PILLAR 3 RISK DISCLOSURES

As of 31st December 2013

Document disclaimer

- The purpose of the Pillar 3 disclosures as contained within this document is solely to explain the basis according to which SMBC Nikko Capital Markets Limited Group ("CM-UK") and its constituent entities comply with certain capital related requirements and to provide information about the management of risks relating to those requirements.

- This document does not constitute any form of financial statement on behalf of CM-UK.

- This document reflects, where appropriate, information which is contained within the Consolidated Annual Report & Financial Statements of CM-UK.

- The information contained herein has been subject to internal review but has not been audited by CM-UK's external auditors.

- Although Pillar 3 disclosures are designed to provide transparent capital disclosure by 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 Capital Requirements Directive ("CRD");

  - The mix of exposure types;

  - The different risk appetites and profiles of firms;

  - The different waivers applied for and allowed by the Financial Conduct Authority ("FCA");

- Pillar 2 capital requirements are excluded from this document. Nevertheless they play a major role in determining both the total capital requirements of CM-UK and any surplus capital available.

1. Overview

The CRD, based upon the Basel 2 Accord, has established a regulatory framework across the European Union governing the amount and nature of the capital financial institutions must maintain.

The objective of the CRD is to promote the safety and soundness of the financial system by requiring banks and investment firms to hold a level of capital appropriate to the risks inherent in their business model. The CRD disclosure requirements ("Pillar 3") aim to complement the minimum capital requirements ("Pillar 1") and the supervisory review process ("Pillar 2") and seek to encourage market discipline by allowing market participants to assess information provided on the risk exposures and risk assessment processes of the firm. This document is designed to meet CM-UK's Pillar 3 obligations.

The Pillar 3 disclosures herein have been prepared in accordance with the rules of the FCA, as set out in the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Prudential Sourcebook for Investment Firms ("IFPRU"). BIPRU Section 11 (Disclosure) lays out the disclosure requirements applicable to Investment Firms. The Section 11 requirements are designed to promote market discipline by providing market participants with key information on a firm's risk exposures, risk management processes and, hence, capital adequacy. Improved public disclosures of such information leads to increased transparency and should lead directly to more effective market discipline.

The rules of BIPRU 11 allow a firm to omit any of the required disclosures that are deemed to be immaterial in that such an omission would not change the understanding of a reader relying on this information. In addition a firm may omit any disclosures where it believes that the information is proprietary or confidential. Information is deemed to be proprietary where we consider that, if shared, it would undermine our competitive position. Information is deemed to be confidential where there are obligations binding us to confidentiality with our counterparties and suppliers.

Unless otherwise stated all figures in this document are denominated in United States dollars.

2. Basis and Frequency of Disclosure

These disclosures have been prepared based upon the consolidated financial position of CM-UK and the financial position of those of its constituent companies that are regulated, United Kingdom domiciled, investment firms as of 31st December 2013. The disclosures made are those required by the regulations in force at that date.

Future disclosures will be made annually, as of 31st December, and will be updated to reflect any changes to regulatory requirements.

3. Location and Verification

This Disclosure Document has been reviewed by senior management 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.

This report is published on the corporate website of SMBC Nikko Capital Markets Limited (www.smbcnikko-cm.com).

4. Corporate Structure

CM-UK consists of SMBC Nikko Capital Markets Limited ("CM-LTD") and its wholly owned subsidiaries SMBC Derivative Products Limited ("SMBC DP") and SMBC Capital Markets Asia Limited ("CM-Asia"). Both CM-LTD and SMBC DP are full scope IFPRU investment firms domiciled in the United Kingdom and regulated by the FCA, CM-Asia is domiciled in Hong Kong and is regulated locally by the Securities and

Futures Commission. CM-UK's activities include customer facilitation, broking and trading in primary and secondary debt and equity securities and an extensive range of over-the-counter derivative contracts, additionally there is an advisory business.

CM-UK itself is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation ("SMBC") of Japan. CM-UK, together with SMBC Capital Markets Inc. ("CM-INC") of New York, constitute the SMBC Capital Markets Group ("CMG"), the global securities and derivatives arm of SMBC. CMG is structured as two divisions, the securities products group ("SPG") and the derivatives products group ("DPG"). These divisions, although they collaborate closely, are organised discretely for operational purposes.

DPG provides pricing and execution capabilities in a wide range of derivative activities. It has an integrated business model structured around a number of legal entities including CM-LTD's derivative operations, CM-INC, SMBC DP and CM-Asia. Its core business strategy is to provide hedging products and capital markets expertise to the international customers of SMBC. It is managed as an integrated, global business operating a single derivative trading book across its constituent legal entities. SMBC DP, a bankruptcy remote derivatives company that has been assigned an AA counterparty rating by Standard & Poor's and an Aa1 rating by Moody's Investor Service, is an integral part of DPG allowing the Group to offer services to customers seeking to hedge interest rate or currency risk with a highly rated counterparty.

SPG, is a Japan focussed investment banking business that works in collaboration with another affiliated firm, SMBC Nikko Securities Inc., one of Japan's foremost brokerage houses. It is a sales driven business, with offices in London and Sydney, whose business models concentrates on maximising customer order flows in the primary and secondary debt and equity markets. Although it operates a primarily agency based business model, SPG does take principal positions in order to better meet customer requirements and to provide liquidity. Additionally, the mergers and acquisitions advisory service focuses on identification and implementation of business opportunities for Japanese firms seeking to invest in Europe and European firms looking to invest in Japan. Overall, SPG strategy is focussed on expanding the SMBC Nikko Group's business franchise.

The relationships between the different legal entities within CMG are defined within agency and service level agreements. CMG also co-operates closely with SMBC's international network of branches and subsidiaries.

CM-UK does not have a public rating, however, in the event of a credit downgrade in the public rating of either the parent bank or of the publicly rated, bankruptcy remote subsidiary SMBC DP there will be the potential for various liquidity events such as collateral calls or terminations upon downgrade. CM-UK therefore continuously monitors this position.

The CRD framework applies to CM-LTD and SMBC DP on a solo basis and to CM-UK on a consolidated basis, consequently the disclosures below are presented on both a solo and a consolidated basis.

5. Risk Management

CM-UK defines its overall risk appetite as low to moderate, its focus being on customer driven business. There is no intention to develop a proprietary trading book of any significant size although moderate and controlled risks are accepted in the ordinary course of business.

The Group's risk management objectives are to identify, assess and manage all material business risks. These objectives are documented within a risk appetite framework. It is the responsibilty of the board of each company to ensure that business activities and the overall business profile remain consistent with this document. A further board responsibility is to ensure that the business is supported by an effective risk management infrastructure.

The Chief Risk Officer, reporting to the board, and supported by the Risk Management Steering Committee, has primary responsibility for overseeing day-to-day risk management.

The principal risks and uncertainties facing CM-UK are credit risk, liquidity risk, market risk and operational risk. Additionally the Group's exposure to the principal macro-economic, geopolitical, industry, regulatory and other external business risks, residual risk, concentration risk, pension obligation risk and group risk are all reviewed and assessed at least annually.

The most significant risk categories that CM-UK is exposed to are set out below:

Market Risk

Market risk is the risk that CM-UK's earnings or capital, or its ability to meet its business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices, commodity prices, credit spreads and foreign currency exchange rates. Market risk also covers CM-UK's obligation to ensure that any value adjustments made, or provisions taken, are sufficient, in the normal course of business, to allow it to hedge or close out its positions.

CM-UK has a minimal appetite for market risk arising from the derivatives business and a low to moderate appetite in the securities business.

CM-UK has no position limits for commodity, equity, interest rate or currency derivatives and, as of 31st December 2013, it had no credit derivative positions. The group fully hedges the market risk of its customer derivative transactions through matching trades with either its affiliate CM-INC, or a market counterparty. As a result the derivatives portfolio is left with minimal market risk.

Market risk does arise on the securities portfolio, where it is mitigated through the monitoring and enforcing of position limits with short unwind periods. In primary bond and equity markets, the standard practice is to ensure that new issues are pre-placed to investors through a book-building process, consequently underwriting risk, the risk that the Group is forced to hold part of a new issue in its inventory due to a failure to place stock with customers, a sudden change in market conditions or an over-estimation of demand, is minimised. The risks of each individual transaction, in particular the market appetite for the issue, will be fully assessed either by the underwriting committee or, if appropriate, at a delegated level.

In the secondary markets the Group's strategy is to focus on customer order flow and this is reflected in conservative position risk limits and short holding periods.

Credit Risk

Credit risk is the risk of a financial loss arising due to the failure, of a market counterparty or a client, to fulfil its contractual obligations. Credit risk can be directly affected by volatile or illiquid trading markets or by a change in the external credit rating of an entity leading to a fall in the value of any financial instruments the Group is holding.

The Group has a low appetite for credit risk. In DPG credit risk on customer derivatives business is mitigated, where possible, by credit guarantees provided by either CM-INC or SMBC. Interbank business is undertaken subject to collateralised credit support agreements ("CSA"). Portfolio concentration risk is proportionate to the balance sheet capacity and is subject to active monitoring. Credit risk on SPG business arises from repo/reverse repo positions and a limited number of long settlement transactions. Given the collateralised nature of such transactions overall credit exposure is low.

Credit management is a centralised process whereby the counterparty exposure limits are established at the SMBC parent company level and are allocated to the businesses at CMG level. Credit risk is managed at the business level based on allocated counterparty single name limits. The Group has three key approaches to addressing credit risk:

(i) Credit Analysis

The Group outsources credit applications, grading reviews and monitoring to the relevant credit departments of SMBC, so taking advantage of the close understanding SMBC's relationship management and credit analysis staff have of group customers to identify all potential risk factors.

(ii) Credit Value Adjustments ("CVA")

The Group employs a rigorous quantitative system of credit reserves based on scenario simulation and market risk adjusted probabilities of default; this is a "fair value reserve". Such a system cannot by itself assure efficient pricing or monitoring of individual credit exposures but it is a strong incentive for proper trade off of risk and return at the time of transaction, as well as providing an efficient incentive for assignment and termination of transactions later.

(iii) Credit guarantees and collateral agreements

The counterparty credit risk arising on customer business is mitigated by cross guarantees with CM-INC (which allow for collateral to be called) and, in the case of a number of material exposures, a collateralised guarantee has been purchased from SMBC. As of 31st December 2013 the guarantee from CM-INC covered derivative contracts with a replacement cost of $866.9 million and allowed the Group to reduce the CVA on the derivatives portfolio by $38.4 million. The parental guarantee covered derivative contracts with a gross replacement cost of $243.7 million allowing the reduction of the CVA by a further $2.4 million

Liquidity Risk

Liquidity risk is the risk that CM-UK is unable to meet its financial obligations as they fall due resulting in an inability to support normal business activity.

Liquidity risk arises from the characteristics of the firm's funding of its business activities and collateral requirements.

CM-UK is not, materially, reliant on the wholesale markets, funding its current activities from either its own resources or short term repo activity. It does not engage in trading strategies that involve maturity transformation and management is able to contain potential sources of liquidity risk.

CM-UK's derivative trading portfolios consist of matched intermediation trades. It has minimal funding risk, and it effectively eliminates currency risk. However imbalances can arise from a mismatch of collateral obligations. Such collateral mismatches arise when customer transactions are hedged with market counterparties trading under a collateralised CSA, which is a standard requirement in the interbank market, whilst most customers would neither wish, nor be able to manage, transactions entered into under such conditions. In 2013 market developments have exacerbated this issue.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") has introduced i) mandatory execution through a swap execution facility and ii) clearing, for all trades between a U.S. registered swaps dealer, such as CM INC, and financial institutions and their subsidiaries. Clearing automatically imposes a margining requirement and, as a consequence, CM-UK is now obliged to collateralise any amounts due to its U.S. affiliate. This has led to a material increase in the amount of collateral that it is required to post.

As at 31st December 2013 CM-UK had posted collateral of $1,368 million and was in receipt of collateral of $932 million. This imbalance in net collateral requirements has been met by inter-group funding. Under volatile, or stressed, market conditions CM-UK would be able to recall collateral from CM INC sufficient to cover exposures to guaranteed third parties and, additionally, it has a committed $250 million facility in place with its parent SMBC.

As at 31st December 2013 the CM-UK held a portfolio of fixed income and equity securities with a market value of $620.9 million as a result of its trading and treasury management activities. For the most part these positions were funded from share capital and reserves, although, in 2013, the wholesale funding markets were increasingly utilised, through repo and reverse repo activity, to fund some positions, efficiently manage general market risk and support customer funding activities. Short securities positions amounted to $76.3 million at the balance sheet date.

The primary focus of SPG business is the provision of an intermediation service that ameliorates any liquidity risk arising through the use of delivery versus payment (DvP) settlement arrangements. The business rationale for holding a securities portfolio is to better support customer driven business.

CM-UK reviews its contractual liquidity position in accordance with market standard ratio analysis and runs regular stress tests to determine its potential liquidity position in periods of both firm specific and marketwide stress.

Operational Risk

Operational risk is the risk of losses being incurred as a result of inadequate or failed internal processes, people or systems, or from external events. This is a very broad scope and covers areas such as transaction operations, premises and security, external suppliers, payment processes and information, data quality and records management. Operational failures or non-compliance can lead to 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.

Operational risk is a materially important risk category which has the potential for disrupting the business operations and damaging the reputation of the firm. The Group is continually seeking to strengthen its operational processes particularly through investment in technology and resources.

CM-UK seeks to minimise operational risk through clearly defined responsibilities for management and staff, comprehensive daily risk reporting and regular self-assessment of the operational set-up to identify any weaknesses covering credit analysis, risk management, settlements, legal, accounting, compliance and systems functions. Internal processes and controls are subject to periodic verification by an internal audit function which has full discretion over the particular processes and controls it chooses to review and the timing of any review.

The Group's primary operational risk mitigants include continual management emphasis on reducing errors, automation and the application of straight-through-processing to minimise manual intervention and strict reporting requirements for any operational errors that do occur.

Other specific risk mitigation factors include strict segregation of duties, minimal reliance on outsourced IT services, global systems that can be run from alternate sites, and a regularly tested and updated disaster recovery plan.

Remuneration risk

Remuneration risk is the risk that the firm's remuneration policy incentivises employees to act in ways that may undermine effective risk management by, for example, aligning rewards with short term results which may encourage individuals to take risks that push the boundaries of a firm's tolerated risk levels.

CM-UK has developed remuneration policies that seek both to implement specific FCA guidance and to abide by general best practice. Management specifically takes into account not only compliance with credit and market risk limits when considering individual compensation packages but also reviews adherence to broader operational, governance and compliance controls.

Stress tests

CM-UK recognises that it is insufficient to simply understand and quantify the above risks as they currently exist and that it must also understand the risks that might arise in times of economic stress. In order to meet this requirement CM-UK regularly undertakes a number of stress tests that model the impact of movements in factors such as interest rates, foreign exchange, credit spreads and equity index levels on the portfolio. CM-UK also runs stress tests and reverse stress tests specifically for capital planning purposes that seek to capture specific vulnerabilities.

6. Capital Resources

Table 1 provides a summary of the relevant pillar 1 capital ratios as at 31st December 2013:

Table 1

	CM-UK	CM-LTD	DP
Tier 1	43%	37%	351%
Total	51%	39%	350%

Ratios are calculated by taking the relevant capital resources as a percentage of risk weighted assets. Total risk weighted assets as at 31st December 2013 were ($'000):

CM-UK:	1,695,469
CM-LTD:	1,629,225
DP:	63,883

Deductions from the total of tier 1 and tier 2 capital are split in order that 50% are applied to tier 1 capital and 50% to tier 2 capital resources for the purpose of calculating the capital ratios in Table 1 above.

Table 2 provides a summary of the composition of regulatory capital resources as at 31st December 2013:

Table 2

	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Tier 1 capital			
Called up share capital:	404,000	404,000	200,000
Retained earnings and other reserves:	71,909	47,830	24,064
Perpetual non-cumulative preference shares:	250,000	250,000	-
Total tier 1 capital:	725,909	701,830	224,064
Tier 2 capital			
Surplus provisions:	-	-	183
Subordinated debt:	150,000	150,000	-
Total tier 2 capital:	150,000	150,000	183
Total tier 1 plus tier 2 capital:	875,909	851,830	224,247
Deductions from total of tier 1 and tier 2 Capital			
Material holdings:	-	202,000	-
Other:	9,913	10,096	-
Total tier 1 plus tier 2 capital after deductions:	865,996	639,734	224,247
Total capital before deductions:	873,208	639,734	224,247
Deductions from total capital:	2,701	2,216	202
Total capital after deductions:	863,295	637,518	224,045

Tier 1 Capital
CM-LTD:
Tier 1 capital includes 404 million US$1.00 ordinary shares fully paid up and 250 million perpetual, non-cumulative, preference shares of $1.00, fully paid-up. The preference shares were callable, at the option of the Company, from December 2012. Only the ordinary shares carry voting rights and are wholly owned by SMBC.

DP:
Tier 1 capital consists of 200 million $1.00 ordinary shares fully paid-up, wholly owned by CM-LTD.

CM-Asia:
CM-LTD holds 2 million $1.00 ordinary shares in CM-Asia, the subsidiary's entire issued share capital. CM-Asia is not subject to any standalone capital requirements but is consolidated within the consolidated prudential returns of CM-UK.

Tier 2 Capital
CM-LTD's long term subordinated loan facilities can be drawn until 30th June 2015 and matures on 30th June 2020. Under FCA rules subordinated loan capital cannot exceed 50% of tier 1 capital and, in the last five years to maturity, dated subordinated loans must be amortised on a straight line basis.

CM-UK regularly stresses its financial resources to model the potential effect of extreme impact events on the Group's capital and its capital resources requirement.

7. Capital Resources Requirement

CM-UK determines its minimum regulatory capital charge (Pillar 1) on a daily basis using a capital calculator compliant with BIPRU rules. A summary report is then distributed to the Capital Management Committee.

Table 3 provides a summary of the minimum capital requirement for each regulated entity and the group.

Table 3

	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Operational risk:	6,388	6,257	131
Counterparty risk:	114,667	111,892	2,670
Credit risk:	2,188	-	2,132
Concentration risk:	-	-	-
Market risk:	12,395	12,189	178
Capital resources requirement	135,638	130,338	5,111
Surplus / (deficit) of own funds[1]:	727,657	507,180	218,935
Solvency Ratio[2]:	636%	489%	4,384%

Operational risk
CM-UK calculates Pillar 1 operational risk capital using the Basic Indicator Approach. The expansion of the business to cover a number of business lines will necessitate the adoption of the standardised approach once sufficient historical records exist to provide comparable business line data over a three year time line.

Credit risk
SMBC Nikko Capital Markets Limited Group calculates its Pillar 1 credit and counterparty credit risk capital requirements using the standardised approach. The nominated External Credit Assessment Institutions (ECAIs) for the purpose of calculating risk weighted exposure amounts are Standard and Poor's Ratings

[1] The surplus / (deficit) of own funds is defined as the excess of total capital after deductions over the pillar 1 capital resources requirement.
[2] The solvency ratio is the ratio of total capital after deductions to the pillar 1 capital resources requirement.

Group ("S&P") and Moody's Investors Services Inc. ("Moody's"). Ratings are assigned based on the lower of the external ratings obtained and are associated with the credit quality steps prescribed in BIPRU 3 in accordance with the credit quality assessment scale.

The firm makes use of netting for reporting purposes for those jurisdications where netting is legally enforceable where there is a credit support agreement in place.

Market risk
CM-LTD calculates interest rate general market risk in accordance with the maturity method and equity market risk in accordance with the standard equity method.

8. Credit risk and counterparty credit risk

Table 4 shows CM-UK's total exposure for credit and counterparty credit risk calculation purposes:

Table 4

Description	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Per financial statements			
Cash	7,738	3,964	1,156
Short term deposits	134,657	-	133,254
Trading assets	22,391	22,391	-
Derivatives	2,077,552	2,029,257	48,295
Gross positive fair value of contracts	2,242,338	2,055,612	182,705
Credit valuation adjustments*	14,019	13,798	221
Trading book debtors	18,138	17,889	249
Adjustment to reflect OIS valuations**	(6,488)	(6,225)	(263)
Adjusted positive fair value of contracts	2,268,007	2,081,074	182,912
Netting benefits	(575,314)	(560,033)	(15,281)
Gross up of netting benefits***	(29,559)	(29,034)	(525)
Netted current credit exposure	1,663,133	1,492,008	167,106
Net replacement cost	1,663,133	1,492,007	167,106
Potential future credit exposure	952,858	919,018	33,840
Exposure at default	2,615,991	2,411,025	200,946
Collateral held****	931,692	931,692	0

* This reflects the reversal of credit valuation adjustments that reduce the valuation of derivative assets reported within the financial statements.
** In line with market practice the fair value of collateralised derivative contracts are calculated using the overnight indexed swap interest rate yield curve (OIS) in order to more consistently manage the associated interest rate and funding risks. However, for credit and counterparty credit risk calculation purposes, derivatives continued to reference other rates, such as the London interbank offered rate (LIBOR) as at the reporting date.
*** When calculating net counterparty exposure CM-UK calculates net exposure by counterparty on

derivative contracts. IFRS allocates credit and debit valuation adjustments before calculating an amount available to offset on a portfolio basis.
**** In line with industry practice CM-UK adjusts counterparty risk weights rather than deducting collateral held from the exposure when calculating risk weighted assets.

Table 5 shows CM-UK's capital requirements (calculated as 8% of risk weighted exposure) for each credit and counterparty credit risk exposure class.

Table 5

Exposure Class	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Bank	19,265	17,225	1,935
Corporates	29,258	28,523	735
Project finance	66,144	66,144	-
Counterparty credit risk requirement	114,667	111,892	2,670
Bank	2,188	-	2,132
Credit risk requirement	2,188	-	2,132

Table 6 shows the total amount of CM-UK's credit and counterparty credit exposures by exposure class.

Table 6

Exposure Class	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Counterparty credit exposure			
Bank	824,967	773,218	49,132
Corporate	832,412	814,040	18,372
Sovereign	178	-	178
Project finance	823,768	823,768	-
Total counterparty credit exposure	2,481,325	2,411,026	67,682
Credit exposure			
Bank	134,668	-	133,264
Total credit exposure	134,668	-	133,264

Credit risk represents the potential losses that CM-UK would incur if a counterparty failed to perform its obligations under contractual terms and, as such, exposure to counterparty credit risk is calculated based on the current cost of replacing contracts in a gain position and potential future credit exposure as estimated based on scenario analysis.

Table 7 shows the total amount of CM-UK's credit and counterparty credit exposure by industry.

Table 7

Industry	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Counterparty credit exposure			
Multi-lateral development banks	167,289	162,024	5,265
Bank	657,503	611,019	43,867
Commercial and industrial	185,743	179,281	6,462
Insurance	510,765	510,765	-
Other financial	14,468	14,468	-
Project finance	858,755	858,755	-
Property	81,525	81,525	11,910
Public sector	178	-	178
Shipping finance	5,098	5,098	-
Total counterparty credit exposure	2,481,325	2,411,026	67,682
Credit exposure			
Bank	134,668	-	133,264
Total credit exposure	134,668	-	133,264

Table 8 shows CM-UK's total credit and counterparty credit exposure by geographical area and exposure class.

Table 8

Geographical area	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Asia Pacific			
Bank	390,868	388,251	-
Corporate	1,833	1,833	-
Project finance	2,905	2,905	-
Total Asia Pacific	395,606	392,989	-
Europe			
Bank	259,708	249,655	10,053
Corporate	242,393	235,931	6,462
Sovereign	178	-	178
Project finance	768,268	768,268	-
Total Europe	1,270,547	1,253,854	16,693
North America and Latin America			
Bank	174,392	135,313	39,079
Corporate	579,659	567,749	11,910
Project finance	35,950	35,950	-
Total North America and Latin America	790,001	739,012	50,989
Rest of the world			
Bank	-	-	-
Corporate	8,526	8,526	-
Project finance	16,645	16,645	-
Total rest of the world	25,171	25,171	-
Total counterparty credit exposure	2,481,325	2,411,026	67,682

Asia Pacific			
Bank	1,403	-	-
Total Asia Pacific	1,403	-	-
Europe			
Bank	125,008	-	125,008
Total Europe	125,008	-	125,008
North America and Latin America			
Bank	8,257	-	8,256
Total North America and Latin America	8,257	-	8,256
Rest of the world			
Bank	-	-	-
Total rest of the world	-	-	-
Total credit exposure	134,668	-	133,264

Table 9 shows CM-UK's credit exposure by residual maturity and exposure class.

Table 9

Residual Maturity	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Less than one year			
Bank	134,668	-	133,264
Total less than one year	134,668	-	133,264
One to five years			
Bank	-	-	-
One to five years	-	-	-
Total credit exposure	134,668	-	133,264

Table 10 shows the average amount of CM-UK's credit and counterparty credit exposures over 2013.

Table 10

Exposure Class	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Counterparty credit exposure			
Bank	485,662	376,957	105,354
Corporate	1,058,893	1,023,395	26,498
Sovereign	3,053	-	3,053
Specialised lending	991,620	991,620	-
Total counterparty credit exposure	2,539,228	2,400,972	134,905
Credit exposure			
Bank	131,528	-	130,826
Total credit exposure	131,528	-	156,462

A major element of CM-UK's credit risk management is a rigorous quantitative credit value adjustment based on scenario simulation and market risk adjusted probabilities of default; this is a "fair value reserve". Such a system cannot by itself assure efficient pricing or monitoring of individual credit exposures but it is a strong incentive for proper trade off of risk and return at the time of transaction, as well as providing an efficient incentive for assignment and termination of transactions later. The reserve is arrived at by calculating an expected loss in the simulation model using market implied default probabilities. The calculation method uses risk adjusted probabilities derived from prevailing market credit spreads for various rating categories from third party sources.

The result of this calculation methodology is that the reserve for each name effectively reflects the market credit spread charged on the expected exposure to the counterparty at each time point. This is a good proxy for the transaction unwind cost in the market. Management uses this reserve as its main tool for credit monitoring on a portfolio basis, supplemented by reports from the Credit department, especially breaking news of sharply deteriorating credits. Additionally management reviews a series of reports on specific exposures identified as high risk.

Table 11 shows the notional value of the credit derivative positions held by CM-UK at 31st December 2013

Table 11

	Notional credit derivative positions			
	Own credit portfolio		Intermediation activities	
	Purchased	Sold	Purchased	Sold
Credit derivative product type	$m	$m	$m	$m
Single name credit default swaps	-	-	-	-
Basket credit default swaps	-	-	3,933	3,933
Total return swaps	-	-	-	-
Total	-	-	3,933	3,933

Table 12 shows the notional value of credit derivative transactions completed by CM-UK in the year to 31st December 2013.

Table 12

	Notional credit derivative positions			
	Own credit portfolio		Intermediation activities	
	Purchased	Sold	Purchased	Sold
Credit derivative product type	$m	$m	$m	$m
Single name credit default swaps	-	-	-	-
Basket credit default swaps	-	-	-	-
Total return swaps	-	-	-	-
Total	-	-	-	-

Of the notional credit derivatives held at 31st December 2013, $1,833m sold were guaranteed.

Table 13 shows the distribution of the credit reserve by industry.

Table 13

Industry	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Exposures to impaired obligors	-	-	-
Total	-	-	-
Past due exposures	-	-	-
Total	-	-	-
Credit value adjustments			
Multi-lateral development bank	38	-	38
Bank	4,636	4,623	13
Commercial and industrial	1,049	985	64
Insurance	-	-	-
Other financial	749	749	-
Project finance	1,249	1,249	-
Property	6,186	6,186	-
Public sector	106	-	106
Shipping finance	5	5	-
Total	14,018	13,797	221
Increase / (decrease) in year on credit value adjustments			
Multi-lateral development bank	16	-	16
Bank	3,517	3,517	-
Commercial and industrial	650	898	(247)
Insurance			
Other financial	474	474	-
Project finance	1,240	1,240	-
Property	(8,574)	(8,481)	(93)
Public sector	-	-	-
Shipping finance	5	5	-
Total	(2,671)	(2,347)	(324)

Exposures to impaired obligors are based on the current exposure of counterparties for which specific credit reserves have been raised. Credit value adjustments include both specific and general credit reserves.

Table 14 shows the distribution of the credit reserve by geographical area.

Table 14

Geographical area	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Exposures to impaired obligors	-	-	-
Total	-	-	-
Past due exposures	-	-	-
Total	-	-	-
Credit value adjustments			
Asia Pacific	1,128	1,128	-
Europe	4,661	4,546	115
North America and Latin America	8,229	8,123	106
Rest of the world	-	-	-
Total	14,018	13,797	221
Movement in year on credit value adjustments			
Asia Pacific	1,051	1,051	-
Europe	(5,546)	(5,315)	(231)
North America and Latin America	1,825	1,918	(93)
Rest of the world	(1)	(1)	-
Total	(2,671)	(2,347)	(324)

Table 15 shows the reconciliation of changes in specific provisions.

Table 15

Item	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Provisions at the beginning of the period	-	-	-
Bad debts written off during the period	-	-	-
Recoveries	-	-	-
Increases or decreases in provisions	-	-	-
Provisions at the end of the period	-	-	-

Table 16 shows the reconciliation of changes in the general credit reserve.

Table 16

Item	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Provisions at the beginning of the period	16,690	16,145	545
Bad debts written off during the period	-	-	-
Recoveries	(31)	(24)	(7)
Increases or decreases in provisions	(2,641)	(2,324)	(317)
Provisions at the end of the period	14,018	13,797	221

9. Standardised Methodologies

Table 17 shows CM-UK's credit exposures by exposure class and obligor grade.

Table 17

Exposure Class	Obligor Grade	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Bank				
	1	174,755	169,460	5,295
	2	624,180	581,296	40,267
	3	22,462	22,462	
	4	3,570	-	3,570
	5	-	-	-
Total bank		824,967	773,218	49,132
Corporate				
	1	444,068	444,068	-
	2	60,406	42,034	18,372
	3	182,563	182,563	-
	4	74,360	74,360	-
	5	909	909	-
	6	70,106	70,106	
Total corporate		832,412	814,040	18,372
Project Finance				
	1	-	-	-
	2	1,738	1,738	-
	3	789,369	798,369	-
	4	15,868	15,868	-
	5	7,793	7,793	-
Total project finance		823,768	823,768	-
Sovereign				
	1	178	-	178
Total sovereign		178	-	178
Total counterparty credit exposure		2,481,325	2,411,026	67,682
Bank				
	1	-	-	-
	2	134,668	-	133,264
	3	-	-	-
	4	-	-	-
	5	-	-	-
Total bank		134,668	-	133,264
Total credit exposure		134,668	-	133,264

CM-UK adjusts counterparty risk weights rather than deducting collateral held from the exposure when calculating risk weighted assets. 95% of exposures to obligor grade 6 are fully collateralised.

10. Credit Risk Mitigation

Credit risk mitigation is a high priority of CM-UK management and a variety of mitigants are employed. The credit reserve, as explained above, is based upon market fair values. Additionally management requires that credit procedures and limits are strictly adhered to by all front office staff who are required to incorporate a comprehensive credit assessment in their approach to pricing. Collateral agreements are actively pursued from the standpoint of both credit and liquidity risk.

In addition to the above management has sought to use the financial strength of the wider SMBC Group. In order to address the volatility of a fair value credit reserve in times of economic stress, where the reserve increases, decreasing trading revenue as conditions deteriorate, CM-LTD has purchased parental guarantees to cover specifically identified credit risks. The guarantee fees arising are calculated as an agreed credit charge applied to the expected exposure over the lifetime of the guaranteed transactions discounted at a risk adjusted spread over Libor. Where the firm has entered into an interest rate or currency derivative it not only backs out market and liquidity risk through an offsetting transaction with CM-INC it may also mitigates the credit risk of the resulting third party exposure through obtaining a guarantee from the same party. Additionally the derivative business model has developed so as to reduce potential future stresses on the CM-UK balance sheet. Where a new customer wishes to transact a longer term trade (defined as having a tenor greater than seven years) then, other things being equal, it is SMBC group policy to book the transaction in a SMBC branch, i.e. the credit risk will be borne directly by the parent bank's balance sheet so limiting the potential impact of widening credit spreads on the firm's credit reserve. CM-LTD acts as agent rather than principal in such transactions having responsibility for the customer relationship and for structuring and executing any transactions, but it does not bear principal risk for trades.

Table 18 shows CM-UK's collateral held by exposure type. All collateral held is financial collateral.

Table 18

Exposure Class	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Counterparty credit risk			
Bank	346,999	346,999	-
Corporate	584,577	584,577	-
Sovereign	-	-	-
Project finance	-	-	-
Total counterparty credit risk collateral	931,576	931,576	-
Credit risk			
Bank	-	-	-
Total credit risk	-	-	-

Table 19 shows CM-UK's total exposure covered by guarantees. No credit derivatives are held by CM-UK in relation to its own credit portfolio.

Table 19

Exposure Class	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Counterparty credit risk			
Bank	1,269	1,269	-
Corporate	734,908	734,908	-
Sovereign	812,727	812,727	-
Project finance	-	-	-
Total counterparty credit risk collateral	1,548,903	1,548,903	-
Credit risk			
Bank	-	-	-
Total credit risk	-	-	-

11. Market Risk

As a result of the establishment of the securities trading business within CM-LTD, specifically the taking of securities positions in order to facilitate customer transactions, market risk has increased. This is consistent with the low to moderate risk appetite of management.

Table 20 shows CM-UK's market risk capital requirement and risk weighted exposures by exposure type.

Table 20

Exposure Type	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Credit derivatives	-	-	-
Equity	667	667	-
Foreign exchange	4,109	4,102	7
Interest rate	7,591	7,420	171
Total market risk capital requirement	12,367	12,189	178
Credit derivatives	-	-	-
Equity	8,341	8,341	-
Foreign exchange	51,351	51,263	88
Interest rate	94,893	92,756	2,137
Total risk weighted exposures	154,585	152,360	2,225

Table 21 shows CM-UK's foreign exchange market risk capital requirement by currency.

Table 21

Currency	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
AUD	8	8	-
EUR	1,572	1,572	-
GBP	111	104	7
HKD	16	16	-
JPY	2,402	2,402	-
Total foreign exchange market risk requirement	4,109	4,102	7

All foreign exchange market risk exposures related to foreign currency cash accounts and long settlement transactions.

Table 22 shows CM-UK's interest rate market risk capital requirement by type.

Table 22

Type	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
General market risk	4,831	4,751	80
Specific market risk	3,427	3,336	91
Total interest rate market risk requirement	8,258	8,087	171

Table 23 shows CM-UK's specific interest rate market risk capital requirement by exposure type.

Table 23

Exposure Class	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
Bank	732	641	91
Corporate	2,225	2,225	-
Sovereign	470	470	-
Total specific risk requirement	3,427	3,336	91

Table 24 shows CM-UK's specific risk capital requirement by credit quality step.

Table 24

Credit Quality Step	CM-UK ($'000)	CM-LTD ($'000)	DP ($'000)
1	98	68	30
2	671	610	61
3	350	350	-
4	336	336	-
5	-	-	-
6	1,372	1,372	-
Unrated	600	600	-
Total specific market risk requirement	3,427	3,336	91

Appendix:

Remuneration disclosures for the 2013 financial year

SMBC Nikko Capital Markets Limited Group ("CM-UK") is subject to the FCA's Remuneration Code and is categorised as a proportionality level 3 firm. This section provides further information on CM-UK's remuneration policies and governance in addition to quantitative information on remuneration in to the financial year ending 31st December 2013.

1. Remuneration Policy

The Remuneration Policy ("Policy") sets out the policies, procedures and practices of remuneration for all locally hired employees of CM-UK, and is intended to reflect CM-UK's overall business philosophy, aims and objectives.

Except for certain aspects of variable pay for Code Staff and other employees as defined below, it does not apply to employees of Sumitomo Mitsui Banking Corporation (SMBC) seconded from SMBC in Japan, or to employees of SMBC Nikko Securities Inc., (Nikko Tokyo) seconded from Nikko Tokyo in Japan, whose remuneration is governed by rules established in Japan by SMBC and Nikko Tokyo respectively.

CM-UK consists of SMBC Nikko Capital Markets Limited ("CM-LTD") and its wholly owned subsidiaries SMBC Derivative Products Limited ("SMBC DP") and SMBC Capital Markets Asia Limited ("CM-Asia"). SMBC DP is a special purpose booking vehicle for certain derivative transactions. The Remuneration Code applies solely to the UK incorporated entities. SMBC DP currently has no employees apart from three non-executive directors as it relies on an Agency Agreement with SMBC Capital Markets Inc. ("CM-INC"), in New York to provide all of its required services. In this document, SMBC DP and CM-LTD are referred to as CM-UK while SMBC DP, CM-LTD, CM-Asia and CM-INC are referred to as the CM group.

A continuing focus during 2013 has been to ensure that CM-UK's approach to discretionary remuneration is structured in accordance with the FCA's Remuneration Code (the FCA Code).

In summary, the aims of the Policy include the following statements:

a) Employees should be remunerated by means of a mix of basic salary, benefits and discretionary bonus relevant to their function and responsibilities

b) The amount of fixed remuneration, including salary and benefits, should be sufficient for an acceptable standard of living without a dependency on discretionary bonus

c) Employees should have the opportunity to share in the success of CM-UK and SMBC, and also share the impact of losses in years of poor performance

d) Any discretionary bonus should be based on a mixture of SMBC results, CM group results, department results and individual contribution

e) There should be no individual formula-based bonuses in CM-UK

f) Remuneration should be affordable and appropriate in terms of value allocated to CM-UK's shareholder and employees

g) Any discretionary bonus should take account of a range of factors, including the risk profile of the business and the skills, knowledge and behaviours of the employee

h) Variable compensation should not normally be guaranteed, and only used exceptionally as a recruitment tool, and not exceeding 12 months

2. Regulation

CM-UK is committed to the maintenance of robust remuneration arrangements that are in accordance with regulatory requirements including the FCA Code. Here are some of the ways in which CM-UK fulfils this commitment:

a) Scope and Application – CM-UK has a clear process to identify employees whose professional activities could have a significant impact on the firm's risk profile, including senior risk and compliance officers. These staff are designated as Code Staff and they are made aware of the implications of their status

b) Governance – CM-UK is categorised as a Proportionality Level 3 firm. Although it is not required for a Level 3 firm, CM-UK decided to maintain a UK Remuneration Operating Committee to strengthen remuneration governance. The committee is responsible for 1) ensuring CM-UK's remuneration policies comply with the FCA Remuneration Code; 2) ensuring that the oversight and implementation of CM-UK's remuneration policy is in line with those of SMBC and Nikko Tokyo; and, 3) reviewing and approving the salary and bonus recommendations for all CM-UK's staff.

   CM-UK believes that independence for remuneration matters has been evidenced by the independent oversight of the senior management of SMBC on behalf of the shareholder

c) Capital – The aggregate total of variable remuneration in 2013 was considered in the context of CM-UK's overall capital resources

d) Guarantees – The Policy is that guarantees are used only in exceptional circumstances in the case of new hires and for only one year

e) Risk–focused Remuneration Policies – CM-UK's policies, procedures and practices promote sound risk management. This is an important part of CM-UK's Policy which links risk and remuneration through the governance process, the performance evaluation process, deferral structures and performance adjustment provisions

f) Deferral and payment in share based schemes – See Section 7.

3. Code Staff

Code Staff have been assessed as those staff whose professional activities could have a material impact on CM-UK's risk profile. Employees to be included are:

- Significant Influence Function employees – i.e. those performing controlled functions CF1 through CF29;

- All staff with a corporate title of JGM/Managing Director or higher, unless they are exempt because they have very limited or no approval authority (one Managing Director is exempt for 2013 as this person was undertaking a business feasability study and had no approval authority);

- Staff whose duties can have a material impact on the firm's risk profile whose total remuneration is within the same remuneration bracket as senior management;

For the performance year 2013 there were 27 Code Staff identified in the CM-UK group.

4. Control Functions

Employees engaged in Risk and Compliance functions are independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally and front line business units are not involved in this process

5. Base Salary

Base salary is the fixed payment made to an employee for his or her 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 on 1 January.

6. Variable Pay

Variable pay in CM-UK is defined 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 CM-UK'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.

CM-UK sets a leverage cap for individual bonuses at 400% of the individual's base salary.

7. Deferral and Performance Adjustment

CM-UK decided to disapply 1) Retained shares and other instruments; 2) Deferral; and 3) Performance adjustment for the 2013 remuneration cycle. The decision was made in accordance with the FCA Code. Non Cash Instrument, Deferral Policy, and Performance Adjustment for previous years when CM-UK, as a subsidiary of SMBC, was a designated a Tier 1 firm will continue to be applied until its maturity.

8. Remuneration of SMBC Nikko Capital Markets Limited in Remuneration Year 2013

Aggregate remuneration amount for Code Staff

	Derivative Products Group		Securities Products Group		NED		Other(No CM-UK remuneration)		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Number of Code Staff	3	3	16	14	3	3	5	8	27	28
Remuneration Amount £k	2,146	1,971	4,344	3,140	63	63	-	-	6,553	5,174

Analysis of remuneration between fixed and variable amounts

	Total		Senior Managers		Risk Taker		Others	
	2013	2012	2013	2012	2013	2012	2013	2012
Number of Code Staff	22	20	10	7	5	3	7	10
Base Salary £k:								
Cash	3,627	2,790	1,859	1,705	834	444	933	640
Total Base Salary	3,627	2,790	1,859	1,705	844	444	933	640
Variable £k:								
Cash	2,925	2,465	2,376	2,088	196	172	353	205
Deferred Instrument	-	-	-	-	-	-	-	-
Total Variable Pay	2,925	2,465	2,376	2,088	196	172	353	205