SMBC Nikko Capital Markets Limited

Pillar 3 Disclosures

31 December 2018

SMBC SMBC NIKKO

Contents

Document disclaimer

- SMBC Nikko Capital Markets Limited and its subsidiaries ("CM-UK" or the "Group") are subject to consolidated supervision by the Financial Conduct Authority ("FCA"). The disclosures set out in this document have been provided in accordance with the disclosure requirements ("Pillar 3 disclosures") established under the 4th Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR"), hereinafter the CRD IV package, which came into effect on 1 January 2014.
- The purpose of the Pillar 3 disclosures, as contained within this document, is to provide sufficient information to enable market participants to assess the risks within the Group.
- 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 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 CRR;
    - 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

The CRD IV package is the latest regulatory framework across the European Union governing the management of risks and capital requirements for banks and investment firms.

The objective of CRD IV 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. CRR disclosure requirements ("Pillar 3") aim to complement the minimum capital requirements ("Pillar 1") and the supervisory review and evaluation process ("Pillar 2").

The Pillar 3 disclosures herein have been prepared in accordance with the disclosure requirements of CRR. These requirements are designed to promote market discipline by providing market participants with key information on the Group'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.

Article 432 of the CRR allows the Group 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 the Group 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.

The Group has not omitted any disclosures on the grounds of being proprietary and/or confidential information.

1.2 Basis of Disclosure

The CRD IV disclosure requirements apply to CM-UK on a consolidated basis, consequently the disclosures below are presented on a consolidated basis. Unless otherwise stated all figures in this document are denominated in millions of United States dollars, and are as at 31 December 2018 (and 31 December 2017 where comparative figures are provided).

All the members within CM-UK are fully consolidated in the Group and there are no differences in the basis of consolidation for accounting and prudential purposes.

The Group does not have any significant subsidiaries (as defined under CRR Article 13 (1) (2nd paragraph) that require additional disclosures on an individual or sub-consolidated basis.

1.3 Frequency of Disclosure

After due consideration of the size and complexity of the operations, the Group 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 Group 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 the Group's Board of Directors.

1.4 Location and Verification

This Disclosure Document has been reviewed and approved by the Group'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 corporate website of SMBC Nikko Capital Markets Limited http://www.smbcnikko-cm.com/corporate/our-policies/pillar-3-disclosures.html

1.5 Key Metrics

The key metrics dashboard provides a summary of the Group. Supplementary information can be found in the table references provided:

Item	Category	Ref	31 December 2018 (US$m)	31 December 2017 (US$m)
	Available capital			
1	Common Equity Tier 1 (CET1)	Section 4 - Table 1	1,317.3	1,294.3
2	Tier 1	Section 4 - Table 1	1,677.3	1,654.3
3	Total capital	Section 4 - Table 1	1,677.3	1,654.3
	Risk-weighted assets			
4	Total risk-weighted assets (RWA)	Section 5 - Table 3	4,100.1	3,940.9
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	Section 5 - Table 4	32.1%	32.8%
6	Tier 1 ratio (%)	Section 5 - Table 4	40.9%	42.0%
7	Total capital ratio (%)	Section 5 - Table 4	40.9%	42.0%
	Additional CET1 buffers requirements as a percentage of RWA			
8	Capital conservation buffer requirements (2.5% from 2019)	Section 6.1	1.875%	1.250%
9	Countercyclical buffer requirement	Section 6 - Table 5	0.292%	0.004%
10	Total of bank CET1 specific buffer requirements	Item 8+9	2.167%	1.254%
	Basel III leverage ratio			
11	Total leverage ratio exposure measure	Section 9 - Table 18	14,517.0	15,679.0
12	Leverage ratio (%)	Section 9 - Table 19	11.6%	10.6%

2. Corporate Structure and business activities

2.1 Corporate structure

The Group is an investment business with derivatives and securities including business advisory divisions. It is part of a wider Sumitomo Mitsui Financial Group ("SMBC Group").

The Group consolidates the following legal entities:

- SMBC Nikko Capital Markets Limited ("the Company" or "CM Ltd"), company number 02418137 incorporated in England and Wales, a full scope investment firm authorised and regulated by the FCA. Sumitomo Mitsui Banking Corporation ("SMBC") of Japan is the majority shareholder and controller. The Company has a representative office in Australia.
- SMBC Derivative Products Limited ("SMBC DP"), a wholly owned subsidiary of CM Ltd and a full scope investment firm incorporated in England and Wales, authorised and regulated by the FCA. It is structured as a bankruptcy remote derivative products company ("DPC") and has received a credit rating of Aa1 from Moody's Investors Service Inc. ("Moody's") and AA- from Standard & Poor's Ratings Group ("S&P"). SMBC DP's principal activities are the provision of interest rate and foreign exchange risk hedging products to customers seeking a highly rated counterparty and the provision, for a fee, of performance guarantees ofF its affiliates.
- SMBC Capital Markets (Asia) Limited ("CM Asia"), incorporated in Hong Kong and authorised and regulated by the Hong Kong Securities and Futures Commission. CM Asia acts as an agent and intermediary for the Company and its affiliated entities in Asian markets outside of Japan and in Australia.

2.2 Business model and strategy

The Company provides client-focused investment banking services including security and derivative trading services and corporate advisory. The Company is strategically important for SMBC Group, as it provides the EMEA capital markets component of a comprehensive, global and diverse suite of financial products and services. Trading activity at CM-UK is driven by client demand, and the Company's clients are mainly based in the Europe, Middle East and Africa ('EMEA') regions as well as Australia and Asia (outside of Japan).

CM-UK operates across two business divisions: the Derivatives Product Group ("DPG") and Securities Product Group ("SPG"). The derivatives business provides interest rate and foreign exchange hedging products to customers and the members of the wider SMBC Group. The securities activities are focussed on customer facilitation and maximising order flow in the primary and secondary debt and equity markets, with a particular focus on Japan. The repo business is primarily a customer service rather than a source of funding. The business advisory group provides advice and support to SMBC Group customers seeking new business opportunities.

It is acknowledged that in performing these activities, an inherent interdependency between the Company and the wider SMBC Group is created. CM-UK therefore makes arrangements to ensure that the potential impact from any SMBC Group contagion event is minimised, including establishing and testing local recovery and contingency funding plans. Further, the impact of a stress on the wider group is also factored into ongoing stress testing (see section 3 for more details).

2.3 Preparations for Brexit

Following the formal notification to the EU of the UK's intention to withdraw from the EU pursuant to Article 50 of the Lisbon Treaty in 2017, the UK financial services industry is expected to lose the passporting rights granted to UK authorised financial institutions under the national transpositions of applicable EU law (in particular CRD IV as well as MiFID) which enabled them to freely provide banking business and financial services within the European Economic Area (EEA).

At the time of publication of this Pillar 3 document, uncertainties prevail around the outcome of the UK Government's negotiations of the terms of the UK's withdrawal from the European Union. However, the Company's and SMBC Group's goal and strategic planning has been, and continues to be, to provide customers with undisrupted financial services following Brexit, including in the scenario of a 'no-deal' or 'hard' Brexit in March 2019.

Therefore, while the loss of passporting rights is expected to have an adverse impact on revenues and profitability this has been incorporated into the Group's strategic plans. The Group will continue to develop its derivatives business and primary and secondary securities business for UK and non-EEA customers, and act as an arranger, broker and underwriting entity with other SMBC entities for securities transactions, and will continue to focus upon diversifying its product offering and customer base.

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

SMBC Group's response to Brexit has been to address the challenges presented as an opportunity to further strengthen SMBC's business in the EEA, as aligned with the vision of its strategic plan. A new entity, SMBC Nikko Capital Markets Europe GmbH (CMFRA) has been established in Frankfurt, Germany, to operate as a cross-border passporting hub for securities business and derivatives arranging with clients in all EEA jurisdictions. CMFRA will operate alongside and collaborate with the Company, enabling the SMBC group as a whole to continue to offer, and also build upon, the level of financial services currently provided to all its clients in the EEA. CMFRA received its securities trading license in October 2018.

Strategically, SMBC Group plans to continue providing the current suite of services to both UK and EEA clients. In particular, its plans to expand its securities business services in the UK, and continental Europe remain in place, with the Company and the CMFRA working in close collaboration as part of the global financial services group.

2.4 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 in EMEA and THRIVE in the USA.
In Japan, Nikko have launched the “With Us” female networking program along with a mentoring scheme and Welcome Back Policy aimed at helping women return to work. In the UK, CM Ltd has signed the HM Treasury, Women in Finance Charter, pledging to increase female representation to 30% at senior levels in the organisation by 2023. The President and CEO of CM Ltd is the accountable executive for the Women in Finance Charter.

The Board acknowledge the benefits of greater diversity, including gender diversity and is committed to ensuring that the Company’s directors bring a wide range of skills, knowledge, experience, background, opinions and perspectives to CM Ltd.

3 Risk management objectives, policies and material risks

The Board of Directors (the “Board”) ensures that risk management is embedded throughout the organisation by way of:

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

Risk management is underpinned by SMBC’s values driven culture.

3.1 Risk Management Framework

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

The Framework covers seven key components, which in summary are the following:

- Risk Governance Structure – who is responsible for the Group’s risk management and what authorities are given,
- Risk Identification and Assessment – what risks the Group is faced by and how important each risk is,
- Risk Appetite – what level of risk for each risk type and on an aggregate basis the Group is prepared to take in the pursuit of strategic objectives of the Group,
- Risk Measurement – how risks are individually and collectively measured and recognised,

- Risk Monitoring and Reporting – how risks are monitored, controlled and reported to the Board, executive management and business owners,
- Stress Testing – Scenario analysis of potential downside risks, and
- Capital, liquidity and funding Planning and Management – how the Group's capital and liquidity resources should be managed.

3.2 Risk Governance

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

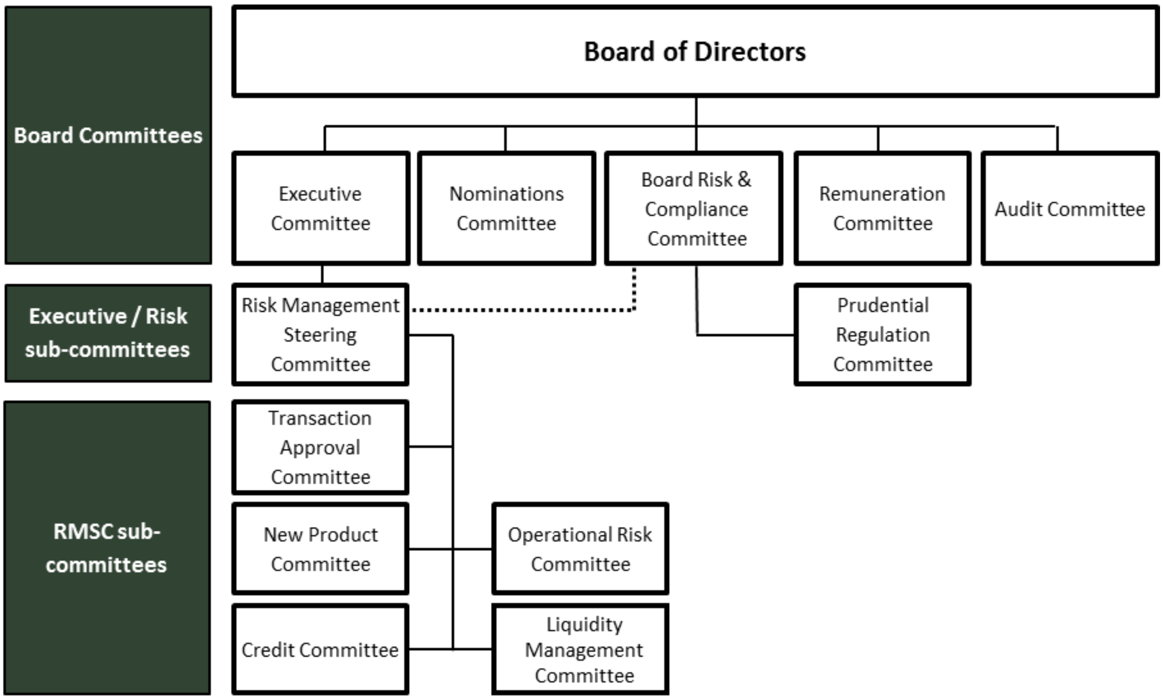
The Board retains all decision making powers, though it has delegated some of these to either committees or individuals.

The Group's risk management governance arrangements are comprised of:

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

3.3 Risk Management Committee Structure

CM-UK's committee structure is illustrated below:



3.3.1 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 and meets at least quarterly.

3.3.2 The Nominations Committee

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

The Nominations Committee has the responsibility to review on an annual basis the size and composition of the Board. Such a review will cover those areas that the Nominations Committee determines are relevant and shall include: skills, knowledge, experience and diversity of the Board. The Nominations Committee shall provide the Board with 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.

3.3.3 The Remuneration Committee

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

3.3.4 The Audit Committee

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

3.3.5 The Executive Committee

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

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

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

3.3.6 The RMSC and sub-committees

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

The RMSC sub-committees 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, as relevant, Information Security.
- Liquidity Management Committee focuses on issues related to liquidity risk and treasury management, e.g. liquidity stress testing, funds transfer pricing and efficiency of liquid asset buffer.

The Transaction Approval and New Product Committees convene to review new business which could potentially be considered to be outside of the norm, e.g. due to size, specific risk considerations (e.g. liquidity or credit) or if there are reputational considerations.

3.3.7 The Prudential Regulation Committee ("PRC")

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

3.4 Directorships

The below table shows CM-UK's directors and the number of both internal and external directorships they each serve as at 31 December 2018:

CM LTD Director	Internal directorships	External directorships
Tetsuro Imaeda (NED)	6	0
Patricia Jackson (ID)	1	5
Hideo Kawafune (NED)	4	0
Hitoshi Minami (NED)	6	0
Bungo Miura (ED)	1	0
Naoki Okubo (ED)	2	0
Stephen Souchon (ID)	1	1
John David Thomas (NED)	5	0
Antony Yates (ED)	7	0
Takahiro Yazawa (ED)	4	0

New appointment

ED = Executive Director

NED = Non Executive Director

ID - Independent Director

The following directors resigned during 2018:

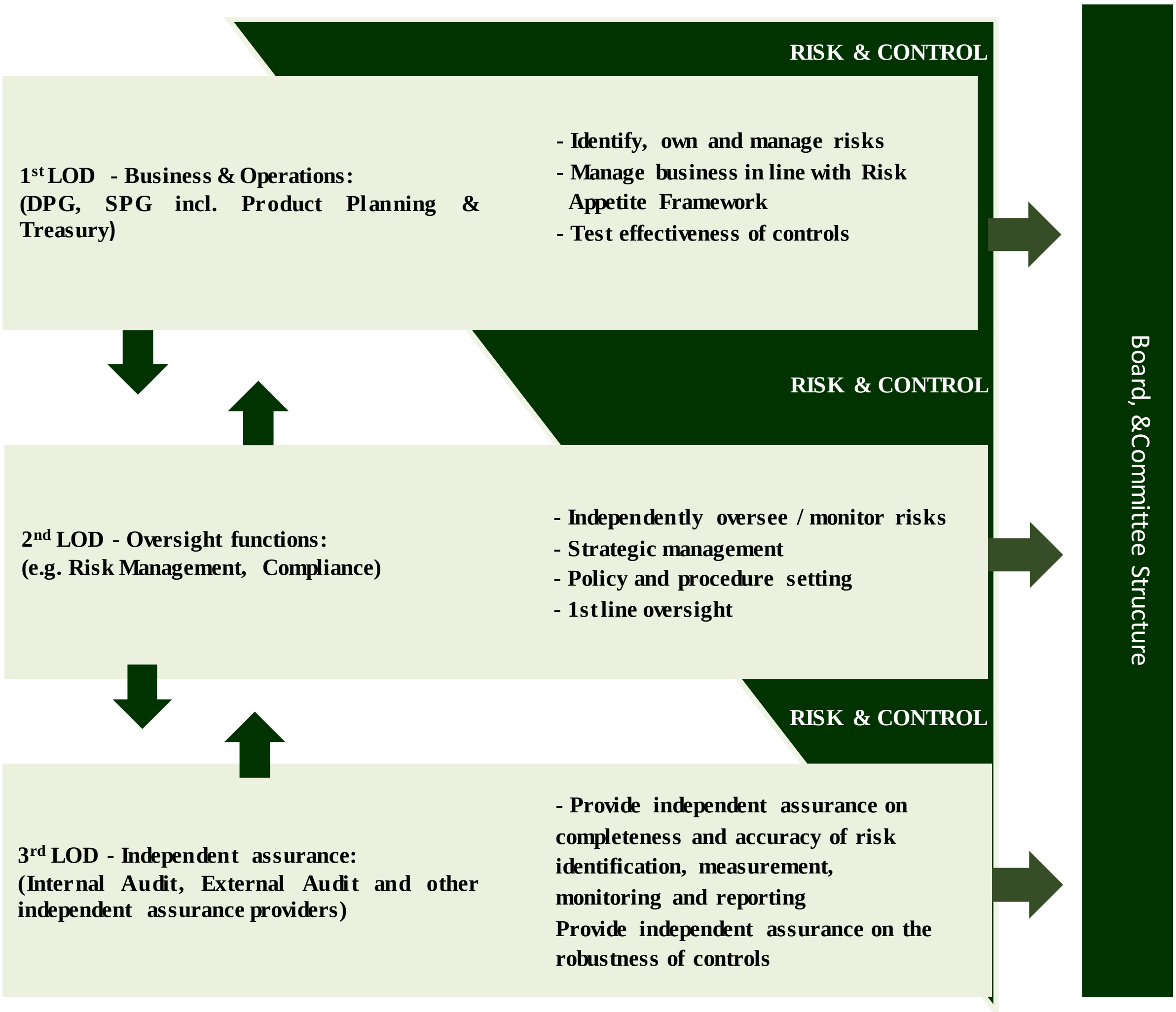
- Mitsuhiro Akiyama
- Keiichiro Nakamura

Bungo Miura resigned on 31st March 2019.

All internal directorships are appointments within the SMBC Group.

3.5 Three Lines of Defence ("3LOD")

The Group has adopted a 3LOD approach to risk management to ensure the adequate oversight of risks and to embed a culture of risk awareness throughout the organisation. This approach separates the ownership/management of risk from the functions that oversee risk and those that provide independent assurance, as illustrated below:



3.5.1 First Line of Defence

Each business function, and its respective head, is required to ensure that all business decisions maintain an appropriate balance between risk and return and are in accordance with the Group's objectives and risk appetite. The business functions constitute the first line of defence ("1st LOD") and are responsible for identifying and managing risks directly and are accountable for both upside and downside outcomes. Each business function undertakes a regular risk self-assessment that is presented for executive management scrutiny.

The 1st LOD originates proposals for business opportunities, makes decisions relating to pricing, and, following relevant approvals, executes business activity. It includes direct support such as IT, operations, marketing and product development.

Risk management is a crucial element of everyday activity in the 1st LOD. The first line has the responsibility to:

- Prevent the risk that the Group is not prepared to own through forward looking risk identification
- Mitigate identified risks by proactive business management and report new / emerging risks when identified
- Conduct primary monitoring of risk controls

The 1st LOD executes these responsibilities within the constraints, limits, and policies determined by the 2nd Line of Defence.

3.5.2 Second Line of Defence

The 2nd Line of Defence is organisationally independent from the 1st LOD. The 2nd LOD provides oversight, guidance, and approval as well as advising, facilitating, and challenging the first line in their risk management activities and risk-return considerations.

A number of functions collectively form the 2nd LOD of the Group:

- Risk Management Department (covering market, credit, counterparty, liquidity and operational risks),
- Compliance Department (covering conduct and compliance risks),
- Finance, and
- Legal (covering legal and reputational risks).

The mission of the 2nd Line of Defence is to ensure financial stability and continuity of the Group, by acting as guardian of its risk profile. The 2nd LOD ensures the correct execution of risk management that satisfies all applicable laws, regulations, and best practice. To that end, 2nd LOD responsibilities are:

- To design an appropriate and effective risk and policy framework,
- To ensure the 1st LOD has implemented an effective risk management framework,
- To implement controls which enforce compliance with the Board’s stated risk appetite and provide appropriate reporting,
- To identify and highlight current and emerging risk issues, and
- To monitor compliance with applicable laws and regulations.

3.5.3 Third Line of Defence

The Internal Audit department constitutes the third line of defence (“3rd LOD”) and provides independent assurance to the Board that the 1st and 2nd LOD’s are fit for purpose and that the risk based information provided to the Board and management is accurate and reliable.

The 3rd LOD assesses the design, quality and the effectiveness of the identification, measurement, monitoring and reporting of risks and their corresponding controls by the 1st and 2nd LODs. The 3rd LOD responsibilities are to:

- Provide independent review of adherence to controls, policies, rules, and regulations by the first two lines
- Assess the efficiency and effectiveness of the risk identification, measurement and monitoring processes performed by the 1st LOD and 2nd LOD
- Assess the efficiency and effectiveness of the design and operation of internal controls

- Recommend and track remedial action where operational weaknesses are identified

3.6 Risk Identification and Assessment

The Group identifies and assesses risk based on the following principles, objectives and processes:

3.6.1 Key Principles and Objectives

The key principles for effective risk identification and assessment are:

- To identify the major risks that could impact the Group'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 Group's risk register.

The main objectives of the risk identification and assessment are:

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

3.6.2 Required Processes

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

- A risk identification process, which is on-going but also formally reviewed during the ICAAP process, through assessment and challenge of the Group's risk register and then presented to the BRCC for challenge, review and approval.
- An emerging risk identification process where contemporary and developing risks are identified, their potential impact evaluated, and mitigation actions are contemplated and reviewed and then presented to the BRCC for challenge, review and approval.

3.6.3 Responsibilities

The Risk Management Department is responsible for identifying such risks and preparing the explanation and assessment of such risks. The First Line of Defence must also continually seek to identify and assess the risks within its business activities.

3.7 Risk Appetite

Based on the risks that have been identified and assessed, the Board considers and sets out the Group's Risk Appetite in the context of the Group's strategic objectives. This is reviewed at minimum on an annual basis or in the event of a material change to the nature or size of risk faced by CM-UK.

The Group's Risk Appetite Framework sets out the broad level of risks that are to be accepted in pursuit of its business goals and strategy. Underpinning this framework, day-to-day business activities are managed using appropriate measures, risk targets and limits, which are to be considered as defining acceptable levels of each category of risk under normal conditions and are set out within the specific policies and procedures in place across the organisation. A comprehensive risk assessment process is undertaken annually and fully documented in the Group's ICAAP.

The Board-approved risk appetite statement sets out a series of metrics that are monitored through a risk appetite dashboard. This dashboard addresses a series of risk categories:

- Solvency,
- Liquidity,
- Credit and concentration risk,
- Market risk,
- Operational risk,
- Conduct, compliance and reputational risk, and
- Earnings.

The current status of the Group's risk appetite metrics is reported to the appropriate management committees on a monthly basis and to the BRCC quarterly. These results are displayed alongside the trigger and thresholds established by the Board. Defined procedures are set out for the escalation of any breaches of risk appetite to senior management and the Board.

As at 31 December 2018, the Group's risk exposures were within risk tolerance.

3.8 Material risks

A comprehensive risk assessment process is undertaken annually and is fully documented in the Group's ICAAP. From the ICAAP, CM-UK's material risks are identified as below which the Group has allocated appropriate capital against:

3.8.1 Credit risk

CM-UK defines credit risk as the risk of economic loss resulting from the failure of an obligor to perform in accordance with the terms and conditions of a contract or agreement, as a result of credit events such as deterioration of a borrowers' financial standing. The key drivers of credit risk are outlined as follows.

Counterparty risk is the risk of a counterparty failing to perform on a contract or agreement during the life of the transaction. Counterparty risk most often arises when CM-UK enters in to a swap transaction, purchases an option or buy/sell securities with a forward settlement date including under repo/reverse repo and stock lending/borrowing agreements.

Issuer risk is the risk of credit quality deterioration or outright default (i.e. non-payment of coupon and/or principal on the due date) of an issue of securities. Issuer risk arises when CM-UK underwrites a new issue of securities or purchases securities in the secondary market.

Depository risk is the risk of failure by a depository or custodian holding CM-UK's cash or securities. CM-UK may be required to deliver margin in the form of cash or other collateral for various types of business. Margin is deposited with clearing brokers for listed futures and options and some OTC transactions as well as directly with exchanges and/or their associated clearing houses.

Settlement Risk is the risk that one party will fail to deliver the terms on a contract with another party at the time of settlement. It is therefore necessary to manage credit by establishing settlement limits in accordance with the counterparty's credibility.

Transfer risk is defined as the risk that a borrower will not be able to convert local currency in to foreign exchange and so will be unable to make debt service payments in foreign currency. The risk arises from exchange restrictions imposed by the government in the borrower's country.

Residual risk is the risk that the risk measurement and mitigation techniques employed prove less effective than expected.

The Group monitors credit risk against conservative limits to ensure the stability of the overall portfolio. These monitoring measures include:

- Current exposure (the positive mark to market / replacement cost value of derivative contracts),
- Potential exposure (the amount over the remaining life of a derivative transaction that a counterparty could potentially have to pay in order to close out a transaction or portfolio of transactions at some future time. CM-UK uses credit exposure at selected points in time over the life of the transaction at the 97.5% confidence level to define potential exposure),
- Expected exposure (the average of positive future values of derivative contracts for each scenario generated by an internal simulation model for each simulated time point over the life of the deal or portfolio),
- Average expected exposure (the sum of the Expected Exposure number of all time points, divided by the life of the deal, or the maximum tenor of the portfolio),
- Expected loss (the cumulative sum of each time point's Expected Exposure multiplied by that time point's incremental loss probability), and
- Notional amount (for securities transactions, the aggregate Notional Amount is calculated as the sum of the face value of the securities bought/sold or borrowed/lent).

Credit risk mitigation is also a high priority for the Group's credit risk management and a variety of mitigants are employed including:

- Collateral and netting agreements, which are actively pursued from the standpoint of both credit and liquidity risks. Collateral is predominantly in the form of cash, mainly in major currencies. Securities collateral is limited to high grade government bonds.
- Parental guarantees, which the Group have purchased to cover specifically identified counterparty credit risks.
- Strict credit control procedures and limits monitoring, which ensure that all front office staff incorporates a comprehensive credit assessment in their approach to pricing.

3.8.2 Market risk

Market Risk is the risk of financial loss or reduced valuation to the Group's financial position arising from adverse market movements in interest rates, foreign exchange rates, credit spreads, equity prices and their associated volatilities, and other market risk factors.

The Group has strict market risk limits for its derivative business which is predominantly undertaken on the basis that the market risk arising from customer trades is hedged either with a group company CM Inc., or a market counterparty, which substantially mitigates market risk in the derivatives business.

Market risk arises in both the primary underwriting activity and the secondary securities held for market making purposes. It is mitigated through the monitoring and enforcing of a variety of measures such as position limits, sensitivity based measures, VaR and stress testing, and management of inventory holding periods. Market risk limits are reviewed regularly and are approved annually by the board, and are set out in an official Risk Appetite Statement.

The VaR analysis for the year was as follows:

Category	Year to December 2018(US$m)
Year-end	1.37
Average	1.66
Maximum	2.03
Minimum	1.37

3.8.3 Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures amongst individual counterparties, economic sectors or geographical regions due to imperfect portfolio diversification.

In the specific context of the Group's business, concentration risk may arise through exposures to groups of connected clients and/or to specific market sectors or geographical locations. Such exposure may arise from counterparty credit risk from derivative transactions and securities financing transactions, as well as issuer risk from the securities business.

Credit risk mitigation techniques (as mentioned in 3.8.1 above) are employed to reduce concentration risk arising in these areas, mainly through the use of EMIR compliant CSA agreements and associated collateral. In addition, the Group receives cash collateral from SMBC under a guarantee framework to mitigate exposures from certain third party derivative counterparties.

The Group monitors concentration risk within its Risk Appetite and management information and proactively manages and limits its exposures to single names, sectors, and regions.

Further, and in accordance with the requirements of large exposure monitoring, CM-UK has established a framework for monitoring aggregate exposures arising from 'connected counterparties', i.e. individual exposures that may be linked via a common economic or structural dependence. Credit exposures are assessed on an ongoing basis in order to identify and report any such linkages where required.

3.8.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Broadly, the definition excludes Strategic and Reputational risk, but does include risks from the wider regulatory environment including Legal risk, Compliance risk and, increasingly Conduct Risk (see more details in section 3.10 below).

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

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

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

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

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

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

In 2017 and early 2018, regulatory compliance was enhanced by a number of measures, including the appointment of two independent non-executive directors to the Board; strengthening teams and processes in relation to regulatory reporting, risk management and compliance; and establishing an internal Prudential Regulation Committee to embed and better integrate processes such as ICAAP and the ILAA Process within the Group's overall governance framework.

3.8.5 Pension obligation risk

This is the risk to a firm caused by its contractual or other liabilities to or with respect to a pension scheme. CM-UK capitalises the gross value of the scheme's liabilities, which are not deemed a material risk.

3.8.6 Other risks

The Group's Risk Register also analyses risks for which capitalisation is not considered to be an appropriate mitigant.

- **Group Risk**

As noted in Section 2, the business model of CM-UK brings about an inherent interdependence with the wider SMBC Group, thereby leading to the potential for Group Risk.

Group risk represents the possibility that the financial position of the firm may be adversely affected by its relationships (financial or non-financial) with other entities in the wider SMBC group or by risk which may affect the financial position of the whole group including reputational contagion.

SMBC group exposures are therefore explicitly analysed & stress tested in both the counterparty credit risk and concentration risk calculations contained within the Group's ICAAP document.

As with concentration risk, the firm receives independent amount collateral from SMBC group to offset the credit exposure arising from derivative trading with group entities. This is provided in the form of Japanese Government Bonds, subject to haircut for FX volatility.

- **Liquidity Risk**

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

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

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

- **Collateral requirements in the event of a rating downgrade**

CM-UK does not have a public rating, however, in the event of a credit downgrade in the public rating of either SMBC 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 in respect of certain derivative transactions with external clients. CM-UK therefore continuously monitors this position in its liquidity stress testing. Stress testing results indicates that CM-UK has sufficient available liquidity resources to manage the cash requirements which may arise in such a situation.

- **Other non-financial risks**

The Group considers other potential risk impacts such as reputational and others which it manages within the overall policy framework.

- **Wrong way risk**

This is the risk that an exposure increases as the probability of the counterparty failure increases. A counterparty default typically coincides with increased exposure to that counterparty which subsequently results in increased losses. Wrong way risk can be caused by trade specific (idiosyncratic) or market general (systemic) reasons. Specific wrong way risk arises through poorly structured transactions, i.e. trades collateralized by own or related party shares. General wrong way risk arises where the credit quality of the counterparty may be correlated with a macroeconomic factor that also affects the value of the derivative transactions.

CM-UK has a strong preference to collateralise transactions with (normally US dollar) cash, but potentially may take government debt as collateral. Wrong way risk is mitigated to a large extent given preference for cash collateral or high grade government bonds, while wrong way risk in stressed market conditions is considered in the context of Pillar 2a counterparty credit risk requirement.

- **Interest Rate Risk in the Banking Book (IRRBB)**

The Treasury department manages the Group's funding profile, daily business funding and the liquidity asset buffer. The Group's exposure to IRRBB arise from Treasury's funding activities. The Group invests its capital in cash deposits, treasury bills, and a portfolio of high quality floating rate notes; through the latter it seeks to earn an interest margin. In addition, the Group places cash collateral with derivative trading counterparts, upon which it earns overnight interest. The Group has interest-bearing liabilities of cash collateral held on behalf of derivative trading counterparts and inter-group borrowings.

- **Macro-Economic Risks**

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

3.9 Adequacy of risk management arrangements

As part of its ongoing risk management framework, on at least an annual basis the Group undertakes an assessment of the level of capital and liquidity resources required to execute its business model within the boundaries of its risk appetite framework; these assessments form the basis of its ICAAP and ILAA documents. Further, contingency preparations are also maintained in respective of Recovery Planning and Solvent Wind Down planning.

This suite of documentation is provided to the Board who have assessed that the risk management framework implemented within the group is satisfactory and performing effectively. Further, these documents are also subject to independent review by both internal and external audit / consultancy firms, who have confirmed this assessment.

3.10 Conduct Risk

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

The Group's Conduct Framework is based around three pillars.

3.10.1 Identification of Conduct Risks

- Each employee is responsible to identify Conduct Risks in his or her area
- Each Department Head must identify Conduct Risks for their area of responsibility
- The firm sets its conduct risk appetite as part of its Risk framework and maintains a Conduct Risk Register at firm and departmental level which is regularly reviewed and updated.

3.10.2 Monitoring and Reporting Conduct Risks

- Front and Back Offices conduct quarterly self-assessments
- The Compliance Department conducts its Compliance Monitoring Programme including Conduct related themes and review of conduct controls
- Conduct KRIs are reported to the Control and Conduct Assessment Forum and to the board and board committees
- The Employee Conduct Risk Committee reviews individual conduct issues and 'joins the dots'
- Speak-up and whistleblowing is encouraged and protected through our Whistleblowing framework.

3.10.3 Control of Conduct Risk

- The Group has a full Conduct Risk training curriculum
- Conduct issues are highlighted through regular Conduct Risk Updates to employees
- New Product Approval Process and Transactional Approval Committee embed conduct issues
- Departmental and firm wide Policies and Procedures also embed conduct themes
- Employee Conduct Risk Committee makes recommendations to the board remuneration committee on individual conduct related issues
- The Group's Culture programme seeks to embed its group wide values and enhance the Group's culture.

4. Own funds

4.1 Common Equity Tier 1 (“CET1”) Capital

CM-UK’s Common Equity Tier 1 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%)

4.2 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 the CRR.

4.3 Capital deductions

CM-UK’s own funds are subject to the following deductions from CET1:

- Deduction of intangible 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.

Table 1: Summary of the own funds for CM-UK:

Own funds	31 December 2018 (US$m)	31 December 2017 (US$m)
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	944.0	944.0
- Ordinary shares	779.0	779.0
- Share Premium	165.0	165.0
Retained earnings	425.9	382.2
Accumulated other comprehensive income (and other reserves)	(2.6)	(0.9)
Common equity tier 1 capital before regulatory adjustments	**1,367.3**	**1,325.3**
Common equity tier 1 capital: regulatory adjustments		
Additional value adjustments	(2.6)	(2.2)
Intangible assets (net of related tax liability)	(7.2)	(2.0)
Fair value reserves related to gains or losses on cash flow hedges	1.5	(0.5)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(41.7)	(26.3)
CET1 instruments of financial sectior entities where the institution has a significant investment in those entities	0	0
Total regulatory adjustments to common equity tier 1	**(50.0)**	**(31.0)**
Common Equity Tier 1 (CET1) Capital	**1,317.3**	**1,294.3**
Additional Tier 1 (AT1) capital: instruments		
Perpetual non-cumulative preference shares	360.0	360.0
Additional Tier 1 (AT1) capital before regulatory adjustments	**360.0**	**360.0**
Additional Tier 1 (AT1) capital: regulatory adjustments		
AT1 instruments of financial sectior entities where the institution has a significant investment in those entities	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**0**	**0**
Additional Tier 1 (AT1) capital	**360.0**	**360.0**
Total Own Funds	**1,677.3**	**1,654.3**

Further detail on Own Funds including terms and conditions of capital instruments is provided in **Appendix 1.**

Table 2: Reconciliation of total own funds to shareholders' equity for CM-UK:

Category	31 December 2018 (US$m)	31 December 2017 (US$m)
Shareholders' equity per financial statements		
Called up share capital	1,139.0	1139
Share premium	165.0	165
Retained earnings	425.9	382.2
Other reserves	(2.6)	(0.9)
Less Regulatory Adjustments for Own Funds		
Capital Deductions	(50.0)	(31.0)
Total Own Funds	**1,677.3**	**1,654.3**

5. Capital Requirements

CM-UK determines its Pillar 1 capital requirements on a daily basis in accordance with the relevant CRR rules. A summary report, which includes a variance analysis and highlights points of note, is then distributed to the Group's key stakeholders, which consists of senior management, heads of businesses, risk management and finance.

Table 3: Summary of the RWA and the Pillar 1 capital requirements by risk category for CM-UK

Category	RWA (US$m)	Capital Requirement (US$m)	RWA (US$m)	Capital Requirement (US$m)
	31 December 2018		31 December 2017	
Credit risk reqt				
Standardised approach	**1,304.2**	**104.3**	**1,813.0**	**145.1**
Central Goverment	0	0	0	0
Multilateral development banks	0.3	0	0.5	0
Institutions	548.7	43.9	485.8	38.9
Corporates	716.1	57.3	1,291.0	103.4
Others	39.1	3.1	35.7	2.9
Credit valuation adjustment	**238.4**	**19.1**	**285.5**	**22.8**
Market risk capital reqt	**1,602.6**	**128.2**	**702.5**	**56.2**
Interest rate risk	1,295.1	103.6	614.1	49.1
Options transactions	0	0	0	0
Equity	213.6	17.1	65.0	5.2
Foreign exchange risk	93.9	7.5	23.4	1.9
Operational risk capital reqt	**436.5**	**34.9**	**426.4**	**34.1**
Concentration Risk cap reqt	**518.4**	**41.5**	**713.5**	**57.1**
Total	**4,100.1**	**328.0**	**3,940.9**	**315.3**

The Group's RWAs increased by $159m in 2018 compared against 2017. This was primarily due to $900m increase in Market Risk RWA, partially offset by a decrease across other risks predominantly driven by Credit Risk.

Note more details on this are shown in section 8 in table 17.

Table 4: Capital Ratios for CM-UK

Capital Ratios	31 December 2018	31 December 2017
Common Equity Tier 1 ratio	32.1%	32.8%
Tier 1 ratio	40.9%	42.0%
Total capital ratio	40.9%	42.0%

In accordance with CRR Article 400(2) (c), the FCA has granted permission to CM-UK to exempt, from the application of CRR Article 395(1), the trading book exposures incurred by the firm to certain SMBC group counterparties on 17 January 2019.

Had CM-UK applied the exemption on 31 December 2018, it would have had the following impact:

- Total Capital Ratio: increase by 5.92%
- Common Equity Tier 1 Ratio: increase by 4.65%
- Total RWA: reduced by $518m

5.1 Pillar 1 approach

CM-UK adopts the following approaches to calculating Pillar 1 capital requirements:

Risk Category	Pillar 1 approach
Credit Risk	Standardised approach under Chapter 2, Title II, Part Three of CRR
Market Risk	
- Interest rate general market risk	Maturity-based approach under CRR Article 339
- Interest rate specific market risk	Standardised approach under CRR Article 336
- Equity risk	Standardised approach under Section 3, Chapter 2, Title IV, Part Three of CRR
- Foreign exchange risk	Standardised approach under CRR Article 352
Operational Risk	Basic Indicator Approach under Chapter 2, Title III, Part Three of CRR.
Credit Valuation Adjustment Risk	Standardised method under CRR Article 384
Concentration Risk	Additional own funds requirements for large exposures in the trading book under Article 397
Settlement Risk	CRR Article 378

5.2 Settlement risk

The credit risk RWA and Pillar 1 capital requirement in **Table 3** above includes settlement risk RWA and capital requirements, which were $3.1m and $0.25m, respectively, as at 31 December 2018.

6. Capital Buffers

The Group is required to hold the following capital buffers under CRD IV.

6.1 Capital conservation buffer (“CCoB”)

The CCoB is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. The requirement is 2.5% of RWA but has been phased in from 2016 in steps of 0.625% per annum to the full value in 2019. The CCoB rate for 2018 is 1.875%.

6.2 Countercyclical capital buffer (“CCyB”)

The CCyB is designed to require financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

Table 5: Amount of institution-specific CCyB and requirement and total risk exposure as at 31 December 2018 for CM-UK

Category	(US$m) and %
Total risk exposure amount	**4,100.1**
Institution specific countercyclical capital buffer rate	**0.292%**
Institution specific countercyclical capital buffer requirement	**12**

SMBC SMBC NIKKO

Table 6: Geographical distribution of credit exposures relevant for the calculation of the CCyB as at 31 December 2018 for CM-UK

31 December 2018							
Geographical breakdown	General credit exposures	Trading Book Exposures	Own funds requirements			Own funds requirement weights (110)	Countercyclical capital buffer rate (120)
	(US$m)						
	Exposure Value for SA (col 10)	Sum of long and short positions of trading book exposures for SA (30)	of which: General credit exposures (80)	of which: Trading Book exposures (90)	Total		
Australia	23.3	10.00	1.86	0.62	2.48	0.000%	0.000%
Austria	1.1	3.52	0.00	0.06	0.06	0.000%	0.000%
Belgium	1.7	10.56	0.14	0.76	0.90	0.000%	0.000%
Bermuda	2.4	0.47	0.19	0.00	0.20	0.000%	0.000%
Botswana	0.5	0.00	0.04	0.00	0.04	0.000%	0.000%
Canada	1.6	0.00	0.12	0.00	0.12	0.000%	0.000%
Cayman Islands	30.5	209.67	2.44	15.15	17.59	0.000%	0.000%
China	0.0	17.99	0.00	0.58	0.58	0.000%	0.000%
Czech Republic	2.1	4.75	0.08	0.08	0.16	0.121%	1.000%
Denmark	4.1	3.85	0.33	0.31	0.64	0.000%	0.000%
Egypt	0.7	0.00	0.06	0.00	0.06	0.000%	0.000%
Finland	0.2	0.00	0.01	0.00	0.01	0.000%	0.000%
France	270.5	26.99	7.07	1.63	8.70	0.000%	0.000%
Germany	21.1	23.21	0.94	1.56	2.50	0.000%	0.000%
Guernsey	0.6	0.00	0.04	0.00	0.04	0.000%	0.000%
Hong Kong	0.0	54.61	0.00	3.67	3.67	2.783%	1.875%
Hungary	1.7	0.00	0.14	0.00	0.14	0.000%	0.000%
Indonesia	0.0	0.17	0.00	0.01	0.01	0.000%	0.000%
Ireland	0.0	1.34	0.00	0.06	0.06	0.000%	0.000%
Italy	11.0	0.00	0.88	0.00	0.88	0.000%	0.000%
Japan	1.0	513.85	0.08	35.84	35.92	0.000%	0.000%
Jersey	62.8	0.00	1.74	0.00	1.74	0.000%	0.000%
Kuwait	0.1	0.78	0.01	0.01	0.02	0.000%	0.000%
Luxembourg	0.0	7.31	0.00	0.17	0.17	0.000%	0.000%
Macao	0.0	14.94	0.00	0.24	0.24	0.000%	0.000%
Malaysia	2.0	0.00	0.08	0.00	0.08	0.000%	0.000%
Netherlands	379.6	37.11	9.74	1.54	11.28	0.000%	0.000%
Norway	9.3	0.00	0.05	0.00	0.05	0.034%	2.000%
Qatar	0.0	0.36	0.00	0.00	0.00	0.000%	0.000%
Republic of Korea	0.0	17.61	0.00	0.44	0.44	0.000%	0.000%
Saudi Arabia	5.1	0.59	0.20	0.01	0.21	0.000%	0.000%
Singapore	11.4	6.05	0.91	0.10	1.01	0.000%	0.000%
Sweden	0.0	0.69	0.00	0.06	0.06	0.042%	2.000%
Switzerland	37.6	0.00	3.01	0.00	3.01	0.000%	0.000%
Thailand	0.2	1.20	0.02	0.10	0.12	0.000%	0.000%
Turkey	3.3	0.00	0.00	0.00	0.00	0.000%	0.000%
United Arab Emirates	9.5	27.27	0.76	0.64	1.39	0.000%	0.000%
United Kingdom	1086.2	46.52	28.93	2.43	31.36	23.751%	1.000%
United States	212.3	67.31	0.52	4.25	4.77	0.000%	0.000%
Virgin Islands U.S.	0.0	5.74	0.00	0.09	0.09	0.000%	0.000%
Virgin Islands, British	0.0	33.91	0.00	1.18	1.18	0.000%	0.000%
Totals	**2,193.5**	**1,148.4**	**60.4**	**71.6**	**132.0**		

Denotes country where the CCyB has been applied

7. Credit risk

7.1 Credit risk adjustments

Credit risk represents the potential losses that CM-UK would incur if counterparty failed to perform its obligations under contractual terms.

A financial asset (at amortised cost) is defined as past due when a counterparty has failed to make a payment when contractually due.

A financial asset (at amortised cost) is impaired if its recoverable amount is less than its carrying amount on the balance sheet.

At each balance sheet date, the Group assesses whether financial and other assets, which are not accounted for at fair value through profit and loss, are impaired. As at 31 December 2018, no adjustments in respect of asset impairments were made (31 December 2017: $nil).

7.2 Fair value reserve

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

7.3 Summary of Credit Risk Exposures and RWA for CM-UK

Table 7: Breakdown of credit risk exposures and RWA by exposure class for CM-UK for 2017 & 2018

Exposure Class	31 December 2018 (US$m)	
	Original Exposure	Average Original exposure value
Standardised approach		
Central Governments	514.8	514.6
Multilateral Development Banks	7.1	23.1
Institutions	8,043.0	6,876.8
Corporates	2,157.2	2,174.1
Other	36.6	42.2
Total	**10,758.7**	**9,630.8**

Exposure Class	31 December 2017 (US$m)	
	Original Exposure	Average Original exposure value
Standardised approach		
Central Governments	510.4	127.6
Multilateral Development Banks	85.7	85.9
Institutions	10,897.4	11,974.0
Corporates	3,284.6	2,885.8
Other	38.0	36.3
Total	**14,816.1**	**15,109.6**

7.4 Original Exposure

Original exposures are CM-UK's exposures to counterparties after accounting offsets and without taking into account the effects of credit risk mitigation. For derivative exposures, CM-UK applies contractual netting under Section 7, Chapter 6, Title II, Part Three of CRR, to derive at the gross exposure values where the Group has netting agreements in place with counterparties that are legally valid and enforceable in the relevant jurisdictions. Please refer to Table 16 for further details on the effect of contractual netting for derivatives.

The tables below contain a number of disclosures regarding CM-UK's original exposure.

Table 8: CM-UK's Original Exposure and Average Original Exposure by exposure class for 2017 & 2018

Exposure Class	31 December 2018 (US$m)		
	Original Exposure	Net Exposure	RWA
Standardised approach			
Central Governments	514.8	514.8	0
Multilateral Development Banks	7.1	7.1	0.3
Institutions	8,043.0	2,005.3	545.6
Corporates	2,157.2	763.5	716.1
Other	36.6	36.6	39.1
Total	**10,758.7**	**3,327.3**	**1,301.1**

Exposure Class	31 December 2017 (US$m)		
	Original Exposure	Net Exposure	RWA
Standardised approach			
Central Governments	510.4	510.4	0
Multilateral Development Banks	85.7	85.7	0.5
Institutions	10,897.4	1,809.2	485.8
Corporates	3,284.6	1,372.2	1,291.0
Other	38.0	38.0	35.7
Total	**14,816.1**	**3,815.5**	**1,813.0**

Table 9: Residual maturity breakdown of original exposure by exposure class for CM-UK

Exposure Class	31 December 2018 (US$m)				
	On Demand	Up to 1 year	1 to 5 Years	Over 5 Years	Original exposure
Standardised approach					
Central Governments	0.5	514.3	0	0	514.8
Multilateral Development Banks	0	0	5.3	1.8	7.1
Institutions	966.3	4,849.5	182.3	2,044.9	8,043.0
Corporates	0	4.2	589.0	1,564.0	2,157.2
Other	36.6	0	0	0	36.6
Total	**1,003.4**	**5,368.0**	**776.6**	**3,610.7**	**10,758.7**

Table 10: Industry breakdown of original exposure by exposure class for CM-UK

Exposure Class	Financial and insurance activities	Education	Human Health and Social Work Activities	Manufacturing	Mining and quarrying	Electricity, Gas, Steam and Air Conditioning Supply	Other industries	Original exposure
	31 December 2018 (US$m)							
Standardised approach								
Central governments	514.8	0	0	0	0	0	0	514.8
Multilateral development banks	7.1	0	0	0	0	0	0	7.1
Institutions	8,043.0	0	0	0	0	0	0	8,043.0
Corporates	629.4	367.5	256.1	223.2	175.0	154.9	351.1	2,157.2
Other	0	0	0	0	0	0	36.6	36.6
Total	**9,194.3**	**367.5**	**256.1**	**223.2**	**175.0**	**154.9**	**387.7**	**10,758.7**

Table 11: Breakdown of Corporate clients assigned to "Other Industries" in table 10 above

Industry	Original Exposure (US$m)
Water Supply; Sewerage, Waste Management and Remediation Activities	70.3
Construction	52.9
Transportation and Storage	113.5
Information and Communication	58.2
Other	56.2
Total	**351.1**

Table 12: Original exposure by exposure class and geographical location for CM-UK

Exposure Class	31 December 2018							
	Asia & Oceania		Europe			Rest of the World		Original exposure
	Total Exposure	Of which Japan	Total Exposure	Of which France	Of which UK	Total Exposure	Of which USA	
	(US$m)							
Standardised approach								
Central governments	0	0	110.2	52.6	0.5	404.6	404.5	514.8
Multilateral development banks	0	0	0	0	0	7.1	0	7.1
Institutions	3,580.5	3,404.3	2,691.7	508.5	1,975.2	1,770.8	1,769.7	8,043.0
Corporates	52.5	1.0	1,856.3	270.5	1,049.6	248.4	212.3	2,157.2
Other	0	0	36.6	0	36.6	0	0	36.6
Total	**3,633.0**	**3,405.3**	**4,694.8**	**831.6**	**3,061.9**	**2,430.9**	**2,386.5**	**10,758.7**

Table 13: Countries where CM-UK has exposure to and not separately disclosed on table 12

Country	Region
Australia	Asia & Oceania
China PRC	Asia & Oceania
Hong Kong	Asia & Oceania
Kuwait	Asia & Oceania
Malaysia	Asia & Oceania
Saudi Arabia	Asia & Oceania
Singapore	Asia & Oceania
Thailand	Asia & Oceania
UAE	Asia & Oceania
Austria	Europe
Belgium	Europe
Czech Republic	Europe
Denmark	Europe
Finland	Europe
Germany	Europe
Guernsey	Europe
Hungary	Europe
Ireland	Europe
Italy	Europe
Jersey	Europe
Luxembourg	Europe
Netherlands	Europe
Norway	Europe
Slovenia	Europe
Spain	Europe
Sweden	Europe
Switzerland	Europe
Turkey	Europe
Bermuda	Rest of the World
Botswana	Rest of the World
Brazil	Rest of the World
Canada	Rest of the World
Cayman Islands	Rest of the World
Egypt	Rest of the World
Other	Rest of the World
South Africa	Rest of the World

7.5 Net Exposure

The Group calculates net exposure based on original exposure and application of credit risk mitigation. CM-UK applies the rules under Chapter 4, Title II, Part Three of CRR to recognise the effect of credit risk mitigants that meet the eligibility criteria.

7.6 Use of External Credit Assessment Institutions ("ECAI") to derive client Risk Weight:

Under the standardised approach to credit risk, CM-UK uses ECAI's external credit assessment to determine the risk weight to be applied to exposure amounts. This is performed via a mapping of external credit ratings to the associated credit quality step ("CQS") using the standard association published by the European Banking Authority "EBA") as well as considering the clients Exposure class and residual maturity on the transaction.

For this purpose, CM-UK uses the following ECAI's:

- Moody's
- S&P
- Fitch

Table 14: CM-UK's Net Exposure by Exposure Class and associated Risk Weight applied

31 December 2018							
Exposure class	Risk weight and (US$m)					Total	Of which unrated
	0%	20%	50%	100%	250%		
Central governments or central banks	514.8	0	0	0	0	514.8	0
Regional governments or local authorities	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0
Multilateral development banks	5.7	1.4	0	0	0	7.1	0
International organisations	0	0	0	0	0	0	0
Institutions	0	1,529.1	473.0	3.2	0	2,005.3	819.6
Corporates	0	1.7	92.0	669.8	0	763.5	594.6
Retail	0	0	0	0	0	0	0
Secured by mortgages on immovable property	0	0	0	0	0	0	0
Exposures in default	0	0	0	0	0	0	0
Items associated with particularly high risk	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0
Institutions and corporates with a short-term credit assess	0	0	0	0	0	0	0
Collective investment undertakings	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0
Other items	0	0	0	34.9	1.7	36.6	36.6
Total	**520.5**	**1,532.2**	**565.0**	**707.9**	**1.7**	**3,327.3**	**1,450.8**

7.7 Counterparty credit risk

Counterparty credit risk ("CCR") means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. CCR is one of the most significant risks that the Group is exposed to. The following products are subject to CCR:

- Derivative contracts, and
- Securities financing transactions ("SFT").

CCR forms a significant portion of the credit risk RWA. CM-UK calculates the exposure values of the contracts subject to CCR using the following approaches:

- Derivative contracts: 'Mark-to-Market Method' under CRR Article 274, and
- SFT: Financial Collateral Comprehensive Method under CRR Article under CRR Article 223 & 224.

Table 15: Breakdown of credit risk exposures and RWA by product category for CM-UK

Category	31 December 2018		
	RWAs (US$m)	Original credit risk exposure (US$m)	Net exposure (US$m)
CCR - Derivative contracts	1,080.8	4,371.0	2,050.0
CCR - Securities financings contracts	9.4	5,157.0	46.6
Credit Risk - Other	210.9	1,230.7	1,230.7
Total	**1,301.1**	**10,758.7**	**3,327.3**

Category	31 December 2017		
	RWAs (US$m)	Original credit risk exposure (US$m)	Net exposure (US$m)
CCR - Derivative contracts	1,586.3	6,762.0	2,544.5
CCR - Securities financings contracts	28.8	6,860.1	76.9
Credit Risk - Other	197.9	1,194.1	1,194.1
Total	**1,813.0**	**14,816.2**	**3,815.5**

Table 16: Breakdown of derivative counterparty credit risk exposures for CM-UK

Category	31 December 2018 (US$m)	31 December 2017 (US$m)
Gross positive fair value of contracts	7,056.4	7,332.3
Netting benefits	(4,562.9)	(2,323.1)
Net Current Credit Exposure	**2,493.5**	**5,009.2**
Collateral held	(2,321.0)	(4,217.6)
Potential future credit exposure	1,877.5	1,752.8
Net Derivative Credit Exposure	**2,050.0**	**2,544.4**

Netting benefits have increased predominantly due to CM-UK has adopted EBA Q&A (2016_2735) guidance to include variation margin in the gross and net replacement cost calculation for derivative exposures in the netting set.

Note that the collateral held is all eligible financial collateral as defined under Chapter 4, Title II, and Part Three of CRR. See Credit Risk Mitigation below regarding collateral.

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8. Market Risk

Table 17: CM-UK's RWA and Pillar 1 market risk capital requirements by method for 2018 and 2017 due to significant variance year on year

31 December 2018		
Outright products	RWA amounts (US$m)	Capital requirements (US$m)
Interest rate risk (general and specific)	**1,295.1**	**103.6**
- General market risk	394.2	31.5
- Specific market risk	900.9	72.1
Equity risk (general and specific)	**213.6**	**17.1**
- General market risk	108.1	8.7
- Specific market risk	105.5	8.4
Foreign exchange risk	**93.9**	**7.5**
Total	**1,602.6**	**128.2**

31 December 2017		
Outright products	RWA amounts (US$m)	Capital requirements (US$m)
Interest rate risk (general and specific)	**614.1**	**49.1**
- General market risk	239.0	19.1
- Specific market risk	375.1	30.0
Equity risk (general and specific)	**65.0**	**5.2**
- General market risk	14.9	1.2
- Specific market risk	50.1	4.0
Foreign exchange risk	**23.4**	**1.9**
Total	**702.5**	**56.2**

Market Risk RWAs increased by $900m in 2018 compared against 2017.This was primarily driven by an increase in inventory of securities and a change in methodology of convertible bonds treatment.

9. Leverage

The purpose of monitoring and measuring this metric is to prevent the risk of a build-up of 'excessive' leverage. This is not a material risk to CM-UK.

9.1 Approach to leverage ratio exposures

CM-UK calculates the leverage ratio exposures based on accounting values of the assets on the balance sheet, except for the following:

- Leverage ratio exposures for derivative contracts: based on the exposure values calculated for CCR purposes (see Chapter 7.6 above).
- Leverage ratio exposures for SFTs: a counterparty credit risk add-on (calculated under CRR Article 429b) is included in addition to the accounting values of the assets.

9.2 Approach to leverage ratio reporting

- Point in time reporting: under Recital 9 of the Leverage Ratio Delegated Regulation, CM-UK monitors and reports leverage ratio each quarter based on quarter-end data.

Table 18: Breakdown of the leverage ratio exposures by product for CM-UK

Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts (US$m)	
	31 December 2018	31 December 2017
Total assets as per published financial statements	**15,162.7**	**16,087.5**
Adjustments for derivative financial instruments	**(959.8)**	**(408.3)**
Adjustments for securities financing transactions	**46.7**	**30.8**
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**0**	**0**
Other adjustments	**267.4**	**(31.0)**
Leverage ratio exposure	**14,517.0**	**15,679.0**

The $267.4m other adjustments relates to gross up adjustment for independent amounts received (this amount being netted down in the financial statements), less exposures already deducted from capital.

Table 19: Reconciliation of accounting assets and leverage ratio exposure for CM-UK

31 December 2018	
Leverage ratio common disclosure	**CRR leverage ratio exposures (US$m)**
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	**5,555.6**
Asset amounts deducted in determining Tier 1 capital	**(50.0)**
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral	**5,505.6**
Derivative exposures	
Replacement cost associated with derivatives transactions	2,844.6
Add-on amounts for PFE associated with derivatives transactions	3,252.9
Total derivative exposures	**6,097.5**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting)	2,867.2
Add-on amount for counterparty credit risk exposure for SFT assets	46.7
Total securities financing transaction exposures	**2,913.9**
Capital and Total Exposures	
Tier 1 capital	**1,677.3**
Total Exposures	**14,517.0**
Leverage Ratios	
End of quarter leverage ratio	**11.6%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	0
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	0

10. Asset encumbrance

The Group determines encumbered assets and collateral in a manner consistent with the definition provided in the EBA Guidelines on the disclosure of encumbered assets. Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use. The key sources of encumbrance are repurchase agreements, trading liabilities and derivative activities. Asset encumbrance is integral to the Group’s business and funding model. The types of encumbered assets have remained consistent during the year.

The Group utilises standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements.

There is no significant difference between treatment of encumbered assets reported below and treatment of pledged and transferred assets in accordance with accounting framework applied by CM-UK.

In CM-UK, the significant currencies as defined under CRR Article 415 (2a) are US dollar (CM-UK's reporting currency) and Euro.

The reported values in the tables below represent the median of the values reported to the regulator over the period 1 January 2018 to 31 December 2018.

Table 20: Encumbered and unencumbered assets by asset category for CM-UK

	31 December 2018			
Category	Carrying amount of encumbered assets (US$m)	Fair value of encumbered assets (US$m)	Carrying amount of unencumbered assets (US$m)	Fair value of unencumbered assets (US$m)
Assets of the reporting institution	**2,866.7**	**25.4**	**11,111.6**	**1,721.4**
Equity instruments	0	0	0.7	0
Debt securities	25.4	25.4	1,699.4	1,721.4
of which: issued by general governments	25.4	25.4	650.5	650.5
of which: issued by financial corporations	0	0	404.6	404.6
of which: issued by non-financial corporations	0	0	666.3	666.3
Other assets	2,841.3	0	9,411.5	0

Unencumbered assets categorised as “Loans on demand” , "Loans on Advance" (consisting of reverse repo balances) and “Other assets" included in the column “Carrying amount of unencumbered assets” are not deemed to be available for encumbrance in the normal course of business.

However collateral received under reverse repo transactions are available for encumbrance, which are reported in Table 21 below.

Table 21: Collateral received that are encumbered and available for encumbrance for CM-UK

31 December 2018		
Category	Fair value of encumbered collateral received or own debt securities issued (US$m)	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance (US$m)
Collateral received by the reporting institution	**1,570.2**	**5,596.1**
Loans on demand	0	0
Equity instruments	0	0
Debt securities	1,570.2	2,509.4
of which: issued by general governments	1,561.9	2,117.0
of which: issued by financial corporations	4.8	55.7
of which: issued by non-financial corporations	3.5	336.7
Loans and advances other than loans on demand	0	3,086.7
Other collateral received	0	0
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	4,664.8	0

Table 22: Sources of encumbrances by types of financial liabilities that trigger the encumbrance for CM-UK

31 December 2018		
Category	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**4,551.0**	**4,664.8**

Appendix 1: Own Funds Disclosure

Table 1: Capital Instruments main features

Capital Instruments' main features template		Common Equity	Additional Tier 1
1	Issuer	SMBC Nikko Capital Markets Limited	SMBC Nikko Capital Markets Limited
2	Unique indentifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law (s) pf the instrument	English	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	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common shares	Other Tier 1 instruments
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	USD 404 million USD 370 million USD 170 million	USD 200 million USD 50 million USD 110 million
9	Nominal amount of instrument	USD 404 million USD 257 million USD 118 million	USD 200 million USD 50 million USD 110 million
9a	Issue price	USD 1 per security USD 1.44 per security USD 1.44 per security	USD 1 per security
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	17/06/2015 17/06/2015 29/07/2015	28/12/2007 07/10/2010 29/07/2015
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	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
16	Subsequent call dates, if applicable	N/A	As above
	Coupons/ dividends		
17	Fixed or floating dividend/ coupon	Floating	Fixed
18	Coupon rate and any related index	N/A	5.50%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary

21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non- convertible	Non- convertible	Convertible
24	If convertible, conversion trigger(s)	N/A	If Common Equity Tier 1 Capital Ratio falls below 5.125%
25	If convertible, fully or partially	N/A	Fully
26	If convertible, conversion rate	N/A	Ordinary shares
27	If convertible, mandatory or optional conversion	N/A	Mandatory
28	If convertible, specify instrument type convertible into	N/A	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	N/A	SMBC Nikko Capital Markets Limited
30	Write- down features	No	No
31	If write- down, write- down trigger(s)	No	N/A
32	If write- down, full or partial	N/A	N/A
33	If write- down, permanent or temporary	N/A	N/A
34	If temporary write- down, description of write- up mechanism	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Preference shares	Subordinated liabilities
36	Non- compliant transitioned features	No	No
37	If yes, specify non- compliant features	N/A	N/A

Table 2: Own Funds disclosure

	Common Equity Tier 1 (CET1) capital: Instruments and reserves	2018	2017
1	Capital instrument and the related share premium accounts	944.0	944.0
	of which: Instrument type 1	944.0	944.0
	of which: Instrument type 2	0.0	0.0
	of which: Instrument type 3	0.0	0.0
2	Retained earnings	425.9	382.2
3	Accumulated other comprehensive income (and other reserves)	(2.6)	(0.9)
3a	Funds for general banking risk	0.0	0.0
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0.0	0.0
5	Minority interests (amount allowed in consolidated CET1)	0.0	0.0
5a	Independently reviewed iterim profits net of any foreseeable charge or dividend	0.0	0.0
6	**Common Equity Tier 1 (CET1) Capital before regulatory adjustments**	1,367.4	1,325.3
7	Additional value adjustments (negative amount)	(2.6)	(2.2)
8	Intangible assets (net of related tax liability) (negative amount)	(7.2)	(2.0)
9	Empty set in the EU	0.0	0.0
10	Deferred tax assets that rely on future profitabilty excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negaive amount)	0.0	0.0
11	Fair value reserves related to gains or losses on cash flow hedges	1.5	(0.5)
12	Negative amounts resulting from the calculation of expected loss amounts	0.0	0.0
13	Any increase in equity that results from securitised assets (negative amount)	0.0	0.0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(41.7)	(26.3)
15	Defined benefit pension fund assets (negative amount)	0.0	0.0

16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0.0	0.0
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	0.0
18	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold ad net of eligible short positions) (negative amount)	0.0	0.0
19	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold ad net of eligible short positions) (negative amount)	0.0	0.0
20	Empty set in the EU	0.0	0.0
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0.0	0.0
20b	of which: qualifying holdinbgs outside the financial sector (negative amount)	0.0	0.0
20c	of which: securitisation positions (negative amount)	0.0	0.0
20d	of which: free deliveries (negative amount)	0.0	0.0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0.0	0.0
22	Amount exceeding the 15% threshold (negative amount)	0.0	0.0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant invetment in those entities	0.0	0.0
24	Empty set in the EU	0.0	0.0
25	of which: deferred tax assets arising from temporary differences.	0.0	0.0
25a	Losses for the current financial year (negative amount)	0.0	0.0
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0.0	0.0
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0.0	0.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(50.1)	(31.0)
29	**Common Equity Tier 1 (CET1) Capital**	1,317.3	1,294.3

Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	360.0	360.0
31	of which: classified as equity under applicable accounting standards	360.0	360.0
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Amout of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	360.0	360.0
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and Indirect holdings by an institution of own AT1 instruments (negative amount)	-	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amounth above 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
41	Empty set in the EU	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
43	**Total regulatory adjustments to Tier 1 (AT1) capital**	-	-
44	**Additional Tier 1 (AT1) capital**	360.0	360.0
45	**Tier 1 capital (T1 = CET1 + AT1)**	1,677.3	1,654.3

Tier 2 (T2) capital: instruments and provisions			
46	Capital instrumnets and the related share premium accounts	-	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	-	-
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the insitution designed to inflate artificially the own funds of the institution (negative amount)	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector enities where the istitution does not have significant investment in those entities (amount above 10% threshold and net of eligible short positions) as described in Articles 66 (c), 69 and 70 of Regulation (EU) No 575/2013 (negative amount)	-	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) as described in Articles 66 (d) and 69 of Regulation (EU) No 575/2013 (negative amount)	-	-
56	Empty Set in the EU	-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-
58	**Tier 2 (T2) capital**	-	-
59	**Total capital (TC = T1 + T2)**	1,677.3	1,654.3
60	**Total risk weighted assets**	4,100.1	3,941.0

Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	32.1%	32.8%
62	Tier 1 (as a percentage of risk exposure amount)	40.9%	42.0%
63	Total capital (as a percentage of risk exposure amount)	40.9%	42.0%
64	Institution- specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) of Regulation (EU) No 575/2013 plus capital conservation and countercyclical buffer requirements, plus systematic risj buffer requirement, plus systemically important institution buffer expressed as a percentage of risk exposure amount).	12.2%	11.3%
65	of which: capital conservation buffer requirement	1.875%	1.250%
66	of which: countercyclical buffer requirement	0.292%	0.004%
67	of which: systemic risk buffer requirement	N/A	N/A
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.3%	15.0%
69	[non relevant in EU regulation]	N/A	N/A
70	[non relevant in EU regulation]	N/A	N/A
71	[non relevant in EU regulation]	N/A	N/A
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings by the financial sector entities where the institution does not have a significant invesment in those entities (amounts below 10% threshold and net of eligible short positions)	-	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant invesment in those entities (amounts below 10% threshold and net of eligible short positions)	-	-
74	Empty Set in the EU	-	-
75	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	-

Applicable caps on the inclusion of provisions in Tier 2			
76	Credit Risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments included in T2 in respect of exposures subject to standardized approach	-	-
78	Credit Risk adjustments included in T2 in respect of exposures subject to internal ratings- based approach (prior to to the application of the cap)	-	-
79	Cap on inclusion of credit risk adjustments included in T2 under internal ratings- based approach	-	-
Capital instruments subject to phase- out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase out arrangements	-	-
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	- Current cap on CET1 instruments subject to phase out arrangements	-	-
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	- Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Appendix 2: Remuneration disclosures for the 2018 financial year

SMBC Nikko Capital Markets Limited ("CM Ltd") is subject to the FCA's Remuneration Code and is categorised as a Proportionality level 3 firm. In this document, SMBC Derivative Products Limited ("SMBC DP"), SMBC Capital Markets Asia Limited ("CM Asia") and CM Ltd are referred to as CM-UK while SMBC DP, CM Ltd, CM Asia and CM-INC are referred to as the Group. This section provides further information on CM-UK's remuneration policies and governance in addition to quantitative information on remuneration in respect of the financial year ending 31st December 2018.

1. Remuneration Policy

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

The Remuneration Code applies to all employees of CM-UK and its subsidiaries. SMBC Derivative Products Limited ("SMBC DP") currently has no employees and is governed by three non-executive directors as it relies on an Agency Agreement with CM-INC to provide all of its required services.

A continuing focus during 2018 has been to ensure that CM-UK's approach to discretionary remuneration is structured in accordance with the FCA's Remuneration Code ("the 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, 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 should only be used exceptionally as a recruitment tool, and only be paid to any individuals in their first 12 months of service.

The policy is owned by the Remuneration Committee ("RemCo"), who will review the policy annually or more frequently if necessary. The RemCo has the authority to make significant revisions to the policy. Minor revisions may be made by the Head of Human Resources and approved by the CEO, with ratification by the RemCo.

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
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments

2. Regulation

CM-UK 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 Group 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, in accordance with the FCA Remuneration Code. Such employees are designated as Material Risk Takers ("MRT") and they are made aware of the implications of their status;

b) Governance – CM-UK is categorised as a significant, Proportionality Level 3 firm. In line with FCA Proportionality guidelines, CM-UK has constituted a Remuneration Committee to strengthen remuneration governance. The committee is primarily responsible for ensuring CM-UK's 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. The Head of Human Resources will seek review of the Remuneration Policy Statement and this Pillar 3 Risk Disclosure from external consultants from time to time as deemed appropriate and necessary to confirm compliant approach to remuneration and the required disclosure. The last review of the documentation, approach and compliance was undertaken by Price Waterhouse Cooper (PwC) for the FY17 performance year.

c) Capital – The aggregate total of variable remuneration in 2018 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, only in the case of new hires and only in their first 12 months of service;

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) CM-UK 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 in respect of each of our Pillar 1 and Pillar 2A risks to reflect capital usage and thereby assess both profitability and appropriateness of the size of bonus funds.

g) CM-UK has implemented a voluntary deferral scheme and a variable pay cap of 200% of fixed pay - See Sections 6 and 7;

h) CM-UK will also adjust the bonus awards of employees if their behaviours are deemed to be incompatible with the organisation's values and culture.

i) Conduct assessment is a key part in the assessment of non-financial performance for Departments.

3. Material Risk Takers

CM-UK has identified its MRTs in accordance with Remuneration Code with reference to the EBA Regulatory Technical Standards (RTS) for the definition of material risk takers for remuneration purposes. CM-UK has developed and applied internal qualitative and quantitative assessments against the defined criteria to identify those individuals that have a material impact upon the firm's risk profile.

For the performance year 2018 there were 63 MRTs identified in CM-UK. The increase is due to a specific review for conduct risk and reputation risk.

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, with no involvement from front line business units in the process, and is reviewed and approved by the Remuneration Committee. At least 50% of the total pay for employees in control functions is fixed pay.

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 on 1 April.

Fixed remuneration comprises of base salary, allowances and benefits.

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.

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

For FY17 the core performance criteria were:

- To ensure client satisfaction is delivered to the highest standard, ensuring that whether internal and/or external clients we maintain focus on customer service, market integrity and high standards of conduct.
- To rigorously manage risks associated with each role, including all projects, tasks and responsibilities under our remit, focus on conduct risk, maintaining high standards of personal, business and market conduct and ensure appropriate governance processes are adhered to in order to minimise the internal and external risks faced by SMBC Nikko
- To effectively lead, develop and motivate the team to ensure delivery against objectives and to maximise team and individual performance potential. Create and nurture an environment and culture that supports diversity and working with respect

As a Proportionality level 3 firm, CM-UK is not restricted by the bonus cap of 100% of fixed pay. However, from the 2017 performance year CM-UK has voluntarily implemented a variable pay cap of 200%.

7. Deferral and Performance Adjustment

As a Proportionality level 3 firm and in accordance with the Remuneration Code, CM-UK has dis-applied the requirement to make payment in shares, or equivalent non-cash instruments. For the FY17 performance year, CM-UK has adopted a voluntary deferral policy upon which performance adjustment is applied. MRTs are also subject to clawback provisions.

8. Remuneration of SMBC Nikko Capital Markets Limited in Remuneration Year 2018

Total remuneration (US$m)		
Senior Managers	Other members of staff designated as MRT	Total
5.4	15.7	21.1

NB the figures above are in respect of the 12 month performance period ending 31 March 2018.