The Group country-by-country report is presented below.

Information on Group entities:

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 (disposed of in 2021)	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

Basis of preparation:

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

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

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 (2021: nil).

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

Year ended 31/03/2022	**United Kingdom**	**Australia**	**Hong Kong**	**United Arab Emirates**	**Group**
Total revenue (USDm)	**178.9**	**–**	**12.9**	**1.3**	**193.1**
Profit before tax (USDm)	**9.4**	**–**	**5.4**	**0.2**	**15.0**
Corporation tax paid (USDm)	**2.6**	**–**	**0.3**	**–**	**2.9**
Average number of employees	**173**	**–**	**15**	**4**	**192**

Year ended 31/03/2021	United Kingdom	Australia	Hong Kong	United Arab Emirates	Group
Total revenue (USDm)	240.9	–	10.6	0.4	251.9
Profit before tax (USDm)	80.2	–	4.3	–	84.5
Corporation tax paid (USDm)	15.7	0.3	0.8	–	16.8
Average number of employees	308	–	14	3	325

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 2022 USDm	31 March 2021 USDm
Sumitomo Mitsui Banking Corporation – Parent		
Balances receivable / (payable) at year end		
Cash at banks	**167.0**	158.3
Net derivative assets	**1,642.4**	2,295.1
Trading instruments	**144.0**	28.3
Cash collateral received	**(3,630.9)**	(3,883.3)
Funding loans	**(1,100.2)**	(704.7)
Other liabilities	**(5.1)**	(5.9)
Amounts outside the statement of financial position		
Independent Amount securities received (Note 18)	**1,315.5**	1,308.3
Guaranteed derivative balances (Note 30)	**1,786.7**	1,517.8
Income / (expense) during the year		
(Loss)/gain on derivative instruments	**(281.2)**	1,596.8
Interest income	**–**	0.1
Other trading income	**116.5**	36.8
Interest expense	**(5.7)**	(12.8)
Fees and commissions received	**1.2**	2.8
Fees and commissions paid	**(20.0)**	(24.7)
Other expenses	**(1.5)**	(0.3)

	31 March 2022 USDm	31 March 2021 USDm
SMBC Nikko Securities Inc. – Parent		
Balances receivable / (payable) at year end		
Securities purchased under resale agreements	**2,977.1**	2,502.8
Accrued income receivable	**12.7**	7.2
Other receivables – reimbursements	**0.9**	2.2
Net interest payable	**(0.4)**	(1.5)
Other payables – securities trading fees	**(1.6)**	(1.7)
Securities sold under repurchase agreements	**(83.0)**	–
Amounts outside the statement of financial position		
Margin Deficit Securities received (Note 18)	**70.0**	10.0
Income / (expense) during the year		
Interest income on securities under resale agreements	**1.3**	0.1
Fees and commission on securities trading	**22.1**	20.4
Other operating income	**0.2**	–
Reimbursements	**3.1**	0.1
Interest expense on securities under repurchase agreements	**(12.0)**	(11.9)
Other fees and commissions paid	**(0.7)**	(2.0)
Other expenses	**(2.5)**	0.7

	31 March 2022 USDm	31 March 2021 USDm
SMBC Capital Markets Inc.		
Balances receivable/(payable) at year end		
Collateral placed	**2,161.3**	2,952.9
Accrued interest receivable	**0.7**	(0.2)
Other assets – agency fees	**0.1**	29.6
Net derivative liabilities	**(1,920.7)**	(2,812.5)
Securities sold under repurchase agreements	**(969.5)**	(332.4)
Trading instruments net liabilities	**(110.3)**	(159.3)
Collateral received	**(22.9)**	(0.3)
Accrued expenses payable – guarantee fees/agency fees	**(2.0)**	(5.0)
Amounts outside the statement of financial position		
Termination value of guaranteed transactions*	**911.3**	20.4
Guarantee indemnity securities (Note 18) *	**1,505.9**	27.0
Income / (expense) during the year		
Gain on derivative instruments	**887.2**	(1,584.0)
Interest income	**3.8**	2.7
Fees and commissions on agency trading	**3.6**	3.5
Loss on trading instruments	**(18.2)**	(10.2)
Other operating income – guarantee termination / intermediation fees	**1.3**	0.6
Fees and commissions on securities trading	**(0.2)**	(0.2)
Other operating expenses	**(12.4)**	(11.6)

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

	31 March 2022 USDm	31 March 2021 USDm
SMBC Nikko Securities America Inc.		
Balances receivable/(payable) at year end		
Accrued income receivable	**3.3**	3.4
Other assets	**1.3**	1.1
Accrued securities trading fees and agency fees	**(1.2)**	(3.1)
Other liabilities	**(19.5)**	(7.9)
Income/(expense) during the year		
Fees and commissions income on securities trading	**5.4**	7.3
Fees and commissions expense on securities trading	**(10.2)**	(10.9)
Other operating expenses	**(0.7)**	(0.3)

	31 March 2022 USDm	31 March 2021 USDm
SMBC Bank International plc		
Balances receivable/(payable) at year end		
Cash at banks	**22.2**	14.3
Collateral placed/(received)	**39.5**	(15.7)
Net derivative instruments	**(43.8)**	21.6
Other liabilities	**(32.5)**	(15.8)
Income / (expense) during the year		
(Loss) / gain on derivative instruments	**(24.1)**	150.1
Interest income	**0.1**	0.1
Interest expense	**(0.1)**	(0.2)
Other fees and commissions paid	**(1.3)**	(1.1)
Other operating expenses	**(35.7)**	(13.5)

	31 March 2022 USDm	31 March 2021 USDm
SMBC Nikko Securities (Hong Kong) Limited		
Balances receivable / (payable) at year end		
Accrued income receivable	**1.3**	0.2
Accrued expenses payable	**(0.2)**	(0.2)
Other liabilities	**–**	–
Income / (expense) during the year		
Fees and commission on securities trading	**11.2**	(1.8)
Other fees and commissions paid	**(0.6)**	(0.8)
Other non-personnel expenses	**(0.5)**	(0.7)

	31 March 2022 USDm	31 March 2021 USDm
Nikko Systems Solutions, Ltd.		
Income / (expense) during the year		
Other non-personnel expenses	**(0.5)**	–

	31 March 2022 USDm	31 March 2021 USDm
SMBC Nikko Securities (Singapore) Pte. Ltd		
Balances receivable/(payable) at year end		
Accrued income receivable at year end	**0.2**	0.5

	31 March 2022 USDm	31 March 2021 USDm
SMBC Nikko Capital Markets Europe GmbH		
Balances receivable/(payable) at year end		
Accrued income receivable	**2.3**	5.4
Other receivables	**3.9**	7.6
Accrued expenses payable	**(3.2)**	(3.1)
Other payables	**(0.7)**	(6.5)
Income / (expense) during the year		
Fees and commission on securities trading	**2.4**	4.6
Other operating income	**7.7**	11.7
Other fees and commissions paid	**(10.7)**	(13.2)

	31 March 2022 USDm	31 March 2021 USDm
SMBC Bank EU AG		
Balances receivable/(payable) at year end		
Net derivative liabilities	**(117.0)**	(59.4)
Collateral placed	**125.0**	58.4
Other receivables	**1.8**	0.7
Amounts outside the statement of financial position		
Securities placed as voluntary derivative collateral (Note 14)	**–**	156.5
Securities received as voluntary derivative collateral (Note 18)	**–**	169.3
Income / (expense) during the year		
Loss on derivative instruments	**(101.8)**	(73.5)
Other operating income	**1.3**	0.7
Interest expense	**(0.2)**	(0.1)
Other fees and commissions paid	**(0.2)**	–

	31 March 2022 USDm	31 March 2021 USDm
The Bank of East Asia, Limited		
Balances receivable / (payable) at year end		
Cash at banks	**0.9**	0.9

	31 March 2022 USDm	31 March 2021 USDm
DMG MORI Finance GmbH		
Balances receivable / (payable) at year end		
Derivative (liabilities) / assets	**(0.7)**	3.6
Income / (expense) during the year		
(Loss) /gain on derivative instruments	**(2.3)**	1.3

Other related parties include unconsolidated structured entities, income from which is disclosed in Note 34 and the Group's Directors which emoluments are disclosed in Note 6.

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 USD 1,786.7 million (2021: USD 1,517.8 million). In order to support the guarantee, SMBC has provided the Group cash collateral, disclosed in Note 18.

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 31/03/2022 USDm Fees	Year ended 31/03/2021 USDm Fees
SMBC	**19.1**	23.1

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 USD 2.0 billion multi-currency uncommitted rolling facility. At 31 March 2022, USD 1,050.5 million (2021: USD 650.1 million) of the facility was utilised.

In 2017, SMBC and the Group also signed an agreement to provide the Group with a JPY 300.0 billion uncommitted rolling facility. At 31 March 2022, USD 49.7 million (2021: USD 54.4 million) of the facility was utilised.

The Group has an earlier agreement with SMBC made in 2010 to provide the Group with a USD 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 USD 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 2022 and 31 March 2021, the entire facility was unused. The facility was renewed in April 2021 for another five-year period.

In December 2021, CM Ltd agreed to provide SMBC DP with a USD 10 million uncommitted short-term multi-currency liquidity facility. The facility will be renewed annually. At 31 March 2022, USD 2.6 million of the facility was lent.

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 2021, the Contingent Manager Agreement with BlackRock Financial Management, Inc. rolled for 12 months as no notice to terminate was issued by SMBC DP.

32. Deferred compensation

The Company operates a bonus deferral scheme for senior employees at the Managing 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.

In addition, certain employees receive deferred awards which are linked to the SMFG share price and paid in cash after a vesting period. The awards are dependent on future service and deferred for up to five years.

At 31 March 2022 deferred awards totalled USD 2.9 million (2021: USD 2.5 million).

33. Investment in subsidiary undertakings

The Company has invested USD 200.0 million in the ordinary shares of SMBC Derivative Products Limited, a 100% subsidiary, incorporated in England and Wales, registered office 100 Liverpool Street, London, EC2M 2AT, and USD 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 USD 11.2 million (2021: USD 10.6 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

COMPANY INFORMATION

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

Registered office
100 Liverpool Street, London, EC2M 2AT

Regulated status
Authorised and regulated by the Financial Conduct Authority. The Financial Services Register number is 171935.

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

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

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

Presentation of information
Forward-looking statements
This document contains certain forward-looking statements with respect to the financial condition, results of operations, and business of CM Ltd and SMBC Group. Forward-looking statements may be made in writing but also may be made verbally by members of the management of the SMBC Group in connection with this document.

Words such as 'may', 'will', 'continue', 'aim', 'target', 'projected', 'expect', 'anticipate', 'intend', 'plan', 'goal', 'believe', 'seek', 'estimate', 'achieve', 'potential', and variations of these words are intended to identify forward-looking statements. CM Ltd and SMBC Group make no commitment to revise or update publicly any forward-looking statements.

Forward-looking statements may be affected by, among other things, changes in legislation; the development of standards and interpretations under IFRS; the outcome of current and future legal proceedings and regulatory investigations; the policies and actions of governmental and regulatory authorities; SMBC Group's ability to manage the impacts of climate change effectively; geopolitical risks; and the impact of competition.

A number of these factors are beyond the control of CM Ltd and SMBC Group. As a result, CM Ltd and SMBC Group's actual financial position, future results, capital distributions, capital, leverage or other regulatory ratios, or other financial and non-financial metrics or performance measures may differ materially from the statements or guidance set forth in CM Ltd's and SMBC Group's forward-looking statements.

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