SMBC

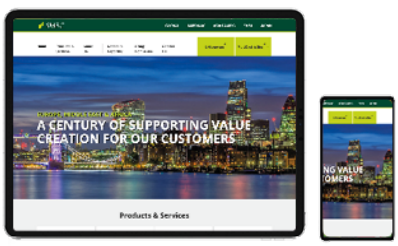
SMBC Group

SMBC NIKKO CAPITAL MARKETS LIMITED

MIFIDPRU disclosure report

31 March 2023

Contents



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Document disclaimer

- SMBC Nikko Capital Markets Limited ("CM Ltd", "the Company") is authorised and regulated by the Financial Conduct Authority ("FCA"). The disclosures set out in this document have been provided in accordance with the disclosure requirements set out in Chapter 8 of the FCA's MIFIDPRU Prudential Sourcebook for MiFID Investment Firms ("MIFIDPRU 8") under the UK 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), which came into effect on 1 January 2022.
- The purpose of the disclosure, as contained within this document, is to provide sufficient information to enable market participants to assess the risks within the Company.
- This document does not constitute any form of financial statement on behalf of CM Ltd.
- This document reflects, where appropriate, information which is contained within the Consolidated Annual Report & Financial Statements of CM Ltd.
- The information contained herein has been subject to internal review but has not been audited by CM Ltd.'s external auditors.
- Although the disclosures are designed to provide transparent capital disclosure by banks and investment firms on a common basis, the information contained in this particular document may not be directly comparable with that made available by other firms. This may be due to a number of factors such as:

  The mix of approaches allowed under the IFPR;
  - The mix of exposure types;
  - The different risk appetites and risk profiles of firms; and/or
  - The different waivers and modifications granted by the FCA.

1. Overview

1.1 Background and scope

Effective 1 January 2022, IFPR is the regulatory framework for the UK market governing the management of risks and capital requirements for investment firms that are authorised and regulated under the MiFID. The prudential regime for FCA investment firms is more aligned to the way that investment firms run their business. This should reduce barriers to entry and allow for increased competitiveness between investment firms in the UK.

The disclosures herein have been prepared in accordance with the disclosure requirements of MIFIDPRU 8. These requirements are designed to promote market discipline by providing market participants with key information on CM Ltd.'s risk management objectives, governance arrangements, own funds and own funds requirements. Improved public disclosures of such information leads to increased transparency and should lead directly to more effective market discipline.

1.2 Basis of disclosure

The IFPR disclosure requirements apply to CM Ltd. on an individual entity basis. Unless otherwise stated all figures in this document are denominated in millions of US Dollars and are as of 31 March 2023.

1.3 Frequency of disclosure

After due consideration of the size and complexity of the operations, CM Ltd. has determined that this disclosure document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. However, the Company may decide to publish some or all disclosures more frequently than annually if there are future changes in the business that are deemed to be material by CM Ltd.'s Board of Directors.

1.4 Location and verification

This Disclosure Document has been reviewed and approved by CM Ltd.'s Board of Directors but has not been subject to external audit. However, where data is equivalent to that included in the Annual Report and Financial Statements, such data has been subject to external audit during the formal review and verification process of the financial statements.

This report is published on the SMBC Group's corporate website for the EMEA region (EMEA – Corporate Disclosures (smbcgroup.com)).

2. Risk management objectives and policies (MIFIDPRU 8.2)

2.1 Overview

As outlined in the Company's Board-approved Enterprise Wide Risk Management Policy, the mission of the Risk Management Department ("RMD") is to 'ensure the financial stability and continuity of CM Ltd by acting as an executive guardian of its risk profile'. CM Ltd.'s Risk function ensures the correct execution of risk management that satisfies all applicable laws, regulations, and best practice.

The Risk function is independent from the business areas that generate risk and operates within the overall governance framework of the Company which allows the exercise of professional judgement in an effective and impartial manner.

Per the requirements of MIFIDPRU7.2A, RMD is led by the Chief Risk Officer ("CRO") and is independent of operational and business functions, and has sufficient authority, stature and resources to enact its responsibilities.

The key objectives of the Risk function are therefore:

- To ensure that the Company has in place on an on-going basis a policy framework, which ensures effective identification, measurement, monitoring and reporting of existing key and emerging risks;
- To ensure that the Company has an appropriate Risk Appetite Framework in place, which is observed and maintained in the pursuance of the Company's strategic objectives;
- To ensure that the Company maintains sufficient quality and quantity of capital resources in order to ensure the level and nature of risks being taken are consistent with the Board's expectations at all times;
- To ensure, in conjunction with the Treasury department, that sufficient quality and quantity of liquid resources are in place to meet obligations as they fall due;
- To ensure, in conjunction with the Treasury department, that prudent levels of funding are in place to fund activities even under stressed conditions;
- To manage and minimise risks assumed as a consequence of the business strategy (e.g., Operational Risk, Conduct Risk);
- To maintain an adequate and effective control environment. This includes instances where the Company has outsourced its risk management services (to both internal group companies and external providers);
- To ensure that the Company adheres to the rule and spirit of the laws and regulations governing its business;
- To ensure that relevant risk information is shared with regulators in a timely manner upon request or in circumstances which require escalation in line with Principle 11 requirements.

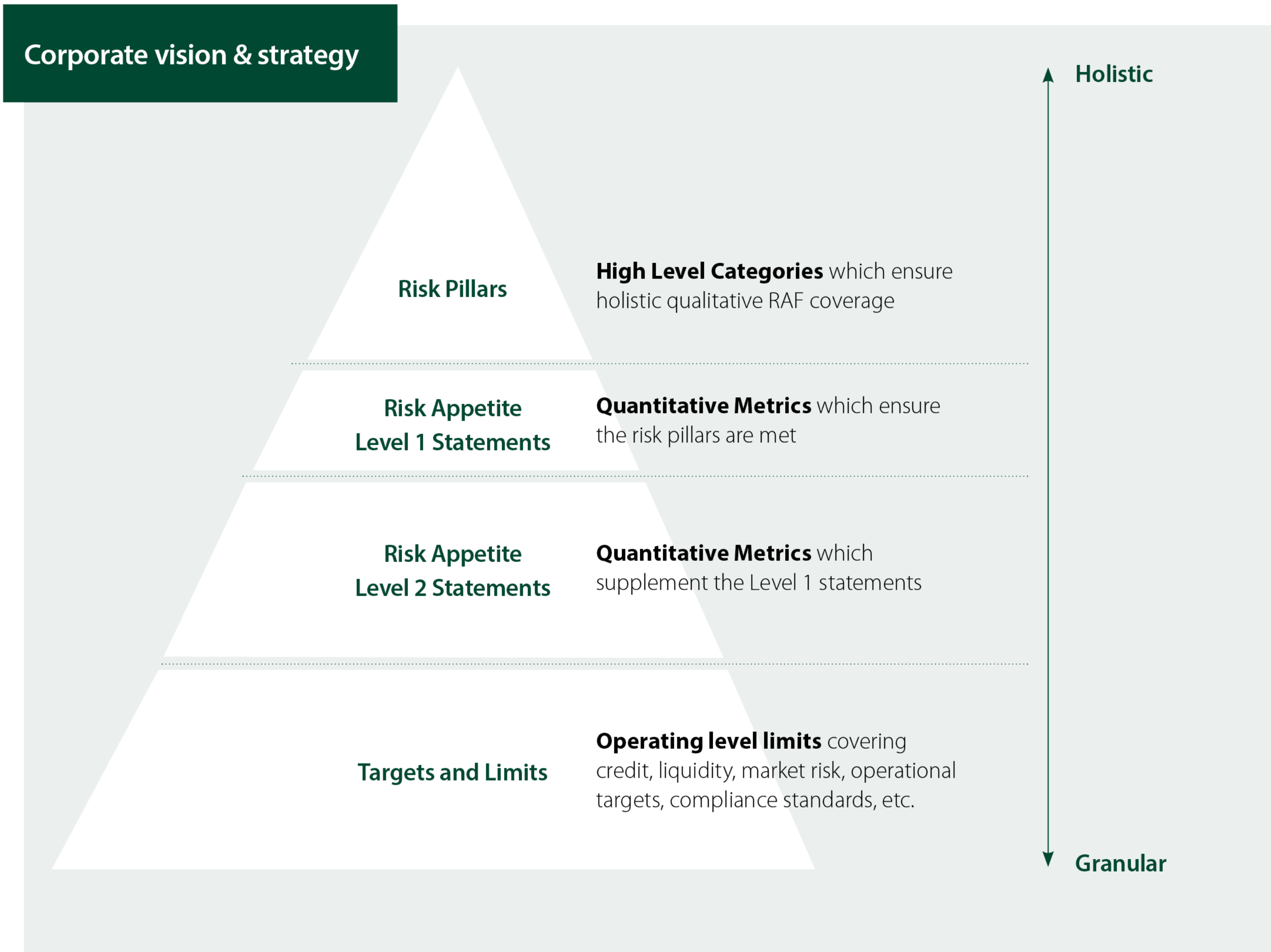
The Risk Management Framework of CM Ltd. sets out the governance arrangements, roles and responsibilities, appetites and limits, reporting and policies that are in place across CM Ltd. to manage the risks to the Company. The following sections provide summaries of the main aspects of this framework (governance arrangements are outlined in detail in section 2). Collectively, these processes meet the requirements of MIFIDPRU 8.2.1 and 8.2.2.

2.2 Risk Appetite Framework

2.2.1 Overview

The purpose of CM Ltd.'s Risk Appetite Framework ("RAF") is to define and monitor the level of risk (the type and quantum) that the Company is able and willing to undertake in pursuit of its objectives. The RAF ensures formal identification and consensus about the strategic-level risks which CM Ltd. faces, and is a key tool for the business, based on the risks that have been identified and assessed. In addition, the RAF provides the structure to enable the monitoring of CM Ltd.'s risk profile against the limits and metrics agreed through the risk appetite setting.

The Board considers and sets out the Company's Risk Appetite in the context of the Company's strategic objectives and is responsible for ensuring that the RAF is embedded into both the risk management and capital planning processes of CM Ltd. at all relevant levels. CM Ltd.'s Risk Appetite Framework is structured as per the below diagram.

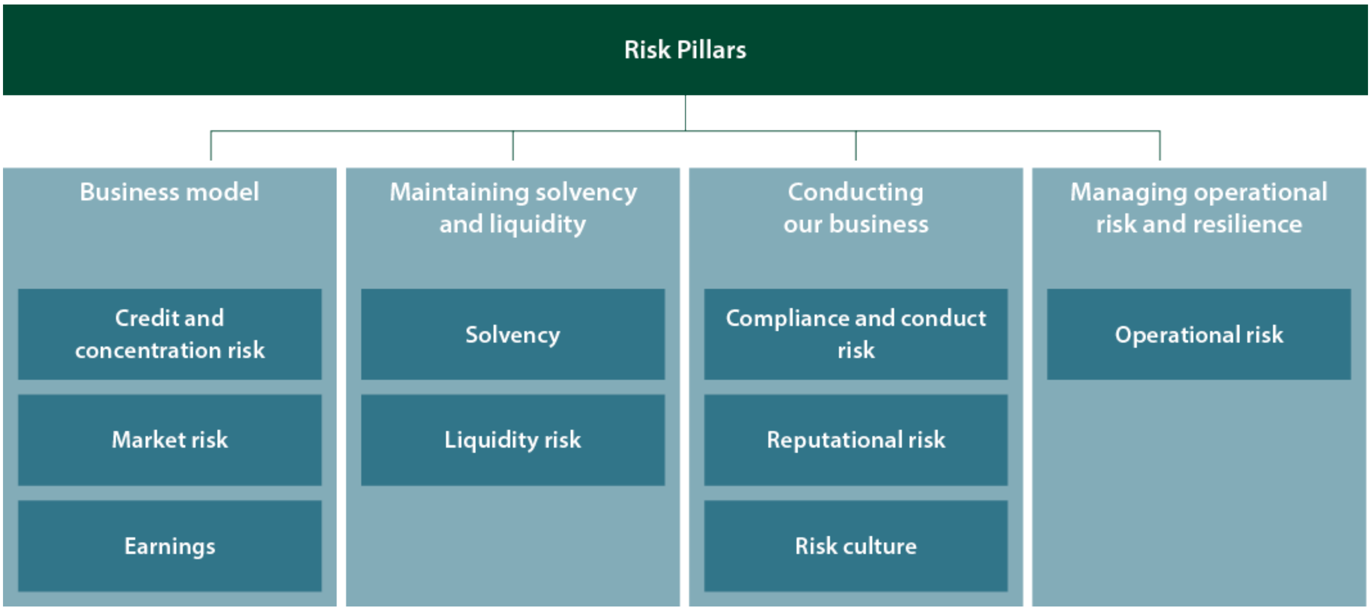


CM Ltd.'s executive management are responsible for fully understanding the Risk Appetite which has been set and conducting the day-to-day business in line with the Risk Appetite. The Risk Appetite Framework is re-evaluated at least annually as part of the strategic planning process. The strategic planning process is supported by other key aspects of the Risk Management Framework (namely the ICARA) to ensure consistency between strategic and risk management objectives, and therefore, the Risk Appetite Framework review has been aligned to the ICARA review schedule.

2.2.2 Risk Strategy & Pillars

CM Ltd.'s business model is to engage in securities and derivatives activity, primarily on behalf of investors and clients of the Sumitomo Mitsui Banking Corporation Group ("SMBC Group") (predominantly in Japan and Europe).

Risk Pillars articulate the Company's risk strategy and are aligned to the business strategy and operating model through high level categories which help to arrange the Company's RAF components into strategic themes. Within each Pillar are corresponding Risk Appetite Statements. The Pillar approach ensures comprehensive RAF coverage across all aspects of the business. The Pillars are organised as follows.



2.2.3 Risk Appetite Statements

Risk Appetite Statements define appetite levels for quantitative metrics which are monitored on a regular basis to assess performance against the Company's Risk Strategy. The Risk Appetite Statements are aligned to the Risk Strategy and are intended to act as a 'hard stop' and constrain risk-taking within the desired levels. Management and Board set and approve qualitative thresholds based on a number of factors, including regulatory requirements, observed behaviour (historical experience) and stressed forecasts. Thresholds are reviewed annually. The Risk Appetite Statements are split into two categories:

– Level 1 statements are strategic and are intended to act as a 'hard stop' in respect of the generation of incremental risk. Any new or amended Level 1 statements are Board approved.
– Level 2 statements, whilst set and reviewed initially by the Board, have some flexibility in their establishment and therefore are delegated to senior management (Chief Executive Officer, "CEO" or CRO and notification to the next Risk Management Steering Committee ("RMSC") and Board), where a change is required and appropriate.

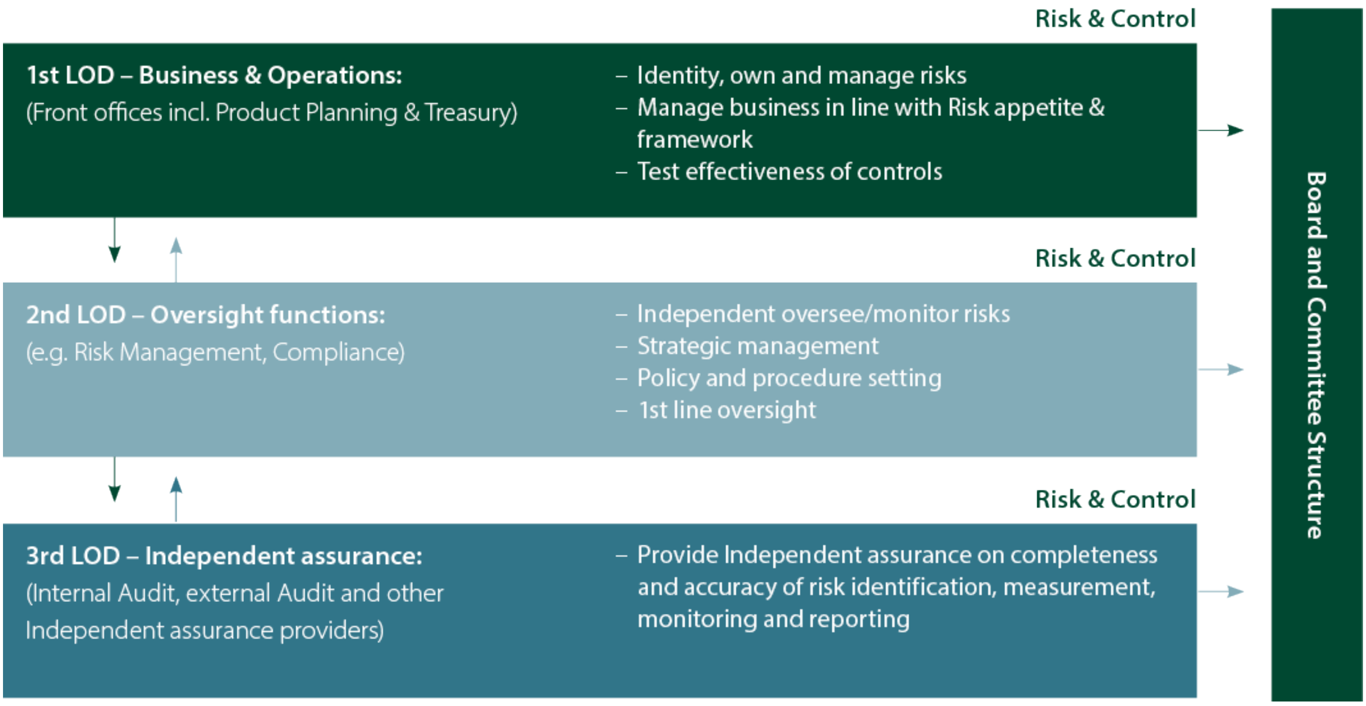
On a monthly basis, the Company compiles a Risk Appetite Dashboard ("RAD"), which comprises the Risk Appetite Statements described above, along with their respective agreed thresholds and corresponding monthly results.

The RAD forms a key element in the report by RMD to both the RMSC and to Executive committee ("ExCo") on a monthly basis (along with the relevant RMSC sub-committees). The RAD is also a key part of the reporting suite to the Board/Board Risk Committee on a quarterly basis. RMD coordinates with the various stakeholders across the business to populate the RAD metrics each month.

The risk appetite metrics are monitored on an ongoing basis by the first and second lines of defence (detailed below), and any breach (or potential to breach) is required to be escalated to senior management (and if necessary, the Board) in a timely manner. In such situations it is expected that an explanation of the circumstances of the breach be provided, along with remediation plans if appropriate (if not, the reasons for this should also be clearly articulated).

2.3 Three Lines of Defence

CM Ltd. adopts a Three Lines of Defence ("3 LOD") approach to risk management to ensure adequate oversight. There are many types of risk throughout the Company, and every employee is involved in risk management. It is therefore essential to provide clarity of responsibility over the different elements of risk management. The 3 LOD approach separates the ownership/management of risk from the functions that oversee risk and the function that provides independent assurance, as illustrated below:



2.4 Risk monitoring and reporting

Risk Management of the Company is realised through effective Risk monitoring and reporting. The key principles for effective risk reporting and escalation are as follows:

- Ensuring that senior management is provided with the necessary information regarding the Company's principal risks so that an informed view of the Company's risk profile can be made;
- Ensuring that the Risk Management Department have properly reported all material risks and delivered a complete view of the whole range of risks facing the Company;
- The principal risks facing the Company must be reported at monthly Risk Management Steering Committee meetings. The Risk Committees have responsibility for the principal risk categories and related risk management matters;
- Delivery of a Risk Report that incorporates the key themes/messages from the Risk Committees to the Executive Committee on a monthly basis by RMD;
- An annual (or more frequent) review of the format of the risk reports to ensure these continue to appropriately meet senior management information requirements;
- RMD should provide BAU reporting on a daily basis to the desks and senior management under the formal limit structures. As required ad hoc analysis around specific events is also provided; and
- RMD must maintain a record of accepted risks.

2.5 Risk identification and assessment

2.5.1 Overview

Risk identification and assessment is a key process where the Board and the executive members specify the risks the Company is faced by and share the understanding of them among all the relevant management members of the Company to ensure the effective implementation of risk management across all the businesses that the Company conducts. The risk identification and assessment is based on the following principles, objectives and actual processes.

2.5.2 Key principles and objectives

The key principles for effective risk identification and assessment are:

- To identify the major risks that could impact the Company's long term sustainability;
- To assess the likelihood and impact of the risks materialising;
- To assess the robustness of the controls that mitigate the risks; and
- To ensure that identified risks are recorded on the Company's Risk Register.

The main objectives of risk identification and assessment are:

- To help the Board with understanding the nature and size of the risks that the Company faces;
- Determining adequate capital and liquidity requirements on a forward looking horizon through ICARA processes;
- To ensure effective controls are implemented and maintained; and
- To help the executive management with day-to-day decision making in the Company's business, so such decisions will be in line with the strategic objectives and the risk appetite of the Company.

2.5.3 Required processes

The Company has a number of processes to ensure its risks are correctly identified and properly assessed, which include, but are not limited to:

- An ongoing risk identification process captured in the Company's Risk Register and Harms assessment that is formally reviewed during the ICARA process. The Risk Register is formally attested to by the Heads of Global Markets ("GM") and Capital Markets & Advisory ("CMA") divisions, pre submission to the RMSC and BRCC for challenge and approval.
- An emerging risk identification process where contemporary and developing risks are identified and their potential impact evaluated. Mitigating actions are considered and then presented to the CRO and BRCC for challenge, review and approval.

A detailed explanation and assessment of the Company's risks must be given to the Board, BRCC and the Executive management members. At a minimum the following must be produced and presented to the Board, the BRCC and/or RMSC:

2.5.4 Risk Register

The Risk Register documents the key risks and harms faced by CM Ltd. which could impact on the primary strategic objectives. It ensures that appropriate controls are in place for those risks that are either most likely to materialise and/or have the greatest impact. This information is then used to identify which areas should be assessed for additional capital.

2.5.5 Harms assessment

CM Ltd., as an IFPR firm, must conduct a harms assessment as part of the ICARA process. The harms assessment considers how the Company's business model could negatively impact or "harm" the Company itself, its clients and the wider financial market. The purpose of the exercise is the identify those harms, articulate what controls are in place to mitigate the harm and assess what additional controls (if any) are necessary.

2.5.6 Emerging risks

The emerging risk profile comprises risks identified and assessed by senior management as being particularly relevant to CM Ltd. at any particular time. The risk may be a new risk or a specific example of an identified risk. These inform senior management of the most important risks facing CM Ltd. and allows for mitigating actions or changes to the risk appetite to occur.

The quarterly process is a proactive part of the risk identification process which promotes debate and challenge and helps prioritise mitigation measures. Additional measures/actions may be required by either RMSC or the Board depending on the identified risk and existing controls.

2.6 Risk policy framework

The Risk policy framework is illustrated at a high level below:

The Risk policy framework fits within the Company-wide policy and procedures framework, which consists of the policy and procedure hierarchy shown in the table below:

Level	Description
High Level Governance Policies	These documents stipulate high level governance policies, which are primarily administrative in nature, that enable the Board to be assured that so long as these policies are correctly followed CM Ltd is managing its risks appropriately. Policies which regulators require to be approved by the Board also fall within this category.
Organisational Policies and Procedures	This category is comprised of documents other than those which fall into the High Level Governance Policies area and which stipulate overall policies and procedures for Company-wide activities.
Control-related Policies and Procedures	This category is comprised of documents concerned with Company-wide controls and/or Risk-related items, which must be approved by the RMSC and reviewed at least annually.
Departmental and Desktop Policies and Procedure Manuals	These documents are unique to each department/desk and specify a series of predetermined content sections. These documents should also include high-level lists of products and functions for which each department is responsible.

The Enterprise-wide Risk Management ("EWRM") Policy is classified as a "High Level Governance Policy," as defined above. Furthermore, the Stress Testing Policy, the Credit, Market, Operational and Liquidity Risk Policies are also classified as "High Level Governance Policies". However, these five policies will be reviewed and approved by RMSC. The RMSC will consider material changes to be submitted to the BRCC; and at a minimum these policies will be reviewed by the BRCC over a 3 year cycle.

3. Governance arrangements (MIFIDPRU 8.3)

3.1 Corporate structure

CM Ltd., company number 02418137 incorporated in England and Wales, is an investment firm authorised and regulated by the FCA. Sumitomo Mitsui Banking Corporation ("SMBC") of Japan is the majority shareholder and controller.

3.2 Business model and strategy

CM Ltd.'s business model is to provide customer focused investment banking services including securities and derivatives products and corporate advisory services to investors and customers.

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

CM Ltd. is organised as two divisions, the Global Markets and Capital Markets & Advisory divisions. Global Markets comprises of the Derivatives, Fixed Income and Equities business lines, whereas Capital Markets & Advisory comprises the Debt Capital Markets ("DCM"), Equity Capital Markets (" ECM") and Mergers and Acquisitions advisory ("M&A") desks.

The Fixed Income and Equities desks within Global Markets undertake secondary market trading in bonds and equities, focused on customer facilitation and maximising order flow. CM Ltd.'s repo and securities lending activities are predominantly undertaken for customer facilitation purposes rather than a source of funding.

The Derivatives desk provides largely vanilla derivative hedging products to meet the needs of its customers, including those customers of affiliated entities in the SMBC Group (the "Group").

The DCM and ECM teams within Capital Markets & Advisory provide expertise in underwriting of primary issuance, while the M&A advisory group provides advice and support to the Group customers seeking new business opportunities.

3.3 Diversity

The SMBC Group is committed to diversity and inclusion because it recognises that diversity of people, opinions and perspectives is both good for business and strengthens our workplace culture. There are a number of initiatives across the group to support the development of diversity and inclusion for example DRIVE ("Diversity, Respect, Inclusion, Value and Equality") in EMEA.

Other initiatives that support diversity and Inclusion are UNIQUE, to support SMBC Group in promoting a greater understanding of mental health challenges, neurodiversity, and visible and invisible disability, Balance (gender), Black Employees & Allies (race and ethnicity), Niji EMEA (LGBTQ+) and Collaborate (inclusion).

In Japan, the Group have launched the "With Us" female networking program along with a mentoring scheme and Welcome Back Policy aimed at helping women return to work. SMBC EMEA (including CM Ltd) has signed the HM Treasury, Women in Finance Charter ("WiFC"), pledging to increase female representation to 30% at senior levels in the group by 2023. The President and CEO of CM Ltd. is the accountable executive for the Women in Finance Charter.

The Board strongly believes in the benefits of greater diversity, including gender diversity and has achieved its aspirational target of 25% for the proportion of female members of the board. In addition, the Company has adopted the following policies in recruiting senior executives:

- engaging only with executive search firms that are signatories to WiFC or have ensured equivalent standards through the Executive Search Firms' Voluntary Code of Conduct;
- liaising with the search firm to produce a brief that includes emphasis on diversity of skills and background, in addition to career experience and compatibility with the values and behaviours of existing board members, with a view to enhancing the overall effectiveness of the Board;
- encouraging the search firm to produce long lists which include female and other diverse candidates; and
- subject to the requirements for potential candidates to meet regulatory requirements for a board director of a financial services firm, considering all applications based on diversity of skills and background, without requiring previous board experience in executive and non-executive directorship roles, which female and other diverse senior executives may not have.

3.4 Business environment

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

The Company operates in an environment of significant uncertainty with respect to the continuing challenges. The annual report and accounts provide further details for this section and, can be found on the SMBC Group's corporate website for the EMEA region (EMEA - Corporate Disclosures (smbcgroup.com).

3.5 Governance Structure

CM Ltd. recognises that well-defined and transparent risk governance arrangements are imperative to ensure effective overall management and oversight of risk management.

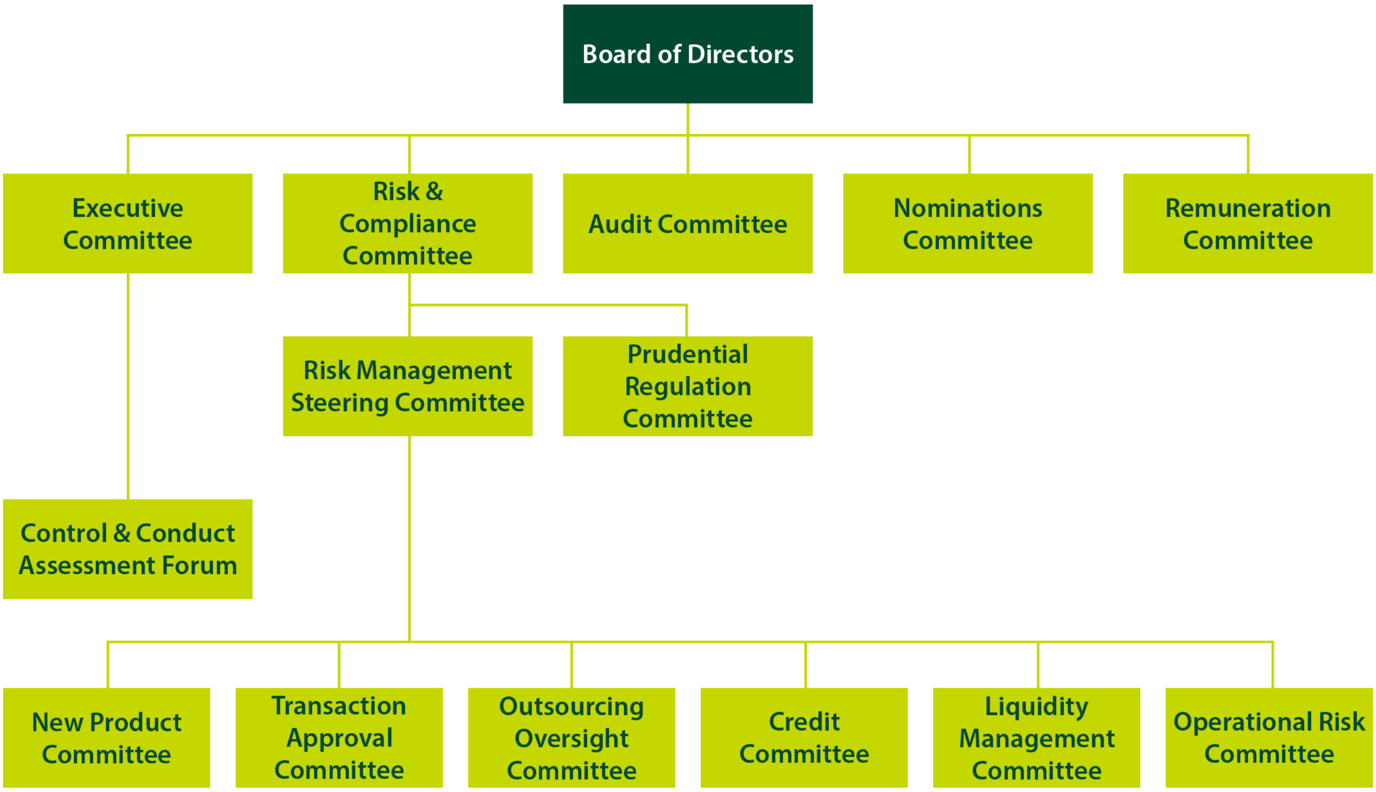
The Board retains all decision-making powers, though it has delegated some of these to either committees or individuals.

CM Ltd.'s risk management governance arrangements are comprised of:

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

3.6 Risk Management Committee Structure

CM Ltd.'s committee structure is illustrated below:



3.61 The Board Risk and Compliance Committee ("BRCC")

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

The BRCC members include independent non-executive directors ("NEDs") and meets at least quarterly.

3.6.2 The Nominations Committee

The Nominations Committee is constituted of NEDs and is responsible for the recruitment, recommendation and the annual assessment of the skills, knowledge, experience and capabilities of candidates of the Board, and to senior management positions within CM Ltd.

The Nominations Committee is responsible for selecting candidates for the Board and senior management positions within CM Ltd. The selection is based on competency-based interviews that would assess the candidates' actual knowledge, skills and abilities that the Committee consider to be relevant for the appointment. The Committee shall recommend successful candidates to the Board for the approval as part of the Company's governance process.

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

3.6.3 The Remuneration Committee

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 significant remuneration and human resource matters, such as approval of remuneration for Material Risk Takers and the bonus fund cap calculation.

The Remuneration Committee consists entirely of NEDs and is chaired by an independent non-executive director.

3.6.4 The Audit Committee

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.

The Audit Committee consists entirely of NEDs and is chaired by an independent non-executive director.

3.6.5 The Executive Committee

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

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

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

3.6.6 The RMSC and sub-committees

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

The RMSC sub-committees can be summarised as follows:

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

3.6.7 The Prudential Regulation Committee ("PRC")

The PRC is a sub-committee of the BRCC, which provides additional oversight of important processes within the firm such as the Internal Capital Adequacy and Risk Assessment ("ICARA") process and constituent parts (e.g., capital, liquidity, recovery and solvent wind down assessments). The Committee meets to review and challenge metrics, models and results related to risk management and valuation, as well the accuracy of regulatory returns and interpretation of relevant rules and guidelines.

3.6.8 Directorships

The below table shows CM Ltd.'s directors and the number of both internal and external directorships they each serve as of 31 March 2023 and at the date of this report:

Name	Company Name/Role	Date of appointment
Patricia Jackson	– Non-Executive Director, SMBC Nikko Capital Markets Limited – Non-Executive Director, SMBC Bank International plc – Non-Executive Director, Handelsbanken plc	– 13 June 2017 – 1 January 2022 – 1 October 2021
Stephen Souchon	– Non-Executive Director, SMBC Nikko Capital Markets Limited – Non-Executive Director, Aberdeen New Dawn Investment Trust PLC – Non-Executive Director, TD Bank Europe Limited	– 26 January 2018 – 1 October 2019 – 14 June 2021
Maria Turner	– Non-Executive Director, SMBC Nikko Capital Markets Limited	– 21 January 2021
Antony Yates	– Executive Director, SMBC Nikko Capital Markets Limited – Executive Director, SMBC Derivative Products Limited – Non-Executive Director, SMBC Capital Markets Inc. – Director, SMBC Capital Markets Asia Limited – Supervisory Board Member, SMBC Bank EU AG	– 5 July 1995 – 5 July 1995 – May 2014 – August 2008 – 26 April 2022
Takahiro Yazawa	– Non-Executive Director, SMBC Nikko Capital Markets Limited – Supervisory Board Member, SMBC Bank EU AG	– 24 October 2014 – 26 April 2022
Hideo Kawafune	– Non-Executive Director, SMBC Nikko Capital Markets Limited – Executive Director, SMBC Bank International Plc	– 4 July 2018 – 3 April 2018
Yukio Ishii	– Executive Director, SMBC Derivative Products Limited – Executive Director, SMBC Nikko Capital Markets Limited	– 6 April 2022 – 6 April 2022

The following changes to the Board occurred in the year and as at the date of this report:

- Keiichiro Nakamura resigned as a Director on 4 April 2023
- Yukio Ishii was appointed as a Director on 6 April 2022

4. Key metrics

The key metrics dashboard below provides a summary of the capital adequacy positions of CM Ltd. under the IFPR rules.

	31 March 2023 US$m	31 March 2022 US$m
Common equity tier 1 (CET1) capital		
Called up share capital	**779.0**	779.0
Share premium	**165.0**	165.0
Retained earnings	**516.3**	520.9
Other reserves	**(3.5)**	(1.5)
	1,456.8	**1,463.4**
CET1 regulatory adjustments		
Intangible assets	**(13.7)**	(11.6)
Cash flow hedges	**(1.4)**	1.5
Other	**(55.5)**	(30.1)
	(70.6)	**(40.1)**
Total CET1 capital	**1,386.2**	1,423.3
Additional tier 1 (AT1) capital		
Perpetual non-cumulative preference shares	**360.0**	360.0
Other adjustments	**–**	–
	360.0	360.0
Total Own Funds (A)	**1,746.2**	**1,783.3**
K-factors requirements (B)	**202.4**	**222.3**
Own Funds Ratio (note below)	**862.6%**	**802.2%**

Note: Own Funds Ratio is defined as Own Funds v K-factor Requirement (A/B expressed as a %).

5. Own funds (MIFIDPRU 8.4)

The following tables presents CM Ltd.'s Own Funds held which is made up of common equity tier 1 capital and additional tier 1 capital.

Under MIFIDPRU8.4, CM Ltd. is required to disclose:

1. A composition of the regulatory own funds and the applicable regulatory deductions and applicable filters – see Table 1 below;
2. A reconciliation of 1 (above) with the capital in the balance sheet in the audited financial statements of CM Ltd. – see Table 2 below;
3. A description of the main features of own funds instruments issued by CM Ltd. – see Table 3 below.

Table 1: Composition of regulatory own funds

	Item	**31 March 2023**	31 March 2022	Cross reference to Table 2
1	**OWN FUNDS**	**1,746.2**	1,784.3	
2	**TIER 1 CAPITAL**	**1,746.2**	1,784.3	
3	**COMMON EQUITY TIER 1 CAPITAL**	**1,386.2**	1,423.3	
4	Fully paid-up capital instruments	**779.0**	779.0	a
5	Share premium	**165.0**	165.0	b
6	Retained earnings	**516.3**	520.9	c
7	Accumulated other comprehensive income	**(3.5)**	(1.5)	d
9	Adjustment to CET1 due to prudential filters	**(52.2)**	(24.4)	e (note below)
11	**(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1**	**(18.4)**	(15.7)	f (note below)
20	**ADDITIONAL TIER 1 CAPITAL**	**360.0**	360.0	
21	Fully paid up, directly issued capital instruments	**360.0**	360.0	a

Note: 'e' includes cash flow hedges and changes in the value of own liabilities as well as additional value adjustments (AVA).
Note: 'f' includes deductions of intangible assets and deferred tax assets (see table 2).

5.1 Common Equity Tier 1 ("CET1") Capital

The Company's CET1 capital is made up of $779 million of fully paid-up ordinary share capital, $165 million share premium, audited reserves, and other reserves.

Ordinary shares carry voting rights and are owned by Sumitomo Mitsui Banking Corporation (85%) and SMBC Nikko Securities, Inc. (15%). Further details of the features of ordinary shares are in Table 3 below.

5.2 Additional Tier 1 Capital ("AT1")

AT1 Capital consists of $360 million of perpetual, non-cumulative preference shares, fully paid-up and compliant with the eligibility criteria under MIFIDPRU 3.4.3 R. Further details of the features of AT1 are in Table 3 below.

5.3 Capital deductions

Our own funds are subject to the following deductions from CET1:

- Deduction of intangible assets
- Deduction of deferred tax assets
- Prudential filters, which include:
  - Reversal of the fair value reserves related to gains or losses on cash flow hedges on projected cash flows,
  - Reversal of the gain or losses on liabilities that result from changes in the own credit standing of the firm, and
  - Application of the additional value adjustments.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'), and regulatory own funds are prepared under prudential rules. The financial statement under the regulatory scope of consolidation forms the basis for the calculation of regulatory capital requirements. There is no difference in the regulatory and accounting scope of consolidation.

Table 2: Own funds reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a Balance sheet as in published financial statements	b Under regulatory scope of consolidation	c Cross reference to Table 1
		31 March 2023		
Assets - Breakdown by asset class according to the balance sheet in the published financial statements				
1	Cash at banks	757.1		
2	Trading securities	1,674.6		
3	Derivative assets	11,390.8		
4	Other trading assets, at fair value	61.8		
5	Securities purchased under agreements to resell	9148.0		
6	Collateral placed	3,221.2		
7	Other debtors	520.7		
8	Investment in subsidiary undertaking	202.0		
9	Intangible assets	13.7		f
10	Property, plant, and equipment	4.6		
11	Deferred tax asset	4.7		f
	Total assets	26,999.2		
Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements				
1	Trading securities sold, not yet purchased	945.7		
2	Derivative liabilities	11,619.1		
3	Other trading liabilities, at fair value	178.4		
4	Securities sold under agreements to repurchase	7,028.3		
5	Collateral received	3,254.9		
6	Other creditors	2,156.0		
7	Pension scheme liability	0		
	Total liabilities	25,182.4		
Shareholders' Equity				
1	Called up share capital	1,139.0		a
2	Share premium	165.0		b
3	Retained earnings	516.3		c
4	Other reserves	(3.5)		d
	Total shareholders' equity	1,816.8		

Table 3: Main features of own funds issued by CM Ltd.

Capital Instruments' main features template

		Common Equity		Additional Tier 1		
1	Issuer	SMBC Nikko Capital Markets Limited				
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	N/A				
3	Governing law (s) pf the instrument	English				
	Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier 1		Tier 1		
5	Post-transitional CRR rules	Common Equity Tier 1		Tier 1		
6	Eligible at solo/ (sub)-consolidated/ solo & (sub)-consolidated	Solo & consolidated				
7	Instrument type (types to be specified by each jurisdiction)	Common shares		Other Tier1 instruments		
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	USD 661 million	USD 118 million	USD 200 million	USD 50 million	USD 110 million
9	Nominal amount of instrument	USD 661 million	USD 118 million	USD 200 million	USD 50 million	USD 110 million
9a	Issue price	USD 1 per security				
9b	Redemption price	N/A				
10	Accounting classification	Shareholders' equity				
11	Original date of issuance	17/06/2015	29/07/2015	28/12/2007	07/10/2010	29/07/2015
12	Perpetual or dated	Perpetual				
13	Original maturity date	N/A				
14	Issuer call subject to prior supervisory approval	No	No	Yes		
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	Any time after the 5th anniversary of issue date and Any time if a Tax Event or Capital Disqualification Event occurs at a price equal to liquidation preference	Any time after the 5th anniversary of issue date and Any time if a Tax Event or Capital Disqualification Event occurs at a price equal to liquidation preference	Any time after the 5th anniversary of issue date and Any time if a Tax Event or Capital Disqualification Event occurs at a price equal to liquidation preference
16	Subsequent call dates, if applicable	N/A	N/A	As above		
	Coupons/ dividends					
17	Fixed or floating dividend/ coupon	Floating	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	N/A	N/A	5.50%	5.50%	5.50%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary, or mandatory (in terms of timing)	Fully discretionary				
20b	Fully discretionary, partially discretionary, or mandatory (in terms of amount)	Fully discretionary				

		Common Equity		Additional Tier 1		
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative				
23	Convertible or non-convertible	Non-convertible		Convertible		
24	If convertible, conversion trigger(s)	N/A	N/A	If Common Equity Tier 1 Capital Ratio falls below 64%		
25	If convertible, fully or partially	N/A	N/A	Fully		
26	If convertible, conversion rate	N/A	N/A	Ordinary shares		
27	If convertible, mandatory, or optional conversion	N/A	N/A	Mandatory		
28	If convertible, specify instrument type convertible into	N/A	N/A	Common Equity Tier 1		
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	SMBC Nikko Capital Markets Limited		
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	No	No	N/A	N/A	N/A
32	If write-down, full, or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent, or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Preference shares		Subordinated liabilities		
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

6. Own funds requirements (MIFIDPRU 8.5)

6.1 Components of the assessment

CM Ltd.'s own funds requirements are determined as the highest of the following three requirements under MIFIDPRU 4.3.2 R:

1. Permanent Minimum Capital Requirement (PMR) –£750,000 (MIFIDPRU 4.4.2R).
2. Fixed Overheads Requirement (FOR) – $46.3 million, one quarter of the Company's annual fixed overheads (MIFIDPRU 4.5.1.R).
3. K-factor requirements – Total K-factor requirements are $202.4 million, a breakdown of which is provided in Table 4 below.

CM Ltd.'s Own Funds Requirements are therefore determined by the K-factor requirements, i.e., $202.4million, which is the highest of these three.

6.2 K-Factor requirements breakdown

The 'K-factor' approach is a new approach introduced by the IFPR to determine the minimum own funds requirements of an investment firm that is not an SNI. The aim of the K-factors is to provide a tailored and more appropriate method for setting a risk-based minimum own funds requirement for all types of investment firm compared to the CRR regime.

The K-factors relevant to CM Ltd.'s business model include the following:

- K-factor requirement calculated on the basis of the Daily Trading Flow ("K-DTF") – designed to capture the operational risks relating to the value of trading activity a firm conducts throughout each business day. First component is 'cash trades' which includes both outright security purchase/sales and securities financing transactions ("SFTs"). Second component are derivative trades. DTF is measured as a rolling average over the previous 9 months but excluding the 3 most recent months.
- K-factor requirement calculated on the basis of the Net Position Risk ("K-NPR") – this approach carries forward the market risk requirements under the UK CRR.
- K-factor requirement calculated on the basis of the Trading Counterparty Default risk ("K-TCD") – captures the risk of CM Ltd.'s exposure to the default of its trading counterparties. This includes derivative, long settlement transactions, SFTs and securities lending/borrowing designated as trading book.

Table 4: Breakdown of K-factor requirements

K-factor requirement: (Sum of)	**31 March 2023**	31 March 2022
K-DTF	**4.2**	3.7
K-NPR + K-TCD	**198.2**	218.6
Total K factor assessment	**202.4**	222.3

6.3 Overall financial adequacy

The Company utilises a number of approaches to ensure that it remains compliant with the overall financial adequacy rule under MIFIDPRU7.4.7R, both in terms of own funds and liquidity resources.

Foremost is the annual assessment of own funds and liquidity adequacy conducted during the Internal Capital Adequacy and Risk Assessment ("ICARA") process, which considers the Company's resource requirements under 'business as usual' and a variety of severe yet plausible 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 Company's business lines and balance sheet. The Company then ensures that its current level of financial resources is adequate to remain a going concern during this period under all scenarios considered.
- In the case of liquidity, these requirements are forecast over a 90 day stressed cumulative net cash flow, which replicates a severe yet plausible liquidity crisis. The Company then ensures that its current level of liquid asset resources is adequate to remain a going concern during this period under all scenarios considered.

A Solvent Wind Down Plan ("SWDP") is additionally maintained to assess the resources and actions required in order to achieve an orderly wind down of CM Ltd and its subsidiaries (and as a final step, the closure of its regulated business). The SWDP has been structured in accordance with key regulatory expectations and industry practices, such as the guidance set-out in the FCA handbook (MIFIDPRU 7.5).

The Company assesses its solvency against the higher of the wind down costs (fixed and calculated on a stressed basis) or a multiple of the underlying (IFPR) K-factor requirement (recognising the Company's ICARA harms assessment). This is monitored on an ongoing basis as part of the risk monitoring and reporting process outlined in section 2.

The above requirements represent the Company's 'threshold requirements' for solvency and liquidity as per the requirements of MIFIDPRU 7.6 and 7.7 respectively.

7. Remuneration policy and practices (MIFIDPRU 8.6)

CM Ltd. is subject to the FCA's MIFIDPRU Remuneration Code and is categorised as a non-SNI MIFIDPRU (small and non-interconnected) firm. This section provides further information on the Company's remuneration policies and governance in addition to quantitative information on remuneration in respect of the 12 month period ending 31 March 2023 (FY22). The Company retains three Independent Non-Executive Directors ("INEDs") on its Board who receive a fixed fee for their services.

1. Remuneration Policy

The Remuneration Policy ("Policy") sets out the policies and practices of remuneration for all the Company's employees including international secondees from SMBC Nikko Securities (Tokyo) and SMBC (Tokyo), and is intended to reflect the overall business philosophy, aims and objectives.

The MIFIDPRU Remuneration Code ("the Code") applies to all the Company's employees.

The Remuneration Policy is an expression of the Company's overall philosophy, aims and objectives with regard to how employees are paid.

It is the Company's intention that:

1. it complies in full with all regulatory rules of all regulators having regulatory oversight of the Company (including but not limited to the FCA's MIFIDPRU Remuneration Code (SYSC 19G)), ensuring that the Remuneration Policy is risk-focused and adopts Remuneration Policies which promote effective risk management and do not expose the business to excessive risk;
2. the Remuneration Policy will align to the business strategy and the objectives, culture and values of the Company;

3. the Remuneration Policy will support the long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
4. decisions about Remuneration Policy will be reviewed, considered and approved/ratified by the Remuneration Committee ("RemCo");
5. employees are remunerated by means of the following elements - basic salary, allowances, benefits including defined contribution pension, private medical insurance, life assurance and variable pay – that are relevant to their location and function;
6. the amount of fixed remuneration, including where appropriate; salary, allowances, or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay;
7. employees have the opportunity to share in the success of the Company in years of good performance and also accept diminished levels of variable pay in times of poor performance or losses; and
8. the Remuneration Policy is gender neutral, with male and female workers being paid equal pay for equal work or work of equal value. SMBC performs an annual salary review with controls in place to ensure compliance with this policy.

The policy is owned by the RemCo, who will review the policy annually or more frequently if necessary. The RemCo is responsible for the oversight and development of the Company's remuneration policies and practices, in particular to set, and recommend to the Board for approval, the Remuneration Policy. Minor revisions may be made by the Chief Human Resources Officer ("CHRO") and approved by the CEO.

The mandate of the RemCo includes, but is not limited to:

– Reviewing and recommending to the Board the approval of the Remuneration Policy;
– Reviewing and approving current and deferred remuneration for specified Material Risk Takers ("MRT");
– Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments.

2. Regulation

The Company is committed to the maintenance of robust remuneration arrangements that are in accordance with regulatory requirements including the Code.

Here are some of the ways in which the Company fulfils this commitment:

a. Scope and Application – we have a clear process to identify employees whose professional activities could have a material impact on the firm's risk profile or of the assets that the firm manages, in accordance with the MIFIDPRU Remuneration Code. Such employees are designated as MRT, and they are made aware of the implications of their status.
b. Governance – the Company is categorised as a non-SNI firm. In line with FCA proportionality guidelines, it has constituted a RemCo to strengthen remuneration governance. The committee is primarily responsible for ensuring the remuneration policies comply with the FCA Remuneration Code in addition to specific responsibilities for the approval of senior management compensation, review of MRT compensation, bonus pool funding and employee conduct outcomes. Human Resources will seek review of the Remuneration Policy Statement and this disclosure from external consultants from time to time as deemed appropriate and necessary to confirm compliant approach to remuneration and the required disclosure. Advice in connection with the preparation of this remuneration disclosure has been provided by PricewaterhouseCoopers LLP (PwC).
c. Capital – the aggregate total of variable remuneration in FY 2022 was considered in the context of the Company's overall capital resources.
d. Guarantees – the policy is that guarantees are used only in exceptional circumstances, only in the case of new hires and only in their first 12 months of service.
e. Risk–focused Remuneration Policies – the policies, procedures and practices promote sound risk management. This is an important part of the policy which links risk and remuneration through the governance process, the performance evaluation process, deferral structures and performance adjustment provisions.

f. The Company has a top down risk adjustment which is produced by the Risk Management department. This uses attributed direct costs and then incorporates a cost of capital to reflect capital usage. The process is used to quantify the efficiency of capital usage in driving profitability and to assess the appropriateness of the size of the bonus funds.
g. The Company also adjusts the bonus awards of its employees if their behaviours are deemed to be incompatible with the organisation's values and culture.
h. Conduct assessment is a key part in the assessment of non-financial performance for Departments.

3. Material Risk Takers

The Company has identified MRTs in accordance with the FCA's MIFIDPRU Remuneration Code for the definition of material risk takers for remuneration purposes. The Company has developed and applied internal qualitative against the defined criteria to identify those individuals that have a material impact upon the Company's risk profile.

4. Control functions

Employees engaged in risk, audit and compliance functions are independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front line business units in the process and is reviewed and approved by the Remuneration Committee. Remuneration for employees in control functions is predominantly fixed.

5. Base salary

Base salary is the fixed payment made to an employee for their services. It does not include allowances or benefits and is the basis for salary-related benefits such as pension contributions.

The amount of salary paid to an employee will depend on the following factors:

a. the market rate for the function;
b. the consistency of the market rate with internal peer groups;
c. the knowledge, experience and competencies of the individual.

Base salary is reviewed annually, and increases are effective from 1 July.

Fixed remuneration comprises of base salary, allowances and benefits.

6. Variable pay

The Company has defined variable pay as annual discretionary bonus, which is awarded based on SMBC results, CM Group results, departmental results and individual performance.

The total bonus pool amount is determined by reference to the Company's risk-adjusted criteria, which include both quantitative and qualitative measures.

Individual discretionary bonuses are based on performance and non-performance based criteria. Adherence to applicable risk and control frameworks is part of the performance assessment.

All employees are eligible to be considered for a discretionary bonus award as long as they began their employment with the Company on or before the last day of March of the appropriate performance year. All awards for new joiners are pro-rated based on their start date.

For FY 2022 the core performance criteria were:

Customer Focus, Diversity and Inclusion, Enterprise Leadership, Trust & Integrity, Risk, Judgement & Decision Making, Driving Results, Driving Change and Strategic and Visionary.

7. Deferral

As part of the introduction of the MIFIDPRU regime for Investment firms and due to CM Ltd now being classified as a non-SNI firm, the Company is required to apply the extended and full remuneration rules.

During FY22, the Company's deferral policy was updated to apply to employees at the title of Director or above with bonus awards over £100,000. Under the Plan, employees (excluding MRTs) will have a portion of bonus in excess of £100,000 deferred over three years. For employees who are MRTs with bonus awards above the de minimis threshold, between 40% and 60% of bonus is deferred for 3 years. Deferrals are split between cash deferrals and deferrals linked to the SMFG share price. Any amounts deferred that are linked to the SMFG share price are subject to a holding period of 6 months.

8. Performance Adjustment – Malus and Clawback

The Company's policy provides that any deferred bonus is subject to performance adjustment. Performance adjustment events may occur as a result of a deliberate or malicious act, error, accident or negligence. Incidents can be internal or external to the EMEA Division. There may also be grounds for a performance adjustment due to a responsible person's failure to act either to prevent a risk event or where timely action would have mitigated the effects of a risk event. Performance adjustment seeks to take account of matters that were not apparent at the time of the original variable award and may result in the loss of bonus. Decisions on performance adjustment are considered and decided by Management, the RemCo and the Board, as necessary.

The RemCo has the authority to adjust all bonus awards based on recommendations from the EMEA Remuneration Executive Forum ("EREF"). The EREF will make recommendations for adjustments within the Terms of Reference agreed and reviewed by the Remuneration Committee.

9. Remuneration of SMBC Nikko Capital Markets Limited in performance year 2022

Total amount of remuneration awarded to all staff in USD	
Total fixed remuneration	37.1
Total variable remuneration	18.9
MRTs	
Total number of MRTs	29

Remuneration of all staff	Senior Management	Other MRTs	Other staff
Total remuneration awarded	6.4	7.3	42.4
Total fixed remuneration awarded	4.3	4.8	28.1
Total variable remuneration awarded	2.1	2.5	14.3

Special payments	Senior Management	Other MRTs	Other staff
# of MRTs receiving guaranteed variable remuneration	–	–	
Total amount of guaranteed variable remuneration awarded	–	–	0.7
# of MRTs receiving severance payments	–	–	
Total amount of severance payments awarded	–	–	–
The amount of highest severance payment awarded to an individual MRT	–	–	

Variable remuneration of MRTs	Senior Management	Other MRTs
Variable remuneration	2.1	2.5
– of which, awarded in cash upfront	0.6	0.9
– of which, awarded in cash deferred	0.5	0.5
– of which, awarded in non-cash upfront	0.5	0.7
– of which, awarded in non-cash deferred	0.5	0.5
Deferred remuneration awarded for previous performance periods	0.9	0.6
– of which, due to vest in the financial year	0.3	0.2
– of which, due to vest in subsequent years	0.6	0.4
Deferred remuneration due to vest in the financial year	0.3	0.2
– of which, is or will be paid out	0.3	0.2
– of which, was due to vest but have been withheld due to performance adjustments	–	–

The figures above are in respect of the financial period ending 31 March 2023 - including 12 months of fixed pay to 31 March 2023, and the bonus awards paid in June 2023 for the performance year FY 2022.

SMBC