SMBC

SMBC Group

SMBC BANK INTERNATIONAL

SMBC Bank International plc

A trusted partner for the long term

Annual report and financial statements
Year ended 31 March 2022

SMBC Bank International is a wholesale bank with offices in London and a branch in Paris.

The Bank is a wholly owned subsidiary of SMBC, a top-tier Japanese bank and core member of SMFG, a Tokyo-based holding company that is ranked amongst the largest 25 banks globally by total assets.

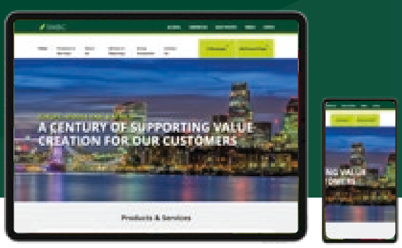
SMBC Group has offices across EMEA, including its regional headquarters in London.

The Bank aims to deliver sustainable growth for the benefit of all its stakeholders and aspires to create a culture where its people can unlock their potential and do their best work to deliver the Bank's Purpose.

+ Please see the cautionary statement regarding forward-looking statements on **page 150**.

Presentation of information

In this document the terms 'SMBC BI', 'Bank', 'we', 'us' or 'our' refer to SMBC Bank International plc. The Bank's parent company is Sumitomo Mitsui Banking Corporation, which is shown as 'SMBC'. 'SMBC Group' refers to the corporate group of companies of Sumitomo Mitsui Financial Group, shown as 'SMFG', and of which the Bank is a part. The term 'EMEA' refers to Europe, Middle East and Africa. The Bank's affiliate company SMBC Nikko Capital Markets Limited is shown as 'SMBC Nikko Capital Markets'.



Find out more online

+ smbcgroup.com/emea

Strategic Report

Governance

Financial Statements

Business overview

The Directors present the Strategic Report of SMBC Bank International plc for the year ended 31 March 2022.

Products and services

The Bank's customers are typically sovereigns, financial institutions and corporates, either domiciled in EMEA, or regional subsidiaries of global multinational corporates, many of which are headquartered in Japan and Asia. The Bank offers a wide variety of financial products and services spanning the majority of industries, including syndicated and bilateral loans and specialist financial advisory services for project, trade and asset finance, as well as deposits and foreign exchange.

The Bank works closely with other companies across SMBC Group to provide its customers with a full range of financial services solutions. Many of the Bank's transactions are undertaken in cooperation with SMBC Nikko Capital Markets Limited, through which it provides customers with debt and equity capital markets and derivative products under integrated bank-securities operations, and SMBC Bank EU AG, which is a credit institution established in Germany and provides business and financial services in the European Economic Area.

Key client sectors
- Automotive and manufacturing
- Aircraft and aviation
- Chemicals and petrochemicals
- Commodities
- Financial institutions
- Infrastructure
- Maritime and shipping
- Metals and mining
- Energy and utilities
- Sovereign institutions

Services
- Corporate lending
- Sustainable finance
- Syndicated and bilateral loans
- Diversified payment rights
- Deposits
- Merger and acquisition (M&A) financing
- Foreign exchange
- Corporate and M&A advisory ●
- Cross-border M&As ●
- Debt and equity capital markets ●
- Derivatives ●

● Offered by SMBC Nikko Capital Markets

Customer-facing departments

This overview of the Bank's customer-facing businesses reflects the comprehensive nature of the Bank's offering. The wider SMBC Group offers a diverse and broad range of financial services centred on banking as well as leasing, securities, investment and other credit-related businesses.

Corporate Banking Department 1
Japanese and Asian corporates in EMEA

Corporate Banking Department 2
Western European corporates

Global Trade Finance Department
Trade finance products and services

Transportation Department
Aviation and maritime

Global FIG Department
Financial institutions

Loan Capital Markets Department
Syndication and asset distribution

Global Transaction Banking Department
Electronic banking and transaction banking services

Financial Markets Department
Treasury and foreign exchange

International & Structured Finance Department
Structured finance and eastern European and emerging markets

Specialised Products Department
Leveraged buyout (LBO), securitised products, real estate and fund finance

Business overview

Purpose

To be a trusted partner for the long term

This reflects the long-term relationship-based approach the Bank adopts in carrying out its business for the benefit of its customers and all its stakeholders.

Stakeholders

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

- **Customers**
- **Environment and society**
- **Workforce**
- **Suppliers**
- **The markets and regulators**
- **SMBC Group**

SMBC Group's Mission, Vision and core Values

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

Mission

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

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

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

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

Vision

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

Five Values

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

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

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

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

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

Strategy and objectives

The Bank's business model is to provide corporate finance in a way that supports its long-term sustainable growth, ensuring that it is well funded, well controlled and that there is a sensible balance between risk and reward.

The strategy is built around four corporate objectives:

Serving customers

To be the bank of choice for the Bank's EMEA customers through the provision of high quality value-added services in cooperation with SMBC Group companies.

Sustainable growth

To run the Bank's business in a way that is appropriately balanced and sustainable; to develop an efficient and effective infrastructure to support sound business growth; and to provide services to SMBC EMEA branches and SMBC Bank EU AG (an SMBC Group company) through Service Level Agreements.

Competitive edges

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

Team SMBC Group

To share and help realise SMBC Group's Mission and Vision as set out on **page 4**.

Culture

The Bank aspires to deliver its Purpose and strategy through five cultural pillars:

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

+ Read more about our culture on **page 30**.

Chair's Statement

Alan Keir
Chair

It is a privilege for me to assume the role of Chair, a position to which I was appointed in January, having served the Board for a number of years as a non-executive Director and Chair of the Risk Committee. I would like to take this opportunity to thank my predecessor, Laurel Powers-Freeling, for her dedication and professionalism in successfully leading the firm through a period of disruption and change but also continued growth. Her contribution to the Bank has been invaluable and she leaves a solid foundation in place from which the Bank can deliver more support to its customers, and the next phase of growth for the benefit of its stakeholders.

The impact of the COVID-19 pandemic over the last two years has been felt in many aspects of our lives, both personally and professionally. The fortitude and resilience shown by my colleagues have been remarkable and I would like to extend my gratitude and appreciation on behalf of the Board to our people who have worked so hard to continue delivering high quality products and services to our customers, regardless of their personal circumstances. I believe the support shown to our customers during this period demonstrates the Bank's commitment to the long-term relationships we enjoy with our customers, and their success remains our focus. The Bank continues to deliver regional and global solutions to our customers and increasingly, the Bank partners with SMBC Group entities such as SMBC Nikko Capital Markets Limited to deliver an integrated banking and securities offering. As an integral part of a global financial services firm with genuine scale and reach, the Bank continues to open up access to its customers and to be increasingly coordinated in its approach. The Bank's approach to risk, which seeks to ensure there is a sensible balance between risk and reward, has seen us navigate the difficult economic conditions and to provide the platform needed to assist our customers.

> The Bank continues to recognise the importance of its people to the business, and therefore to its customers, and I have been pleased to witness the Bank's diversity and inclusion efforts.

The year saw the world start to emerge from the COVID-19 crisis, and to adjust to at least living with the virus. As we move towards some sense of normality, the Bank has leveraged its recent experience to inform the next phase of its evolution. Supporting customers with their growth strategies is core to the Bank's Purpose, and we believe that the adoption of hybrid working practices, combined with new technologies, will allow the Bank to continue delivering better outcomes for its customers.

The Bank continues to recognise the importance of its people to the business, and therefore to its customers, and I have been pleased to witness the Bank's diversity and inclusion efforts. The Bank has launched the next four-year phase of its D&I strategy to further evolve its culture, embed inclusion into its business strategy, strengthen its processes and safeguard against reputational and conduct risk. The Bank's diversity ambitions extend beyond gender to include cultural diversity, race and ethnicity, sexual orientation and disability and it has updated or introduced a number of employee policies in these key areas. The Bank is a signatory of the Women in Finance Charter and our senior female representation has increased to 33.4%. The Bank's gender pay gap has also decreased again this year and we have extended our advocacy to become a signatory to the UK's Race at Work Charter. With a greater emphasis on inclusion overall, the Bank aspires to create a culture where its people feel safe to speak up, and indeed are encouraged to do so. The voice of our talented employees is a significant factor at the Bank and much of our policy development and employee engagement activities are directly informed by listening to our people and acting accordingly.

SMBC Group recognises society as a key stakeholder and as a growing franchise, talent acquisition remains a consistent business need. To ensure the Bank is recruiting from the most diverse talent pool possible, we are aligning many of our activities to drive social mobility. In addition to our university student placements, apprenticeships and work experience schemes, we have launched a school outreach and mentoring programme and a new early careers initiative. As a firm, we accept there is more to do across the spectrum of inclusion and we are committed to taking further action through this next phase.

Despite the disruption in recent times, we continue to invest in core areas of our business. The new financial year has seen many SMBC Group companies in the UK move in to our new EMEA headquarters at 100 Liverpool Street, London. The new office has progressive working principles embedded throughout and the physical co-location of SMBC Group's various businesses under one roof will enable us to better serve our customers in the future. We also continue to invest in other strategic areas of our business and to diversify our suite of products and services, such as the scaling up of our environmental, social and governance (ESG) franchise.

Along with COVID-19 and the current political landscape, without doubt the biggest challenge remains the threat of climate change. SMBC Group recognises that addressing climate change is one of the most important global concerns of our times and it is committed to achieving net zero greenhouse gas emissions across its overall investment and loan portfolio by 2050, as well as its own operations by 2030. The Bank fully supports SMBC Group's climate objectives, and we continue to invest in our ESG frameworks to meet this challenge head-on. In the region, we are increasing

Chair's Statement continued

the size and capability of our dedicated ESG Advisory & Solutions Hub, investing in new tools and methodologies and developing our suite of green and sustainable products. SMBC Group is already one of the largest lenders globally for renewable energy, so the Bank believes it is well equipped to support the enormous investment needed to ensure energy security and a safe planet for future generations. Through our long-term customer relationships, and our trusted adviser status, the Bank has a tradition of financing the growth of the real economy and is committed to working closely with those borrowers in resource intensive sectors to help them prepare for the future. The Bank's role is to support customers with their transition to a low carbon economy, and we acknowledge the urgency of the situation. The Bank wants to ensure its customers are embarking on transition strategies that are credible, but which will not unjustly impact the most vulnerable in society.

Of course, whilst we have belief in this sense of optimism, the world is far from being free of crisis. The Russia–Ukraine conflict is having a significant impact on the Bank's business, its customers and its people. The business continues to closely monitor the evolving compliance regimes in place to ensure all sanctions are adhered to and that our business policies remain relevant and appropriate.

Looking forward, we will focus on our key strategic objectives in order to deliver on our growth aspirations:

The development of new products and services to offer to both existing and new customers and sectors, with a particular emphasis on building our sustainable finance capability.

The continued investment in our risk and control frameworks to support the strategic growth of our business.

The further investment in the automation of our operations to enhance the efficiency of service to our customers.

Alongside my colleagues, I look forward to the challenges of the new financial year. Whilst we accept that there are undoubted headwinds and challenges, the Bank approaches the future with a sense of purpose and optimism. We believe we are well equipped to meet these challenges and to continue delivering on our growth aspirations. The Bank is committed to using its strengths and insights to provide the best outcomes possible for its customers, and for all its stakeholders.

Alan Keir
Chair
11 July 2022

Review of the year

Macroeconomic trends

European economies were still heavily affected by COVID-19 pandemic lockdowns in the year. However, the impact on households was mitigated by significant government support packages, with economies bouncing back in mid-2021 with very strong household consumption growth.

Persistent inflation concerns and expectations of the tightening of monetary policies, compounded by the impact of the conflict in Ukraine, are now denting consumer confidence.

During the year, corporate performance improved in most industries, with corporates using their improving cash flow to de-lever. M&A volumes, fuelled by easy access to debt financing and rising optimism, also increased strongly.

The conflict in Ukraine that began in February 2022 has resulted in sharp price rises of various commodities, including oil and gas, metals and fertilisers, and compounded Western companies' supply chain challenges, further accelerating inflation, impacting economic growth and generally increasing uncertainty. The geopolitical implications of the conflict could be profound, with Europe already committing to fundamentally rebuild its energy architecture to reduce dependency on Russia, with likely slower globalisation and international trade growth among other impacts. Energy intensive industries and those dependent on consumer discretionary spending are likely to be most impacted, while chief beneficiaries would be defence and renewable/new energies (including hydrogen, biomethane and nuclear).

+ Further information on the risks to the Bank of the Russia–Ukraine conflict can be found in the Risk Review on **page 67**.

Sectoral trends

At a sector level, commodities saw sharp price increases, reflecting the bounce back of global industrial production, including base metals, steel, and oil and gas, which was generally positive for producers but pressurised heavy users, such as some utilities and construction companies.

Industrials largely rebounded, albeit some sectors experienced lingering supply chain issues (such as semiconductor shortages for automotives, resulting in flat year-on-year European sales in 2021 despite significant demand), with strong performance in building materials tracking a recovery in residential construction. The engineering sector was barely affected by the COVID-19 pandemic due to strong structural demand drivers (automation, climate transition) with strengthening visible in 2021.

By contrast, transportation was more significantly impacted by the pandemic, reflecting the impact of lockdowns and working from home; however, some subsectors performed very well, for instance container shipping and air freight. A rebound in short-haul air travel was observed from the lows of 2020 following the lifting of restrictions, although overall European traffic was still significantly below 2019 levels.

Overview

Against this uncertain background, the Bank's focus has remained on lending to top-tier borrowers and on ensuring the Bank has a well-diversified credit portfolio. The Bank believes this strategy has served it well in the year, and this is an approach the Bank will continue into the following year and beyond.

Review of the year

Strategic developments

Serving the Bank's customers

The Bank sought to respond to its customers' financial needs in close collaboration with other SMBC Group companies, including SMBC Nikko Capital Markets and SMBC Bank EU AG.

Developments in the year include the following:

- Closer cooperation between the Bank and SMBC Nikko Capital Markets in foreign exchange, derivatives and structured credit solutions businesses.
- The Bank has made significant progress to develop its ESG capabilities, including the establishment of an ESG Advisory & Solutions Hub to improve its service delivery where customers require ESG services.
- The Loan Capital Markets Department worked in conjunction with SMBC Nikko Capital Markets to develop a high yield business framework through which the two companies work collaboratively to offer leveraged buyout and leveraged corporate customers access to high yield financing.
- The Bank is pleased to have contributed towards SMBC Group winning a number of industry awards in the year, including being recognised once again by Project Finance International as its Global Bank of the Year for 2021.

Sustainable growth

The Bank recognises that ensuring it has strong governance, compliance and risk management frameworks is crucial if it is to achieve sustainable growth, and this is an ongoing area of focus. The Bank's achievements in the year included the following:

- Establishment of a Data Management Office with responsibility for implementing a new data strategy. The Bank recognises that the development of its data capabilities will be central to its objective to further develop the automation of its operational processes.
- Establishment of a Procurement function to improve the Bank's efficiency in engaging with suppliers, and implementation of a new procurement solution.
- Integration of 189 colleagues who joined the Bank from SMBC Nikko Capital Markets as part of its joint objective to develop integrated control and support functions. Many people across the Bank now provide services to SMBC Nikko Capital Markets and the two firms work closely at all levels of the business.

+ Further information on the Bank's customer activities can be found on **page 14**.

The ESG Advisory & Solutions Hub

The ESG Advisory & Solutions Hub is a virtual, cross-functional network, bringing together organisational expertise on ESG and more efficiently supporting front office teams.

The vision of the ESG Advisory & Solutions Hub is to help SMBC Group become the leading Japanese provider of ESG solutions in EMEA by forming a cutting-edge centre of excellence to serve both:

Clients
by supporting their sustainability strategies as a trusted partner delivering bespoke ESG solutions; and

Colleagues
by increasing their confidence in ESG, providing a more seamless execution, and increasing revenues through cross-ESG product referral.

The Bank will continue building ESG expertise by refreshing its ESG Champions network, a group of colleagues who liaise with the Sustainability Programme and meet monthly with Hub members.

The objective of the ESG Hub is to provide customers with expertise and practical advice as they continue their transition journeys.

Transition to risk-free rates

A significant area of focus for the Bank in the year was the transition of its customers to risk-free rates in preparation for the discontinuation of certain reference rates, such as certain settings of the London Interbank Offered Rate (LIBOR) on 31 December 2021. In addition to engaging with customers to transition existing LIBOR-linked contracts, the Bank's activities included:

- training relationship managers in the characteristics and use of products linked to risk-free rates so the Bank could offer its customers information on available solutions;
- investing in systems and operational infrastructure to ensure the Bank could offer and administer products based on risk-free rates; and
- actively participating in various industry body working groups and responding to regulatory consultation papers on matters affecting the markets in which the Bank operates.

+ Further information on the way the Bank engaged with its customers on this matter and its plans for the required future work can be found on **page 14**.

Future developments

Although fundamentally the 2022 outlook for most European industries is still positive, downside risks are building, especially for industries reliant on discretionary consumer spending, low cost debt financing, just-in-time supply chains and those with a high proportion of commodity or energy-related costs in their cost structures or reliant on physical supplies from Russia. Given the uncertain macroeconomic and market environment the Bank will take steps to ensure the robust management of its capital and liquidity, and credit and non-financial risks.

How the Bank is responding to the operating environment

The Bank will continue to work with colleagues in SMBC Nikko Capital Markets and across SMBC Group to establish an optimal Corporate and Investment Bank platform to provide the best quality of service to customers. Building upon achievements in the last year, the Bank will aim to allocate resources to profitable and growth areas, establish new competitive edges by leveraging market positions and improve its overall asset and cost efficiency.

The Bank also recognises that it needs to remain competitive and, working with other parts of SMBC Group, it will seek to enhance its products, particularly in those areas where it believes it has competitive edges. The Bank intends to develop its ability to market ESG-related products.

Overview of performance

The Board and management use a broad range of financial and non-financial measures to help them understand how the Bank is performing.

In particular, key performance indicators (KPIs) are widely used by the Board and its Committees and across the Bank more generally. Set out in this section are the Bank's main financial KPIs. Information on the key non-financial measures used can be found in the following sections:

Further information

- Read more about the Bank's diversity and inclusion measures on **page 27**.
- Read the Bank's Streamlined Energy and Carbon Reporting on **page 43**.
- Read more about supplier payment periods on **page 21**.

Performance commentary

Operating income at USD 870.8 million increased versus last year by 4% primarily driven by an increase in fees and commissions, and trading income, which showed an increase of 8% and 19% respectively, as compared with the previous year.

Net interest income at USD 325.7 million reduced year on year by 4%. This was mainly due to lower net margins versus the previous year on interest earning assets and a reduction in loans and advances to customers.

Net fees and commissions income increased by 8% to USD 469.2 million primarily driven by an increase in the fees received from Group companies through Service Level Agreement arrangements. Since Brexit, the Group changed its structure leading to increased fees from SMBC Group companies for the Bank's contribution on deals booked in and services provided to SMBC Group's other locations.

Trading income increased year on year by 18% on account of higher FX trading income, in particular, driven by market opportunities prevalent during the year.

Operating expenses (excluding impairments) increased by 18% to USD 594.2 million. Personnel expenses grew by 14% to USD 385.2 million as the Bank increased its headcount to support future business growth. Other expenses at USD 166.3 million increased by 34% as compared with the previous year due mainly to new office costs and higher information technology (IT) costs. The Bank has made investments in the new office premises in London as the lease for the previous main London office building matures in the financial year ending 31 March 2023.

Impairment cost at USD 95.8 million increased by USD 87.2 million year on year. Since the start of the Russia–Ukraine conflict on 24 February there has been an intensification of the geopolitical situation which caused economic uncertainty and negative impacts on the global economy and major financial markets, an event which eroded the economic recovery from the COVID-19 pandemic noted until the early part of February 2022. The situation continued to evolve in March 2022 as sanctions on Russia were imposed. The Bank considered the direct as well as indirect impact of these events in assessing the provisions on its loan portfolio in the context of entities having operations in Russia and counterparties affected by ongoing economic challenges. Additionally, other factors including higher inflation and the interest rate environment were also considered on the expected credit loss (ECL) provisions. ECLs increased versus the previous year due to higher provisions on account of deterioration in economic variables and post model adjustments as explained in note 4 to the financial statements.

Profit before tax at USD 180.8 million reduced year on year due to higher expenses and impairment costs, partially offset by the improvement in operating income.

The balance sheet at USD 54.0 billion nominally increased by 1% versus the previous year driven by higher cash balances with the central banks.

In other comprehensive income, there was a net gain of USD 20.0 million on the Bank's defined benefit pension scheme. The gain was primarily driven by a reduction in the pension liabilities arising from changes in discount rates. The full year results are set out in the Statement of Comprehensive Income on **page 84**. The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2022.

Key financial KPIs

Return on equity

Profit after tax of USD 131.9 million (2021: USD 240.9 million) divided by the average monthly equity in the year of USD 4,910.4 million (2021: USD 4,689.6 million)

2.7%

2022	2.7%
2021	5.1%
2020	3.4%
2019	6.4%

Tier 1 capital ratio

Tier 1 capital of USD 4,886.8 million divided by total risk weighted assets of USD 29,942.5 million

16.3%

2022	16.3%
2021	16.7%
2020	15.8%
2019	18.5%

Cost income ratio

Net operating expenses (excluding impairment losses) of USD 594.2 million divided by operating income of USD 870.8 million

68.0%

2022	68.0%
2021	61.0%
2020	51.2%
2019	51.6%

Non-performing loan ratio

Gross exposure non-performing loans of USD 482.6 million divided by on-balance sheet gross exposure total loans of USD 24,181.0 million

2.0%

2022	2.0%
2021	2.0%
2020	0.4%
2019	0.5%

Leverage ratio

Regulatory Tier 1 capital of USD 4,886.8 million divided by Capital Requirements Regulation leverage exposure of USD 39,504.9 million

12.4%

2022	12.4%
2021	7.7%
2020	6.8%
2019	7.6%

Net profit

Profit for the year attributed to equity holders of the parent

USD 131.9m

2022	USD 131.9m
2021	USD 240.9m
2020	USD 152.9m
2019	USD 275.3m

Gross income

Operating income

USD 870.8m

2022	USD 870.8m
2021	USD 841.0m
2020	USD 843.3m
2019	USD 830.8m

Total assets

USD 54,017.1m

2022	USD 54,017.1m
2021	USD 53,568.5m
2020	USD 60,391.3m
2019	USD 48,009.3m

Stakeholder engagement

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

The Bank engages with stakeholders in many ways and at all levels of the business. The Board delegates to management the authority to run the business on a day-to-day basis and to execute the strategy approved by the Board. Stakeholder interactions therefore take place in the context of the strategies and policies set by the Board and its Committees. Significant interactions with stakeholders are reported as necessary to the Board and Committees. Set out below are examples of how the Bank has interacted with stakeholders in the year, topics discussed and the main policies that support its engagement.

Customers

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

How the Bank has engaged

The Bank's marketing officers and relationship managers maintained close contact with customers to understand their views and business needs and have sought to add value to the Bank's relationships through the provision of relevant information, such as transaction case studies, market updates and deposit rates. Senior management also proactively meet the Bank's customers in order to develop strategic partnerships.

An area of significant engagement activity in the year related to the transition from LIBOR to risk-free rates.

What was discussed

In addition to usual customer account management and marketing activities, specific matters discussed with customers in the year included:

- the transition from LIBOR to risk-free rates;
- provision of proactive support to customers emerging from the COVID-19 pandemic; and
- energy transition – in particular through the Bank's ESG Advisory & Solutions Hub.

How the Bank has responded

In order to help meet customers' requirements, the Bank's customer relationship management strategy has developed in the year through the establishment of specific teams, combining relationship and product marketing officers, to advise on energy transition matters.

Reflecting customer feedback, the Bank established a Customer Lifecycle Management project, the purpose of which is to implement organisational and policy improvements to aid customers' experiences when they are onboarded and through the Bank's periodic review processes.

The Board, Risk Committee and Executive Committee have continued to review the ways in which the Bank has conducted its business. These meetings receive key risk and performance indicators setting out adherence to internal policies and procedures related to conduct, such as customer outcomes, the quality of marketing materials and customer expressions of dissatisfaction.

Transition from LIBOR to risk-free rates

The Bank worked closely with its customers and took a proactive and leading role across lender syndicates and project finance industry associations to drive the transition from LIBOR to risk-free rates. We prepared and executed a communications plan to notify impacted clients of the implications of non-transition, with additional focused communications for any deals identified to be at high risk of non-transition.

Having now passed the initial transition deadline, targeted customer communications continue to encourage prompt transition to a risk-free rate from synthetic LIBOR. Running parallel to these efforts, the Bank is also preparing for the cessation of the remaining LIBOR tenors in US Dollars as at 30 June 2023. Engagement with in-scope customers has begun and this is supported by a detailed customer communications package. To supplement this exercise, comprehensive training has been provided to each front office and relevant supporting departments.

Key policies

Description	Review	Outcome
Customer Voice Policy This Policy documents how the Bank seeks to identify, record, investigate, respond to and escalate expressions of dissatisfaction. Where errors are a consequence of the Bank's actions, it always seeks to ensure that customers do not suffer any detriment.	Reviewed as required by the Chief Compliance Officer to ensure the Policy remains current.	– The Executive Committee and Risk Committee receive information on customer complaints. During the year, the level of complaints was very low and all were managed in line with this Policy to customers' satisfaction. – The Bank's people are trained on the content of this Policy to ensure they know how to respond should a customer express dissatisfaction.
Credit Policy This Policy sets out the Bank's approach to managing credit risk. The Bank seeks to employ best practice and avoids carrying out business that may breach acceptable social standards, including any laws or regulations.	Reviewed annually by the Chief Risk Officer.	– The Credit Department provides guidance to the lending departments on credit management and on individual transactions. It is also responsible for credit sanctioning. – The Chief Risk Officer has a right of veto on all transactions. – As necessary, customer transactions and/or relationships are reviewed by the Financial Crime and Reputational Risk Committee.
Customer Focused Compliance Policies These Policies set out the processes through which the Bank ensures adherence to regulatory requirements when dealing with customers, ensuring they are treated fairly and transparently.	Reviewed as required by the Chief Compliance Officer to ensure the Policies remain current.	– These Policies and the overall framework of compliance policies are reviewed regularly in line with both regulatory change and the growth and development of the Bank's business. – Policy updates are communicated to all relevant individuals.
New products and services All new products and services are subject to a risk assessment and monitoring process and are reviewed on a cycle to ensure they remain appropriate for the purpose originally intended, with the highest-risk products and services reviewed annually. A record is maintained of all matters relevant to the approval of products and services.	The Product Approval Committee meets as required to consider all new products and services applications. This Committee is attended by functional specialists from across the Bank.	– Our review process is intended to ensure that the Bank offers its products and services in a way that complies with all regulatory and legal requirements, that meets customers' expectations and that the necessary control frameworks are in place.

Stakeholder engagement continued

Workforce

The Bank regards its people as its key asset and recognises they are central to the Bank achieving its sustainable growth objective.

How the Bank has engaged

The Bank has sought to keep its people regularly updated on developments in the Bank through a variety of channels. In the year, town halls have been hosted by Keiichiro Nakamura (CEO), James Fenner (Deputy CEO) and senior leaders in the Bank's Western European corporates business. These events are recorded and made available across the Bank. Keiichiro Nakamura sends a weekly message to all employees in which he comments on a range of topics, including the Bank's strategy, Mission and culture and the impact of geopolitical and macroeconomic developments on the business and the Bank's customers.

The Bank's intranet includes a wide range of information on matters including business performance and project initiatives, and its people are encouraged to contribute to the content included. Through the intranet, the Bank's people also have access to a wide range of information on developments in SMBC Group, such as recordings of video messages from the SMBC Group President and CEO and town halls hosted by SMBC's senior management.

During the year the Bank trained over 50 people to interpret the results of a quarterly workforce engagement survey and its most recent externally facilitated Culture Survey. These employees led discussions with their colleagues about their survey results, agreed priority areas for improvement, and created team-owned action plans with a view to enhancing the Bank's culture and increasing engagement levels.

+ Further information on the Bank's workforce can be found on **page 26 to 31**.

What was discussed

Topics discussed in the year included:

- the relocation to the new office;
- health and wellbeing and associated policy change;
- the Bank's culture;
- views on what the Bank does well and where it can improve; and
- diversity and inclusion topics.

How the Bank has responded

Feedback from the Bank's people was that they would prefer to return to the office two to three days per week following the lifting of the work from home advice. In response, the Bank implemented hybrid working through which its people can balance days spent working from home and in the office and can start and finish their work at flexible times. This initiative has been supported by training for employees and line managers.

In response to employee feedback, the Bank engaged a wellness consultancy to hold confidential employee focus groups to discuss concerns about wellbeing and workload. The results and recommended actions from these discussions have been shared across the Bank and discussed by the Board and Executive Committee as well as leadership teams, which have been encouraged to consider how to implement the recommendations in their teams. A further outcome from this engagement has been the launch of an Operational Efficiencies Initiative which aims to identify areas in the Bank's operating processes that can be enhanced and streamlined with a view to reducing the overall operational burden.

Key policies

Description	Review	Outcome
Whistleblowing 'Speak Up' Policy The Bank encourages its people to escalate concerns about breaches of its policies or legal and regulatory requirements, including bullying and harassment. Amongst the internal and external channels available to raise concerns, staff are also able to report concerns, in confidence, to an independent firm working in partnership with the Bank. These arrangements are set out in the Whistleblowing 'Speak Up' Policy.	The Board receives an annual report from the Whistleblowers' Champion on the independence, autonomy and effectiveness of the Bank's whistleblowing procedures. The Whistleblowing Policy is reviewed by the Chief Compliance Officer to ensure it remains current.	– The nature of whistleblowing reports received is reviewed quarterly by the Audit Committee, together with the time taken to resolve reports. Relevant information on whistleblowing systems and controls is also considered. – All employees have access to the Speak Up Policy and receive regular training on it. – During the year, training was offered to employees on psychological safety and the action that can be taken to create an environment where all employees feel able to speak up.
Employee Handbook This Handbook contains certain of the Bank's terms and conditions of employment and its requirements for employees to comply with all regulatory and legal requirements. This includes Codes of Practice for matters such as equal opportunities, working with respect and work–life balance. The ways in which the Bank manages the performance of its people is also included.	Updated to reflect changes in internal policies and external legal and regulatory requirements and market developments.	– The Bank made a number of changes to the Handbook in the year, including the introduction of several new policies to support colleagues in matters including menopause and domestic abuse.

Stakeholder engagement continued

Environment and society

The Bank recognises its role in society and the importance of contributing positively to the societies in which it operates.

How the Bank engaged

An important part of the Bank's engagement is its stance on slavery and human trafficking, and it has continued to engage with suppliers and business partners to understand their due diligence measures.

+ Further information on the Bank's environmental initiatives and engagement is shown in the Climate Change section on **pages 32 to 43**.

What was discussed

Matters discussed in the year included:

- how to improve social mobility within the Bank and the sector;
- how to support the society that the Bank operates in and address the challenges it faces through CSR activities; and
- the initiatives the Bank is taking, internally and with customers, to create a more sustainable future.

How the Bank responded – society

During the year the Bank partnered with Career Ready, a national charity that works with young people facing social mobility challenges who often lack the professional networks needed for career success. Together we launched BOOST (Bank of Opportunities for Students), which is an outreach programme in London designed to improve social mobility by focusing on heightening the aspirations, development of and opportunities available to young people, particularly within financial services.

How the Bank responded – customers and society

The Bank has also provided training to customers on the steps they can take to help prevent financial crime and avoid being a victim of fraud and/or money laundering. The feedback the Bank has received from the training has been positive and it plans to extend this training to more customers over the year.

BOOST'ing social mobility

In the year, together with SMBC Nikko Capital Markets, the Bank's employees engaged with 28 student mentees aged 16–18 and multiple groups of diverse students across six schools through seven masterclass sessions on communicating, networking and interview skills.

The Bank believes that BOOST creates transferable skills for all involved, including its people, and believes that the mentoring will improve the confidence and listening skills not just of the mentees, but also the mentors. The Bank will seek to expand the BOOST programme in future years through the provision of summer internships and by offering an opportunity for students to visit the Bank's office.

The feedback from the Bank's employees has included the following:

"Becoming a BOOST mentor felt a fantastic way to offer my skills and experience to a great cause and I'd wholeheartedly recommend the opportunity to colleagues as a constructive way of giving back to local communities."

"Through BOOST I now have a great opportunity to connect and engage with a student mentee; to share experiences and lessons from my career with someone starting to consider theirs; and to reflect on my own interactions and communication style."

"You could really sense the students benefitting from guidance from people outside their formal learning environment."

Key policies

Description	Review	Outcome
Anti-Bribery and Corruption Policy This Policy sets out the Bank's requirements and principles through which it seeks to prevent bribery and corruption.	The Chief Compliance Officer/Money Laundering Reporting Officer owns this Policy and it is reviewed as required to ensure the Policy remains current.	– All employees complete mandatory training on anti-bribery and corruption matters and are required to follow processes established to ensure compliance with this Policy.
Anti-Money Laundering and Combating Terrorist Finance Policy This Policy sets out the Bank's framework of controls and customer due diligence processes to prevent money laundering and fraud and to combat the financing of terrorism. This is supported by other policies, such as the SMBC EMEA Sanctions Policy, which documents the processes through which the Bank seeks to comply with all applicable sanctions regimes.	The Chief Compliance Officer/Money Laundering Reporting Officer owns this Policy, which is reviewed as required to ensure compliance with changing legislation.	– All employees complete mandatory anti-money laundering training annually. – The Money Laundering Reporting Officer reports to the Risk Committee annually on the operation and effectiveness of the arrangements in place to counter the risk of the Bank being used to further financial crime.

Stance on slavery and human trafficking

Overview

The Bank's approach to slavery and human trafficking is guided by the principle that it should not be involved, directly or indirectly, in the commission or facilitation of the offences set out in the Modern Slavery Act 2015. The Bank has an ongoing commitment to maintaining and improving its systems and processes to mitigate the risk that it might be involved in the commission or facilitation of slavery and human trafficking in any part of its operations, supply chain (including customers, contractors and suppliers), products, services and staff activities. The Bank expects its people, suppliers and business partners to take reasonable steps to ensure that other third parties they do business with adhere to the same high standards. The Bank's people are encouraged to report any instances of suspected slavery and human trafficking and the options for doing so include internal reporting lines and a confidential whistleblowing line.

Due diligence

The Bank requires anti-slavery due diligence to be undertaken on all its counterparties. This includes seeking an Anti-Slavery Statement or equivalent documentation and undertaking adverse news screening incorporating specific terms relevant to slavery and human trafficking.

Governance

The Chief Compliance Officer owns the procedures and guidance setting out the Bank's controls, and these are reviewed on an annual basis. In addition, the Bank's Slavery and Human Trafficking Statement is reviewed and approved each year by the Board of Directors.

+ This Statement can be found here:
www.smbcgroup.com/emea/antislavery

Stakeholder engagement continued

The markets and regulators

The Bank is required to comply with its regulators' rules and to ensure the integrity of the financial markets in which it operates. The Bank recognises that failure to comply with these requirements will impact its ability to carry out its business and serve its customers.

How the Bank engaged

The Bank recognises the importance of open and transparent communications with its regulators. Individual Directors and members of senior management engage with the Bank's regulators through its annual strategy, continuous assessment and other meetings. In addition, during the year, the Bank's supervisors from the Prudential Regulation Authority attended a Board meeting to present their annual Periodic Summary Meeting feedback letter.

The Bank also responds to regulatory consultations as required and during the year offered its views to the regulators on their Diversity & Inclusion Discussion Paper.

In terms of engagement with the markets, an important and growing element is the Bank's membership and participation in various industry bodies focused on ESG, diversity and inclusion. The Bank is a signatory of the Women in Finance Charter and the Race at Work Charter. SMBC Group is also a signatory to the Poseidon Principles and the Equator Principles and is an active participant in the Net-Zero Banking Alliance (NZBA) and the Partnership for Carbon Accounting Financials (PCAF).

What was discussed

Matters discussed with the regulators in the year included:

- business strategy and developments in the business;
- preparedness for the implementation of risk-free rates; and
- regulatory priorities.

How the Bank responded

As part of the strategy-setting discussions for the financial year ending 31 March 2023, the Board reviewed the resourcing and capabilities of the back and middle office functions to support the Bank's future strategic development and maintain regulatory compliance. This is expected to remain an area of Board focus.

The Board and Committees have overseen the Bank's response on a number of topics of importance to the Bank and its regulators in the year, including: implementation of risk-free rates, enhancement of financial crime controls, diversity and inclusion and operational resilience.

Key policies

Description	Review	Outcome
Market Abuse Regulation Policy, Personal Account Dealing Policy, Outside Business Interest Policy, Information Barriers Policy, Conflicts of Interest Policy and Benchmarks Policies These Policies describe the Bank's arrangements for adhering to regulatory requirements that protect the integrity of the markets in which the Bank operates, setting out the rules and standards of conduct to which all the Bank's people must adhere.	The Chief Compliance Officer owns these Policies and they are updated as required to ensure they remain current.	– The Board, Risk Committee and Executive Committee receive regular reports on employee adherence to these Policies. – Employees are trained on the content of the Policies and frequent reminders on conduct are issued.

Suppliers

The Bank relies upon external suppliers to provide certain products or services that assist it in the running of its business. Suppliers are engaged for a variety of reasons, including the provision of expertise or resource that the Bank may or may not possess itself.

How the Bank engaged

The Bank has engaged with its suppliers through the lifecycle of the procurement process, which includes selection and onboarding, contract management, the ordering and receipt of goods and services and the processing of invoices. The Bank applies a rigorous due diligence process when onboarding new suppliers and regularly monitors their activities.

What was discussed

In addition to the Bank's usual supplier management activities, a major topic for discussion has been the implementation of a new procurement solution.

How the Bank responded

The Bank has provided training to suppliers and internal users on how to use the new procurement system and will provide ongoing training as required.

The Bank recognises that its suppliers expect the timely payment of invoices and that it will manage its relationships with them with due care and attention. The Board and Executive Committee receive periodic reports on the Bank's supplier payment periods.

The Bank's UK supplier payment statistics in the year, with prior year comparatives, are as follows:

Days to pay	Average	Within 30	31 to 60	61 or more
April 2021 to March 2022	29	76%	16%	8%
April 2020 to March 2021	27	77%	15%	8%

The slight deterioration in the year in 'average days to pay' and 'paid within 60 days' arose primarily as a result of one-off events with certain suppliers. The new procurement solution is intended to improve invoice processing efficiency and enhance the governance process through which the Bank engages with its suppliers.

SMBC Group

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

How the Bank engaged

The Bank's engagement with SMBC Group has taken place in a variety of ways depending on the nature of the matter to be discussed. At the Board level, engagement with the shareholder has primarily been through Hirofumi Otsuka, formerly the Head of SMBC's Planning Department, Global Banking Unit, who sat on the Board as a non-executive Director. In the year, Hirofumi regularly updated the Board on significant matters impacting SMBC Group, and his participation in Board meetings ensured that Board decisions were consistent with the needs and expectations of the shareholder. Hirofumi resigned from the Board after the year-end and was replaced by Kazuya Ikeda. In addition to Board meetings, individual Directors have liaised with executives of SMBC Group in the year.

The Bank also engages regularly with other SMBC Group companies as part of its daily operations, which includes discussions regarding the services it provides to other members of the Group and those it receives. There are extensive engagements with the Bank's affiliate companies SMBC Nikko Capital Markets and SMBC Bank EU on business and marketing matters and the services the Bank provides to them.

What was discussed

Matters discussed with SMBC Group in the year included:

- business strategy, performance and significant business issues (with the Bank's shareholder);
- cooperation on business opportunities and strategy setting (with other SMBC Group companies); and
- matters related to the provision and receipt of services (with other SMBC Group companies).

How the Bank responded

During the year, the Board has undertaken reviews of the services the Bank provides to other members of SMBC Group. This review has led to enhancements in the reporting and escalation of any operational incidents to the Board.

Section 172(1) Statement

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

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

The likely consequence of any decision in the long term

The Bank's business model seeks to achieve long-term sustainable growth, ensuring that the Bank is well funded, well controlled and that there is a sensible balance between risk and reward. During the year, the Board approved the Bank's Corporate Strategy and capital and liquidity assessment documents. These documents are prepared on a three-year time horizon. The Strategy was also reviewed by the Chief Risk Officer to assess the extent to which the risks inherent within the strategy are consistent with the Board approved risk appetite.

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

The Directors recognise the need to ensure the business is run for the benefit of all the Bank's stakeholders and the importance of engaging with stakeholders and understanding their views. When members of management present to the Board and its Committees, they are required to state in the supporting documentation the factors, stakeholder groups and the section 172(1) matters relevant to the item.

On an ongoing basis, the Board and Committees consider a range of management information that enables them to understand matters relevant to the Bank's stakeholders. This information includes KPIs on targets set by the Board, such as on diversity and financial performance, key risk indicators (KRIs) and metrics related to the conduct of the Bank's activities.

Reflecting the working environment in the year, the Board and management's engagement with stakeholders was primarily through virtual means, but face-to-face interactions were held when possible. In certain cases, virtual meetings have proved to be more effective than physical meetings, such as in town hall meetings, where more people were able to attend than would have been possible in an office environment.

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

Matters relating to sustainability and ESG are considered regularly by the Board. and information on this can be found in the Climate Change section on **pages 32 to 43**.

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

During the year, the Audit Committee and Board reviewed and approved the Bank's UK Tax Strategy, which can be found at: **www.smbcgroup.com/emea/uktaxstrategy**

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

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

The Compliance Department also provides support, advice and education across the Bank on conduct risks to enable employees and business areas to identify risks and find suitable mitigating solutions. Conduct analytics are prepared by the Compliance Department and submitted to the Risk Committee at its quarterly meetings.

During the year, the Board considered the results of an employee Culture Survey and, at its quarterly meetings, considers metrics assessing overall behaviours across the Bank against the components of the Culture Statement and other metrics relating to staff conduct.

The need to act fairly as between members

As the Bank is a wholly owned subsidiary of SMBC, fairness between members is less relevant to the Directors' discussions than the other section 172(1) matters.

Further information

- The climate disclosures are on **pages 32 to 43**.
- Examples of the way the Bank has considered stakeholders' interests is set out on **pages 14 to 21**.
- The Bank's Culture and Values, together with information on the Culture Survey undertaken in the year, can be found in the Workforce section on **pages 4 and 5 and page 30**.
- Further information on the principal activities of the Board and Committees during the year is in the Governance Report on **pages 58 to 62**.

Section 172(1) Statement continued

Examples of how stakeholder interests have been considered by the Board

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

Russia–Ukraine conflict

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

- understanding the actions being taken to respond to the imposition of sanctions and other restrictions on Russian companies and individuals;
- assessing which of the Bank's customers would be most directly and indirectly impacted by the conflict and requesting management to update stress testing to reflect the market and macroeconomic impacts;
- assessing the impacts on the Bank's liquidity and capital positions and the Bank's wider control environment;
- considering the impact on the Bank's employees, including those of SMBC Group's subsidiary in Russia (in which the Bank has a 1% shareholding); and
- SMBC Group's approach to managing the risks to ensure alignment within the Group.

While matters of policy remained reserved for the Board and its Committees, the Board delegated to the Crisis Management Team (CMT) responsibility for implementing the Bank's response to the risks arising from the conflict. Membership of the CMT includes the executive Directors Hideo Kawafune and Nobuyuki Takiguchi, the Chief Risk Officer and General Manager of Financial Markets Department. The Board was kept apprised of the CMT's discussions through regular meetings and written updates as required.

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

+ Further information on the impact of the Ukraine conflict on expected credit losses can be found in Note 4 to the financial statements on **page 102**.

Office relocation

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

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

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

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

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

> "Being a Progress Maker has been a really positive experience, as it demonstrates the practical investment SMBC is making to ensure the future culture of the Group has the bottom-up involvement and buy-in of all staff as we move to our new EMEA headquarters. Lockdown was difficult for a lot of people, but there have certainly been positives to take away from the collective experience of working together remotely. My role as a Progress Maker has enabled me to focus on those positives and be part of a force for employee-driven change as we migrate to a new hybrid way of working and take advantage of everything 100 Liverpool Street has to offer."

Workforce

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

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

Equal opportunities

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

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

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

Diversity and inclusion

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

The diversity and inclusion strategy is led by the Diversity and Inclusion Steering Committee, which is chaired by a senior executive, Ian Jameson, General Counsel and Chief Legal Officer. During the year, the Bank launched the next phase of the diversity and inclusion strategy, a four-year approach to evolve the Bank's culture, embed inclusion into its business strategy, strengthen its processes and safeguard against reputational and conduct risk.

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

- enhancing the Bank's policies on areas including menopause, baby loss and domestic abuse; and improving support for employees going through menopause, experiencing gender dysphoria and/or requiring assisted fertility treatment;
- broadening the Bank's diversity ambitions beyond gender to include cultural diversity, race and ethnicity, sexual orientation and disability;
- supporting the continuous growth and development of senior leaders with the launch of a reverse mentoring programme, led by the Black Employees & Allies Network; and
- driving advocacy by becoming a signatory to the UK's Race at Work Charter.

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

Diversity and inclusion in numbers

SMBC Group is a proud signatory of the Women in Finance Charter. Over the year, the Bank's senior female representation increased from 30.3% to 33.4%. On an SMBC Group (EMEA) basis the increase was from 27% to 29.5%, with the aim being to have 30% of all senior roles filled by female leaders by 2023.

Over the year, the mean gender pay gap in SMBC BI London fell by 7.4% to 26%. The Board recognises that while this progress is a positive outcome, the Bank still has to do more to reduce its existing pay and bonus gap further, and several initiatives are in place to drive continuous improvement.

The Bank believes that everyone should feel able to be their authentic self at work

In the year the Bank launched on its intranet a new Diversity and Inclusion hub, EMEA Voices, through which colleagues can share their perspectives and personal stories to celebrate and raise awareness of the diversity of the Bank's people. This year employees have shared their personal stories on religion, motherhood, neurodiversity, the LGBTQ+ community and culture. The Bank believes that EMEA Voices helps create a more inclusive and understanding environment, acknowledging that growth stems from diversity and contributes to creating a sense of psychological safety by providing a forum for employees to read about other colleagues' experiences and to share their own.

Examples of EMEA Voices articles

A reflection one year after George Floyd's death

"The events culminating from Floyd's death ignited a global momentum on racial and ethnic diversity. We answered the call with the launch of the Black Employees & Allies network which seeks to foster a culture that cultivates awareness and inclusion for Black employees by prioritising recruitment, bolstering retention, providing mentorship and empowering upward mobility, whilst meeting the firm's corporate social responsibility."

Dealing with pregnancy and baby loss

"I am proud to have been involved in creating a new miscarriage and stillbirth policy for SMBC BI (UK employees only) which was recently included in the updated Employee Handbook. This policy explains what employees' rights are if they are affected by a miscarriage or stillbirth, and the support that the Bank can provide. I hope that having this policy will mean that all employees affected by pregnancy and baby loss know they can tell colleagues if they feel able to, and that colleagues and managers understand how they can provide that invaluable support."

Workforce continued

Performance, learning and development

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

The Bank encourages employees to drive their own development and supplements this with a range of individual, leadership and talent development offerings. In the year the Bank launched an early talent programme, which is intended to allow opportunities for candidates from a broad range of ethnic and socio-economic backgrounds, allowing the Bank to build a long-term diverse and sustainable pipeline of talent through the firm. It also launched a Managing Director development programme, the focus of which was to develop senior-level collaboration.

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

The COVID-19 pandemic has helped to drive user acceptance and the embedding of virtual learning as normal practice. This has created opportunities for colleagues from across SMBC Group in EMEA to collaborate and learn new skills together, wherever they are based. Over the year the Bank has delivered 293 workshops, an increase of 19% compared with the previous year. The Bank has also seen a year-on-year increase of 27% in workshop participation. The Bank continues to provide and update a range of eLearning content and on-demand resources to further support professional and personal development.

On joining the Bank, and on an ongoing basis, the Bank's people are required to undertake mandatory training on matters relevant to their role. During the year, 32,551 individual mandatory modules were completed, an increase of 38% over the year, with the following being those with the highest number of in-scope employees:

Name of mandatory training module
Privacy and Data Governance
Personal Account Dealing
Perspectives on the Conduct Rules
Inclusion and Respect
Sanctions and Sensitive Countries
Third Party Risk Management and Outsourcing
Preventing Money Laundering and Terrorist Financing
Information Security Awareness Training
Raising Concerns via Speak Up
IBOR Transition

Wellbeing

The Bank is committed to supporting the wellbeing of colleagues with initiatives and services across the following categories:

Wellbeing categories

Physical
- Private health insurance
- Health assessments
- Gym membership

Mental
- Mental Health First Aiders
- Employee Assistance Helpline
- Stress awareness training

Financial
- Income protection
- Pension
- Life insurance

Social/community
- Hybrid working policy
- Family care service
- Paid volunteering days

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

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

Workforce continued

Culture

The results from the Bank's most recent third party culture assessment continue to be analysed and used as a benchmark to aid the evolution of the Bank's culture, and this has been supplemented by a quarterly online engagement survey.

The third party assessment had two core components: a cultural assessment tool that benchmarks the Bank's responses against other global organisations; and a series of open-ended questions that invited the Bank's people to comment on certain aspects of the Bank's culture and their experience of it.

In terms of the cultural assessment tool, surveyed in late 2020, the Bank showed improvements across all components of the third party model. In particular, the following areas showed material progress in terms of employee sentiment towards the Bank, and relative to the global benchmark:

- Customer focus
- Alignment to strategy, values and goals
- Employee empowerment and reaching agreement (across functions, locations and entities)

Areas where the Bank needs to continue to evolve, based on the views of its employees, and relative to the global benchmark, included:

- Creating change
- Organisational learning
- Capability development

These continue to be areas of focus through the various initiatives established in response to the survey. Efforts are also being made to embed these elements in future talent strategies.

The second element of the cultural assessment tool was to survey the Bank's people on a variety of free-form questions, largely designed to identify areas of culture where they believed the Bank should do more to improve its culture.

These themes inform the Bank's ongoing approach to cultural evolution, and specific areas of work have been established in direct response, notably in areas such as wellbeing and operational efficiency. During the year the Bank appointed departmental Culture Champions to effect culture change within their teams. Departmental action plans have been developed and progress against these is regularly reported through a Culture Forum to the senior leadership team and the Board.

The responses to those questions and the themes that emerged were as follows:

Are there any initiatives you have observed in the firm over the last two years which have helped to improve the culture? If so, please describe (drivers for positive change)

- Employee networks (DRIVE) and D&I initiatives
- Internal communications and 'Tone from the Top' (CEO weekly messages, EMEA Insight (intranet), employee engagement tactics)
- Focus on culture (surveys, culture and purpose statements, alignment to values)

If there is one culture-related theme which you would like the firm to focus on more as a result of this survey, what would it be and why?

- Inclusion and equality (and diversification of senior management)
- Talent development (mobility, rotations, career and professional development)
- Reward and recognition (differentiation, celebrating success, acknowledgment)
- Delegation, decision-making and exercise of discretion

If you think there is any aspect of the culture or conduct within the firm which has evolved negatively over the last two years, please describe (responses mostly phrased as areas to further develop)

- Diversity and inclusion (transparency, progress, accountability)
- Promotion process, opportunity and career development
- Process complexity and bureaucracy
- Workloads and lack of resources

Do you think the COVID-19 crisis and remote working have revealed any positive or negative aspects of the firm's culture, or highlighted any particular development needs for us as a firm?

Positive

- Adoption and acceptance of new agile working practices
- Employee commitment, teamwork and togetherness
- Adaptability of the organisation
- Focus on employee engagement, support and wellbeing
- Leadership support and communication

Negative

- Lack of social connectivity, interaction and networking
- Lack of efficiency and digitalisation
- Employee wellbeing (workloads, stress, burnout and blurring of work/life)
- Poor work from home infrastructure

Communities

The Bank is committed to making a positive contribution to the societies in which it operates and has started work to develop and deliver a new corporate social responsibility (CSR) strategy. The Bank continues to offer employees six days of paid leave each year to volunteer in support of community and charitable organisations, and many employees are already acting as school governors and as trustees of charities, amongst other forms of voluntary support. The Bank also match-funds individual employee charitable donations, up to a certain level.

During the year, including the matching of employee donations and fundraising, the Bank made total charitable donations of USD 42,211 (2021: USD 34,803), focusing on charities that promote social mobility and alleviating homelessness in London.

Looking forward, the Bank has now invested in a dedicated resource to manage its CSR activities and to deliver a new strategic phase in its CSR development. The Bank will focus on further social mobility activities, linked to its talent acquisition and diversity and inclusion strategies, and on mobilising the intellectual capital at its disposal within its talented workforce, to create volunteering opportunities that help to deliver positive social impact. Given the situation in Ukraine, the Bank has also committed to supporting the relief of the humanitarian crisis that is emerging across eastern Europe and will be setting up a fundraising campaign in support of the International Committee of the Red Cross and will be matching employee donations up to a certain financial limit.

Climate change

This section sets out the Bank's approach to managing the risks and opportunities arising from climate change.

With effect from the financial year beginning 1 April 2023 it will be necessary for the Bank to report its climate disclosures in line with statutory requirements. However, the Bank recognises the importance of climate change to its stakeholders and considers it appropriate to report its current arrangements. It has done so using the Task Force on Climate-related Financial Disclosures (TCFD) framework to disclose: governance, strategy, risk management, and metrics and targets as a reference.

Working with SMBC Group

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

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

SMBC Group's definition of sustainability

SMBC Group defines sustainability as "creating a society in which today's generation can enjoy economic prosperity and wellbeing and pass it on to future generations".

+ SMBC Group's Statement on Sustainability can be found here: **https://www.smfg.co.jp/english/sustainability/group_sustainability/pdf/smbc_statement_on_sustainability_en.pdf**

Climate change continued

Status of measures to address the TCFD recommendations

Item	Recommended disclosure	Status of initiatives*
1 Governance	Governance around climate-related risks and opportunities	– The roles and responsibilities of the Board and senior management in the oversight and management of climate-related risks have been defined and documented. – A Board Director, Nobuyuki Takiguchi, has responsibility for overseeing the Bank's response to climate change. – **Work is underway to include ESG metrics into department business scorecards. These considerations are expected to typically be internal objectives, such as the achievement of sustainable finance targets, which will vary as appropriate based on individual role and/or department.**
2 Strategy	Impacts of climate-related risks and opportunities on businesses, strategy and financial planning	– Sustainability Strategy approved by the Board. – **Incorporation of net zero financed emissions target into the Sustainability Strategy.** – Sustainability Strategy implementation underway, including focus on growing the sustainable finance business. – **Consulted with SMBC Group colleagues on the formulation of policy in respect of high-emitting business activities.**
3 Risk management	How climate-related risks are identified, assessed and managed	– Data from the Climate Change Ratings Assessment tool is used to develop a scenario analysis, the results of which are included in the Internal Capital Adequacy Assessment Process (ICAAP). – **Introduction of key ESG related information into the Climate Change Ratings Assessment tool.** – **Internal and external benchmarking of the outputs from the Climate Change Ratings Assessment tool undertaken.**
4 Metrics and targets	Metrics and targets used to assess and manage climate-related risks and opportunities	– Development of sustainability-related metrics and regular reporting to the Board. – **Following SMBC Group's disclosure, commenced data gathering in preparation for disclosing SMBC BI specific financed emissions.**

* Text shown in bold represents significant developments in the year.

1 TCFD – Governance

Oversight of climate change

The Board is responsible for setting and monitoring the Bank's Sustainability Strategy and for overseeing the Bank's overall response to the risks and opportunities posed by climate change.

The Board is supported by the Audit Committee, which is responsible for considering climate and sustainability disclosures, and the Risk Committee, which is responsible for considering the risk impact of climate change and the development of climate stress testing.

During the year, the amount of time given by the Board, Audit Committee and Risk Committee to climate matters has continued to increase. The Directors have requested further education on climate matters, including from external advisers in recognition of the need to benefit from external perspectives. The Board expects that briefings on climate matters will remain an important element of its ongoing education plan. Certain individual members of the Board have also engaged with Chapter Zero, the UK Chapter of the Climate Governance Initiative.

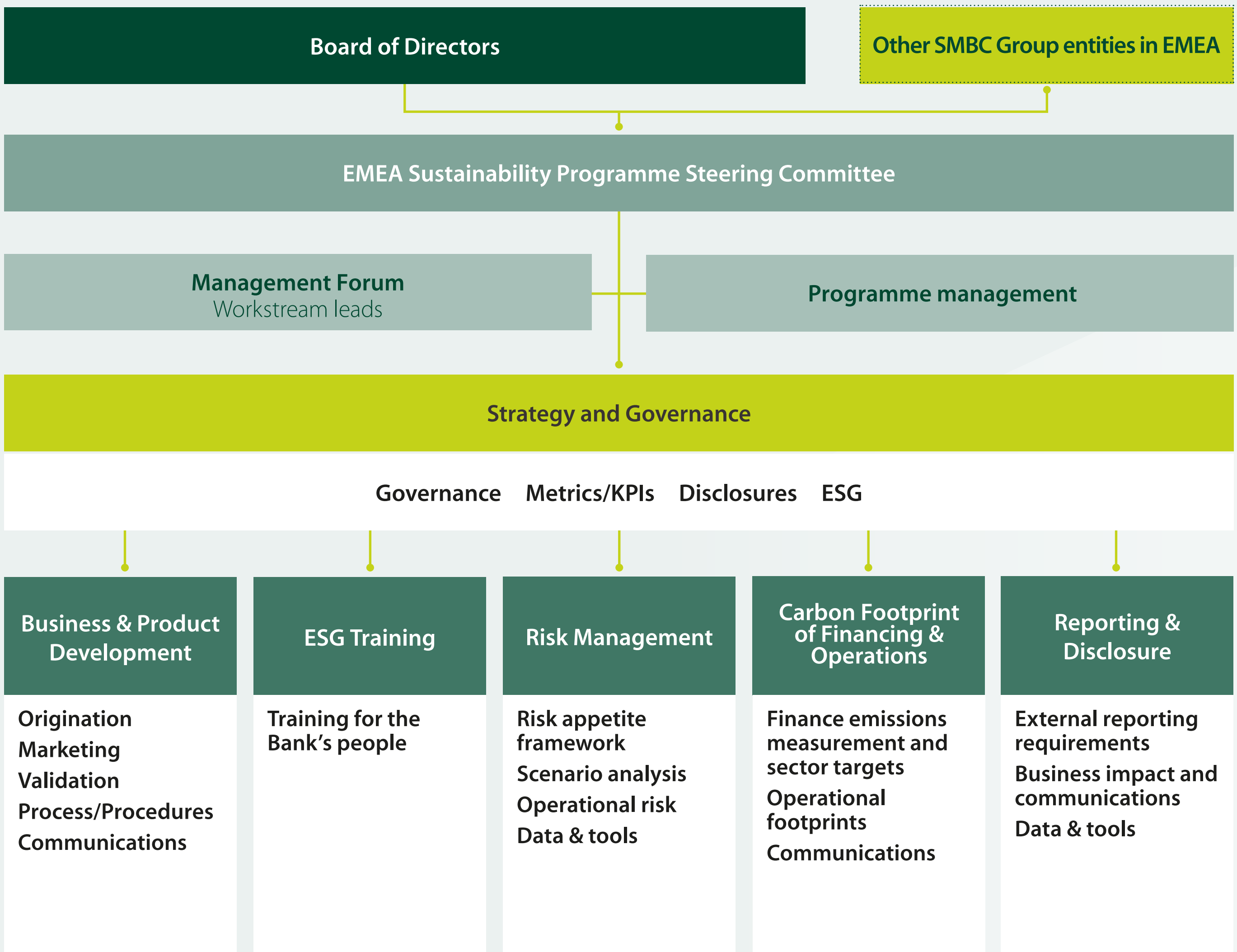
Key activities undertaken by the Board and its Committees in the year in respect of climate change were as follows:

Meeting	Activities
Board	– Approving the Sustainability Strategy and considering quarterly updates on progress made against the sustainability performance and risk targets related to the Strategy. – Ensuring the Sustainability Strategy is embedded into the Corporate Strategy and three lines of defence, including the work to embed environmental and social factors into the Bank's reputational risk management procedures. – Assessing the Bank's progress on managing climate risk against regulatory expectations and planning for future changes. – Considering updates on the implementation of new products, such as Social Loans and Green Deposits, and the work the Bank is undertaking to support the transition of clients in high emitting sectors. – Assessing the progress made towards measuring financed emissions. – Considering the Bank's own carbon footprint and activities taken to reduce this.
Audit Committee	– Reviewing the Bank's climate disclosures. – Considering developments more generally on climate reporting, such as the establishment of the International Sustainability Standards Board, and ensuring management is prepared for new reporting requirements. – Considering the disclosure obligations under the Streamlined Energy and Carbon Reporting Regulations and the Bank's approach to meeting those obligations. Particular focus was given to the development of the Bank's capability to make voluntary disclosures of Scope 3 emissions. – Oversight of the key activities of the Reporting & Disclosure workstream. (See **page 36**). – Mandating Internal Audit to undertake a review of how the Bank was managing its approach to climate change.
Risk Committee	– Considering the progress made to meet the regulators' requirements in respect of risk management, including scenario analysis. – Overseeing the implementation of recommendations arising from an Internal Audit review of how the regulators' requirements had been addressed. – Receiving updates on the development of the Bank's own Climate Change Ratings Assessment tool and overseeing enhancements to improve the data being gathered by the Bank. – Considering the framework for the management of reputational risks and the risks of greenwashing. – Oversight of the key activities of the Risk Management workstream. (See **page 36**).

Climate change continued

Execution of climate change initiatives

The Board has appointed Nobuyuki Takiguchi, an executive Director and Chief Operating Officer, to oversee the Bank's response to climate change. His responsibilities include: developing the Sustainability Strategy and ensuring this is embedded within the overall Corporate Strategy, developing the climate risk appetite statement and framework, escalation of significant business and strategic developments to the Board and overall climate governance. Nobuyuki is supported in this work by the EMEA Sustainability Programme (ESP), the Head of Sustainability Strategy and other functional specialists.



Structure of the EMEA Sustainability Programme

The ESP is the structure through which the Bank manages the risks and opportunities arising from climate change at an operational level. Given the Bank's role as the EMEA regional headquarters of SMBC Group, the scope of the ESP includes the Bank, SMBC Nikko Capital Markets and other SMBC Group entities in EMEA, and this helps to ensure there is good coordination and alignment in activities.

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

Meeting	Members	Purpose and responsibilities	Frequency/reporting
Steering Committee	– Head of Sustainability Strategy (Chair) – Nobuyuki Takiguchi, Hideo Kawafune – Chief Risk Officer, General Counsel, Chief Compliance Officer, General Manager of Loan Capital Markets Department – Senior executives from SMBC EMEA affiliates	– Setting the Sustainability Strategy and overall ownership of the ESP's business plan. – Considering the Bank's competitive position and driving strategic progress. – The Committee has delegated day-to-day responsibility for delivering the ESP to the Management Forum. – Challenging the Management Forum and workstreams to ensure timely progress is being made and approving resource needs.	– Monthly meetings and additionally as required. – Significant discussions reported to the Board by Nobuyuki Takiguchi and Head of Sustainability Strategy.
Management Forum	– Head of Sustainability Strategy (Chair) – Workstream leads	– Delivery of the ESP's objectives. – Day-to-day management of the ESP. – Ensuring that business and regulatory requirements are met. – Project planning. – Early identification and management of issues and risks. – Discussion of market updates. – Assessing operating model impacts.	– Monthly meetings and additionally as required. – Reports to the Steering Committee on progress toward agreed goals and notification of issues.
Workstreams	– Each led by a functional specialist	– Progressing the ESP in their areas of expertise. – Developing and delivering on a work plan to support the strategy. – Strategic and governance matters relating to each workstream reviewed by Head of Sustainability Strategy.	– Each workstream reports to the Management Forum.
Programme Management	– Overseen by Project Management Office – Planning Group	– Overall ESP governance and planning. – Ensuring robust project management, including issues and actions tracking. – Supporting the Steering Committee and Management Forum.	– As required.

Climate change continued

2 TCFD – Strategy

The Board has approved, and oversees, the Sustainability Strategy, which is based on four strategic ambitions:

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

The Bank's strategy was updated in the year to include a net zero pledge for financed emissions. In support of its goals, the Bank has taken a number of important actions in its business, including new product development, training of its teams on topics such as net zero and how to understand clients' exposure to climate risk, and recruitment of specialist colleagues focused on transition advisory and sustainable finance.

The Bank also introduced the ESG Advisory & Solutions Hub, a dedicated resource of ESG experts who can advise customers on topics such as how to finance their low carbon transition needs, technological and sectoral developments, and the investor perspective on ESG. The Bank's sustainable finance business has grown because of this strong collaboration. In order to ensure a robust sustainable finance programme and maintain market integrity, the Bank provides its teams with procedures and training that align with principles provided by the Loan Market Association (LMA). Members of the ESG Advisory & Solutions Hub represent SMBC Group on the LMA Sustainable Finance Committee, which provides guidance to the industry.

At present the Bank offers the following sustainable finance solutions:

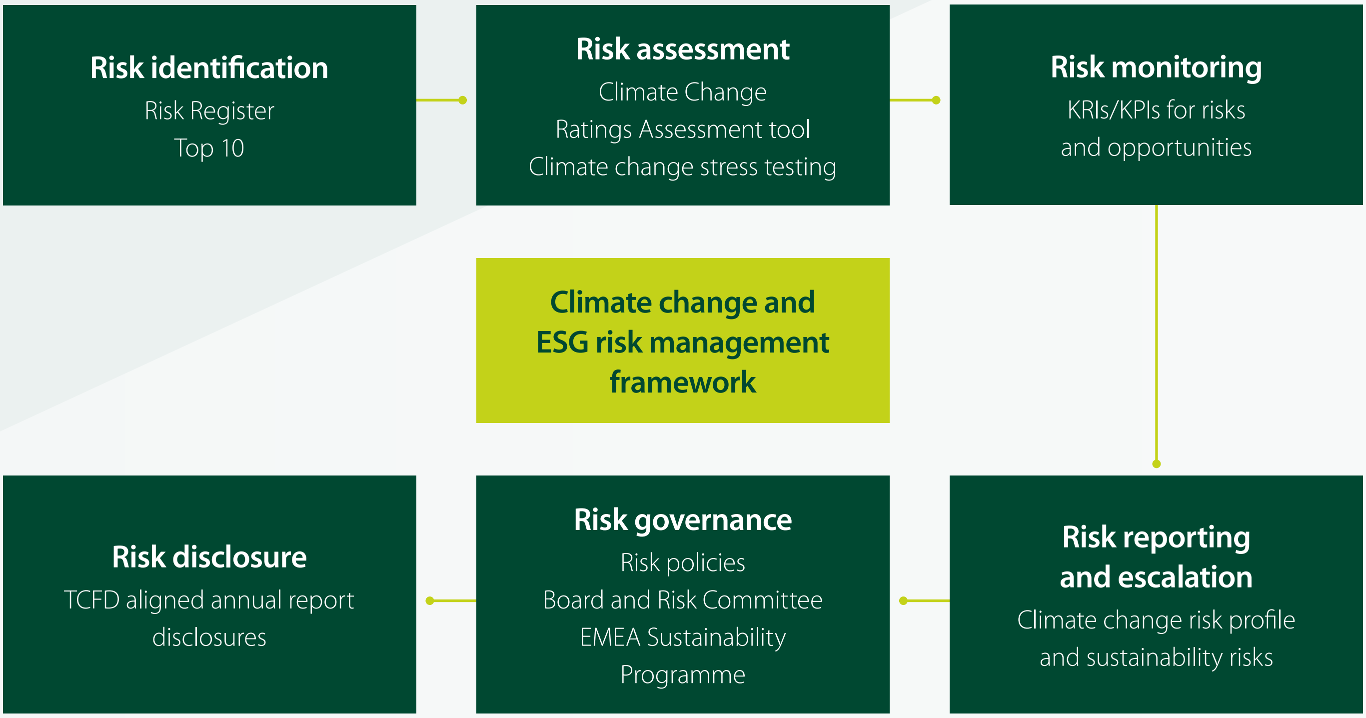
- Green Loans
- Sustainability-Linked Loans
- Social Loans
- Sustainable Supply Chain Finance
- Green Deposits
- Renewable energy, new energy and energy transition lead arranging and advisory
- ESG ratings and framework advisory
- In partnership with SMBC Nikko Capital Markets, SMBC Group is able to offer a range of ESG-related capital markets products

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

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

3 TCFD – Risk management

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



Risk Register

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

Climate change continued

Top 10 risks

Climate change risk features in the Bank's top 10 emerging risks framework. As such, it is subject to a high degree of governance including regular reporting to Executive and Board level committees. The Bank seeks to monitor and mitigate all top and emerging risks as far as is possible. For climate change, the Bank has instituted key risk indicators, has a well-established stress testing framework and has enhanced guidance for considering ESG reputational risks.

Climate Change Ratings Assessment (CCRA) tool

Through the CCRA tool the Bank has assigned a climate risk assessment score to the vast majority of its obligors, reflecting their transition and physical risk profile. Transition risk represents the financial risks/losses that arise from the process of adjusting towards a low carbon economy. This includes changes in technology, social preferences and policy. Physical risk represents the financial risks or losses that arise as a result of climate and weather-related events, such as heatwaves, floods, droughts and sea level rises. The combination of the CCRA tool and broader consideration of ESG risks in transactions will enable the Bank to understand its clients' energy transition plans. This information is included in transaction origination documentation and is assessed by the Credit Department as part of the credit approval process.

Inputs to the CCRA include an internal client-level assessment of an obligor's transition strategy performed by front office teams and data from external data providers, such as greenhouse gas emissions, asset intensity, sectoral vulnerability to transition risk and country-level vulnerability to physical risk.

Sector-level risk assessments are conducted by the Corporate Research Department, which analyses the climate risk of sectors using data from external sources. The client and sector-level risk assessments are reflected within the CCRA which produces climate scores for each obligor.

The CCRA scores are subject to second line review and this oversight is being strengthened. Every month, the Risk Management Department maps these scores onto the portfolio to produce a portfolio-level risk assessment. This includes analysis of: exposure concentration to high transition and physical risk obligors and sectors, gross exposure to carbon intensive sectors, and trends to understand how the Bank's portfolio climate risk is evolving. This is reported to the Steering Committee.

To ensure the completeness and quality of inputs into the CCRA, during the year the Bank reviewed a number of the inputs into the tool and undertook a data remediation exercise. The Bank also performed an external benchmarking exercise in which it compared its results with other similar models produced by rating agencies. The Bank asked subject matter experts to carry out an internal review of the reasonableness of the scores, with positive results.

CCRA scores are tracked on a portfolio level and segmented into high, medium and low risk. Thresholds have been set for high risk clients, and the Risk Management workstream and Steering Committee are responsible for tracking actual high risk clients against thresholds.

The Bank has also worked on the next iteration of the CCRA tool and, whilst the underlying logic and scoring processes remained unchanged, several new elements were added to the tool in April 2022 including:

- the inclusion of an ESG element that, if triggered, would start a reputational risk process;
- two warning flags, one indicating an incomplete record and the other indicating an ESG policy breach. In both instances further review of inputs would be required;
- the ability to review the current year's score against last year's, and the industry average; and
- the requirement for front offices to judge all customers' transition plans as either 'Positive', 'Stable' or 'Negative'.

Stress testing

The Bank has undertaken climate risk scenario analysis and stress testing since 2019 with a modelling horizon of 30 years. The scope of the stress testing is consistent with the scope of the CCRA scorecard, with the majority of the Bank's portfolio covered except public sector obligors.

The Bank's scenario analysis approach is broadly aligned with the Bank of England's Climate Biennial Exploratory Scenario (CBES) (announced in November 2020) and through it the Bank analyses the stress impact on its portfolio of three scenarios: No additional policy (>4°C temperature change), Early Policy Action (<2°C) and Late Policy Action (<2°C). Risk adjusted portfolios are created to calculate the Climate Risk Value at Risk (VaR) impact of each scenario. The stress scenarios inform the potential credit impact of climate change in the existing portfolio over the long term, and the results are included within the ICAAP document.

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

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

Key risk and key performance indicators

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

Risk assessment results

Through the risk identification and assessment process, the Bank has determined that transition risk and, to a lesser extent, physical risk are two important risk elements in its credit portfolio. The Bank has started monitoring higher risk obligors with a focus on high transition risk sectors, including energy and power. The Bank is also seeking to differentiate between clients in higher risk sectors but with well-developed transition plans and those with less well-developed plans. The Bank will use this information to manage its risks and opportunities.

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

How the Bank monitors and mitigates risk

As part of SMBC Group the Bank is working to strengthen its structure for managing environmental and social risks. The Group has established loan policies for sectors that are likely to have a significant impact on the environment and society. These policies have also been implemented in SMBC Group companies, which include the Bank.

+ These policies are publicly available on the Management of Environmental Risk section of the SMBC website at: **https://www.smfg.co.jp/english/sustainability/materiality/environment/risk/**

Climate change continued

The following policy topics are considered most likely to have an impact on climate change: coal-fired power generation; oil and gas; coal mining; palm oil plantations; and deforestation. Internal procedures and training are in place to support the implementation of these policies.

SMBC Group has also adopted the Equator Principles, a set of principles for determining, assessing and managing social and environmental risks in finance to large-scale development projects, and has established a team in Tokyo within its Corporate Sustainability Department to assess the social and environmental risks in accordance with the Principles. The Bank's marketing departments liaise closely with the team on relevant transactions.

SMBC Group is also a signatory to the Poseidon Principles. As a signatory to these Principles, the Group has committed to measuring the carbon emissions of its lending portfolio of financed ships and, starting from December 2022 at the latest, disclose the alignment of its portfolio with the trajectory to achieve a 50% reduction in emissions by 2050 vs 2008 (the United Nations–International Maritime Organization target). As a member of SMBC Group, the Bank also follows the Equator and Poseidon Principles.

Informed by ongoing assessment of customers' climate change risks, over the coming year the Bank intends to develop its suite of management information so that it can better understand the climate change risk across its lending portfolio. For instance, analysis is underway to understand the Bank's exposure to TCFD-identified sectors in order to facilitate management monitoring. The Bank anticipates providing more information on this in future reports.

4 TCFD – Metrics and targets

During the year the Bank has continued to develop its ability to measure and monitor its performance as related to sustainability and managing climate risk. On a monthly basis the Bank provides a dashboard that shows its current performance, and this is presented to the Board, EMEA Sustainability Programme Steering Committee and Management Forum so that these bodies can monitor progress and challenge when issues arise.

In line with the Bank's Booking Policy, and reflecting reasons that include customer preference, many transactions originated by or worked on by Bank employees are ultimately booked in other EMEA entities of SMBC Group. Given this, many of the Bank's sustainability metrics and targets are prepared on an SMBC Group (EMEA) basis, rather than an SMBC BI specific basis. The Bank believes this approach encourages its people to work more closely with SMBC Group to the benefit of customers.

SMBC Group has set sustainability-related targets on a global basis of which some of the Bank's metrics form a part. For example, under the GREEN x GLOBE 2030 strategy, SMBC Group has set a lending target of JPY 30 trillion between financial year 2020 and financial year 2029 to which the Bank's performance contributes.

Presented below are a selection of the most relevant performance and risk indicators. The Bank has selected these indicators for inclusion in this Report as they are aligned to the Sustainability Strategy, consistent with the TCFD framework and the Bank has documented evidence of the underlying data sources. The first table includes SMBC BI only indicators, while the second includes SMBC Group (EMEA) indicators.

SMBC BI basis

Metric	Target Year ended 31 March 2022	Actual Year ended 31 March 2022
Exposure to high emitting sectors (see note 1 below)	n/a	15%
Number of clients evaluated for climate risk	80%	84%

SMBC Group (EMEA) basis

Metric	Target Year ended 31 March 2022	Actual Year ended 31 March 2022
New sustainable finance business in the year (see note 2 below)	USD 7bn	USD 11.049bn
Training hours completed by the Bank's people	2,500 hours	2,756 hours

Note 1: In line with SMBC Group's 2021 TCFD Report, high emitting sectors are defined as the Power and Energy sectors. The Bank does not have a target for high emitting sectors but rather tracks its exposure changes on a monthly basis.

Note 2: Includes green, social, transition and other related sustainable finance transactions.

The Bank recognises that further action will be needed in order to steer the portfolio toward clients who are best preparing for the future low carbon economy. The Bank also intends to expand its training programme in FY2022 to provide a more comprehensive curriculum to colleagues. Finally, the Bank is coordinating closely with SMBC Group colleagues to develop financed emissions reporting by taking actions such as sourcing data, reviewing data completeness, and engaging in external emissions reporting-related working groups hosted by the NZBA and the PCAF. SMBC Group has already begun disclosing initial financed emissions data in the Group-level TCFD report, and the Bank anticipates being able to report its proportion of those financed emissions in its next TCFD aligned disclosure. At present, the Bank can provide an update on its Scope 1 and 2 and part of its Scope 3 emissions from its operations, which is shown below. However, the Bank recognises the importance of being able to report upon financed emissions given that its operational emissions make up a relatively small proportion of its overall footprint.

Streamlined Energy and Carbon Reporting

The UK Government's Streamlined Energy and Carbon Reporting (SECR) policy was implemented on 1 April 2019, when the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 came into force. The Bank meets the SECR qualification criteria in the UK.

The Bank has opted to use the Operational Control boundary definition to define its carbon footprint boundary. The reporting period for compliance is 1 April 2021 to 31 March 2022. Included within that boundary are Scope 1 and 2 emissions, as well as Scope 3 emissions from gas, electricity, grey fleet, waste disposal and business travel in the UK. The GHG Protocol Corporate Accounting & Reporting Standard and the UK Government's GHG Conversion Factors for Company Reporting have been used as part of the carbon emissions calculation.

The results show that the Bank's total energy use and total gross greenhouse gas (GHG) emissions amounted to 9,607,880 kWh and 2,424 net tonnes of CO_2 equivalent (CO_2e) respectively in the 2021/22 financial year in the UK. The Bank has chosen 'Tonnes of CO_2e per full time employee (FTE)' as an intensity metric as this is an appropriate metric for the business. The intensity metric for the financial year was 1.47 CO_2e per FTE.

The comparison with the previous financial years is shown below. The increase in total energy usage and GHG emissions in the year reflects that in the prior year many of the Bank's office floors were shut during extended periods of minimal in-office working due to the COVID-19 pandemic. The overall results for the year are similar to those for the financial year ended 31 March 2020.

The Bank has invested over many years to reduce carbon emissions on its properties. Within the 2021/22 financial year, the Bank implemented changes in several office locations as follows:

- There was a reduction in the number of vending machines across two premises, subsequently reducing electricity consumption and generated waste.
- Office lighting was updated through the installation of auto-sensors to optimise utility and reduce energy consumption.
- There was a reduction in multi-function printers, thereby reducing both the amount printed and consumables required.
- A number of computer servers were consolidated in two locations.
- The implementation of the hybrid working framework resulted in less waste material going to landfill.

The Bank expects the move to its new office premises to reduce its emissions given that this is a more energy efficient building. For instance, the electricity and green gas that power the building are entirely from renewable sources. In addition, the building benefits from a smart energy usage monitoring system through which the Bank can make adjustments to consumption based on usage.

	2019/20	2020/21	2021/2022
Total energy use	9,799 MWh	8,157.79 MWh	9,607.88 MWh
Total GHG emissions (net tonnes of CO2e)	**1,823**	**1,166**	**2,424**
Total GHG emissions (gross tonnes of CO2e)	**2,909**	**2,215**	**3,067**
– Of which Scope 1 GHG emissions (gross tonnes of CO2e)	319	311	406
– Of which Scope 2 GHG emissions (gross tonnes of CO2e)	2,056	1,195	1,263
– Of which Scope 3 GHG emissions (gross tonnes of CO2e)	534	709	1,398
Tonnes of CO2e per FTE	1.45	0.8	1.47

Non-Financial Information Statement

Below is the Non-Financial Information Statement as required by sections 414CA and 414CB of the Companies Act 2006.

One requirement of section 414CB is to include information on the policies pursued on the five areas shown in the table below. The Bank has a number of policies and processes which govern the way in which it carries out its business in these and other areas. Information on the relevant principal policies is shown below, together with page references where further information can be found.

Any breaches of policy may be self-reported or identified through ongoing review activity, including those performed by the Compliance Monitoring Function or Audit Department. Breaches are taken seriously and depending on the nature of the breach may result in an assessment for disciplinary action.

Reporting requirement	Section of the annual report	Page references	Relevant policies
Environmental matters	– Climate change	**Pages 32 to 43**	Credit Policies
Employees	– Stakeholders – Workforce – Workforce	**Pages 16 and 17** **Pages 26 to 31**	– Whistleblowing 'Speak Up' Policy – Employee Handbook
Human rights	– Stakeholders – Environment and society	**Pages 18 and 19**	– Anti-Slavery Policy – Slavery and Human Trafficking Statement
Social matters	– Stakeholders - Customers – Stakeholders – Environment and society – Stakeholders – the Markets and regulators	**Pages 14 and 15** **Pages 18 and 19** **Page 20**	– Credit Policy – Customer Focused Compliance Policies – Customer Voice Policy – Anti-Money Laundering and Combating Terrorist Finance Policy – Market Abuse Regulation Policy and related policies
Anti-bribery and corruption	– Stakeholders – Environment and society	**Pages 18 and 19**	Anti-Bribery and Corruption Policy
Principal risks		**Pages 67 to 69**	
Business model		**Pages 4 and 5**	
Explanation of amounts in the financial statements		**Pages 12 and 13**	
Non-financial performance indicators		**Pages 21, 27 and 43**	

Risk management and controls

This section sets out information on the Bank's principal risk categories and how these risks are managed.

+ Further information on how the Board oversees the Bank's risk management activities can be found in the section on the application of The Wates Principles on **page 51**.

Risk strategy and risk appetite

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

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

Risk management framework

The Bank adopts a three lines of defence model in order to communicate clear accountabilities and to achieve and assure overall effective risk governance, management and assurance, which reflects and reinforces the internal control framework.

+ Further details on the three lines of defence model are set out in the Risk Review starting on **page 67** and this information is incorporated by reference into this Report.

Risk profile

At the year-end, the Bank's risk profile was within the overall risk appetite established by the Board. The risk profile relative to risk appetite is reported monthly at the Executive Committee and quarterly at the Risk Committee.

Principal risks and uncertainties

The Bank is exposed to certain risks and uncertainties in conducting its business, and the principal risk categories are classified on the next page. Information on the Bank's principal and emerging risks is set out in the Risk Review on **pages 67 to 69** and this is incorporated by cross-reference. Climate change and ESG risks are inherent across the risk categories and the Bank does not regard them as a standalone risk. Further information on this can be found in the Climate Change section on **pages 39 to 42**.

Risk management and controls continued

Principal risks		
Type	**Description**	**How risks are managed**
Credit	The risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.	Credit risk is identified, managed and monitored individually and in aggregate. A number of approaches are used such as limits, indicators and stress testing. Example key indicators include earnings volatility, obligor, sector and country concentration limits and credit quality metrics.
Liquidity	The risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.	Liquidity risk is identified, managed and monitored using a number of approaches such as limits, indicators and stress testing. Example key indicators include liquidity coverage ratio, net stable funding ratio and survivability period metrics under stress scenarios.
Market	The risk that movements in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.	The Bank uses Value at Risk (VaR) to a 99% confidence interval and a one-day time horizon to measure and control market risk alongside other relevant metrics.
Conduct	The risk of the Bank's actions, inactions or behaviours resulting in poor outcomes for customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.	The Bank assesses its conduct and culture against its Culture Statement using a suite of targeted metrics.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks.	Operational risk is managed with a view to maximising resilience and continuity whilst maintaining acceptable levels of residual risk. Example key indicators used to monitor, measure and report operational risk include operational risk losses and an operational risk profile score underpinned by diverse operational risk indicators.
Model	The potential loss resulting from errors in the development, implementation or use of internal models.	Model risk is managed through the model risk management framework, which comprises four key components: model governance and control, model management, model development and independent model validation.
Other non-financial	As a result of the Bank's activities it assumes other potential risk impacts such as reputational, conduct and others which it manages within the overall policy framework.	A number of appropriate approaches are used to manage other non-financial risks. Further details on this are contained in the Risk Review.

Approved by the Board of Directors and signed on its behalf by:

Keiichiro Nakamura
Chief Executive Officer
11 July 2022

The Wates Principles and how they are applied

The Board is committed to maintaining high standards of corporate governance within the Bank. For the year ended 31 March 2022, the Board has applied the Wates Corporate Governance Principles for Large Private Companies.

Included within this section is an explanation of how the Board has applied the Wates Principles, information on the Directors and the activities of the Board and Board Committees. Where reference is made to disclosures made elsewhere in this document, these are incorporated by reference.

Principle 1
Purpose and leadership

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

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

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

The Board considers matters related to the Bank's culture on a regular basis, including the quarterly review of key risk indicators which are designed to measure any risks arising from each of the Bank's Culture Statements. Where issues are identified through those indicators, management is required to explain the remedial action being taken, which the Board challenges as required.

The Wates Principles and how they are applied continued

Principle 2
Board composition

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

At the date of signing the financial statements, the Board comprised eight Directors, four of whom were executive and four of whom were non-executive. Three of the non-executive Directors, Alan Keir, Patricia Jackson and Charlotte Morgan, are deemed to be independent in that they have no material business or other relationships with the Bank that could influence their exercise of independent judgement. The fourth non-executive Director, Kazuya Ikeda, is nominated by the Bank's shareholder and is not deemed independent.

The Board has appointed a separate non-executive Chair (Alan Keir) and Chief Executive Officer (Keiichiro Nakamura) to ensure there is clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The overall composition of the Board is considered through the annual effectiveness review process, further details on which are shown below.

Appointments to the Board are made on the basis of the candidate's fitness and propriety for the role, which includes an assessment of their competencies, skills, experience and values. When considering such appointments, the Nomination Committee also has regard to the level of experience of the Board collectively in business and other areas of management competency.

The Board's Senior Management Appointment and Diversity Policy sets out the approach for the selection and appointment of individuals to Board Director and senior executive management positions. This Policy states a target that at least 25% of the Board will be made up of women, while also ensuring an appropriate mix of skills, experiences and competencies on the Board. The Board also commits to taking positive action to source applications from Asian, Black and other Minority Ethnic candidates for Director vacancies. At the year-end, 25% of the Directors were women.

The Bank puts in place a bespoke education and development programme for all new members of the Board and senior management, the purpose of which is to give those individuals the information they need to become as effective as possible in their new role within the shortest practicable time. In addition, ongoing education is provided to the Directors on significant topics. These topics are typically suggested by the Directors through the effectiveness review, in Board or Committee meetings or in discussion with the Company Secretary. Topics presented in the year have included: financial sanctions, cloud computing, sustainable finance and climate risks, and opportunities arising from new technologies.

A review of the effectiveness of the Board, Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee was undertaken in the year, facilitated by the Company Secretary. This review focused on the degree to which improvements had been made in addressing the findings of the prior year's review, such as in enhancing certain management reporting, and sought views on areas of future Board education and other aspects where it was believed effectiveness could be improved, including on overall Board composition. The Nomination Committee and Board discussed the findings of the review and put in place measures to address them. In the financial year ending 31 March 2023 the effectiveness of the Board and Committees will be reviewed by an independent external party. The terms of reference for this review were agreed by the Chair of the Board and Chief Executive Officer.

Principle 3
Director responsibilities

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

Roles and responsibilities

The Directors each have in place a role description document, which is supported by a Board approved Corporate Governance document giving further information on the Directors' roles, including the following:

Roles and responsibilities

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

The Wates Principles and how they are applied continued

The Chief Executive Officer has responsibility for the management and day-to-day running of the Bank. He is assisted in this by the other executive Directors and senior executive management and through the work of the Executive Committee and the executive-level risk and control committees.

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

Board and Committees

The Board meets quarterly, and additionally when necessary. Between these meetings there is regular contact between the executive and non-executive Directors. The Board has delegated certain responsibilities to its Committees as documented in their terms of reference. The Board and the Audit, Risk, Nomination and Remuneration Committees are each chaired by an independent non-executive Director.

Board and Committee meeting agendas are set by the respective Chair in consultation with the Company Secretary. Agendas are structured to allow sufficient time to discuss all matters, with a particular focus on those items requiring approval or strategic consideration. The Chairs of the Board and Board Committees and Company Secretary also work together to ensure that all items requested by the Board and Committees in their discussions are duly addressed by management. At the start of each year the Board puts in place a forward planner which is designed to assist the drafting of meeting agendas. This planner is subject to regular review and revision to reflect the requirements and areas of particular focus of the Board and Committees.

+ Further information on the Board Committees is shown starting from **page 59**.

Conflicts of interest

All Directors are required annually to complete a questionnaire through which any potential conflicts of interest are identified. In addition, the independent non-executive Directors are required to seek the approval of the Bank and SMBC in advance of them being appointed a director of any other company so that any potential conflicts of interest with the Bank can be identified and, as necessary, managed.

Information systems

Multiple systems capture, record, process and store the financial and non-financial information used for reporting to the Board and Committees and for corporate reporting. A key element of this is the data warehouse, which is the source of all regulatory, tax, financial accounting, management accounting and risk reporting. There is a daily automated reconciliation between the data warehouse and the general ledger and the Bank seeks to continually enhance these controls to ensure accuracy is maintained and to improve simplicity and transparency. The data used for reporting is also subject to both internal and external audit and provides assurance to stakeholders that the data is free from material error or omission. External reviews are also periodically undertaken to provide further assurance and recommend areas for improvement or enhanced governance.

External audit arrangements

The Audit Committee has responsibility for managing the Bank's relationship with its external auditor, ensuring that at least every 10 years the external audit will be considered for re-tender. Each year, the Audit Committee reviews a letter from the external auditor setting out how, in its view, its objectivity and independence are maintained.

Principle 4
Opportunity and risk

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

Opportunity

Medium- and long-term strategic opportunities are identified through the annual Corporate Strategy development process. Any expansion of the business into new areas is considered in conjunction with risk appetite and is discussed by the Board. Short-term strategic opportunities are considered by the executive management team and reported to the Board as required. In addition to business opportunities, the Board considers opportunities to improve the Bank's operational efficiency and capability to deliver the strategy, such as benefits arising from the automation of processes.

Risk management

The Board is responsible for establishing a framework of controls that enables risk to be managed and assessed. The Board also sets each year the Bank's Risk Appetite Statement.

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

During the year, the Bank's risk management arrangements and internal control systems were reviewed regularly by the Risk Committee and Audit Committee. Specifically, the Audit Committee has overseen management's progress to enhance the Bank's framework of internal financial controls through improvements to control monitoring tools and the documentation of processes. The Bank has undertaken this work to align with market best practice and the proposals relating to UK corporate reform, and this has been informed through the results of an external review, commissioned by management, on the effectiveness of the Bank's internal financial controls.

In addition to this activity:

– through the Risk Committee, the Directors consider annually the adequacy and appropriateness of the Bank's risk management framework and assess the effectiveness of the systems of internal controls. Based on the annual review undertaken in respect of the year ended 31 March 2022, the Directors have formed the view that the Bank's risk management framework is adequate and that management has taken or is taking the necessary actions to remedy any weaknesses identified through the operation of the Bank's framework of controls. This review considers the results of an attestation process under which the key risks facing the Bank, along with related key controls, are assessed and recorded by the heads of business units and functions; and
– at its June 2022 meeting the Audit Committee received the results of a review undertaken by management of the effectiveness of the internal controls and risk management arrangements in relation to financial reporting. Through this review all controls were assessed as either satisfactory or partially satisfactory, with action plans in place to address the latter controls.

On the basis of these assessments, the Board considers the Bank's system of internal controls to be appropriate. The Bank's system of internal controls is designed to identify, evaluate and manage, rather than eliminate, the Bank's risks and can only provide reasonable and not absolute assurance against material misstatement or loss.

+ Additional information on the risk management arrangements can be found as follows:

  – The Risk Management and Controls section on **pages 45 and 46** sets out the key risks to which the Bank is exposed.
  – The Risk Review section on **pages 67 to 76** explains the Bank's three lines of defence framework for the management of risk; the responsibilities of the risk and control committees; and other key elements of the Bank's risk management framework.

The Wates Principles and how they are applied continued

Principle 5
Remuneration

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

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

The Remuneration Policy aims to support the Bank's Vision and help deliver long-term stability and sustainability, particularly of the capital base, and promote steady growth with a strong link to the Bank's risk appetite. All employees are eligible to participate in the annual performance-related bonus scheme with variable pay outcomes determined by the performance of the Bank, each department and the employee. To encourage a culture of collaboration, the bonus scheme emphasises the shared purpose of all colleagues across SMBC Group in EMEA, including the Bank.

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

The Bank ensures that its remuneration processes include gender-neutral requirements and ESG factors, and support the Bank's wider diversity and inclusion work. The Bank has uploaded its UK Gender Pay Gap Report to the Government's Gender Pay Gap service portal and also publishes a Gender Pay Gap Report in France. The Bank believes that these actions are key to driving a greater understanding and discussion with its employees on gender pay.

+ The Bank's Gender Pay Report can be found here: **www.smbcgroup.com/emea/genderpay**

Principle 6
Stakeholder relationships and engagement

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

How the Bank applies this Principle

+ Information on the way in which the Board considers stakeholders' interests is set out on **pages 14 to 21**.

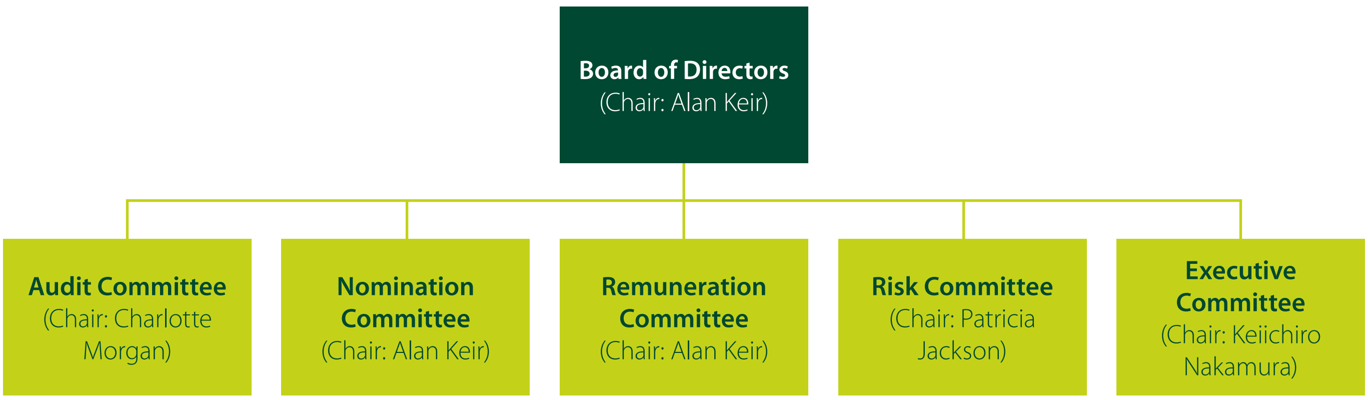
The Board of Directors

The Directors who were in office at the date of signing the financial statements are shown in this section.

The Board has terms of reference, which contain a schedule of matters reserved for its attention.

The Board has established the Committees shown below to provide oversight of, and make recommendations on, the matters delegated to them by the Board. Details of the roles and responsibilities of the Board Committees and their respective memberships and activities are included on **pages 59 to 62**. These roles and responsibilities are detailed more fully in terms of reference, which are reviewed regularly and updated as required. Where expedient to do so, the Board and its Committees hold combined meetings.

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



The Board of Directors continued

Alan Keir

Independent non-executive Director

Appointed to the Board:
12 October 2016
(As Chair: 1 January 2022)

Skills and experience

In his executive career Alan held a number of leadership positions at HSBC, including Group Managing Director of HSBC Holdings plc from 2011 until his retirement in 2016. Alan has considerable experience in many aspects of corporate, investment and retail banking, including strategy, risk management and governance. He is also experienced in retail services and commercial property. He is a former non-executive Director of HSBC UK Bank plc.

Other appointments

Alan is a non-executive Director and Chair of the Audit and Risk Committee of Majid Al Futtaim Holding LLC, a non-executive Director of Majid Al Futtaim Trust LLC and a non-executive Director and Chair designate of the Risk Committee of Nationwide Building Society.

Keiichiro Nakamura

Executive Director and Chief Executive Officer

Appointed to the Board:
1 May 2020 (as an executive Director)

Skills and experience

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

Other appointments

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

James Fenner

Executive Director and Deputy Chief Executive Officer

Appointed to the Board:
2 February 2022

Skills and experience

James is a Deputy Chief Executive Officer and has responsibility for coordinating corporate banking, structured products and investor businesses. He is also an Executive Officer of SMBC and Deputy Head of the EMEA Division of SMBC. Before taking his current role, James was the General Manager responsible for Specialised Products, which includes leveraged buyout, securitisation, subscription finance and real estate financing. James has significant senior-level experience in leveraged and loan capital markets in investment banking and was previously Chief Executive Officer at a corporate bank, giving him experience in areas including financial and risk management and strategic planning.

Other appointments

None.

Patricia Jackson

Independent non-executive Director

Appointed to the Board:
1 January 2022

Skills and experience

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

Other appointments

Patricia is a non-executive director of Handelsbanken PLC and Chair of the Board of SMBC Nikko Capital Markets Limited.

Hideo Kawafune

Executive Director and Deputy Chief Executive Officer

Appointed to the Board:
3 April 2018

Skills and experience

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

Other appointments

Hideo holds the following appointments in SMBC Group companies: SMBC Nikko Capital Markets Limited (non-executive director), JRI Europe Limited (non-executive director) and SMBC Advisory Services Saudi Arabia (non-executive director).

Charlotte Morgan

Independent non-executive Director

Appointed to the Board:
1 September 2017

Skills and experience

Charlotte is a Chartered Accountant and Corporate Treasurer. Her executive career included Standard Chartered Group, where she was Head of Corporate Treasury and Tax, and finance roles in a range of banking and financial services businesses. Charlotte has been a non-executive director of FCE Bank PLC and Vice-President of the Association of Corporate Treasurers, where she is currently a member of the Policy and Technical Panel.

Other appointments

Charlotte is Chair of the Audit Committee of Union Bank of India (UK) Limited, a Governor of the University of Westminster and a trustee of the classical music charities London Sinfonietta and Second Movement.

The Board of Directors continued

Kazuya Ikeda

Non-executive Director

Appointed to the Board:
1 June 2022

Skills and experience
Kazuya is an Executive Officer of SMFG and SMBC and General Manager of SMFG's Strategic Planning Department, Global Business Unit and SMBC's Strategic Planning Department, Global Banking Unit. He has extensive business and strategic planning experience gained from various assignments in Tokyo and Singapore.

Other appointments
None.

Nobuyuki Takiguchi

Executive Director and Chief Operating Officer

Appointed to the Board:
11 April 2022

Skills and experience
Nobuyuki has responsibility for corporate planning, human resources, financial reporting, project management and information technology matters. The majority of Nobuyuki's career has been spent in the UK where he has held roles in operations, strategic planning and information technology. He is an Executive Officer of SMBC.

Other appointments
Nobuyuki is also a director of the SMBC Group company JRI Europe Limited.

Changes to the Board in the year

- Stanislas Roger resigned as an executive Director on 30 September 2021.
- Laurel Powers-Freeling resigned on 31 December 2021 as Chair of the Board and independent non-executive Director.
- Patricia Jackson was appointed as a non-executive Director on 1 January 2022.
- James Fenner was appointed as an executive Director on 2 February 2022.
- Katsufumi Uchida resigned as an executive Director on 31 March 2022.
- Nobuyuki Takiguchi was appointed as an executive Director on 11 April 2022.
- Hirofumi Otsuka resigned as a non-executive Director on 1 June 2022 and Kazuya Ikeda was appointed a non-executive Director on the same day.

Board and Committee membership

The Directors' Board and Committee responsibilities are as follows:

Name	Board of Directors	Committees: Audit	Nomination	Remuneration	Risk	Executive
Non-executive Directors						
Alan Keir	C	M	C	C	M	–
Patricia Jackson	M	M	M	M	C	–
Charlotte Morgan	M	C	M	M	M	–
Kazuya Ikeda (appointed on 1 June 2022)	M	M	–	M	M	–
Hirofumi Otsuka (resigned on 1 June 2022)	M	M	–	M	M	–
Executive Directors						
Keiichiro Nakamura	M	–	–	–	–	C
James Fenner	M	–	–	–	–	M
Hideo Kawafune	M	–	–	–	–	M
Nobuyuki Takiguchi	M	–	–	–	–	M

C Chair of Board or Committee

M Member of Board or Committee

+ On the invitation of the respective Chairs, members of the Board and management team also attend meetings, further details on which are shown on **pages 59 to 62**.

Board activities

During the year, the Board met eight times and the principal activities undertaken included those shown below. Information on the Board's and Committees' activities in respect of ESG and climate change can be found on **page 35**.

Area of focus	Matters considered
Strategy and business	– Reviewing and approving the Corporate Strategy and considering changes to the Strategy in the year. – Considering changes to the business and macroeconomic environment and their impact on strategy. – Considering business performance, including undertaking deep-dive reviews of individual business lines and departments. – Approving an updated Slavery and Human Trafficking Statement. – Approving, on the recommendation of the Risk Committee, an updated Financial Crime Risk Appetite Statement. – Approving the operational resilience self-assessment. – Reviewing the status of significant projects and other business change activities, including the transition to Risk Free Rates and the office relocation. – Reviewing the third party risk management arrangements. – Reviewing the business continuity and incident management arrangements, including the crisis communications plan.
People	– Approving the appointments to the Board in the year and other relevant senior management appointments. – Approving, based on a recommendation from the Remuneration Committee, the Remuneration Policy and Gender Pay Report. – Considering regular reports on people matters, including reviewing the Human Resources strategy, recruitment market trends and initiatives relating to culture and diversity and inclusion.
Risk management, recovery and resolution	– Considering the Bank's response to COVID-19. – Considering the annual Periodic Summary Meeting feedback letter from the Prudential Regulation Authority. – Approving, based on recommendations from the Risk and Audit Committees, the capital and liquidity adequacy documents and recovery and resolution documentation.
Financial and accounting	– Approving the Paris Branch Report on Internal Controls document. – Approving, based on a recommendation from the Audit Committee, the annual report and financial statements, Pillar 3 disclosures and UK Tax Strategy.
Governance	– Approving a change in the membership of the Nomination Committee to better align to best practice, resulting in the members of the Committee being the independent non-executive Directors only. – Approving changes to the Terms of Reference of the Board and Board Committees to reflect developments in the business.

Audit Committee

The Audit Committee comprises the non-executive Directors.

On the invitation of the Chair, meetings are also attended by members of management, including Keiichiro Nakamura and Nobuyuki Takiguchi, the Co-Heads of Audit Department and the Head of Finance and Control. The engagement partner at the Bank's external auditor, KPMG, also attends meetings.

The Audit Committee is responsible for considering matters related to the preparation and audit of the annual report and accounts, internal financial controls, engagement with the external auditor and taxation matters. It is also responsible for safeguarding the independence and overseeing the performance of the Audit Department, considering the results of Internal Audit and Credit Review activity and for the appointment and dismissal of the Co-General Managers of the Audit Department. The Committee is also responsible for assessing the effectiveness of the Bank's whistleblowing arrangements.

During the year, the Audit Committee met six times and its principal activities included the following:

Area of focus	Matters considered
Matters related to the financial statements	– Assessing the appropriateness of key management judgements and estimates, including the assumptions underlying the IFRS 9 model and post model adjustments. – Assessing the Bank's going concern and confirming that the going concern basis of accounting continues to be the appropriate basis for preparing the financial statements. – Reviewing and approving, for recommendation to the Board, the annual report and accounts. – Considering developments in financial and non-financial reporting.
Regulatory reporting	– Receiving reports on matters related to the Bank's regulatory reporting, including assessing industry developments.
Financial and regulatory reporting controls	– Considering the effectiveness of the internal controls and risk management arrangements in relation to financial and regulatory reporting and the ongoing work to strengthen those arrangements.
Taxation	– Receiving reports on taxation matters, including approving the UK Tax Strategy for recommendation to the Board.
External Audit	– The Chair of the Audit Committee has been actively involved in discussing with the Bank's auditor the choice of the new audit engagement partner, who will begin this role following the conclusion of the audit of the financial statements for the year ended 31 March 2022. This change is in line with the requirements relating to lead audit engagement partner rotation. – Overseeing the external auditor's independence and objectivity and its terms of engagement. – Considering the external auditor's plan and strategy for its annual audit of the financial statements and client assets and the subsequent audit report. – Reviewing and approving the auditor's remuneration.
Internal Audit	– Approving the annual Audit Plan and Credit Review Plan, including the risk assessments on which the Plans are based, of the Audit Department's Internal Audit and Credit Review Groups and monitoring their resourcing arrangements and professional development. – Approving the Audit Department's Charter document. – Monitoring the reports issued by Internal Audit on the Group's businesses and functions, the responses from management and the implementation of agreed action plans. The Committee seeks to foster a constructive attitude to Internal Audit in the businesses and an open and transparent relationship between them.
Assurance	– Reviewing the assurance arrangements adopted in preparing the Pillar 3, recovery and resolution and the capital and liquidity adequacy documents. – Reviewing the results of the reviews performed under the Compliance Monitoring Programme. – Initiating and overseeing the development of the Audit and Assurance Policy.
Whistleblowing	– Reviewing the integrity, independence and effectiveness of the whistleblowing systems and controls. – Reviewing the status of individual whistleblowing cases.
Inorganic growth	– Reviewing the governance over inorganic growth opportunities.

Nomination Committee

The Nomination Committee comprises the independent non-executive Directors.

On the invitation of the Chair, meetings are also attended by Keiichiro Nakamura, Nobuyuki Takiguchi and Hideo Kawafune.

The Nomination Committee is responsible for assessing and recommending candidates to the Board to fill Board, Senior Manager Function and certain other senior executive management-level vacancies. The Committee is also responsible for matters related to Board composition, performance and skills and for reviewing Board and senior management succession plans.

During the year, the Nomination Committee met five times and its principal activities included the following:

Area of focus	Matters considered
Appointments	– Considering and approving the changes to the Board in the year.
Succession planning	– Considering the adequacy of succession plans of key roles in the Bank, encompassing all Board Directors, Senior Management Function holders, Department Heads and other senior positions.
Board and Committee effectiveness	– Considering the results of an internally facilitated review of the effectiveness of the Board and Committees, including overall Board composition, and the preparations for an externally facilitated review.
Diversity	– Approving the Senior Management Appointment and Diversity Policy.

Remuneration Committee

The Remuneration Committee comprises the non-executive Directors.

On the invitation of the Chair, meetings are also attended by Keiichiro Nakamura, Nobuyuki Takiguchi, Hideo Kawafune, the Head of Human Resources and, as necessary, the Chief Risk Officer.

The Remuneration Committee is responsible for overseeing the development and implementation of the Bank's remuneration policies and practices, which includes specific responsibility for recommending the Remuneration Policy to the Board for approval. The Committee also considers other significant remuneration and human resource matters, such as approval of remuneration for Material Risk Takers and the bonus fund cap calculation.

During the year, the Remuneration Committee met seven times and its principal activities included the following:

Area of focus	Matters considered
Remuneration reviews	– Considering the strategy for the remuneration review for the year ended 31 March 2022 and reviewing and approving the results of the review for individual Material Risk Takers, including the release of deferred awards. – Considering the results of an external Equal Pay Review.
Regulatory	– Considering regulatory changes impacting remuneration and approving submission of the annual remuneration returns to the regulators.
Remuneration policies and documents	– Reviewing and approving the key remuneration policies, including the Cash and Phantom Share Scheme Rules and Bonus Cap Calculation Methodology. – Reviewing and approving, for recommendation to the Board, the Remuneration Policy, Pillar 3 remuneration disclosures and Gender Pay Gap Report.

Risk Committee

The Risk Committee comprises the non-executive Directors.

On the invitation of the Chair, meetings are also attended by members of management, including Keiichiro Nakamura, Nobuyuki Takiguchi and Hideo Kawafune, the Co-Heads of the Audit Department, the Chief Risk Officer, the Chief Compliance Officer and the General Counsel.

The Risk Committee is principally responsible for considering the Bank's risk management structure and systems, the main areas of risk faced by the Bank, the ICAAP document, the Internal Liquidity Adequacy Assessment (ILAA) document, the recovery and resolution documentation, and regulatory engagement and compliance.

During the year, the Risk Committee met five times and its principal activities included the following:

Area of focus	Matters considered
Overall risk management	– Reviewing principal and emerging risks and the status of risk relative to risk appetite. – Approving changes to loan underwriting limits. – Approving implementation of a new risk appetite framework measure of operational risk. – Considering developments in respect of the credit book, such as the level of provisions, significant transactions undertaken and the market environment. Detailed reviews were also undertaken on markets and sectors of potentially higher risk. – Approving changes to key risk management policies, such as the Enterprise Risk Management Policy, for recommendation to the Board. – Considering the risks arising from the Russia–Ukraine conflict. – Reviewing the risk inputs into the variable pay calculations.
Stress testing	– Considering the stress testing scenarios to be used for the ICAAP capital requirements and ILAA liquidity requirements calculations.
Financial crime prevention	– Receiving the annual report from the Money Laundering Reporting Officer. – Reviewing the financial crime prevention risks and controls and approving an update to the Financial Crime Risk Appetite Statement for recommendation to the Board. – Receiving a report on the matters considered by the Financial Crime and Reputational Risk Committee.
Conduct risk	– Reviewing the risks and mitigating controls relating to the Bank's cross-border marketing arrangements. – Considering matters related to the management of conduct risk, including adherence by employees to internal policies and procedures, and regulatory developments.
Projects	– Reviewing the Bank's preparedness to implement the operational resilience requirements of the UK regulators. – Reviewing the work being undertaken to develop the Bank's data management and third party risk management arrangements.
Systems and security	– Receiving updates on the development of the Bank's cyber security arrangements and new IT systems.
Capital, liquidity and resolution	– Approving, for recommendation to the Board, the ICAAP and ILAA documents and recovery and resolution documentation.

Executive Committee

The Executive Committee is chaired by Keiichiro Nakamura, with the other members being James Fenner, Hideo Kawafune, Nobuyuki Takiguchi and members of the Bank's senior management team.

The Executive Committee is responsible for the supervision and management of the Bank's daily operations. The Executive Committee meets monthly and reports to the Board of Directors. The non-executive Directors receive a copy of the papers and minutes of all Executive Committee meetings.

During the year, the Executive Committee met 12 times and its principal activities included the following:

Area of focus	Matters considered
Projects	– Considering the overall strategic project portfolio and the status of the significant projects, including the IBOR transition programme and the relocation of the Bank's office headquarters.
Risk management	– Reviewing the status of risk, including current and emerging risks, and developments in the credit market.
Compliance, financial crime and legal	– Reviewing matters related to employee conduct. – Reviewing the status of customer account reviews. – Receiving updates from the General Counsel on legal developments, including litigation.
Financial and business performance	– Reviewing business performance and drivers of overall financial performance. – Reviewing the level of credit provisions. – Reviewing the status of operations projects, including matters relating to data management, operational resilience, third party risk management, and operational processing levels. – Receiving a periodic report on the activities of the Paris branch.
Systems and security	– Considering the development of the Bank's cyber security arrangements. – Considering the development of new IT systems.
People	– Considering diversity and inclusion and culture initiatives. – Considering other relevant matters, such as turnover and levels of sickness absence.

Approved by the Board of Directors and signed on its behalf by:

Keiichiro Nakamura
Chief Executive Officer
11 July 2022

Directors' Report

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

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

An indication of likely future developments is included in the Strategic Report. No important events requiring disclosure have occurred since the year-end.

Directors

The Directors at the date of signing this Report and the changes to the Board in the year are set out in the Corporate Governance Report on **pages 54 to 56**.

Statement of corporate governance arrangements

The statement of corporate governance arrangements is on **pages 47 to 52**.

Risk management

Information on the Bank's risk management arrangements can be found in the Risk Management and Controls section on **pages 45 and 46** and in the Risk Review on **pages 67 to 76**.

The Bank uses financial instruments to manage certain types of risk, including foreign exchange and interest rate risk. Details on the management of these risks are provided in the following notes to the accounts: note 3(e): Significant accounting policies, financial instruments – initial recognition and subsequent measurement; note 4: financial risk management; and note 5: fair value of financial instruments.

Information on hedge accounting can be found in note 13: derivative financial instruments and hedge accounting.

Dividends

No dividends have been declared or paid in the financial year ended 31 March 2022 and no final dividend is recommended by the Board.

Going concern

The Directors believe that the Bank has adequate financial resources and is well placed to manage its business risks successfully despite the current uncertain outlook for the global economy and the banking sector. In addition, the Directors believe the Bank will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks faced, over a period of at least 12 months from the date of approval of these financial statements.

In making this assessment, the Directors have considered a wide range of detailed information relating to present and future conditions, including projections of profitability, and liquidity and capital requirements and resources. They determined that the principal risks the Bank currently faces are those arising from recession arising as a consequence of the Russia–Ukraine crisis and high commodity prices and inflation, although other risks are also considered. This belief is based on consideration of a wide range of information including:

- the results of the Bank's three-year liquidity planning assessment;
- the results of the Bank's three-year capital planning assessment; and
- the results of the Bank's capital and liquidity stress testing.

The economic scenarios for the capital stress are as follows:

- **Global recession:** Tensions between the USA and China continue to pose risks to the economic outlook. New COVID-19 variants cause disruptions with shortage and delays in rollout of vaccines for many developing countries, which causes unrest. Conflict and unrest in Ukraine also weaken the global economy.
- **UK and EU recession:** Prolonged supply chain disruptions due to post COVID-19 complications coupled with the Russia–Ukraine conflict have increased inflation to an unprecedented level, which significantly impacts economic growth in the EU and UK.
- **Japan recession:** Slow economic recovery due to the Omicron variant of COVID-19 and inflation. Japan faces the risk of downgrade of government bonds due to concerns about the financial stability of the government. A USA–China conflict and unrest in Ukraine also weaken the Japanese economy.

Directors' Report continued

- **Idiosyncratic operational risk scenario:** A five-day business disruption caused by staff contracting COVID-19. Vaccines are not as effective as predicted with rising numbers of cases during the easing of lockdown restrictions and new variants increasing due to the opening of borders.

The economic scenarios for the liquidity stress included:

- **UK and EU market wide:** The scenario models the impact of a UK/EU market-wide effect, mainly driven by a prolonged COVID-19 crisis due to the possibility of a new variant which is not effectively covered by available vaccines, Russia–Ukraine tensions escalating further and resulting in prolonged supply chain disruptions and increase in energy prices.
- **Japanese stress:** The scenario models the impact of a Japanese market-wide effect driven by a new COVID-19 variant that is not efficiently covered by available vaccines and is threatening the Japanese economy. China–Taiwan tensions might raise significant geopolitical concerns in the area.
- **SMBC Group idiosyncratic stress:** The SMBC Group idiosyncratic scenario models the situation where SMBC Group is suffering from a severe stress event which results in increased credit risk or concerns over solvency.
- **Combined stress:** The Combined scenario models the situation where UK/EU or Japan recession is combined with an SMBC Group idiosyncratic event.

The result of the liquidity and capital assessments, and stress tests is that the Bank remains well capitalised and it is able to continue to fund its operations.

Based on the above, the Directors conclude that the Bank has adequate resources to continue operations for a period of at least 12 months from the date of these financial statements, and therefore it is appropriate to adopt the going concern basis.

Overseas offices

At the date of signing this Report, the Bank had one operational branch which is established in Paris.

Charitable and political donations

Details of the Bank's charitable donations and activities are set out in the Strategic Report, on **page 31**. The Bank made no political donations or contributions during the year (2021: nil).

Employee matters

Information on the way in which the Directors have engaged with employees is set out in the Stakeholder engagement section on **pages 16 to 17** and in the Workforce section on **pages 26 to 31**.

Information on the Bank's policies in respect of the employment, training, career development and promotion of disabled persons is also set out in the Workforce section of the Strategic Report on **pages 26 to 31**.

Engagement with suppliers, customers and other stakeholders

Details of the way in which the Bank has engaged with its suppliers, customers and stakeholders is set out in the Stakeholder Engagement section on **pages 14 to 21** and in the Section 172(1) Statement of the Strategic Report on **pages 22 to 25**.

Streamlined Energy and Carbon Report

The Streamlined Energy and Carbon Report is set out on **page 43**.●

Research and development

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

Disclosure of information to auditor

Each person who is a Director of the Bank as at the date of approval of this Report confirms that:

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

Auditor

Pursuant to section 485 of the Companies Act 2006, the Bank appointed its existing auditor, KPMG LLP, as its auditor for the financial year beginning 1 April 2019. This appointment was made following completion of an audit tender process, which was undertaken in line with the requirements of Statutory Auditors and Third Country Auditors Regulations 2016.

KPMG has expressed its willingness to continue in office and the Board recommends that KPMG LLP be reappointed as the Bank's auditor. A resolution proposing the reappointment of KPMG LLP and giving authority to the Audit Committee to determine its remuneration will be submitted to the forthcoming Annual General Meeting.

Directors' indemnities and insurance

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

Approved by the Board of Directors and signed on its behalf by:

Mark Bradley
Company Secretary
11 July 2022

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the United Kingdom (IFRSs as adopted by the UK) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Board of Directors
Chair of the Board
Alan Keir

Executive Directors
Keiichiro Nakamura
James Fenner
Hideo Kawafune
Nobuyuki Takiguchi

Non-executive Directors
Patricia Jackson
Charlotte Morgan
Kazuya Ikeda

Approved by the Board of Directors and signed on its behalf by:

Mark Bradley
Company Secretary
11 July 2022

Risk Review

In the Risk Review the Bank sets out its principal and emerging risks and its approach to managing risk. An overview of key aspects of this approach and the Bank's principal risk categories can be found in the Risk Management and Controls section on **pages 45 and 46**.

Principal and emerging risks

1 Russia–Ukraine conflict

In response to the conflict between Russia and Ukraine, Western countries have stepped up economic sanctions on Russian banks, corporates and oligarchs in order to apply pressure on the Russian Government and have also sought to reduce their reliance on Russian energy imports. Russia's sovereign rating has seen multiple downgrades by credit rating agencies since the start of the conflict.

Apart from the direct credit risk impact arising from the downgrade in ratings of the Bank's Russian obligors, the Bank is also monitoring the medium- to long-term impacts to both Russian and non-Russian obligors through, for instance, the slowdown of economies, increase of commodities prices and disruption of supply chains.

Liquidity, market and interest rate risk in the banking book impacts are relatively low even when considering broader country and sector impacts. This is in part driven by the nature of the Bank's portfolio with relatively low levels of market and interest rate risks and the Bank's already conservative liquidity stress test assumptions, which have been tailored to Russia specific scenario risks.

In terms of non-financial risks, the Bank is preparing for the increased legal, regulatory and operational risks due to the unprecedented escalation of multiple sanctions regulations across various jurisdictions.

The control environment is characterised by heightened monitoring and reporting to senior stakeholders including the Board, senior management and regulators; no appetite in principle for Russian or related transactions; close communication with impacted obligors; and robust capital and liquidity levels which remain significantly above risk appetite and regulatory thresholds.

The Bank is also considering the risks of potential Russian laws being discussed which if enacted may impact colleagues of Russian nationality working in SMBC Group's UK and EMEA operations.

2 UK/Eurozone/USA recession risk

Western economies face significant and rising headwinds on growth. The Russia–Ukraine conflict is already acting as a drag on economic activity through multiple channels, including tighter financial conditions, disruptions to trade and higher imported inflation. Uncertainty over how the conflict will unfold could itself weigh on household consumption and business investment decisions. At the same time, lingering challenges from the pandemic could also restrain output, including by exacerbating shortages of labour and key manufacturing inputs.

Central banks are now focused on containing inflationary risks, with a tighter monetary policy cycle either well underway or on the horizon across most jurisdictions. Meanwhile, public sector balance sheets appear stretched after the pandemic-induced shock to financial revenues and expenditures. Tightening financial and monetary policies could lead to lower demand, a rise in unemployment and consumers cutting back on discretionary spending or 'trading down' to cheaper alternatives to save money.

With reduced demand growth, corporate downgrades and defaults may rise. The companies and sectors most exposed to economic cyclicality and lower discretionary consumer spending, for instance non-food retail, leisure and automotive, would likely experience stress, downgrades and credit costs.

The Bank takes a long-standing cautious approach to industry sectors exposed to discretionary consumer spending and conducts close portfolio monitoring and stress testing to inform its view.

Risk Review continued

Principal and emerging risks continued

3 Oil and natural resources price volatility

Commodity markets have seen severe volatility in recent months. The Russia–Ukraine conflict led to a surge in the price of hydrocarbons as well as other key resources, including agricultural products and metals. High prices have created an urgent need from commodity traders and large energy purchasers (utilities and industrials) for additional liquidity to cover increases in margining for trading and own supply costs.

This surge has in part been driven by concerns over possible disruptions to supplies, either because of the conflict itself, or due to the sanctions and countersanctions measures that have been imposed. While some of the risks on the supply side have already crystallised, commodity markets remain volatile as investors continue to assess the parallel impact on demand. Weaker growth could dampen demand for key commodities, as could efforts by importing countries to reduce their dependence on Russia.

While higher oil and gas prices are beneficial to producers, posting some record quarterly profits in 2022, it has created an urgent need from a range of the Bank's customers to seek additional liquidity. The Bank has supported a number of clients with additional short-term liquidity facilities, and this has resulted in increased exposure to oil and gas trading companies, utilities and industrials with the expectation that this exposure will unwind in the short term. However, higher oil and gas prices may persist in the medium term and extend this additional exposure further.

The Bank continues to closely monitor the financial and liquidity positions of main clients impacted by market volatility such as commodity traders and large energy purchasers, for example utilities, industrials and transport companies.

4 Cyber/phishing attack

Cyber threats continue to present a significant risk to any organisation with an IT presence. The nature of the threat is constantly evolving with new threat actors, delivery mechanisms and emerging technologies increasing the likelihood of an attack being successful. Impacts can range from information theft to unavailability of systems and services.

The Bank's customers expect it to provide a reliable, available service that protects their sensitive information. Any cyber attack may result in loss of customer confidence, damage to the Bank's reputation, financial loss (including recovery costs and increased costs of working) and possible regulatory penalties or intervention.

The Bank has a robust 'defence in depth' strategy. Technical and procedural controls are implemented at multiple levels to detect, prevent and respond to potential threats and anomalous behaviour. All technologies are updated regularly to minimise the probability of attacks exploiting known and well-publicised vulnerabilities. The Bank has a well-established security perimeter that is monitored 24x7 by the Security Operations Centre. Any incidents are escalated through the Bank's incident management process, which is tested regularly. All staff receive comprehensive security awareness training and participate in regular phishing campaigns.

Principal and emerging risks continued

5 Central Bank policy changes
(Impact to global and emerging economies)

Monetary policy is at an inflection point. After the synchronised easing cycle that followed the pandemic, many central banks are now engaged in the process of withdrawing unconventional support and raising interest rates from their historical lows.

With the UK and many major economies experiencing the highest inflation rates in decades, the Bank of England and Federal Reserve have brought forward interest rate rises to control demand. Tightening interest rates to control inflation risks economic turbulence, lower growth and rising unemployment.

If inflation persists along with higher interest rates there is a risk of 'stagflation' and a persistent low growth economy with higher unemployment, which will impact businesses in cyclical sectors.

Borrowers will need to pay higher interest expense to service debt, which reduces their free cash flow to invest and grow the business. Companies may cut back on plans to borrow and look to de-leverage due to the higher cost of debt, which would reduce business opportunities for the Bank.

Emerging market borrowers also have more exposure to interest rates as they often have large foreign currency debt to service, but local currency cash flow. This may limit the Bank's business opportunities with existing and new emerging markets borrowers.

Interest rate rises could positively impact the Bank's profitability as income increases due a to potential rise in interest margin. This could be driven by higher net interest income from lending over the funding cost and higher income from deploying own capital. However, this may be offset by increases in personnel and other expenses due to inflationary pressures.

The Bank undertakes interest costs sensitivity analysis in portfolio monitoring and new credit assessments to ensure borrowers can service debt in a rising interest rate environment.

6 COVID-19 pandemic

While vaccination has allowed many countries to emerge from restrictions, rising COVID-19 cases in China have resulted in ongoing lockdowns impacting manufacturing hubs and further disrupting global supply chains contributing to higher inflation.

COVID-19 lockdowns have accelerated several trends and behaviours: agile working patterns, lower commuter and general travel and online versus physical retail. Companies in office and retail real estate, consumer goods and transport sectors continue to have to adapt their business models to these structural changes.

Borrowers that are vulnerable to the structural changes accelerated by the pandemic will face ongoing difficulties to recover unless they can adapt their business model. The Bank will have lower business opportunities in these sectors than before the pandemic. The economic environment remains uncertain and future credit and other impacts will depend on the longevity of the pandemic and related containment measures.

The Bank has implemented close portfolio credit monitoring activity and new deal screening to ensure all borrowers have a pandemic resilient business model.

Risk Review continued

Risk strategy and risk appetite

The Bank's risk strategy is designed to support the Corporate Strategy and the achievement of sustainable growth over the long term. The risk strategy comprises four pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives.

Pillar 1: Business model (sustainable growth)

- The Bank generates revenue as a direct result of taking credit risk through its lending portfolio. It has an active appetite for well-controlled credit risk and a limited appetite for market risk.
- The Bank ensures that pricing for risk is appropriate for maintaining a sustainable business.
- The Bank seeks to limit the volatility of its earnings to ensure that under a moderate stress it will not make a loss.
- The Bank intends to grow its sustainable finance business and help customers to transition to a low carbon economy. It will manage the material sustainability and climate change risks within its portfolio and own operations.

Pillar 2: Maintaining solvency and liquidity

- The Bank aims to ensure that it is robust from a capital and liquidity perspective, in excess of regulatory minimum and risk appetite levels.
- In addition to controlling earnings volatility, the Bank needs to manage more extreme stresses to ensure it is capitalised in line with regulatory expectations.
- The Bank maintains sufficient cash and liquid assets to cover plausible but extreme stresses. It will consider the key liquidity risks and ensure that the balance sheet is robust to cover the resulting stresses.
- Resolvability is demonstrated through the maintenance of a liquidity structure that can plausibly support the Solvent Wind Down Plan.

Pillar 3: Conducting business

- Through the strong management of its business, the Bank will ensure that it does not, through action or inaction, cause an adverse outcome for customers, suppliers, regulators, financial markets and/or its wider stakeholder group and that it does adversely impact its reputation.
- The Bank seeks to manage its business at all times with the aim of meeting the applicable financial crime regulatory requirements of all bodies and countries within which it operates.
- The Bank will seek to emphasise its 'Customer First' value through fair and transparent dealings with customers. It aims to minimise regulatory/compliance risk by meeting both the spirit and letter of all applicable regulation.
- The Bank's people and culture are key strengths in achieving sustainable growth, guided by its five Values.
- The Bank wishes to maintain a balance between the emphasis on team and individual accountability. It wants to maintain a 'Customer First' focus, whilst ensuring that there is a strong and embedded risk sensitivity and conservatism.

Pillar 4: Maintaining operational resilience

- The Bank's systems, processes and infrastructure should have strong market standard defences and be able to withstand plausible operational risk scenarios such as cyber attacks, supplier failure, natural disasters, pandemics and terrorist activity.
- This will include actionable recovery plans such as Business Continuity Plans, Disaster Recovery Plans and incident management that minimise recovery times and limit disruption. The Bank should ensure that critical services can be maintained during resolution.

Risk management objectives

The Bank's risk management objectives are:

- to ensure risk appetite is observed and maintained in the pursuance of its strategic objectives;
- to maintain a risk appetite that generates appropriate/ sufficient risk/return whilst ensuring that it maintains adequate capital and liquidity at all times;
- to maintain fair and ethical relationships with all customers and stakeholders;
- to manage and minimise risk that it assumes as a consequence of its business strategy, for instance operational risk and conduct risk;
- to maintain an adequate and effective control environment; and
- to ensure adherence to the letter and spirit of laws and regulations governing its business.

Segregation of duties: Roles and responsibilities in the management of risk

Three lines of defence

The Bank has adopted the three lines of defence model. This approach separates the ownership and management of risk from the functions that oversee risk and the function that provides independent assurance:

First line of defence –
Functions that own and manage risk

Second line of defence –
Functions that oversee risk

Third line of defence –
Functions that provide independent assurance

First line

Senior management in the first line of defence are ultimately responsible for the risks and controls that fall within their area of responsibility and are required to establish their own risk appetite measures at departmental level. Each department proposes individual business unit risk appetite thresholds in the context of its own strategy, taking into account the Bank's overall risk management framework and Corporate Strategy. This approach is designed to ensure that risk appetite is cascaded down to those areas where risk is taken.

Second line

The Risk Management Department, Compliance Department and Credit Department are collectively the Bank's second line of defence. These departments are independent from the business areas that generate risk and operate within a governance framework that allows them to exercise professional judgement and make recommendations in an effective and impartial manner.

Third line

The third line of defence comprises the Internal Audit function, which provides independent assurance through: (a) the review of the activities and results of the first and second lines of defence; and (b) ensuring that the arrangements and structures of the first and second lines of defence are appropriate and that those involved are discharging their roles and responsibilities effectively.

The Audit Department comprises an Internal Audit Group and a Credit Review Group. The objective of Internal Audit is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established to protect the assets, reputation and sustainability of the Bank. In order to achieve this objective, the Internal Audit Group conducts audits and provides related services using a risk-based approach and through meeting the Chartered Institute of Internal Auditors (CIIA) Standards and following the Guidance on Effective Internal Audit in the Financial Services Sector issued by the CIIA.

Additional assurance is provided by the Credit Review Group, which is responsible for reviewing the credit grading process. The Audit Department acts independently of the Bank's business units. The two Co-General Managers of the Audit Department report to the Audit Committee at its quarterly meetings.

Risk Review continued

Executive-level risk and control committees

The risk and control committees are executive-level committees that have been established to consider certain areas of risk. They are as follows:

Asset and Liability Management Committee

This Committee is primarily responsible for considering market and liquidity risk management issues, and asset and liability management issues, discussing operations and funding policy (including the long-term funding strategy) and reporting on risk appetite, monitoring limits, guidelines and compliance with regulatory requirements.

Credit Risk Committee

This Committee is primarily responsible for discussing a range of credit issues including consideration of credit risk key risk indicators, portfolio analysis, sector analysis and asset allocation, as well as credit risk appetite. It also reviews matters such as business origination guidelines and issues arising from the ongoing credit review activity performed by Audit Department's Credit Review Group.

Cyber Resilience Committee

This Committee drives change and improvement activity to ensure the Bank meets the expectations set out by the Financial Conduct Authority and other regulators in the area of cyber and technical resilience. This includes governing the Cyber Resilience Strategy and Change Programme.

This Committee, the Security Committee and the IT Steering Committee all contribute to the Bank's cyber and technical resilience.

Finance Committee

This Committee is responsible for providing control, governance, transparency and challenge around finance matters. Key matters the Committee oversees and considers are: financial reporting, external audit, regulatory reporting and taxation.

Financial Crime and Reputational Risk Committee

This Committee is responsible for overseeing the embedding of the Bank's Financial Crime Risk Provisions and Policies, as detailed in the Financial Crime Risk Appetite Statement, and for overseeing the embedding of the approach to reputation risk. The Committee is independent of other Committees but reports to the Executive Committee and Risk Committee on any significant matters that require the attention of those Committees.

Operational and General Risk Committee

This Committee is primarily responsible for examining and discussing matters related to general risk management issues. The subjects discussed include risk issues arising in relation to the overall risk management framework, the risks arising from the implementation of new products and services, and the operational risk management framework and elements thereof, such as information systems issues, information security matters, compliance and regulatory matters and Internal Audit findings.

The Operational and General Risk Committee has established the following subcommittees:

- IT Steering Committee – responsible for examining and discussing IT initiatives and policy and for considering any impacts on the Bank's operations in the EMEA region.
- Product Approval Committee – responsible for considering applications for the introduction of new products and services.
- Security Committee – responsible for supporting actions to deliver the Bank's Security Strategy to achieve the right balance between keeping it secure and doing customer-focused business at speed.

Prudential Regulatory Committee

This Committee is primarily responsible for considering a number of prudential risk issues, including examining the governance processes, assumptions and results related to: the ICAAP, recovery and resolution planning, wind down analysis, Internal Liquidity Adequacy Assessment Process, credit risk management models, non-credit risk-related models and prudential regulatory horizon scanning.

Key elements of risk management and control framework

The key elements of the Bank's approach to risk management are as follows:

Risk identification and assessment

The key principles used for risk identification and assessment are:

- to identify the major risks that could impact the Bank's long-term sustainability;
- to assess the likelihood and impact of the risks materialising; and
- to assess the robustness of the controls that mitigate the risks.

Risk management and monitoring

The key principles for risk measurement and monitoring are to:

- measure risk exposure by loss modelling, enterprise-level key risk indicators (KRIs) and scenarios;
- maintain appropriate risk capital methodology;
- facilitate senior management understanding of the severity of the risk;
- maintain a record of accepted risk;
- measure risk exposure by loss modelling, enterprise-level KRIs and scenarios; and
- ensure appropriate reporting to the Board, Risk Committee and Executive Committee of inherent and post mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite.

Model risk management framework

The Bank has developed a comprehensive model risk management framework which comprises four key components: model governance and control, model management, model development and independent model validation.

The model risk management framework is subject to a self-assessment against the model risk management principles published by the PRA as part of the ICAAP.

Stress testing and scenario analysis

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

Reverse stress testing

The Bank uses reverse stress testing to identify and monitor the factors and the stress levels that have the potential to cause its business model to become unviable. Reverse stress testing is an important part of the overall risk management framework and assists management in understanding potential business model vulnerabilities.

Risk appetite setting

Risk appetite defines the broad-based level of risk that it is able and willing to undertake in pursuit of its objectives.

The Bank's risk appetite is set by the Board. This is done on an annual basis as part of the strategic planning process.

The Bank's risk appetite is driven by both top-down leadership and bottom-up involvement of business units and second line teams.

The key principles of the risk appetite framework are:

- to facilitate embedding of risk appetite into the Bank and its culture;
- to evaluate opportunities for appropriate risk taking and act as a defence against excessive risk taking;
- to promote robust discussions;
- to be adaptive to changes in business and market conditions;
- to cover all the Bank's significant activities;
- that Board-level appetite changes should drive real changes in risk taking at the business level;
- that risk taking is calibrated to the Bank's long-term sustainability; and
- that risk appetite setting is an integral part of strategy.

The risk appetite framework comprises: qualitative risk strategy statements and quantitative risk appetite measures and control measures. Risk appetite is linked to overall business strategy, including assessment of new business opportunities, liquidity, funding and capital planning.

Risk Review continued

Risk control and mitigation

The Bank seeks to control and mitigate inherent risk as far as possible to ensure that it remains within the risk appetite. Risks are monitored on an inherent (pre control/mitigation) and residual (post control/mitigation) basis to assess the Bank's risk profile.

The risk control and mitigation the Bank undertakes is in the form of:

- tangible security;
- financial collateral both funded and unfunded;
- risk governance, policy and procedures, including risk appetite and business-level limits;
- individual and collective controls; and
- other mitigation and control actions.

The control and mitigation are articulated in the policy framework for the main risk types. Controls that implement the policies are contained in the relevant procedure manuals for the Bank's operational processes.

Acceptance List

Certain risks may not be capable of being fully mitigated or in certain circumstances the cost or practicality may be excessive for the size of the inherent risk; these risks are formally accepted by the Bank. To ensure appropriate monitoring and good governance, all outstanding risk acceptances are recorded on an Acceptance List.

Credit risk (audited)

Credit risk is the risk of any losses the Bank may incur due to a reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.

The framework

The Bank ensures that the level of credit risk it takes is in line with its risk appetite and business model through the following key measures:

- Having a credit risk management framework that consists of appropriate controls and senior management governance and oversight.
- The establishment of well-defined policies and procedures for the identification, measurement and control of credit risk.
- A centralised credit risk control function, under the responsibility of the Chief Risk Officer, who has a right of veto on credit and underwriting transactions.
- Having thorough risk analysis and reporting functions, conducted by a credit management team with the capabilities and resources to evaluate and monitor the exposures and limits.
- The implementation of the Bank's risk appetite framework.
- Ensuring understanding of vulnerabilities through stress testing and reverse stress testing.
- Ensuring the Bank's model governance framework is robust.
- Having strong rating systems to measure the risk of individual transactions.
- Regular reviews conducted by the Audit Department's Credit Review Group to ensure compliance with policies, procedures and market best practice.
- A fully comprehensive credit assessment is undertaken at a transaction and client level including: analysis of a variety of financial measures (e.g. cash flow) and quantitative analysis of industrial trends such as the competitiveness of a borrower's products, services and management calibre.

Market risk (audited)

Market risk is the risk that movements in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.

The Bank ensures the level of market risk is in line with the Bank's risk appetite and business model through the following controls:

- Value at Risk (VaR) is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model.
- Interest rate risk in the banking book refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book position. This is assessed using:
  - the scenarios as prescribed by the Basel Committee on Banking Supervision (BCBS) (parallel/non-parallel); this is assessed monthly and then daily in the event pre amber limits are breached;
  - historical scenarios, for example Lehman, Black Monday and the more recent COVID-19 period assessed monthly; this considers the Bank's current positions against past crises;
  - Daily market risk reporting of net BPV basis point value (BPV) limits for the overall portfolio and by major currency (GBP, USD, EUR and JPY) respective maturity ladder; this supports the Bank's asset/liability management. Market risk will escalate in the event limits are breached;
- Monitoring and assessing the daily profit and loss to ensure it is in line with the Bank's expectation; and
- Managing, monitoring and reporting the Bank's early warning indicators. The composite is reviewed annually to ensure it is fit for purposes and sensitive to the internal/external environment.

Liquidity risk (audited)

Liquidity risk is the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.

The Bank ensures that the level of liquidity risk is in line with its risk appetite and business model through the following main measures:

- The establishment of a clear, consistent risk appetite framework, and its underpinning quantitative risk metrics, early warning indicators and key risk indicators, that is understood across the Bank.
- Defining clear roles and responsibilities for the management of liquidity under normal and stressed circumstances.
- The implementation of a robust committee framework to manage liquidity risk issues, with clear terms of reference and standard agendas.
- Regular management information to demonstrate that the Bank is operating within risk appetite, along with other select metrics.
- Regular senior management training.
- Within the governance framework outlined above, the Bank has established a liquidity risk management approach as a core component of the risk management process. The purpose of the framework is to ensure that the Bank successfully follows its strategy while operating within the bounds outlined by the liquidity risk appetite statement.
- The Bank uses a variety of internal and regulatory matrices to measure and control liquidity risk.

Risk Review continued

Operational and other risks

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risks.

Operational risk arises as a result of the Bank's day-to-day operations and is relevant to every aspect of the business. Operational risk management is embedded through regular engagement with the business, challenge where required, operational risk reporting and training. This is further supported by the execution of the following processes to ensure the operational risk profile is understood and managed:

- Operational risk appetite definition and calibration.
- Operational risk identification, assessment and measurement.
- Control and mitigation.
- Reporting and escalation.

The ongoing management of operational risk is supported by diverse processes and tools, which include: operational risk event reporting; scenario analysis; a Risk Register; risk acceptance; a product approval framework; risk indicators; operational risk capital assessment; third party risk management/outsourcing; and IT and cyber risk oversight.

Operational resilience

Operational resilience concerns the Bank's ability to prevent, adapt, respond to, recover and learn from operational disruptions.

Operational disruptions to the products and services offered by firms have the potential to cause harm to consumers, market participants and the financial system as a whole. The Bank's main business concerns generating revenue as a direct result of taking credit risk through its lending portfolio, and operational resilience is an important factor in helping it achieve its business plan. This entails preventing, as far as possible, a major operational disruption from occurring. Operational resilience also places a large emphasis on the assumption that a disruption of the business has occurred and the Bank's ability to continue, respond and minimise impact to customers and the market. In addition, operational resilience is focused on being able to recover to normal operations. There is also the requirement to demonstrate the Bank's resilience to the Board and regulators.

The operational resilience framework is being developed, enhanced and implemented in accordance with regulatory expectations. Key components include important business services, impact tolerances, mapping, scenario testing and self-assessments. These components complement the operational risk processes, which are largely focused on the prevention of disruption, to introduce the operational resilience concepts of response and recovery to normal operations.

Conduct risk

The risk of the Bank's actions, inactions or behaviours resulting in poor outcomes for customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.

Conduct risk management is integrated with the Bank's wider risk management framework. The Bank identifies and assesses current and emerging conduct risks across its business lines, ensuring controls are effectively mitigating these risks for all its stakeholders. These conduct risk mitigants include:

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

The Bank is continually challenging the information shared in relation to conduct risk so that senior management can make effective decisions taking conduct risk fully into account.

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Independent auditor's report

to the members of SMBC Bank International plc

1. Our opinion is unmodified

We have audited the financial statements of SMBC Bank International plc ("the Bank") for the year ended 31 March 2022 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows, and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

— give a true and fair view of the state of the Bank's affairs as at 31 March 2022 and of its profit for the year then ended;

— have been properly prepared in accordance with UK-adopted international accounting standards; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 10 July 2009 (and then reappointed on 31 January 2019). The period of total uninterrupted engagement is for the thirteen financial years ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£15.0m (31 March 2021:£13.5m) 5.3% (31 March 2021: 4.3%) of average profit before tax of the last four years	
Key audit matter		**vs 31 March 2021**
Recurring risks	Impairment of loans and advances	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. In the prior year, we reported a key audit matter on going concern. As a result of developments since the prior year report, including the Bank's results and reduced uncertainty related to COVID-19, the relative significance of this matter on our audit work has reduced.

This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

	The risk	Our response
Impairment of loans and advances at amortised cost, including off-balance sheet elements Charge: $ 95.8m (31 March 2021: $8.6m) Provision: $284.3m (31 March 2021: $261.1m) *Refer to Note 4 (a) (accounting policy and credit risk disclosures).*	**Subjective estimate:** The estimation of expected credit losses ("ECL") on loans and advances involves significant judgement and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's determination of ECL are: **-Model estimations** –Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD"), and Exposures at Default ("EAD"). The ECL global corporates portfolio models (which cover 93% of the total loans and advances to customers), in particular the PD model, and the criteria selected to identify a significant increase in credit risk are the key drivers of the expected credit loss calculation (including staging of assets) and are therefore the most significant judgemental aspects of the Bank's ECL modelling approach. -**Economic scenarios** –IFRS 9 requires the Bank to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant judgement is applied to determining the economic scenarios used and the probability weightings applied. -**Lifetime expected credit losses on customer exposures in Stage 3** –The identification and measurement of Stage 3 assets is an inherently judgmental area within the financial statements. These are individually determined based on certain assumptions about the recovery of the asset using various key inputs including the expected future cash flows, discount rates, and expected recovery strategies.	Our procedures included: — **Control testing:** We tested the design and implementation and operating effectiveness of the key control over the approval of credit grade assessments which is used as a key input into the PD models. — **Our financial risk modelling expertise:** We involved our own credit risk modellers who assisted in evaluating the Bank's impairment methodologies for compliance with IFRS 9, evaluating the model output for the global corporates portfolio model by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code and comparing our independent output with management's output; and assessing and reperforming, for this model, the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences. — **Our economic scenario expertise:** We engaged our own economic specialists to assess and challenge the appropriateness of the economic scenarios (including macro-economic variables selection) and the probability weights assigned to them. We also assessed the overall reasonableness of the economic forecasts by comparing the Bank's forecasts to our own modelled forecasts, with a particular focus on the UK unemployment rate, UK and EU short term interest rates and EU nominal GDP. We also assessed the reasonableness of the Bank's considerations of the ECL impact resulting from the continuing economic uncertainty including recent inflationary pressures.

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	The risk	Our response
	-**Qualitative adjustments** – Adjustments to the model-driven ECL results were raised by the Bank primarily to address issues relating to model limitations, model responsiveness or emerging trends including the impact of the persistent economic uncertainty and the effects of the Russia/Ukraine conflict. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts. The effect of these matters is that, as part of our risk assessment, we determined that the expected credit loss provisions on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 4) disclose the sensitivity estimated by the Bank. -**Disclosure quality** –The disclosures regarding the Bank's application of IFRS 9 ECL are key to understanding the key judgements and material inputs to the IFRS 9 ECL results.	— **Assessing individual exposures:** For the full population of Stage 3 exposures, we understood the latest developments with each borrower and the basis for classifying and measuring the exposure as Stage 3 and considered whether key judgements were appropriate given the borrower's circumstances. We also re-performed the lifetime expected credit loss calculation, testing key inputs or assumptions including the expected future cash flows, discount rates and challenging the expected recovery strategy. — **Testing qualitative adjustments**: With the assistance of our financial risk modelling specialists, we challenged the Bank's approach to recognising post model adjustments (PMAs) and whether it was appropriate to do so. For the adjustments recognised, and in particular the CCI PMA, we assessed whether the key assumptions used were reasonable by comparing them to other reasonable possible alternatives. We also independently recalculated the PMAs to check them for accuracy. — **Assessing transparency**: We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Bank's overall ECL. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgments and assumptions made was sufficiently clear. **Our results** Having found the estimate to be at the more cautious end of the range we consider to be acceptable, we exercised judgement to determine the acceptability of the CCI PMA adjustment applied. In making our conclusion on the acceptability of the adjustment, we took into account the range of outcomes implied by the macro-economic scenarios, the higher level of measurement uncertainty with this PMA, the significant overall economic uncertainty, and the clarity of the associated disclosure and the sensitivity of the key assumptions as disclosed in note 4, including the CCI PMA disclosure on page 103. Based on the assessments performed, we found the resulting estimate to be acceptable.

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3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $15.0m (31 March 2021: $13.5m), determined with reference to a benchmark of average profit before tax (PBT) over the past four years, of which it represents 5.3% (31 March 2021: 4.3%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (31 March 2021: 75%) of materiality for the financial statements as a whole, which equates to $11.2m (31 March 2021: $10.0m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.75m (31 March 2021: $0.68m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

We were able to rely upon the Bank's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in other areas the scope of the audit work performed was fully substantive.

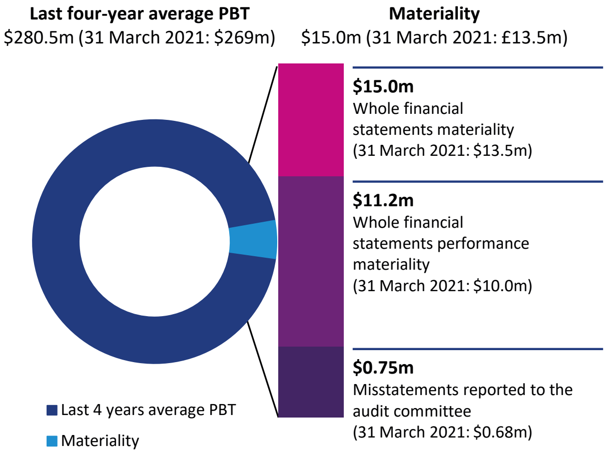
Certain processes and controls operate at the Bank's Parent locations in Tokyo and New York. We instructed the participating audit teams in Tokyo and New York to perform specific risk-focused audit procedures as follows:

- Controls and tests of details over credit impairment model inputs; and
- Certain IT general and application controls on systems hosted by the Parent.

We evaluated the work which the participating audit teams performed in these areas. In the conditions of travel restrictions due to the COVID-19 pandemic, we also organised a remote review of the work carried out by the participating audit teams which was in addition to the regular video conference meetings held throughout the year.

4. Going concern

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



We used our knowledge of the Bank, the financial services industry, and the general economic environment to identify the inherent risks to the business model and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going concern period. The risks that management considered most likely to adversely affect the Bank's available financial resources over this period and which we challenged were those arising from recession arising as a consequence of the Russia/Ukraine conflict and high commodity prices and inflation.

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

Our procedures also included an assessment of whether the going concern disclosure in note 1 to the financial statements gives a complete and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Bank will continue in operation.

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5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In this risk assessment we considered the following:

- Our meetings throughout the year with the Bank’s Chief Risk Officer, General Counsel and Chief Compliance Officer and review of the Bank’s compliance reporting summaries;
- Enquiries of operational managers, internal audit and the Board Audit Committee, including obtaining and reviewing supporting documentation concerning the Bank’s policies and procedures relating to:
  - detecting and responding to the risk of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud.
- The Bank’s remuneration policies, key drivers for remuneration and bonus levels;
- Discussions among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. The engagement team includes senior individuals and staff who have extensive experience of working with banks, and this experience was relevant to the discussion about where fraud risks may arise.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Bank’s management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as ECL on loans and advances to customers. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity in the calculation and recognition of revenue.

We identified a fraud risk related to the estimation of ECL, specifically relating to qualitative adjustments in response to significant estimation that involves subjective judgments or uncertainties that are difficult to corroborate. Further detail in respect of ECL is set out in the key audit matter in section 2 of this report.

We did not identify any additional fraud risks. Our audit procedures included evaluating the design and implementation and operating effectiveness of relevant internal controls, assessing significant accounting estimates for bias as well as substantive procedures to address the fraud risks. These procedures also included identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements. For this risk assessment, matters considered included the following:

- our general commercial and sector experience;
- discussion with the Directors and other management (as required by auditing standards);
- inspection of the Bank’s regulatory and legal correspondence;
- inspection of the policies and procedures regarding compliance with laws and regulations; and
- relevant discussions with the Bank’s key regulatory supervisors including the Prudential Regulation Authority and Financial Conduct Authority.

As the Bank operates in a highly regulated environment, our assessment of risks of material misstatement also considered the control environment, including the Bank’s higher level procedures for complying with regulatory requirements. Our assessment included inspection of key policies in place, understanding the role of the compliance function in establishing these and monitoring compliance and inspection of whistleblowing and complaints reports.

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

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

Firstly, the Bank is subject to laws and regulations that directly impact the financial statements including:

- financial reporting legislation (including related companies’ legislation);
- distributable profits legislation; and
- taxation legislation (direct and indirect).

We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Bank’s licence to operate. We identified the following areas as those most likely to have such an effect:

- Specific aspects of regulatory capital and liquidity;
- Customer conduct rules;
- Money laundering;
- Sanctions list and financial crime; and
- Certain aspects of company legislation recognising the financial and regulated nature of the Bank’s activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. If a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

In relation to the legal matters disclosed in note 19 we performed audit procedures which included making enquiries of the Bank’s General Counsel. We obtained legal confirmations from the Bank’s external counsel.

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

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

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

6. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 66, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Smith (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

12 July 2022

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Statement of comprehensive income
For the year ended 31 March 2022

	Notes	2022 USDm	2021 USDm
Interest income[1,2]		**468.2**	578.6
Interest expense		**(142.5)**	(238.0)
Net interest income		**325.7**	340.6
Fees and commissions income		**518.6**	482.2
Fees and commissions expense		**(49.4)**	(46.1)
Net fees and commissions income		**469.2**	436.1
Net trading income		**75.9**	64.3
Operating Income		**870.8**	841.0
Net impairment loss on financial assets	4	**(95.8)**	(8.6)
Personnel expenses	6	**(385.2)**	(339.2)
Depreciation and amortisation	15,16	**(42.7)**	(40.8)
Other expenses	6	**(166.3)**	(124.2)
Net operating expenses		**(690.0)**	(512.8)
Other income		**–**	4.9
Profit before income tax		**180.8**	333.1
Income tax charge	10	**(48.9)**	(92.2)
Profit for the year attributed to equity holders of the parent		**131.9**	240.9
Other comprehensive income net of tax:			
Items that will never be reclassified to profit and loss			
Actuarial gains/(losses) on defined benefit scheme		**20.0**	(27.4)
Items that will be reclassified to profit and loss			
Movement in cash flow hedge reserve		**5.6**	(2.8)
Movement in fair value hedge reserve		**0.2**	0.5
Effect of changes in tax rate		**(0.1)**	–
Other comprehensive income net of income tax		**25.7**	(29.7)
Total comprehensive income for the year		**157.6**	211.2

1 All interest income was calculated using the effective interest rate method.

2 Interest income mainly relates to interest recognised on financial assets measured at amortised cost.

The notes on pages 88 to 149 are an integral part of these financial statements.

Statement of financial position
As at 31 March 2022

	Notes	2022[1] USDm	2021[1] USDm
Assets			
Cash and balances at central banks		**25,255.4**	24,550.4
Settlement balances		**96.9**	39.2
Loans and advances to banks	11	**3,988.6**	3,795.4
Loans and advances to customers	11	**19,942.6**	20,845.5
Reverse repurchase agreements		**1,197.9**	1,732.7
Investment securities	12	**1,009.2**	496.5
Derivative assets	13	**1,430.4**	1,255.7
Other assets	14	**696.3**	540.6
Intangible assets and goodwill	15	**46.7**	39.9
Property and equipment	16	**254.6**	219.1
Current tax asset	10	**6.0**	–
Deferred tax asset	10	**32.1**	20.4
Pensions surplus	9	**60.4**	33.1
Total assets		**54,017.1**	**53,568.5**
Liabilities			
Deposits by banks		**26,376.9**	23,826.3
Customer accounts		**19,754.1**	22,319.2
Debt securities in issue	17	**976.0**	853.6
Derivative liabilities	13	**1,322.6**	1,228.8
Other liabilities	18	**583.7**	499.3
Other provisions		**34.5**	21.2
Current tax liability		**–**	18.3
Deferred tax liability	10	**23.1**	13.2
Total liabilities		**49,070.9**	**48,779.9**
Shareholders' equity			
Called up share capital	20	**3,200.1**	3,200.1
Other reserves		**106.7**	100.9
Retained earnings		**1,639.4**	1,487.6
Total equity		**4,946.2**	**4,788.6**
Total liabilities and equity		**54,017.1**	**53,568.5**

1 The risk management policy disclosures on credit, market and liquidity risk described on pages 74 and 75 and marked 'audited' are incorporated into these financial statements by reference.

These financial statements were approved by the Board of Directors and signed on its behalf by:

Nobuyuki Takiguchi
11 July 2022

The notes on pages 88 to 149 are an integral part of these financial statements.

Company registration number 4684034

Statement of changes in equity For the year ended 31 March 2022

	Share capital USDm	Retained earnings USDm	Capital redemption USDm	Hedge reserve USDm	Fair value reserve USDm	Total USDm
At 1 April 2021	**3,200.1**	**1,487.6**	**100.0**	**1.1**	**(0.2)**	**4,788.6**
Total comprehensive income for the year						
Net profit for the period	**–**	**131.9**	**–**	**–**	**–**	**131.9**
Other comprehensive income, net of tax						
Net gains/(losses) transferred to net profit	**–**	**–**	**–**	**(1.1)**	**–**	**(1.1)**
Actuarial gain/(loss) on defined benefit scheme	**–**	**20.0**	**–**	**–**	**–**	**20.0**
Change in fair value of assets classified as fair value through other comprehensive income (FVOCI)	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Effective portion of changes in fair value	**–**	**–**	**–**	**6.7**	**–**	**6.7**
Effect of changes in tax rate	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
At 31 March 2022	**3,200.1**	**1,639.4**	**100.0**	**6.7**	**–**	**4,946.2**
At 1 April 2020	3,200.0	1,274.1	100.0	3.9	(0.7)	4,577.3
Total comprehensive income for the year						
Net profit for the period	–	240.9	–	–	–	240.9
Other comprehensive income, net of tax						
Net gains/(losses) transferred to net profit	–	–	–	(3.9)	–	(3.9)
Actuarial gain/(loss) on defined benefits scheme	–	(27.4)	–	–	–	(27.4)
Change in fair value of assets classified as FVOCI	–	–	–	–	0.5	0.5
Effective portion of changes in fair value	–	–	–	1.1	–	1.1
Total comprehensive income	**3,200.0**	**1,487.6**	**100.0**	**1.1**	**(0.2)**	**4,788.5**
Transactions with owners, recorded directly in equity	–	–	–	–	–	–
Issue of new shares	0.1	–	–	–	–	0.1
At 31 March 2021	**3,200.1**	**1,487.6**	**100.0**	**1.1**	**(0.2)**	**4,788.6**

The notes on pages 88 to 149 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 March 2022

	2022 USDm	2021 USDm
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit for the year before tax	**180.8**	333.1
Adjustments for non-cash items:		
Net impairment loss on financial assets	**95.8**	8.6
Unrealised exchange movements on non operating assets and liabilities	**(1,121.7)**	1,698.8
Depreciation and amortisation	**42.7**	40.8
Changes in operating assets and liabilities:		
Changes in loans and advances to banks	**(197.8)**	8.9
Changes in reverse repurchase agreements	**534.8**	(230.2)
Changes in derivative financial instruments	**(80.9)**	123.5
Changes in loans and advances to customers	**856.4**	1,943.4
Changes in other assets	**(200.7)**	341.6
Changes in deposits by banks	**2,550.6**	(1,854.8)
Changes in customer accounts	**(2,565.1)**	(5,329.7)
Changes in other liabilities	**107.6**	(324.4)
	202.5	(3,240.4)
Taxes paid	**(92.1)**	(50.5)
Net cash from/(used in) operating activities	**110.4**	**(3,290.9)**
Purchase of investment securities	**(1,669.1)**	(1,137.0)
Proceeds from sale or redemption of investment securities	**1,145.9**	1,269.1
Purchase of intangible assets	**(21.0)**	(20.9)
Proceeds from sale of intangible assets	**–**	0.2
Purchase of property and equipment	**(64.1)**	(199.1)
Proceeds from sale of property and equipment	**–**	15.1
Net cash used in investing activities	**(608.3)**	**(72.6)**
Cash flow from financing activities		
Payment of lease liabilities	**(18.9)**	(19.0)
Proceeds from issue of debt securities	**976.0**	853.6
Repayment of debt securities	**(853.6)**	–
Net cash from financing activities	**103.5**	**834.6**
Net decrease in cash and cash equivalents	**(394.4)**	**(2,528.9)**
Cash and cash equivalents at start of the year	**24,589.6**	**28,943.3**
Exchange differences in respect of cash and cash equivalents	**1,157.1**	(1,824.8)
Cash and cash equivalents at 31 March	**25,352.3**	**24,589.6**
Cash and cash equivalents comprise:		
Cash and balances at central banks	**25,255.4**	24,550.4
Settlement balances	**96.9**	39.2
	25,352.3	**24,589.6**

Interest received was USD 914.6m (2021: USD 774.2m) and interest paid was USD 182.0m (2021: USD 270.4m).

The notes on pages 88 to 149 are an integral part of these financial statements.

Notes to the financial statements For the year ended 31 March 2022

1. Reporting entity

The Bank is a company domiciled in the United Kingdom. The Bank offers a wide range of wholesale banking products, including: bilateral loans, guarantees, syndicated loans, project finance, aircraft finance, shipping finance, other specialised structured finance, trade finance, leveraged finance, cash management, money markets, foreign exchange, deposit taking and derivatives. The registered office is 99 Queen Victoria Street, London, EC4V 4EH.

2. Basis of preparation

(a) Statement of compliance

The Bank's financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards.

(b) Basis of measurement

The Bank's financial statements are prepared on a going concern basis and under the historical cost convention as modified by the revaluation of investments, derivatives and other financial instruments, in accordance with applicable accounting standards and the Companies Act 2006.

The Directors believe that the Bank has adequate financial resources and is well placed to manage its business risks successfully despite the current uncertain outlook for the global economy and the banking sector. In addition, the Directors believe the Bank will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks faced, over a period of at least 12 months from the date of approval of these financial statements.

In making this assessment, the Directors have considered a wide range of detailed information relating to present and future conditions, including projections of profitability, and liquidity and capital requirements and resources. They determined that the principal risks the Bank currently faces are those arising from recession arising as a consequence of the Russia–Ukraine conflict and high commodity prices and inflation, although other risks are also considered. This belief is based on consideration of a wide range of information including:

- the results of the Bank's three-year liquidity planning assessment;
- the results of the Bank's three-year capital planning assessment; and
- the results of the Bank's capital and liquidity stress testing.

The economic scenarios for the capital stress are as follows:

- **Global recession:** Tensions between the USA and China continue to pose risks to the economic outlook. New COVID-19 variants cause disruptions with shortage and delays in rollout of vaccines for many developing countries, which causes unrest. Conflict and unrest in Ukraine also weaken the global economy.
- **UK and EU recession:** Prolonged supply chain disruptions due to post COVID-19 complications coupled with the Russia–Ukraine conflict have increased inflation to an unprecedented level, which significantly impacts economic growth in the EU and UK.
- **Japan recession:** Slow economic recovery due to the Omicron variant and inflation. Japan faces the risk of downgrade of government bonds due to concerns about the financial stability of the government. The USA–China conflict and unrest in Ukraine also weaken the Japanese economy.
- **Idiosyncratic operational risk scenario:** A five-day business disruption caused by staff contracting COVID-19. Vaccines are not as effective as predicted with rising numbers of cases during the easing of lockdown restrictions and new variants increasing due to the opening of borders.

The economic scenarios for the liquidity stress included:

- **UK and EU market wide:** The scenario models the impact of a UK/EU market-wide effect, mainly driven by a prolonged COVID-19 crisis due to the possibility of a new variant which is not effectively covered by available vaccines, Russia–Ukraine tensions escalating further and resulting in prolonged supply chain disruptions and increase in energy prices.
- **Japanese stress:** The scenario models the impact of a Japanese market-wide effect driven by a new COVID-19 variant that is not efficiently covered by available vaccines and is threatening the Japanese economy. China–Taiwan tensions might raise significant geopolitical concerns in the area.
- **SMBC Group idiosyncratic stress:** The SMBC Group idiosyncratic scenario models the situation where SMBC Group is suffering from a severe stress event which results in increased credit risk or concerns over solvency.
- **Combined stress:** The Combined scenario models the situation where UK/EU or Japan recession is combined with an SMBC Group idiosyncratic event.

The result of the liquidity and capital assessments, and stress tests is that the Bank remains well capitalised and it is able to continue to fund its operations.

Based on the above, the Directors conclude that the Bank has adequate resources to continue operations for a period of at least 12 months from the date of these financial statements, and therefore it is appropriate to adopt the going concern basis.

(c) Functional and presentation currency

These financial statements are presented in US Dollars, which is also the Bank's functional currency. US Dollars is the Bank's functional currency as it is the dominant operating currency of the Bank's business. All financial information has been rounded to the nearest one million US Dollars.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(d) Adoption of IFRS

i) New and amended standards and interpretations

The Bank has no transactions that are affected by the newly effective standards.

IFRS 9, IAS 39 and IFRS 7 – Phase 2 Amendments relating to Interest Rate Benchmark Reform

The requirements of 'Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR Reform Phase 2) became effective for annual periods beginning on or after 1 January 2021 with early adoption permitted. As a result of its decision to early adopt the Phase 2 amendments from 1 April 2020, the Bank's accounting policies are already consistent with the new requirements. Further details are provided in note 13.

Notes to the financial statements For the year ended 31 March 2022 continued

2. Basis of preparation continued

ii) Future accounting standards

There are no new standards or amendments to standards which will become applicable in the future that are expected to have a significant impact on the Bank.

(e) Significant accounting judgements and estimates

The preparation of the Bank's financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The most significant areas where judgements and estimates have been used, and the notes where information on these is disclosed, are as follows:

Impairment losses on loans and advances and undrawn loan commitments (note 4)

IFRS 9 impairment involves several areas of judgement as follows:

- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of expected credit loss (ECL) and selection and approval of models used to estimate ECL.
- Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- Considerations taken into account and calculation of impairment allowances for individually significant assets in Stage 3.

The Bank reviews its problem assets held at amortised cost at each reporting date to assess whether an allowance for credit impairment should be recorded in profit and loss. In determining the ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and sensitive to the risk factors. Further information and sensitivity analyses of ECL to different economic scenarios is provided in note 4.

In addition to specific allowances against defaulted loans and advances (Stage 3), the Bank also makes provisions on performing assets based on 12-month ECLs (Stage 1) and on assets subject to a significant increase in credit risk based on lifetime ECLs (Stage 2).

Pensions (note 9)

The cost of the defined benefit pension scheme is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of the scheme, such estimates are subject to measurement uncertainty.

Fair value of financial instruments (note 5)

Where the prices of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from markets where valuations are actively quoted, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible a degree of judgement is required in establishing fair values.

3. Significant accounting policies

This section describes the Bank's significant accounting policies that relate to the financial statements and the notes as a whole. If an accounting policy relates to a particular note, the accounting policy is contained within the relevant note.

(a) Basis of consolidation

Subsidiaries are investees controlled by the Bank. The Bank 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. In the normal course of business the Bank lends to structured entities in a number of different industries. The assessment undertaken by the Bank includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over the investee. The financial statements of any subsidiaries would be included in the consolidated financial statements from the date control commences until the date control ceases. At 31 March 2022 the Bank did not control any investees.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of the Bank's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

(b) Interest and similar income and expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities at amortised cost using the effective interest method. The effective interest method is a method of calculating the cost of a financial asset or liability and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period if appropriate. The application of the method has the effect of recognising income receivable on the instrument in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Bank estimates cash flows considering all contractual terms of the financial instrument but, for financial assets, excluding future credit losses. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of the financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

(c) Fee and commission income and expense

Fee income relating to loans and advances held at amortised cost is recognised in profit and loss as either an adjustment to the effective interest rate or on an accruals basis as the service is provided. Where a fee is considered to be an adjustment to the effective interest rate, it is recognised as such over the original life of the advance or expected life if this is reliably estimated to be shorter. Where loans and advances are purchased in the secondary market and there is observable evidence that the fair value is higher than the purchase price, then the differential is recognised as profit within fees.

Fees and commissions receivable in respect of all other services provided are recognised in profit and loss when the related services are performed and when consideration is considered receivable. The performance obligations, as well as the timing of when they have been met, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations. When the Bank provides a service to its customers, consideration is generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

Fees and commissions expense relates mainly to transaction and service fees, which are expensed as the service is received.

Notes to the financial statements For the year ended 31 March 2022 continued

3. Significant accounting policies continued

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Financial instruments – initial recognition and subsequent measurement

Financial assets

These include loans and advances to banks and customers and investment securities.

i) Classification, initial recognition and subsequent measurement

Financial assets are classified into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income (FVOCI), or through profit or loss (FVTPL)); or
- those to be measured at amortised cost.

The classification depends on the business model for managing financial assets and the contractual terms of the financial assets' cash flows.

Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held based on the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Bank's corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. Sales of loans from these portfolios are very rare. The exception to this is the syndications portfolio where the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Investment securities are largely held for collecting contractual cash flows and selling financial assets with the exception of a small number of debt securities which are held only for collecting contractual cash flows and where sales of such assets would be infrequent.

Contractual terms of financial assets' cash flows
For financial assets to be held at amortised cost, the contractual terms of the financial asset must give rise to cash flows on specified dates that represent solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, principal is defined as the fair value of the financial assets on initial recognition and interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued contractual interest (which may include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are initially recognised at their fair value plus, in the case of financial assets not at fair value through profit and loss, any transaction costs that are incremental and directly attributable to the acquisition of the financial asset.

Fair value for financial instruments traded in an active market is based on quoted market prices or dealer price quotations (bid price for long and offer price for short positions). For other financial instruments, the fair value is determined by using appropriate valuation techniques including present-value techniques or comparison to similar instruments.

Notes to the financial statements For the year ended 31 March 2022 continued

3. Significant accounting policies continued

Financial liabilities

These include deposits, debt securities issued and subordinated debts which are the Bank's source of debt funding. Financial liabilities are classified as non-trading, held for trading or designated as held at fair value through profit and loss. Financial liabilities are initially recognised at their fair value minus, in the case of financial liabilities not at fair value through profit and loss, any transaction costs that are incremental and directly attributable to the issue of the financial liability. Subsequent to initial recognition, non-trading liabilities are recorded at amortised cost. Subsequent to initial recognition, liabilities held for trading or liabilities designated as held at fair value through profit and loss are accounted for as indicated in the accounting policy for financial liabilities at fair value through the profit and loss.

ii) Derecognition of financial assets and liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of i) the consideration received including any new asset obtained less any new liability assumed and ii) any cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit and loss. Any cumulative gain or loss recognised in other comprehensive income in respect of equity investments designated as at FVOCI is not recognised in profit and loss on derecognition.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iii) Modifications of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of a modified financial asset carried at amortised cost or FVOCI are not substantially different, then the modification does not result in the derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit and loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in profit and loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit and loss.

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost or at FVOCI changes as a result of the interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

(f) Foreign currencies

The financial statements are presented in US Dollars, which is the Bank's functional and reporting currency. Items included in the financial statements of each of the Bank's operations are measured using their functional currency, being the currency of the primary economic environment in which they operate.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in the income statement except for qualifying cash flow hedges.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Translation differences on equities classified as at FVTPL profit and loss are reported as part of the fair value gain or loss in the income statement.

(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises balances with original maturities of up to three months including cash and cash equivalents with central banks and loans and advances to banks. These comprise highly liquid investments that are readily convertible into cash with an insignificant risk of changes in value.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management

The risks relating to financial instruments and the way in which the Bank manages these are described below.

(a) Credit risk

Credit risk is the risk of any losses the Bank may incur due to a reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.

Credit assessment

The Bank assesses and manages the credit risk of individual loans and credit portfolios on a consistent quantitative basis utilising an internal rating system.

The rating system consists of two indicators namely:

- the obligor grading, which indicates the credit worthiness of the borrower; and
- the facility grading, which indicates the probability of repayment of each facility. Facility grades are assigned based on the borrower's obligor grading and transaction terms such as guarantee, maturity and collateral.

The Bank's internal grading, and borrower categories are set out in the table below, and are used for the purposes of determining the Bank's credit quality of obligors.

G grade*	J grade*	
Code	Code	Borrower's category
G1	J1	Normal borrowers
G2	J2	Normal borrowers
G3	J3	Normal borrowers
G4	J4	Normal borrowers
G5	J5	Normal borrowers
G6	J6	Normal borrowers
G7	J7	Borrowers requiring caution
G7R	J7R	Substandard borrowers
G8	J8	Potentially bankrupt borrowers
G9	J9	Virtually bankrupt borrowers
G10	J10	Bankrupt borrowers

* G grade – non-Japanese borrowers, J Grade – Japanese borrowers.

The internal ratings G7R and J7R through to G10 and J10 are recognised as 'Default' in terms of EU Capital Requirements Directive IV and in line with regulatory default definition.

Credit monitoring

Credit monitoring is carried out through an ongoing reassessment of obligor grades involving:

- annual monitoring following financial results disclosures; and
- ad-hoc monitoring should credit conditions deteriorate.

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'Normal borrower' category, the customer is added to the special credit borrower list and reported to management.

To minimise the potential loss that may arise from any model failure and/or inadequate usage of the models and systems, the Bank has appropriate policies in place to manage its models and grading systems. The Bank's Credit Risk Control Unit performs validation of the grading models at least annually to ensure the appropriateness of the grading models.

The Bank regularly monitors the credit risks associated with wider aspects of its business, such as specific country exposure, products, industries etc. on a portfolio basis. The Bank also undertakes regular stress tests on its portfolio to ensure adequate capital is kept at all times to cover potential losses incurred during extreme events such as the COVID-19 pandemic.

Expected credit losses

Accounting for impairment provisions

Impairment provisions are accounted for in line with IFRS 9 'Financial Instruments–Classification and Measurement'. The Bank applies a three-stage approach to measuring ECL for the following categories of financial instruments that are not measured at FVTPL:

- Loans and advances to banks and customers measured at amortised cost.
- Debt instruments measured at amortised cost and FVOCI.
- Loan commitments.
- Financial guarantee contracts.

The Bank has grouped its financial instruments into Stage 1, Stage 2 and Stage 3, based on the implied impairment methodology, as described below:

Stage 1: 12-month ECL – For performing financial instruments where there has not been a significant deterioration in their credit quality since initial recognition, the Bank recognises an allowance for the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.

Stage 2: Lifetime ECL – For financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL.

Stage 3: Credit-impaired – Financial instrument exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the instrument have occurred. For financial instruments that have been assessed as credit-impaired, the Bank recognises an allowance for the lifetime ECLs.

Determining the stage for impairment

At each balance sheet date, for loans carried at amortised cost, loan commitments, financial guarantee contracts and debt securities carried at FVOCI, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default between the balance sheet date and the date of initial recognition. Credit risk is assessed either individually to financial assets, or collectively to a portfolio of similar, homogenous assets.

Significant increase in credit risk (SICR)

In order to determine whether a significant increase in credit risk of a financial instrument has taken place since its initial recognition, the Bank considers reasonable and verifiable information that is relevant and accessible without excessive cost or effort. The Bank assesses significant increase in credit risk using both quantitative and qualitative information.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

Determining whether SICR takes place

The Bank follows a robust event-based framework of determining SICR. The Bank uses the quantitative factor of a change in the probability of default (PD) based on grading of each loan as well as additional factors such as 30 days past due and whether a customer is on the Credit Alarm System (Watch List) in order to determine whether a significant increase in the credit risk of a financial instrument has taken place.

The bank has enhanced the staging model to a methodology that uses forward-looking approach to determine the appropriate stage. The forward looking grade calculated takes consideration of the future state of the economy. The bank applies a grading based review on each exposure by comparing grade at origination and forward looking grade at reporting date. The bank uses relative PD threshold based on grading as a quantitative criteria for identifying significant increase in credit risk. The threshold was assessed based on historical default data.

The Bank uses an additional criterion of 30 days past due for determining SICR. The number of days overdue is determined by counting the number of days starting from the first day when the payment was not received in full. Payment dates are determined without taking into account the grace period that can be provided to the borrower. In addition, for customers graded G/J 5 and G/J 6, inclusion in the Watch List is an indicator of SICR. This is for customers categorised as 'Normal borrowers' but determined as requiring additional monitoring due to credit deterioration.

Recognition of financial assets as impaired (Stage 3)

A financial asset is recognised as impaired if default has occurred since initial recognition.

Default definition

The definition of default for the purpose of determining ECLs has been aligned to the Capital Requirements Regulation Article 178 definition of default, to maintain a consistent approach with IFRS 9 and associated regulatory guidance. The following events generally provide objective evidence of a default situation:

- The management bodies of the borrower/group of borrowers decide to reorganise or liquidate the borrower and/or any bankruptcy proceedings or involuntary liquidation in respect of the borrower is initiated (either by the borrower itself or by any third parties) and/or an external manager, provisional manager, liquidator or commissioner is appointed.
- Delinquency exceeds three months. Delinquency is considered to be caused by the deterioration of business conditions or constrained cash flow (and including cases in which only interest is not paid, but there is no delay in repayment of the principal).
- The loan is restructured towards the more favourable conditions for a borrower, in the absence of which the borrower could not fulfil the obligations towards the Bank properly.
- Breach of financial covenants, which, in the reasonable opinion of the Bank, may result in improper fulfilment of obligations by the borrower.
- Any other event happens in relation to the borrower/group of borrowers that, in the Bank's opinion, can cause improper fulfilment of obligations by the borrower.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, the impairment provision reverts from lifetime ECL to 12-month ECL.

The Bank recognises write-offs when the Bank assesses there is no prospect of further recoveries, typically on liquidation of the counterparty. In practice, write-offs on liquidation are infrequent.

Improvement of credit quality

If a financial asset classified in Stage 2 shows an improvement in credit quality, then this asset can be classified in Stage 1. No probation period is applied as the latest grading will reflect the customer's current financial credit worthiness with consideration of any near-term factors which could impact the customer grade already taken into account.

Movement from Stage 3 to Stage 2 or 1 is dependent on individual assessment. All relevant factors in relation to the credit worthiness of the customer will be taken into account before a customer is upgraded and moved out of Stage 3. The Stage 3 exposures with forbearance measures in place have to go through, in addition to the above requirements, minimum cure period of two years as a normal borrower before they can be moved out of Stage 3. There have been no such movements during the year.

Grades (credit ratings)

The Bank assigns appropriate grades to each exposure based on data that is used to predict the risk of default and by applying expert judgement on credit quality. Ratings are determined based on qualitative and quantitative factors, indicators of the risk of default. These factors vary depending on the type of the borrower and exposure itself.

Grades are determined in a way that the risk of default increases significantly as credit quality deteriorates. For example, the difference between grades 1 and 2 is less than the difference between grades 2 and 3.

Each exposure is assigned with a particular grade at the date of the initial recognition based on the information available. These exposures are subject to continuous monitoring. So, the grade assigned to the exposure could change since the date of the initial recognition.

Monitoring usually includes the analysis of the following data:

- Information obtained as a result of analysis of the borrowers on a periodic basis: audited financial statements, management accounts, budgets, forecasts and plans.
- Credit rating agencies' data, publications, and information on changes in external credit ratings.
- Bond and credit default swap quotes, if such information is available.
- Actual and expected significant changes in political, regulatory and technological environments that could influence the borrower's business.

Creation of provisions

The calculation of ECLs is based on the following metrics:

- Probability of default (PD).
- Loss given default (LGD).
- Exposure at default (EAD).

The LGD model uses Frye-Jacob approach as the theoretical foundation and leverages the same macro-economic variables as the PD model.

The EAD model is used to estimate lifetime EAD which will be used in the ECL calculation. This model forecasts the undrawn amount via the estimation of the Credit Conversion Factor (CCF) and calculates drawn amount of facilities with defined repayment schedule. A fallback component is added this year when no appropriate macro-economic variables is found to forecast CCF. Under this approach, the CCF is determined for each scenario based on the quantile of the annual historical CCF distribution. Each scenario weight/probability is used to calculate the corresponding CCF.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

In order to calculate ECL for loans provided to corporate clients and banks, the Bank adjusts the annual value of PD in proportion to the term of the financial instrument.

Probability of default

The PD is modelled using credit ratings transition matrices that were created based on internal and external statistics. The transition matrix shows the expected migration of a customer at a specific grade to alternative grades over a period of time. The Bank uses two sets of transition matrices to forecast PD, including transition matrices for borrowers whose parent companies are located in Japan and transition matrices for borrowers whose parent companies are residents of other countries. The value of PD is determined based on macroeconomic forecasts, including the dynamics of unemployment rates for the UK model and GDP for the EU model (2021: unemployment rates for the UK model and GDP for the EU model).

Grades are the main inputs that are used for creation of the PD for positions exposed to credit risk. The Bank collects information on the debt service quality and default level of exposures, analysed depending on jurisdiction or region, type of product and borrower, and also depending on the rating of the credit risk.

The Bank uses statistical models to analyse the collected data and to obtain estimates of the PD for the remaining period for positions exposed to credit risk and expectations of their changes in the future.

This analysis includes the estimation and calibration of correlation between changes in default levels and changes in key macroeconomic factors. The Bank uses dynamics of GDP for the EU and Japan, and unemployment rates for the UK as key macroeconomic factors to determine the PD of positions exposed to credit risk.

The Bank uses these forecasts to adjust PD estimates.

Macroeconomic forecasts

The Bank defines EU GDP and UK unemployment rates (2021: EU GDP and UK unemployment rates) as key macroeconomic factors in the models of PD, LGD and EAD.

For each key macroeconomic factor the Bank estimates four scenarios: a base, optimistic, pessimistic (moderate) and pessimistic (severe) scenario. The base scenario is based on third party subject matter expert forecasts and is parameterised internally to give the optimistic and pessimistic scenarios. Each scenario has a probability of occurring assigned as follows:

- Optimistic 17% (2021: 20%)
- Base 46% (2021: 58%)
- Moderate pessimistic 24% (2021: 15%)
- Severe stress: 13% (2021: 7%)

Measurement of expected credit losses

ECLs are derived from probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the balance sheet date: as the present value of all cash shortfalls over the next 12 months of the financial asset discounted by the effective interest rate for assets classified as Stage 1 and as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate for assets classified as Stage 2. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.

- **Financial assets that are credit-impaired at the balance sheet date:** as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- **Undrawn loan commitments:** as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- **Financial guarantee contracts:** the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Movement in ECLs is recognised as impairment loss in the income statement and for financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets. In the case of debt securities measured at FVOCI no loss allowance is recognised in the statement of financial position because the carrying amount of the assets is their fair value. However, on derecognition, the Bank recognises the impairment charge in the income statement with the corresponding amount recognised in the fair value reserve in other comprehensive income. For undrawn loan commitments and financial guarantee contracts that are recognised off balance sheet, the Bank recognises the impairment charge in the income statement with the corresponding amount recognised in other provisions on the balance sheet.

Forward-looking information
The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

Methods of estimation and creation of provision for credit losses
The Bank estimates provisions for credit losses at the transaction level for all financial instruments.

Expected life
For term loans, the expected life of the transactions are based on contractual maturity.

For revolving credit facilities, a model linked to the macroeconomic variables is used to predict utilisation rates.

Use of exemptions permitted under IFRS 9
The Bank has not applied the low credit risk exemption permitted under IFRS 9.

Purchased or originated credit-impaired
Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be purchased or originated credit-impaired (POCI). This includes the recognition of a new financial asset following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. Any changes in lifetime ECLs since initial recognition of POCI assets are recognised in profit and loss until the POCI is derecognised, even if the lifetime ECLs are less than the amount of ECLs included in the estimated cash flows on initial recognition.

As at 31 March 2022, the Bank did not hold any financial assets that are purchased or originated credit-impaired (2021: none).

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

Governance

The ECL models are all subject to the Bank's model governance framework.

The macroeconomic factors for the base and pessimistic scenarios are sourced from external subject matter experts whilst the optimistic scenario is derived internally. These are reviewed and challenged by internal subject matter experts. The macroeconomic factors are presented for review and approval to the Prudential Regulatory Committee which reports into Risk Committee. These are subsequently presented for review and final approval to the Audit Committee. The Audit Committee also reviews and considers the weightings applied to each scenario.

Management adjustments to models for impairment

Management adjustments to impairment models (post model adjustments or PMAs) are applied in order to factor in certain conditions that are not fully incorporated into the impairment models, or to reflect additional facts and circumstances at the period end.

	2022 USDm	2021 USDm
Impairment allowance pre PMAs	**137.5**	220.2
Sectors PMA	**22.7**	8.7
Uncertainty PMA	**45.2**	25.0
Condition of economy PMA	**78.9**	–
Weightings PMA	**–**	7.2
Total impairment allowance	**284.3**	261.1

The 31 March 2022 year-end coincided with the outbreak of the Russia–Ukraine conflict, an event that goes beyond the boundaries of the more typical credit cycle, not dissimilar to that created by the COVID-19 pandemic that impacted the 31 March 2020 year-end.

The commencement of the Russia–Ukraine conflict on 24 February intensified the geopolitical situation which caused economic uncertainty and negative impact on the global economy and major financial markets, an event which eroded the economic recovery from COVID-19 noted until the early part of February 2022. The situation continued to evolve across the month of March as additional sanctions on Russia were imposed. In addition to the impact on entities having operations in Russia or that conduct business with their counterparties in Russia, the war has increasingly affected economic markets and exacerbating ongoing economic challenges including inflation and global supply chain disruption.

As a result, the Bank has applied a number of PMAs in the year to 31 March 2022, to reflect the additional factors that impact the impairment provisions (for 31 March 2021 PMAs were recognised to reflect the ongoing uncertainty in relation to the COVID-19 pandemic).

Post model adjustments 31 March 2022

As at 31 March 2022, the Bank has applied three PMAs: one covers sectors and countries, one is focused on uncertainty regarding Russian exposures and one considers the impact that the current geopolitical situation will have on the economy.

Sector and country PMA – the sector overlay aims to capture idiosyncratic risks that could impact certain sectors as a result of the current economic uncertainty. High risk sectors were identified using revenue and share price performance prior to and post the commencement of the Russia–Ukraine conflict. Depending on the severity of the impact on each high risk sector, customers in these sectors have been downgraded by one or two notches. Under the severe stress scenario, nine sectors which were identified as most significantly impacted received a two-notch downgrade. A further 28 sectors received a single-notch downgrade based on the moderate pessimistic scenario and under the optimistic scenario one sector was identified as outperforming and was subject to a one-notch upgrade.

In addition to this, a country PMA has been included to capture the bilateral trade and energy dependencies of certain countries upon Russia. A review of these countries was performed internally. For those countries with weak financial and/or external positions and therefore more vulnerable to financial market spill overs from the crisis, a two-notch downgrade was applied under the severe stress scenario. The remaining countries identified were subject to a one-notch downgrade under the moderate pessimistic scenario. This has resulted in a PMA of USD 22.7m.

Uncertainty PMA – the Bank had non-defaulted Russian exposures of USD 597m at 31 March 2022. Due to the current Russia–Ukraine conflict, the risk of these defaulting within one year has been simulated using different scenarios. An uncertainty overlay for these names of USD 45.2m has been included as of 31 March 2022.

Condition of economy PMA – The credit cycle index (CCI) captures the macroeconomic impact on the probability of customers migrating to different credit grades, including the possibility of default over time, and as a result has a significant impact on the ECL outcomes. A positive CCI indicates a growing economy whereas a negative CCI indicates an economy in a recession – in that sense it is a measure of the condition of the economy and its impact on the creditworthiness of SMBC BI clients.

This PMA has been applied for two reasons. The CCI is derived as part of the macro-economic forecasts as at 31 March 2022. However the forecast derived indicates a very benign economic environment and growing economy. Given the uncertainty created by the Russia-Ukraine conflict, some remaining impact from COVID-19 as well as rising inflation and ongoing supply chain disruption, this appears to be optimistic. Furthermore, it has been noted that the model is highly sensitive to the starting point of the CCI. The benign starting position leads to future forecast of the CCI in the medium to long term which whilst plausible are optimistic. The model behaves in a similar manner if the CCI is negative, leading to a CCI which whilst plausible is pessimistic in the medium to long term.

As such, a revised CCI has been estimated as at 31 March 2022 based on historic data and views of internal and external economists. The Bank believes s that the situation as of 31 March 2022 is not as negative as at 31 March 2020 when faced with the emergence of COVID-19, but is more negative than as at 31 March 2021 when the impact of COVID-19 was starting to lessen.

The CCI for 31 March 2022 has been estimated using a weighted approach based on the two relevant time periods:

Period 1: 2020 Q1 – 2020 Q4 Captures the deepest effect of COVID-19 and lockdown.
Period 2: 2020 Q4 – 2021 Q3 Captures the state of the economy post COVID-19 vaccine roll out.

The weight applied is 40/60 with the higher weight applied to the latter data. The reason to apply a higher weight on the second period is to reflect being in a post COVID-19 world. The original CCI was 1.2 for March 2022, but using the above approach the CCI has been estimated as (0.32) for March 2022 for the purpose of this PMA. The result is a PMA of USD 78.9m.

The selection of the CCI estimated for 31 March 2022 is an area of judgement which is subject to measurement uncertainty. By way of comparison the table below compares the result of the PMA had alternative CCI values been used. The first three CCI represent the 1st, 2nd, and 3th quartile between 1.2 and (0.32). (0.7) represents a more pessimistic view, the equivalent of one quartile more negative than (0.32).

Alternative CCI	Result of PMA (USDm)	Change in PMA compared to PMA using (0.32) (USDm)
0.82	11.3	(67.6)
0.44	26.0	(52.9)
0.06	37.9	(31.0)
(0.70)	121.8	42.9

The result is that a PMA of USD 146.8m has been included in the ECL as of 31 March 2022 (2021: USD 40.9m).

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

Post model adjustments 31 March 2021

As at 31 March 2021, the Bank applied three PMAs as follows:

- Sectors PMA – The COVID-19 pandemic caused asymmetric performance by sector across the economy with clear winners and losers. A review of sectors was undertaken and high risk sectors downgraded by one or two notches with outperforming sectors subject to a one-notch upgrade. This resulted in a PMA of USD 8.7m being applied.
- Uncertainty PMA – A PMA of USD 25m was applied to customers that were 'Normal borrowers' but were considered at high risk of default within a one-year horizon.
- Weightings PMA – Due to the ongoing uncertain environment at 31 March 2021, the Bank applied scenario weightings at the maximum pessimistic weightings within the range deemed acceptable by internal and external economists resulting in a PMA of USD 7.2m.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross and does not take into account collateral or other credit enhancements.

	2022 USDm	2021 USDm
Cash and balances at central banks	**25,255.4**	24,550.4
Settlement balances	**96.9**	39.2
Loans and advances to banks	**3,988.6**	3,795.4
Loans and advances to customers	**19,942.6**	20,845.5
Reverse repurchase agreements	**1,197.9**	1,732.7
Investment securities	**1,009.2**	496.5
Derivative assets	**1,430.4**	1,255.7
	52,921.0	**52,715.4**
Guarantees and letters of credit	**3,413.3**	3,136.2
Commitments	**15,194.9**	12,469.6
	18,608.2	**15,605.8**
Total	**71,529.2**	**68,321.2**

Cash and balances with central banks comprises current and short-term deposits with the Bank of England of USD 14,716.4m (2021: USD 11,440.4m) and the Banque de France of USD 10,539.0m (2021: USD 13,110.0m).

Collateral held

Whilst the Bank's corporate lending is at times secured by fixed and floating charges on the assets of borrowers, the only collateral which is valued on a continuous basis is collateral in the form of cash and bonds. The value of this collateral held by the Bank, including collateral held against reverse repurchase agreements and against intra-group positions for large exposure purposes, was USD 6,639.3m (2021: USD 6,205.8m). This collateral is held against loans and advances to banks and customers, and reverse repurchase agreements of USD 5,753.8m (2021: USD 5,839.0m) and derivative assets of USD 885.5m (2021: USD 366.8m). There are no restrictions on re-pledging the collateral held against reverse repurchase agreements.

Estimates of the fair value of the collateral held are made when a loan is individually assessed for impairment. Collateral takes various forms and the value of this security will vary over time and is dependent on the types of asset and the jurisdiction of the borrowers as well as the ability to dispose of the collateral.

The Bank's estimate of the fair value of different types of collateral and other credit enhancements held as security against loans to customers that are individually impaired is USD 383.5m (2021: USD 400.7m).

Credit quality and stage per class of financial asset

The following tables show the gross exposure and related impairments allowance by stage and grading as of 31 March 2022 and 31 March 2021.

As at 31 March 2022	Internal grading	Gross exposure Stage 1 USDm	Gross exposure Stage 2 USDm	Gross exposure Stage 3 USDm	Gross exposure Total USDm	ECL Stage 1 USDm	ECL Stage 2 USDm	ECL Stage 3 USDm	ECL Total USDm	Net exposure USDm
Cash and balances at central banks at amortised cost										
Normal borrowers	1–6	25,255.4	–	–	25,255.4	–	–	–	–	25,255.4
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**25,255.4**	**–**	**–**	**25,255.4**	**–**	**–**	**–**	**–**	**25,255.4**
Settlement balances										
Normal borrowers	1–6	96.2	0.7	–	96.9	–	–	–	–	96.9
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**96.2**	**0.7**	**–**	**96.9**	**–**	**–**	**–**	**–**	**96.9**
Loans and advances to banks at amortised cost										
Normal borrowers	1–6	3,372.6	623.4	–	3,996.0	0.7	6.7	–	7.4	3,988.6
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**3,372.6**	**623.4**	**–**	**3,996.0**	**0.7**	**6.7**	**–**	**7.4**	**3,988.6**
Loans and advances to customers at amortised cost										
Normal borrowers	1–6	17,931.0	1,006.5	–	18,937.5	66.6	53.0	–	119.6	18,817.9
Borrowers requiring caution	7A, 7B	–	754.9	–	754.9	–	77.0	–	77.0	677.9
Substandard borrowers and below	7R, 8–10	–	–	492.6	492.6	–	–	45.8	45.8	446.8
Total		**17,931.0**	**1,761.4**	**492.6**	**20,185.0**	**66.6**	**130.0**	**45.8**	**242.4**	**19,942.6**
Investment securities at amortised cost										
Normal borrowers	1–6	65.4	–	–	65.4	–	–	–	–	65.4
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**65.4**	**–**	**–**	**65.4**	**–**	**–**	**–**	**–**	**65.4**
Investment securities at FVOCI										
Normal borrowers	1–6	925.7	–	–	925.7	–	–	–	–	925.7
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**925.7**	**–**	**–**	**925.7**	**–**	**–**	**–**	**–**	**925.7**
Off-balance sheet loans and commitments and financial guarantee contracts										
Normal borrowers	1–6	17,499.0	855.4	–	18,354.4	6.0	15.9	–	21.9	18,332.5
Borrowers requiring caution	7A, 7B	–	165.0	–	165.0	–	9.7	–	9.7	155.3
Substandard borrowers and below	7R, 8–10	–	–	88.8	88.8	–	–	2.9	2.9	85.9
Total		**17,499.0**	**1,020.4**	**88.8**	**18,608.2**	**6.0**	**25.6**	**2.9**	**34.5**	**18,573.7**

In addition to the ECL disclosed above, there is nil ECL in relation to other financial assets.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

		Gross exposure				ECL				
As at 31 March 2021	Internal grading	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm	Net exposure USDm
Cash and balances at central banks at amortised cost										
Normal borrowers	1–6	24,550.4	–	–	24,550.4	–	–	–	–	24,550.4
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**24,550.4**	**–**	**–**	**24,550.4**	**–**	**–**	**–**	**–**	**24,550.4**
Settlement balances										
Normal borrowers	1–6	39.2	–	–	39.2	–	–	–	–	39.2
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**39.2**	**–**	**–**	**39.2**	**–**	**–**	**–**	**–**	**39.2**
Loans and advances to banks at amortised cost										
Normal borrowers	1–6	3,065.3	732.9	–	3,798.2	1.4	1.4	–	2.8	3,795.4
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**3,065.3**	**732.9**	**–**	**3,798.2**	**1.4**	**1.4**	**–**	**2.8**	**3,795.4**
Loans and advances to customers at amortised cost										
Normal borrowers	1–6	18,150.1	1,678.2	–	19,828.3	33.1	51.4	–	84.5	19,743.8
Borrowers requiring caution	7A, 7B	–	686.7	–	686.7	–	55.2	–	55.2	631.5
Substandard borrowers and below	7R, 8–10	–	–	526.4	526.4	–	–	56.2	56.2	470.2
Total		**18,150.1**	**2,364.9**	**526.4**	**21,041.4**	**33.1**	**106.6**	**56.2**	**195.9**	**20,845.5**
Investment securities at amortised cost										
Normal borrowers	1–6	130.1	–	–	130.1	–	–	–	–	130.1
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**130.1**	**–**	**–**	**130.1**	**–**	**–**	**–**	**–**	**130.1**
Investment securities at FVOCI										
Normal borrowers	1–6	353.6	–	0.1	353.7	–	–	–	–	353.7
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**353.6**	**–**	**0.1**	**353.7**	**–**	**–**	**–**	**–**	**353.7**
Off-balance sheet loans and commitments and financial guarantee contracts										
Normal borrowers	1–6	14,611.5	763.1	–	15,374.6	11.8	7.8	–	19.6	15,355.0
Borrowers requiring caution	7A, 7B	–	134.8	–	134.8	–	1.3	–	1.3	133.5
Substandard borrowers and below	7R, 8–10	–	–	96.4	96.4	–	–	0.3	0.3	96.1
Total		**14,611.5**	**897.9**	**96.4**	**15,605.8**	**11.8**	**9.1**	**0.3**	**21.2**	**15,584.6**

In addition to the ECL disclosed above, there is USD 0.3m of ECL in relation to other financial assets.

Balance sheet credit quality

The following tables show the balance sheet by PD range as used in the ECL models.

As at 31 March 2022	PD Range 0.0% to < 3.7% USDm	3.7% to < 23.4% USDm	23.4% to 100% USDm	Total USDm	PD Range 0.0% to < 3.7% %	3.7% to < 23.4% %	23.4% to 100% %	Total %
Cash and balances at central banks at amortised cost	**25,255.4**	**–**	**–**	**25,255.4**	**100%**	**–**	**–**	**100%**
Settlement balances	**96.9**	**–**	**–**	**96.9**	**100%**	**–**	**–**	**100%**
Loans and advances to banks at amortised cost	**3,988.6**	**–**	**–**	**3,988.6**	**100%**	**–**	**–**	**100%**
Loans and advances to customers at amortised cost	**18,817.9**	**677.9**	**446.8**	**19,942.6**	**94%**	**4%**	**2%**	**100%**
Investment securities at amortised cost	**65.4**	**–**	**–**	**65.4**	**100%**	**–**	**–**	**100%**
Investment securities at FVOCI	**925.7**	**–**	**–**	**925.7**	**100%**	**–**	**–**	**100%**
Off-balance sheet loans and commitments and financial guarantee contracts	**18,332.4**	**155.4**	**85.9**	**18,573.7**	**99%**	**1%**	**–**	**100%**

As at 31 March 2021	PD Range 0.0% to < 3.7% USDm	3.7% to < 23.4% USDm	23.4% to 100% USDm	Total USDm	PD Range 0.0% to < 3.7% %	3.7% to < 23.4% %	23.4% to 100% %	Total %
Cash and balances at central banks at amortised cost	24,550.4	–	–	24,550.4	100%	–	–	100%
Settlement balances	39.2	–	–	39.2	100%	–	–	100%
Loans and advances to banks at amortised cost	3,795.4	–	–	3,795.4	100%	–	–	100%
Loans and advances to customers at amortised cost	19,743.8	631.5	470.2	20,845.5	95%	3%	2%	100%
Investment securities at amortised cost	130.1	–	–	130.1	100%	–	–	100%
Investment securities at FVOCI	353.7	–	–	353.7	100%	–	–	100%
Off-balance sheet loans and commitments and financial guarantee contracts	15,355.0	133.5	96.1	15,584.6	99%	1%	–	100%

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

Movement in impairment provisions

The following tables present a reconciliation of the opening to closing balance of the exposure and impairment allowance for financial assets at amortised cost. Transfers between stages in the tables have been reflected as if they had taken place at the beginning of the year. The movements are measured over a 12-month period.

Financial assets at amortised cost

	Gross exposure			
At 31 March 2022	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	46,288.7	3,097.8	526.5	49,913.0
Transfers from Stage 1 to 2	(1,096.7)	1,096.7	–	–
Transfers from Stage 2 to 1	551.2	(551.2)	–	–
Transfers to Stage 3	(36.1)	(44.9)	81.0	–
Transfers from Stage 3	–	16.7	(16.7)	–
Net drawdowns, repayments and movements due to exposure and risk parameter changes	4,801.9	(332.1)	(24.6)	4,445.2
Financial assets derecognised	(3,788.4)	(897.5)	(61.5)	(4,747.4)
Write-offs	–	–	(12.1)	(12.1)
Balance at end of year	47,598.7	2,385.5	492.6	49,598.7

	Impairment allowance			
	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	34.6	108.2	56.2	199.0
Transfers from Stage 1 to 2	(1.4)	1.4	–	–
Transfers from Stage 2 to 1	21.8	(21.8)	–	–
Transfers to Stage 3	(0.2)	(1.9)	2.1	–
Transfers from Stage 3	–	–	–	–
Net drawdowns, repayments and movements due to exposure and risk parameter changes	19.4	59.5	13.7	92.6
Financial assets derecognised	(6.9)	(8.7)	(14.1)	(29.7)
Write-offs	–	–	(12.1)	(12.1)
Balance at end of year	67.3	136.7	45.8	249.8

The above provisions and movements thereon mainly relate to loans and advances to banks and customers. Out of the USD 249.8m (2021: USD 199.0m) year-end balance, USD 249.8m (2021: USD 198.7m) relates to loans and advances to banks and customers.

The movement in gross exposure between the beginning and the end of the period relates to origination and derecognition in the normal course of business with no major movements arising as a result of modification.

At 31 March 2021	Gross exposure Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	54,100.1	2,122.8	124.8	56,347.7
Transfers from Stage 1 to 2	(1,445.7)	1,445.7	–	–
Transfers from Stage 2 to 1	595.2	(595.2)	–	–
Transfers to Stage 3	(280.3)	(146.4)	426.7	–
Transfers from Stage 3	–	–	–	–
Net drawdowns, repayments and movements due to exposure and risk parameter changes	7,751.9	422.5	193.3	8,367.7
Financial assets derecognised	(14,432.5)	(151.6)	(218.3)	(14,802.4)
Write-offs			–	–
Balance at end of year	**46,288.7**	**3,097.8**	**526.5**	**49,913.0**

	Impairment allowance Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	46.1	165.0	56.5	267.6
Transfers from Stage 1 to 2	(7.2)	7.2	–	–
Transfers from Stage 2 to 1	19.0	(19.0)	–	–
Transfers to Stage 3	(0.3)	(21.4)	21.7	–
Transfers from Stage 3	–	–	–	–
Net drawdowns, repayments and movements due to exposure and risk parameter changes	(17.2)	(20.1)	5.2	(32.1)
Financial assets derecognised	(5.8)	(3.5)	(27.2)	(36.5)
Write-offs	–	–	–	–
Balance at end of year	**34.6**	**108.2**	**56.2**	**199.0**

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

The following tables present a reconciliation of the opening to closing balance of the exposure and impairment allowance for loan commitments and financial guarantees.

Loan commitments and financial guarantees

	Gross exposure			
At 31 March 2022	**Stage 1 USDm**	**Stage 2 USDm**	**Stage 3 USDm**	**Total USDm**
Balance at beginning of year	**14,611.5**	**897.9**	**96.4**	**15,605.8**
Transfers from Stage 1 to Stage 2	**(397.7)**	**397.7**	**–**	**–**
Transfers from Stage 2 to Stage 1	**196.7**	**(196.7)**	**–**	**–**
Transfers to Stage 3	**(2.7)**	**(8.4)**	**11.1**	**–**
Transfers from Stage 3	**–**	**0.4**	**(0.4)**	**–**
New drawdowns, repayments, net remeasurement and movements due to exposure and risk parameter changes	**3,091.2**	**(70.5)**	**(18.3)**	**3,002.4**
Balance at end of year	**17,499.0**	**1,020.4**	**88.8**	**18,608.2**

	Impairment allowance			
At 31 March 2022	**Stage 1 USDm**	**Stage 2 USDm**	**Stage 3 USDm**	**Total USDm**
Balance at beginning of year	**11.8**	**9.1**	**0.3**	**21.2**
Transfers from Stage 1 to Stage 2	**(5.7)**	**5.7**	**–**	**–**
Transfers from Stage 2 to Stage 1	**2.6**	**(2.6)**	**–**	**–**
Transfers to Stage 3	**–**	**(2.0)**	**2.0**	**–**
Transfers from Stage 3	**–**	**–**	**–**	**–**
New drawdowns, repayments, net remeasurement and movements due to exposure and risk parameter changes	**(2.7)**	**15.4**	**0.6**	**13.3**
Balance at end of year	**6.0**	**25.6**	**2.9**	**34.5**

	Gross exposure			
At 31 March 2021	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	13,818.9	343.9	–	14,162.8
Transfers from Stage 1 to Stage 2	(922.2)	922.2	–	–
Transfers from Stage 2 to Stage 1	163.3	(163.3)	–	–
Transfers to Stage 3	(18.1)	(60.3)	78.4	–
Transfers from Stage 3	–	–	–	–
New drawdowns, repayments, net remeasurement and movements due to exposure and risk parameter changes	1,569.6	(144.6)	18.0	1,443.0
Balance at end of year	**14,611.5**	**897.9**	**96.4**	**15,605.8**

	Impairment allowance			
At 31 March 2021	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	6.4	3.2	–	9.6
Transfers from Stage 1 to Stage 2	(5.7)	5.7	–	–
Transfers from Stage 2 to Stage 1	2.6	(2.6)	–	–
Transfers to Stage 3	–	(2.0)	2.0	–
Transfers from Stage 3	–	–	–	–
New drawdowns, repayments, net remeasurement and movements due to exposure and risk parameter changes	8.5	4.8	(1.7)	11.6
Balance at end of year	**11.8**	**9.1**	**0.3**	**21.2**

Reconciliation of ECL movement to impairment charge for the period

	2022 USDm	2021 USDm
ECL movements since beginning of the period	**94.0**	(3.1)
Effect of disposals and write-offs	**(14.4)**	(58.3)
Loss on disposal of impaired assets	**16.4**	70.1
Foreign exchange and other movements	**(0.2)**	(0.1)
Impairment charge for the period	**95.8**	**8.6**

Coverage ratios

The tables below show the coverage ratio as of 31 March 2022 and 31 March 2021.

As at 31 March 2022	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
Loans and advances to banks at amortised cost	0.02	1.10	–	0.19
Loans and advances to customers at amortised cost	0.37	7.38	9.29	1.20
Off-balance sheet loan commitments and financial guarantee contracts	0.03	2.51	3.31	0.19
Total	**0.19**	**4.77**	**8.38**	**0.66**

As at 31 March 2021	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to banks at amortised cost	0.05	0.19	–	0.07
Loans and advances to customers at amortised cost	0.18	4.51	10.68	0.93
Off-balance sheet loan commitments and financial guarantee contracts	0.07	0.89	0.31	0.12
Total	**0.13**	**2.93**	**9.07**	**0.54**

The coverage ratio has increased in the year. This is largely due to an increase in the post model adjustments relating to Stage 2 assets.

Macroeconomic variables and scenario weightings

Macroeconomic scenarios

The Bank has used a four-scenario model to calculate ECL at year-end. The base case forecast has been sourced externally and two downside scenarios and one upside scenario have been derived. An overview of the four scenarios used at the year-end is as follows:

Optimistic scenario – produced internally using in an in-house scenario generator. Assumes:

- the Russia–Ukraine conflict is relatively short lived;
- the inflation is under control and falling albeit gradually due to the ending of the Russia–Ukraine war and effective monetary policy; and
- no significant new COVID-19 variants are detected in UK and EU countries.

Base scenario – sourced externally. Assumes:

- the Russia–Ukraine conflict is continuing which causes disruption of the supply chain but commodity exports from Russia are still open to the EU countries;
- inflation is rising but partly controlled by increases in interest rates in UK and EU countries; and
- the new waves of COVID-19 variants are detected but can be controlled by vaccines in the UK and EU.

Moderate pessimistic scenario – produced internally. Assumes:

- a prolonged Russia–Ukraine conflict which causes further sanctions deepening supply disruptions in Europe;
- the spike of commodity prices accelerate inflation further. Financial conditions start to tighten significantly; and
- new waves of COVID-19 variants are detected which are largely controlled by vaccines but some short-term restrictions are imposed by the UK and EU countries.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

Severe pessimistic scenario – produced internally. The forecast for this scenario is in line with the Bank's ICAAP stress test and its severity has been benchmarked to those from the European Banking Authority (EBA) and Oxford Economics. Assumes:

- a prolonged Russia–Ukriane conflict with no end in sight. The complete cut-off of commodity export by Russia creates severe financial stress to the European economy;
- inflation is rising significantly in the UK and EU countries to an unprecedented level. Both the UK and EU economies are in severe recession; and
- new waves of COVID-19 variants are detected where the current vaccines are less effective and new travel restrictions are implemented within the UK and EU countries.

Scenario weightings

The Bank's ECL scenario weighting methodology is based on statistical modelling taking into consideration the average value of the three-year forecasts. To determine the weights for alternative scenarios the Bank computes a three-year forecast average for each macroeconomic parameter, compares it to its historical values and identifies the percentile that it is closest to. The final scenario percentile is the average percentile across all parameters for each scenario. The base weight is 100% less the sum of alternative weights. The scenario weights are reviewed internally and by external economists. The scenario weightings for the year ended 31 March 2022 are more balanced than the year ended 31 March 2021 with the probabilities more skewed towards the downside scenarios as would be expected by the uncertainty caused by the Russia–Ukraine conflict.

In the year to 31 March 2021, economic forecasts indicated a bounce back but as the outlook remained uncertain due to the ongoing COVID-19 pandemic the Bank applied revised probability weightings.

The tables below show the probability weightings applied to each scenario and the key macroeconomic variables by scenario used in the ECL calculation.

	Scenario probability weighting			
	Severe pessimistic %	**Moderate pessimistic %**	**Base %**	**Optimistic %**
Revised scenario probability weightings after taking into account the COVID-19 pandemic as at 31 March 2022	**13%**	**24%**	**46%**	**17%**

	Scenario probability weighting			
	Severe pessimistic %	Moderate pessimistic %	Base %	Optimistic %
Revised scenario probability weightings after taking into account the COVID-19 pandemic as at 31 March 2021	10	20	55	15
Original scenario probability weightings as at 31 March 2021	*7*	*15*	*58*	*20*

As at 31 March 2022		Key macroeconomic variables Severe pessimistic %	Moderate pessimistic %	Base %	Optimistic %
Economic and Monetary Union (EMU) nominal GDP[1]	2022	**-2.9**	**-2.2**	**-1.5**	**-1.1**
	2023	**0.9**	**0.5**	**0.1**	**0.1**
	2024	**–**	**-0.2**	**-0.2**	**-0.2**
EMU interest rate, short term[2]	2022	**0.1**	**0.1**	**0.2**	**0.1**
	2023	**-0.1**	**–**	**0.1**	**-0.1**
	2024	**–**	**–**	**-0.1**	**-0.1**
UK unemployment rate[3]	2022	**1.5**	**1.0**	**0.5**	**0.4**
	2023	**-1.2**	**-0.7**	**-0.2**	**-0.2**
	2024	**–**	**–**	**–**	**–**
UK interest rate, short term[4]	2022	**-0.1**	**-0.1**	**–**	**-0.1**
	2023	**-0.1**	**–**	**–**	**-0.1**
	2024	**–**	**-0.1**	**-0.1**	**-0.1**
Japan GDP nominal financial year YoY growth[5]	2022	**0.3**	**0.2**	**0.2**	**0.8**
	2023	**0.2**	**0.5**	**0.8**	**0.8**
	2024	**0.1**	**0.7**	**1.2**	**1.1**

1 Year-on-year percentage change, forecast quarter on quarter.
2 Year-on-year change, forecast quarter on quarter.
3 Year-on-year change, forecast quarter on quarter lagged by one quarter.
4 Year-on-year change, forecast quarter on quarter.
5 Four-quarter average GBP level year on year percentage change.

As at 31 March 2021		Key macroeconomic variables Severe pessimistic %	Moderate pessimistic %	Base %	Optimistic %
EMU Consumer Price Index[1]	2021	-0.2	-0.2	0.2	0.1
	2022	0.2	0.0	-0.1	0.0
	2023	0.0	0.2	0.0	0.0
EMU nominal GDP[2]	2021	-0.4	0.8	2.5	0.6
	2022	2.3	1.3	-0.5	1.9
	2023	-0.3	-0.3	-0.1	0.2
EMU interest rate, short term[3]	2021	-0.1	0.0	0.0	0.1
	2022	0.2	0.0	0.0	0.1
	2023	0.0	0.0	0.0	0.0
UK unemployment rate[4]	2021	0.7	-0.1	-0.4	-0.4
	2022	-1.7	-0.6	0.0	-0.1
	2023	-0.1	0.1	-0.2	-0.2
UK interest rate, short term[5]	2021	0.1	0.1	0.2	0.2
	2022	0.1	0.0	0.0	0.1
	2023	0.0	0.0	0.0	0.0
Japan GDP nominal financial year YoY growth[6]	2021	3.3	3.3	4.2	5.4
	2022	0.8	0.8	1.2	2.3
	2023	1.6	1.6	1.9	2.9

1 Year-on-year percentage change, forecast quarter on quarter.
2 Year-on-year percentage change, forecast quarter on quarter.
3 Year-on-year change, forecast quarter on quarter.
4 Year-on-year change, forecast quarter on quarter lagged by one quarter.
5 Year-on-year change, forecast quarter on quarter.
6 Four-quarter average GBP level year on year percentage change.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

ECL sensitivity analysis

The measurement of ECL involves increased complexity and judgement, including estimation of probability of default (PD), loss given default (LGD), range of unbiased future economic scenarios, estimation of expected lives, estimation of exposure at default (EAD) and assessing significant increases in credit risk.

The table below shows the ECL assuming each scenario has been 100% weighted to show the impact of alternative scenarios.

At 31 March 2022 USDm	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base	Optimistic
Original model results[1]	**40.4**	**55.6**	**45.8**	**36.9**	**30.7**
Model results with revised CCI (condition or economy PMA)[2]	**109.5**	**155.1**	**129.1**	**98.9**	**74.1**

At 31 March 2021 USDm	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base	Optimistic
Original model results[1]	120.3	175.0	135.3	111.8	94.7

1 The above results do not include the impact of the post model adjustments.

2 Includes outcome from condition of economy PMA. Further details can be found on page 103.

Credit risk by sector

The exposure by major industrial sectors can be analysed as follows:

31 March 2022 USDm	Finance and insurance	Government and local authorities	Manufacturing	Wholesale and services	Other corporate exposures	Transport	Energy and infrastructure	Total
Cash and balances at central banks	**25,255.4**	**–**	**–**	**–**	**–**	**–**	**–**	**25,255.4**
Settlement balances	**96.9**	**–**	**–**	**–**	**–**	**–**	**–**	**96.9**
Loans and advances to banks	**3,988.6**	**–**	**–**	**–**	**–**	**–**	**–**	**3,988.6**
Loans and advances to customers	**2,207.3**	**1,328.3**	**1,695.8**	**1,250.8**	**9,873.4**	**1,079.4**	**2,507.6**	**19,942.6**
Reverse repurchase agreements	**1,197.9**	**–**	**–**	**–**	**–**	**–**	**–**	**1,197.9**
Investment securities	**84.7**	**924.5**	**–**	**–**	**–**	**–**	**–**	**1,009.2**
Derivative assets	**1,139.4**	**7.0**	**36.4**	**11.2**	**218.7**	**17.6**	**0.1**	**1,430.4**
Total on-balance sheet	**33,970.2**	**2,259.8**	**1,732.2**	**1,262.0**	**10,092.1**	**1,097.0**	**2,507.7**	**52,921.0**
Commitments and guarantees	**1,670.4**	**25.5**	**2,796.0**	**1,249.9**	**12,866.4**	**–**	**–**	**18,608.2**
Total	**35,640.6**	**2,285.3**	**4,528.2**	**2,511.9**	**22,958.5**	**1,097.0**	**2,507.7**	**71,529.2**

31 March 2021 USDm	Finance and insurance	Government and local authorities	Manufacturing	Wholesale and services	Other corporate exposures	Transport	Energy and infrastructure	Total
Cash and balances at central banks	24,550.4	–	–	–	–	–	–	24,550.4
Settlement balances	39.2	–	–	–	–	–	–	39.2
Loans and advances to banks	3,795.4	–	–	–	–	–	–	3,795.4
Loans and advances to customers	2,446.6	1,467.9	952.2	1,212.6	10,967.2	1,181.3	2,617.7	20,845.5
Reverse repurchase agreements	1,732.7	–	–	–	–	–	–	1,732.7
Investment securities	142.9	353.6	–	–	–	–	–	496.5
Derivative assets	1,037.7	1.6	76.1	11.5	84.0	44.8	–	1,255.7
Total on-balance sheet	33,744.9	1,823.1	1,028.3	1,224.1	11,051.2	1,226.1	2,617.7	52,715.4
Commitments and guarantees	1,198.3	126.3	2,924.0	505.8	10,851.4	–	–	15,605.8
Total	34,943.2	1,949.4	3,952.3	1,729.9	21,902.6	1,226.1	2,617.7	68,321.2

The industry exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. Finance and insurance exposure includes USD 14,716.4m to the Bank of England (2021: USD 11,440.4m) and USD 10,539.0m to the Banque de France (2021: USD 13,110.0m).

Credit risk by location

The table below analyses the geographical spread of financial assets based on country of residence of the counterparty.

31 March 2022 USDm	**United Kingdom**	**France**	**Italy**	**Other Europe**	**Eastern Europe**	**Japan**	**Middle East & Africa**	**Other countries**	**Total**
Cash and balances at central banks	**14,716.4**	**10,539.0**	**–**	**–**	**–**	**–**	**–**	**–**	**25,255.4**
Settlement balances	**–**	**–**	**–**	**43.9**	**17.4**	**0.2**	**0.2**	**35.2**	**96.9**
Loans and advances to banks	**545.2**	**2.4**	**–**	**743.9**	**137.8**	**870.0**	**1,035.0**	**654.3**	**3,988.6**
Loans and advances to customers	**6.051.4**	**3,599.2**	**–**	**3,467.8**	**434.0**	**196.8**	**4,245.1**	**1,948.3**	**19,942.6**
Reverse repurchase agreements	**883.4**	**–**	**–**	**–**	**–**	**314.5**	**–**	**–**	**1,197.9**
Investment securities	**65.5**	**–**	**–**	**924.5**	**1.2**	**–**	**–**	**18.0**	**1,009.2**
Derivative assets	**709.3**	**52.9**	**–**	**561.9**	**–**	**2.1**	**–**	**104.2**	**1,430.4**
Total on-balance sheet	**22,971.2**	**14,193.5**	**–**	**5,742.0**	**590.4**	**1,383.6**	**5,280.3**	**2,760.0**	**52,921.0**
Commitments and guarantees	**5,241.4**	**8,557.6**	**–**	**1,843.5**	**294.5**	**251.2**	**1,448.2**	**971.8**	**18,608.2**
Total	**28,212.6**	**22,751.1**	**–**	**7,585.5**	**884.9**	**1,634.8**	**6,728.5**	**3,731.8**	**71,529.2**

31 March 2021 USDm	United Kingdom	France	Italy	Other Europe	Eastern Europe	Japan	Middle East & Africa	Other countries	Total
Cash and balances at central banks	11,440.4	13,110.0	–	–	–	–	–	–	24,550.4
Settlement balances	–	–	–	9.7	7.3	2.7	1.6	17.9	39.2
Loans and advances to banks	589.4	2.2	–	568.7	136.5	1,003.6	1,365.6	129.4	3,795.4
Loans and advances to customers	5,513.5	3,929.1	31.5	4,243.4	634.3	91.1	4,796.0	1,606.6	20,845.5
Reverse repurchase agreements	1,333.3	–	–	–	–	399.4	–	–	1,732.7
Investment securities	20.7	–	–	463.1	1.2	–	–	11.5	496.5
Derivative assets	707.7	59.1	–	478.0	–	–	–	10.9	1,255.7
Total on-balance sheet	19,605.0	17,100.4	31.5	5,762.9	779.3	1,496.8	6,163.2	1,776.3	52,715.4
Commitments and guarantees	4,537.5	7,328.2	9.5	1,435.6	248.8	272.3	1,133.7	640.2	15,605.8
Total	24,142.5	24,428.6	41.0	7,198.5	1,028.1	1,769.1	7,296.9	2,416.5	68,321.2

The geographical exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. The above disclosures are based on country of residence, whilst the Bank's Pillar 3 disclosures use country of risk. The figures reported include balances with the Bank of England and Banque de France as disclosed above.

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

(b) Market risk

Market risk is the risk that movements in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.

The Bank's Board is ultimately responsible for ensuring that the level of market risk run by the Bank is in line with its risk appetite and business model.

The Bank uses a variety of matrices to measure and control market risk. One such tool is the use of Value at Risk (VaR). VaR is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. The Bank uses a 99% confidence interval and a one-day time horizon. The Bank currently uses a historical simulation which is updated monthly to generate the VaR result using data from a four-year observation period. The Bank uses VaR to control market risk both on the Trading and Banking accounts on both a standalone and a consolidated basis. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model. However, VaR is not a perfect tool for risk management and cannot provide an indication of the potential losses that may occur. The Bank therefore conducts a programme of stress testing using scenarios relevant to the current portfolio composition.

Interest rate risk on the Banking book is stressed by taking the basis point value (BPV) positions and stressing them by an average of 100 basis points (bp). In addition to this, a further 200bp parallel shift stress test is carried out (as per the Prudential Sourcebook for Banks, Building Societies and Investment Firms, section 2.3.8) as part of the ICAAP submission. Stress tests are also carried out on foreign exchange positions (assuming 17% appreciation and depreciation of each currency vs USD).

Risk management for each category is augmented by employing suitable sensitivity limits such as BPV limits which measure the potential change in portfolio fair value for an instantaneous 0.01% shift in interest rates. Using the BPV, the Bank can examine the effects to income of movements in yields applied to the Banking and Trading portfolios.

The Bank's VaR exposures during the year were:

	To 31 March 2022				To 31 March 2021			
	Maximum USDm	**Minimum USDm**	**Average USDm**	**31 March USDm**	Maximum USDm	Minimum USDm	Average USDm	31 March USDm
Trading	**0.3**	**–**	**0.1**	**0.2**	0.3	–	0.1	–
Banking	**3.7**	**2.6**	**3.2**	**2.8**	3.5	1.4	2.4	3.1
Total	**3.6**	**2.5**	**3.2**	**2.8**	4.0	1.7	2.8	3.4

The income sensitivity table below reports the worst case of six possible yield curve shift scenarios averaging 100bp, including 'Steepening', 'Flattening' and 'Parallel' shifts, which comprises the Market Risk Stress Test.

Income sensitivity with respect to changes in interest rates:

	Banking book		**Trading book**	
	31 March 2022 USDm	31 March 2021 USDm	**31 March 2022 USDm**	31 March 2021 USDm
Profit and loss impact	**0.1**	3.6	**8.6**	2.1

(c) Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.

Analysis of liquidity risk

Contractual maturity of financial assets and liabilities form an important source of information used by management for the management of liquidity risk.

The table below provides details on the contractual maturity of financial assets and financial liabilities. Impairment provisions on loans and advances to banks and customers are included in the Up to 3 months column.

At 31 March 2022 USDm	**Up to 3 months USDm**	**3 to 12 months USDm**	**1 to 5 years USDm**	**Over 5 years USDm**	**Total USDm**
Assets					
Cash and balances at central banks	**25,255.4**	**–**	**–**	**–**	**25,255.4**
Settlement balances	**96.9**	**–**	**–**	**–**	**96.9**
Loans and advances to banks	**2,831.0**	**476.8**	**618.0**	**62.8**	**3,988.6**
Reverse repurchase agreements	**1,197.9**	**–**	**–**	**–**	**1,197.9**
Derivative assets	**605.7**	**496.7**	**302.6**	**25.4**	**1,430.4**
Loans and advances to customers	**4,981.8**	**1,847.8**	**8,244.2**	**4,868.8**	**19,942.6**
Investment securities	**734.2**	**275.0**	**–**	**–**	**1,009.2**
Total financial assets	**35,702.9**	**3,096.3**	**9,164.8**	**4,957.0**	**52,921.0**
Liabilities					
Deposits by banks	**14,298.4**	**1,324.8**	**10,753.7**	**–**	**26,376.9**
Customer accounts	**19,264.4**	**489.7**	**–**	**–**	**19,754.1**
Derivative liabilities	**543.9**	**463.5**	**293.0**	**22.2**	**1,322.6**
Debt securities in issue	**976.0**	**–**	**–**	**–**	**976.0**
Total financial liabilities	**35,082.7**	**2,278.0**	**11,046.7**	**22.2**	**48,429.6**
Cumulative gap financial assets less financial liabilities	**620.2**	**1,438.5**	**(443.4)**	**4,491.4**	**4,491.4**

At 31 March 2021 USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Assets					
Cash and balances at central banks	24,550.4	–	–	–	24,550.4
Settlement balances	39.2	–	–	–	39.2
Loans and advances to banks	2,407.9	478.6	838.4	70.5	3,795.4
Reverse repurchase agreements	1,732.7	–	–	–	1,732.7
Derivative assets	406.8	371.1	347.0	130.8	1,255.7
Loans and advances to customers	4,524.9	997.7	9,975.5	5,347.4	20,845.5
Investment securities	363.9	132.6	–	–	496.5
Total financial assets	34,025.8	1,980.0	11,160.9	5,548.7	52,715.4
Liabilities					
Deposits by banks	11,324.1	222.2	10,759.0	1,521.0	23,826.3
Customer accounts	21,340.3	978.9	–	–	22,319.2
Derivative liabilities	380.2	388.1	335.3	125.2	1,228.8
Debt securities in issue	812.3	41.3	–	–	853.6
Total financial liabilities	33,856.9	1,630.5	11,094.3	1,646.2	48,227.9
Cumulative gap financial assets less financial liabilities	168.9	518.4	585.0	4,487.5	4,487.5

Notes to the financial statements For the year ended 31 March 2022 continued

4. Financial risk management continued

The table below shows the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments.

Maturity of liabilities as at 31 March 2022	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	**14,324.5**	**1,387.7**	**10,918.4**	**–**	**26,630.6**
Customer accounts	**19,276.9**	**491.9**	**–**	**–**	**19,768.8**
Debt securities in issue	**977.1**	**–**	**–**	**–**	**977.1**
Issued financial guarantee contracts	**1,076.8**	**1,875.8**	**457.9**	**2.8**	**3,413.3**
Unrecognised loan commitments	**272.4**	**1,979.2**	**10,428.9**	**1,952.5**	**14,633.0**
	35,927.7	**5,734.6**	**21,805.2**	**1,955.3**	**65,422.8**
Derivative liabilities	**581.0**	**444.7**	**273.9**	**23.0**	**1,322.6**
Total liabilities, issued guarantees and commitments	**36,508.7**	**6,179.3**	**22,079.1**	**1,978.3**	**66,745.4**

Maturity of liabilities as at 31 March 2021	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	11,341.6	271.7	10,926.0	1,525.0	24,064.3
Customer accounts	21,346.6	835.5	145.2	–	22,327.3
Debt securities in issue	791.8	62.0	–	–	853.8
Issued financial guarantee contracts	658.7	1,713.8	760.8	3.1	3,136.4
Unrecognised loan commitments	259.9	1,342.6	8,877.8	1,428.2	11,908.5
	34,398.6	**4,225.6**	**20,709.8**	**2,956.3**	**62,290.3**
Derivative liabilities	405.4	371.9	312.7	138.8	1,228.8
Total liabilities, issued guarantees and commitments	**34,804.0**	**4,597.5**	**21,022.5**	**3,095.1**	**63,519.1**

(d) Interest rate benchmark reform

There have been no changes to the Bank's risk management strategies following the IBOR reform.

Following the financial crisis, the reform and replacement of benchmark interest rates such as IBOR has become a priority for global regulators. As a result the UK's Financial conduct Authority (FCA) and other global regulators instructed market participants to prepare for the cessation of most LIBOR rates after the end of 2021, and to adopt 'near risk-free rates' (RFRs). The Bank has significant exposure to IBORs on its financial instruments that will be reformed as part of this market-wide initiative.

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

Non-derivative financial assets and loan commitments

The Bank's exposures on loans and advances to customers include GBP, USD, EUR and JPY LIBOR.

The alternative reference rate for Sterling LIBOR is the Sterling Overnight Index Average (SONIA) and for US Dollar LIBOR is the Secured Overnight Financing Rate (SOFR). Changes to the contractual terms of financial assets referenced to LIBOR to incorporate new benchmark rates were not yet complete as at 31 March 2022. There are some contracts, known as 'tough legacy contracts', that may be difficult to transition from LIBORs to SONIA or SOFR. These tough legacy contracts are often part of more complex or structured transactions or arrangements. The FCA has authorised broad usage of synthetic LIBOR as a temporary solution for 'tough legacy contracts' for GBP and JPY. The Bank continues to monitor total contracts utilising synthetic LIBOR fallbacks and aims to remediate to RFRs as soon as possible.

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include a fallback clause. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is referenced to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract'). The Bank has in place detailed plans, processes and procedures to continue to transition contracts to alternative benchmark rates which will be completed in line with official sector expectations and milestones.

Derivatives and hedge accounting

The Bank uses derivatives for trading and risk management purposes (see note 13). Some of the derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating rates that reference various IBORs. The Bank's derivative instruments are governed by International Swaps and Derivatives Association (ISDA) definitions.

ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The supplement is effective from 25 January 2021 and from that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Further information on the impact of IBOR reform on the Bank's hedge accounting is given in note 13.

The following table shows the Bank's exposure at the year-end to significant IBORs subject to reform that have yet to transition to risk-free rates.

At 31 March 2022	Non-derivative financial assets at carrying value USDm	Non-derivative financial liabilities at carrying value USDm	Undrawn commitments USDm	Derivatives notional amount USDm
GBP LIBOR	**589.1**	**133.5**	**–**	**–**
USD LIBOR	**6,589.1**	**994.4**	**4,300.0**	**670.1**
JPY LIBOR	**123.3**	**–**	**–**	**–**

At 31 March 2021	Non-derivative financial assets at carrying value USDm	Non-derivative financial liabilities at carrying value USDm	Undrawn commitments USDm	Derivatives notional amount USDm
GBP LIBOR	3,985.4	–	1,616.6	615.4
USD LIBOR	9,278.1	4,371.5	2,107.2	863.3
JPY LIBOR	427.4	–	138.5	144.4

The Bank's exposure risk management also includes the use of the Euro Interbank Offered Rate (EURIBOR). In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to EURIBOR under the European Union Benchmarks Regulation. This allows market participants to continue to use EURIBOR after 1 January 2020 for both existing and new contracts. The Bank expects that EURIBOR will continue to exist as a benchmark rate for the foreseeable future. The Bank does not anticipate changing the hedged risk to a different benchmark. For these reasons, the Bank does not consider its fair value or cash flow hedges of the EURIBOR benchmark interest rate to be directly affected by interest rate benchmark reform at 31 March 2022.

Notes to the financial statements For the year ended 31 March 2022 continued

5. Fair value of financial instruments

The Bank's accounting policy on fair value measurements is disclosed in accounting policy 3(e) Financial Instruments – initial recognition and subsequent measurement.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an individual instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted value models, comparison to similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and binomial valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. All observable data is taken directly from Bloomberg or Reuters screens. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognised models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over the counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For some financial instruments at fair value through other comprehensive income the Bank uses discounted cash flow models created internally and discounted cash flow models provided by external independent parties which are assessed internally to be acceptable for the purpose of valuation. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments, and selection of appropriate discount rates.

Fair value of financial instruments carried at fair value

The following table shows the Bank's financial assets and liabilities that are held at fair value by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31 March 2022 USDm	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Loans and advances to banks	**–**	**–**	**–**	**–**
Loans and advances to customers	**–**	**–**	**–**	**–**
Derivative assets	**–**	**1,430.4**	**–**	**1,430.4**
Investment securities	**–**	**924.5**	**19.3**	**943.8**
Total assets	**–**	**2,354.9**	**19.3**	**2,374.2**
Financial liabilities				
Derivative liabilities	**–**	**1,322.6**	**–**	**1,322.6**
Total liabilities	**–**	**1,322.6**	**–**	**1,322.6**

There are no significant movements between level 1, level 2 or level 3.

At 31 March 2021 USDm	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Loans and advances to banks	–	–	–	–
Loans and advances to customers	–	–	–	–
Derivative assets	–	1,255.7	–	1,255.7
Investment securities	–	353.6	12.8	366.4
Total assets	–	1,609.3	12.8	1,622.1
Financial liabilities				
Derivative liabilities	–	1,228.8	–	1,228.8
Total liabilities	–	1,228.8	–	1,228.8

Of the total movement in level 3 assets during the year of USD 6.5m (2021: USD 6.3m), USD 2.1m (2021: USD 1.0m) relate to gains through the profit and loss account and USD 4.4m (2021: USD 5.3m) relate to purchases.

For assets and liabilities which are accounted at fair value under level 3, the valuations are primarily based on Fund Manager valuations and are based on reasonable estimates. Applying reasonable alternative valuations would not lead to a significantly different valuation.

Notes to the financial statements For the year ended 31 March 2022 continued

5. Fair value of financial instruments continued

Fair value of financial instruments carried at amortised cost

The following table summarises the fair value of financial assets and liabilities measured at amortised cost, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 March 2022 USDm	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and balances at central banks	–	**25,255.4**	–	**25,255.4**	**25,255.4**
Settlement balances	–	**96.9**	–	**96.9**	**96.9**
Loans and advances to banks	–	–	**3,983.0**	**3,983.0**	**3,988.6**
Loans and advances to customers	–	–	**20,259.2**	**20,259.2**	**19,942.6**
Reverse repurchase agreements	–	**1,197.9**	–	**1,197.9**	**1,197.9**
Investment securities	–	**65.3**	–	**65.3**	**65.3**
Liabilities					
Deposits by banks	–	**26,383.4**	–	**26,383.4**	**26,376.9**
Customer accounts	–	**19,753.5**	–	**19,753.5**	**19,754.1**
Debt securities in issue	–	**976.0**	–	**976.0**	**976.0**

31 March 2021 USDm	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and balances at central banks	–	24,550.4	–	24,550.4	24,550.4
Settlement balances	–	39.2	–	39.2	39.2
Loans and advances to banks	–	–	3,801.4	3,801.4	3,795.4
Loans and advances to customers	–	–	21,082.3	21,082.3	20,845.5
Reverse repurchase agreements	–	1,732.7	–	1,732.7	1,732.7
Investment securities	–	130.1	–	130.1	130.1
Liabilities					
Deposits by banks	–	23,799.5	–	23,799.5	23,826.3
Customer accounts	–	22,320.1	–	22,320.1	22,319.2
Debt securities in issue	–	853.6	–	853.6	853.6

There were no positions classified on inception as designated at fair value through profit and loss during the year.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost not hedged through fair value hedges are estimated by comparing market interest rates on initial recognition with current market rates offered for similar financial instruments including any effect of changes in market credit spreads, where material. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. The fair values of quoted debt instruments issued are calculated based on quoted market prices.

6. Personnel and other expenses

	2022 USDm	2021 USDm
Salaries and bonuses	**273.7**	242.6
Compulsory social security obligations	**64.4**	57.0
Pension costs – contribution plans	**21.4**	17.1
Pension costs – defined benefit plans	**3.3**	3.3
Other staff costs	**22.4**	19.2
Total personnel costs	**385.2**	**339.2**
Operating lease payments	**6.5**	6.1
Other operating expenses	**159.8**	118.1
Total personnel and other costs	**551.5**	**463.4**
	No.	No.
Average number of front office department employees	**515**	498
Average number of support department employees	**967**	748
Average number of employees	**1,482**	**1,246**

Deferred shares bonus scheme

The Bank has in place a deferred bonus scheme for certain employees. Such employees receive part of their annual bonus as a deferred award comprising 50% in cash and 50% in a scheme pegged to the SMFG share price. Any deferred awards are dependent on future service and are awarded over periods up to eight years. As at the year-end total deferred bonuses were USD 31.1m (2021: USD 17.6m).

During the year ended 31 March 2022, USD 30,000 was paid to the auditors for audit-related assurance services.

7. Auditor’s remuneration

	2022 USDm	2021 USDm
Fees payable to the Bank's auditor for the audit of Bank's annual accounts	**1.8**	1.5
Audit-related assurance services	**0.5**	0.7
	2.3	**2.2**

Audit-related assurance services includes worked performed in relation to the Group audit and interim review work of SMFG and various regulatory assurance services. Fees amounting to USD 0.6m (2021: USD 0.6m) were paid by SMBC and SMFG.

8. Directors’ emoluments

	2022 USDm	2021 USDm
Directors' fees	**0.6**	0.6
Directors' emoluments (excluding fees)	**3.6**	3.0
Post employment benefits	**0.1**	0.1
	4.3	**3.7**

The highest paid Director received emoluments of USD 983,463 (2021: USD 886,117).

Two Directors belonged to the Bank’s defined contribution pension scheme with the Bank paying contributions of USD 114,199 (2021: one Director with contributions of USD 83,835) in the year. These amounts are included within the Directors’ emoluments figures above. Five Directors received a bonus (2021: Four Directors) and part of this was subject to a deferral period.

Three employees of the parent company were Directors during the year and received remuneration from the Bank as they were subject to secondment agreements.

Notes to the financial statements For the year ended 31 March 2022 continued

9. Pension costs

Accounting for pension and other post retirement benefits

The Bank operates, for the majority of staff, a defined contribution scheme. Contributions are charged to profit and loss as they become payable in accordance with the rules of the scheme.

A defined benefit scheme, the Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme, is provided to a small number of staff. The assets of the scheme are held separately from the assets of the Bank and are administered by trustees. This scheme is closed to new members.

The cost of providing benefits under the defined benefit scheme is determined using the projected-unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in profit and loss as operating expenses.

The interest element of the defined benefit cost represents the change in present value of scheme obligations arising from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment, made at the beginning of the year, of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The differences between the expected return on plan assets and the interest costs are recognised in profit and loss as other finance income or expense.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the statement of financial position comprises the total for the plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The fair value of the assets held is based on quoted prices or observable inputs for the underlying investments. The value of any net pension asset recognised is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

A triennial funding valuation of the defined benefit scheme was undertaken with an effective date of 31 December 2020 and updated to 31 March 2022 by a qualified independent Actuary. The scheme is funded and, per the triennial valuation, there was no deficit in the pension plan.

The principal actuarial assumptions as at 31 March (expressed as weighted averages) were as follows:

	2022	2021
Discount rate	**2.7%**	2.0%
Future salary increase (weighted average)	**3.8%**	4.4%
Future pension increase	**3.5%**	3.3%
Inflation assumption (CPI)	**2.8%**	2.9%

As at 31 March 2020, an assumption for CPI inflation of 1.0% per annum below the Retail Price Index (RPI) assumption was used. As a result of the announcement by the Chancellor of the Exchequer in November 2020 that RPI will be aligned with Consumer Prices Index including owner occupiers' housing costs (CPIH) from 2030, a CPI assumption of 0.9% per annum less than RPI has been used as at 31 March 2022 (31 March 2021: 0.5% per annum less than RPI).

The underlying mortality assumption is based upon the standard table known as S3PA Light on year of birth usage with CMI 2021 future improvement factors with a long-term annual rate of future improvement of 1.0% p.a. (31 March 2020: same except CMI 2020). This results in the following life expectancies:

- Male age 65 now has a life expectancy of 23.0 years from retirement (previously 23.0 years).
- Female age 65 now has a life expectancy of 24.6 years from retirement (previously 24.6 years).

Cash flow data is used to estimate the amount which the scheme needs to reimburse the Bank at the end of the year. This reimbursement is in respect of benefit payments which the Bank has paid on behalf of the scheme since 31 December 2020.

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability (asset) and its components:

	Defined benefit obligations		**Fair value of plan assets**		**Net defined benefit (liability)/asset**	
	2022 USDm	2021 USDm	**2022 USDm**	2021 USDm	**2022 USDm**	2021 USDm
Balance at beginning of year	**227.2**	182.0	**260.3**	244.2	**33.1**	62.2
Included in profit or loss						
Current service cost	**1.8**	1.8	**–**	–	**(1.8)**	(1.8)
Past service cost	**–**	0.7	**–**	–	**–**	(0.7)
Interest expense	**4.3**	4.6	**–**	–	**(4.3)**	(4.6)
Interest income	**–**	–	**4.9**	6.2	**4.9**	6.2
Effect of movements in exchange rates	**(10.7)**	20.0	**(12.3)**	27.0	**(1.6)**	7.0
	(4.6)	**27.1**	**(7.4)**	**33.2**	**(2.8)**	**6.1**
Included in other comprehensive income						
Actuarial (loss)/gain arising from:						
Financials	**(24.6)**	21.5	**–**	–	**4.6**	(21.5)
Demographic	**–**	0.6	**–**	–	**–**	(0.6)
Experience	**(7.4)**	0.5	**–**	–	**7.4**	(0.5)
Return on plan assets excluding interest income	**–**	–	**(4.4)**	(14.9)	**(4.4)**	(14.9)
	(32.0)	**22.6**	**(4.4)**	**(14.9)**	**27.6**	**(37.5)**
Other						
Contributions paid by employer	**–**	–	**2.5**	2.3	**2.5**	2.3
Benefits paid by fund	**(5.2)**	(4.5)	**(5.2)**	(4.5)	**–**	–
	(5.2)	**(4.5)**	**(2.7)**	**(2.2)**	**2.5**	**2.3**
Balance at end of year	**185.4**	**227.2**	**245.8**	**260.3**	**60.4**	**33.1**

The agreed contributions of pensionable salaries in respect of the future service accrual to be paid by the Bank for the year ended 31 March 2022 were 71.5% of pensionable earnings. In addition, the Bank is currently paying contributions to cover the cost of pension payments, cash lump sums on retirement, trivial commutation payments and transfer values.

The scheme is run by the Trustees of the scheme who ensure compliance with the Trust Deed and Rules of the scheme. The Trustees are required by law to fund the scheme on prudent funding assumptions under the Trust Deed and Rules of the scheme. The contributions payable by the Bank to fund the scheme are set by the Trustees after consultation with the Bank.

The Trustees use the attained age funding method which is suitable for funding a scheme open for future accruals but is closed to new entrants.

IFRIC 14 is an interpretation of existing paragraph IAS 19.65, which deals with the level of net pension asset recognisable on a company's balance sheet. IFRIC 14 also requires consideration of minimum funding requirements a company has made to its pension scheme and whether this gives rise to an additional balance sheet liability. Under the scheme's Trust Deed, the Bank has an unconditional right to a refund of surplus from the scheme in the context of IFRIC 14 paragraphs 11(b) and 12. As at 31 March 2022, there was no additional balance sheet liability arising in respect of any funding commitment the Bank has to the scheme.

Notes to the financial statements For the year ended 31 March 2022 continued

9. Pension costs continued

The employer pays all the costs of administering the scheme and any levies required by the Pension Protection Fund and the Pensions Regulator. The expected employer contribution to the scheme for the year ending 31 March 2023 in respect of future accrual contributions is USD 2.53m.

The following list is not exhaustive but covers the main funding risks for the scheme:

- **Investment return risk:** If the assets underperform the returns assumed in setting the funding target, additional contributions may be required at subsequent valuations.
- **Investment matching risk:** The scheme invests just under 10% of its assets in equity type assets, whereas the solvency target is closely related to return on bonds. If equity type assets have fallen in value relative to the matching assets of bonds, additional contributions may be required.
- **Longevity risk:** If future improvements in mortality exceed the assumptions made then additional contributions may be required.
- **Legislative risk:** The Government, or the Courts, may introduce overriding legislation which leads to an increase in the value of scheme benefits.
- **Solvency risk:** As the funding target is not a solvency target, and the investment strategy does not exactly follow that required for a solvency target, the assets of the scheme may not be sufficient to provide all members with the full value of their benefits on a scheme wind-up. The Bank would then be required to pay the funding shortfall.

The Bank expects to pay USD 5.9m in contributions to defined benefit plans in the coming financial year to 31 March 2023.

Scheme assets were made up of the following:

	2022 USDm	2021 USDm
Equity securities	**20.8**	29.8
Government bonds	**224.4**	230.2
Cash	**0.6**	0.3
	245.8	**260.3**

Sensitivity analysis

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

Assumption varied	**2022 % change in defined benefit obligation**	2021 % change in defined benefit obligation
Discount rate 1% p.a. lower (2021: 1% p.a. lower)	**20%**	20%
Salary increase rate 1% p.a. lower	**-2%**	-2%
Pension increase (in payment and in deferment) rate 1% p.a. lower (2021: 1% p.a. lower)	**-8%**	-8%
Minimum rate of improvement of mortality 0.5% p.a. lower (2021: 0.5% p.a. lower)	**-2%**	-2%

The figures assume that each assumption is changed independently of others. Therefore, the disclosures are only a guide because the effect of changing more than one assumption is not cumulative. The sensitivity analysis was calculated by re-running the figures as at the last formal valuation as at 31 December 2020 adjusted approximately for changes in the membership up to 31 March 2022.

10. Income taxes

Accounting for income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit and loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Income tax expense

Recognised in the income statement:

Recognised in the income statement	**2022 USDm**	2021 USDm
Current tax charge		
Current year	**45.2**	83.2
Overseas tax	**16.8**	9.7
Adjustment for prior years	**(1.1)**	10.8
	60.9	**103.7**
Deferred tax charge		
Origination and reversal of temporary differences	**(12.0)**	0.6
Adjustment for prior years	**0.6**	(12.1)
Deferred tax change in rate	**(0.6)**	–
	(12.0)	**(11.5)**
Total income tax expense	**48.9**	**92.2**

Reconciliation of effective rate of tax	**USDm**	USDm
Profit before income tax	**180.8**	333.1
Income tax using the domestic corporation tax rate of 27%[1] (2021: 27%[1])	**48.8**	89.9
Adjustment for prior years	**(0.5)**	(1.3)
Deferred tax change in rate	**(0.6)**	–
Expenses not deductible for tax purposes	**–**	3.4
Banking surcharge allowance	**(1.7)**	(1.8)
Overseas tax	**2.9**	2.0
	49.8	**92.2**

1 UK corporation tax rate of 19% plus bank surcharge rate of 8%.

In the Budget on 3 March 2021, the Chancellor of the Exchequer announced an increase in the headline rate of corporation tax from 19% to 25% from 1 April 2023. In addition to this, it was announced that the current bank surcharge rate of 8% applicable to profits of banking companies under the Finance (No.2) Act 2015 is to be reduced to 3% from 1 April 2023.

Notes to the financial statements For the year ended 31 March 2022 continued

10. Income taxes continued

Deferred tax assets and liabilities are required to be valued using the tax rate which will be in force at the time when the temporary difference is expected to unwind. In line with the requirements of IAS 12, the impact of the change in the headline rate of corporation tax has been reflected in the deferred tax balances at 31 March 2022 as this has been substantively enacted by the UK Parliament. The deferred tax liability has been calculated at 28% as at 31 March 2022.

Income tax recognised in other comprehensive income:

Income tax recognised in other comprehensive income	**Before tax 2022 USDm**	**Tax (expense) /benefit 2022 USDm**	**Effect of changes in tax rate 2022 USDm**	**Net of tax 2022 USDm**	Before tax 2021 USDm	Tax (expense)/ benefit 2021 USDm	Net of tax 2021 USDm
Actuarial (losses)/gains on defined benefit scheme	**(27.5)**	**7.4**	**0.1**	**(20.0)**	37.5	(10.1)	27.4
FVOCI	**(0.2)**	**–**	**–**	**(0.2)**	(0.4)	0.1	(0.3)
Cash flow hedges	**(7.8)**	**2.1**	**0.1**	**(5.6)**	3.8	(1.0)	2.8
IFRS 9 transitional adjustments	**–**	**–**	**0.1**	**0.1**	–	–	–
	(35.5)	**9.5**	**0.3**	**(25.7)**	**40.9**	**(11.0)**	**29.9**

Deferred tax

The components of deferred taxes disclosed on the statement of financial position are as follows:

	USDm 2022	USDm 2021
Deferred tax liability	**(23.1)**	(13.2)
Deferred tax asset	**32.1**	20.4
Net deferred tax asset	**9.0**	**7.2**

Movements on deferred tax assets and liabilities were as follows:

	Fixed asset temporary differences USDm	**Bonus accrual USDm**	**Pensions and other retirement benefits USDm**	**Cash flow hedge/ FVOCI/AFS USDm**	**IFRS 9 transitional adjustment USDm**	**Paris branch, IFRS 9 and upfront fees USDm**	**Total USDm**
Asset/(liability) at 1 April 2021	4.5	3.7	(8.9)	(0.4)	(3.8)	12.1	7.2
Adjustments relating to prior years	(1.1)	1.1	–	–	–	(0.6)	(0.6)
Movement through the P&L account	0.1	0.2	(0.5)	–	–	12.8	12.6
Movement through other comprehensive income	–	–	(7.5)	(2.2)	0.4	–	(9.3)
Exchange rate changes	–	–	(0.1)	–	–	(0.8)	(0.9)
At 31 March 2022	**3.5**	**5.0**	**(17.0)**	**(2.6)**	**(3.4)**	**23.5**	**9.0**
Asset/(liability) at 1 April 2020	4.5	2.0	(16.6)	(1.3)	(4.4)	–	(15.8)
Adjustments relating to prior years	0.2	1.8	–	–	–	10.1	12.1
Movement through the P&L account	(0.2)	(0.1)	(2.3)	–	–	2.0	(0.6)
Movement through other comprehensive income	–	–	10.1	0.9	0.6	–	11.6
Exchange rate changes	–	–	(0.1)	–	–	–	(0.1)
At 31 March 2021	**4.5**	**3.7**	**(8.9)**	**(0.4)**	**(3.8)**	**12.1**	**7.2**

The amount of deferred tax asset expected to be recovered after more than 12 months is USD 22.6m (2021: USD 15.0m).

11. Loans and advances to banks and customers

Accounting for loans and advances to banks and customers

Loans and advances at amortised cost

Loans and advances at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude those that are classified as held for trading and those that are designated as at fair value through profit and loss. Subsequent to initial recognition, loans and advances are measured at amortised cost less impairment losses where:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding.

Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only (note 13).

Loans and advances at fair value through other comprehensive income

Loans and advances are classified as at fair value through other comprehensive income where:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.

Loans and advances at fair value through other comprehensive income are measured at fair value on the statement of financial position. Unrealised gains and losses are recognised in other comprehensive income and only on disposal is the cumulative gain or loss, previously recognised in other comprehensive income, recognised in profit and loss.

The Bank does not hold any loans and advances at fair value through other comprehensive income.

Loans and advances at fair value through profit and loss

Loans and advances held at fair value through profit and loss include all loans and advances classified as held for trading, those irrevocably designated as held at fair value through profit and loss on initial recognition and those with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding.

Loans and advances classified at fair value through profit and loss are recorded at fair value on the statement of financial position with changes in fair value recognised in profit and loss. Financial instruments are classified as held for trading when they are held with the intention of generating short-term profits.

Notes to the financial statements For the year ended 31 March 2022 continued

11. Loans and advances to banks and customers continued

Finance leases

Leases in terms of which the Bank assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition the lease asset receivable is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease income is recognised in interest income over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

	2022 USDm			2021 USDm		
	Loans to banks	**Loans to customers**	**Total**	Loans to banks	Loans to customers	Total
Gross loans and advances at amortised cost	**3,996.0**	**20,185.0**	**24,181.0**	3,798.2	21,041.4	24,839.6
Less: impairment provisions (note 4)	**(7.4)**	**(242.4)**	**(249.8)**	(2.8)	(195.9)	(198.7)
Loans and advances at amortised cost	**3,988.6**	**19,942.6**	**23,931.2**	**3,795.4**	**20,845.5**	**24,640.9**

Loans and advances to customers includes USD 344.8m of Green and Sustainability-Linked Loans.

	2022 USDm	2021 USDm
Amount included within loans and advances to customers expected to be recovered more than 12 months after the reporting date	**13,139.1**	15,328.0
Included in loans and advances to customers are the following amounts relating to leases:		
Gross investment in finance leases		
– Less than one year	**97.0**	120.5
	97.0	**120.5**
Less: Unearned finance income	**–**	(1.3)
	97.0	**119.2**
Net investment in finance leases		
– Less than one year	**97.0**	119.2
	97.0	**119.2**

The ECL on the lease receivables is USD 48.4m (2021: immaterial).

Finance lease income is included within net interest income. The amount recognised in the income statement during the year all related to finance income from net investment in leases and was USD 1.3m (2021: USD 1.3m). There have been no finance leases entered into during the period and no leases have ended.

12. Investment securities

Accounting for investment securities

Debt securities at amortised cost

Debt securities at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude those that are classified as held for trading and those that are designated as at fair value through profit and loss. Subsequent to initial recognition, debt securities are measured at amortised cost less impairment losses where:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding.

Investment securities at fair value through other comprehensive income

Debt instruments

Investments in debt instruments that are classified as at fair value through other comprehensive income are those where:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.

Debt instruments at fair value through other comprehensive income generally comprise securities. The assets are measured at fair value on the statement of financial position. Unrealised gains and losses are recognised in other comprehensive income and only on disposal is the cumulative gain or loss, previously recognised in other comprehensive income, recognised in profit and loss.

Equity instruments

Investments in equity instruments that are not held for trading are measured at fair value through other comprehensive income where an irrevocable election has been made on initial recognition by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Investment securities at fair value through profit and loss

Investment securities held at fair value through profit and loss include all instruments classified as held for trading, those instruments irrevocably designated as held at fair value through profit and loss on initial recognition and debt instruments with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding.

Investment securities classified at fair value through profit and loss are recorded at fair value on the statement of financial position with changes in fair value recognised in profit and loss. Financial instruments are classified as held for trading when they are held with the intention of generating short-term profits.

Notes to the financial statements For the year ended 31 March 2022 continued

12. Investment securities continued

	2022 USDm	2021 USDm
Investment securities held at amortised cost	**65.4**	130.1
Investment securities at fair value through other comprehensive income	**925.7**	354.9
Investment securities at fair value through profit and loss	**18.1**	11.5
Total investment securities	**1,009.2**	**496.5**

	USDm	USDm
Debt securities held at amortised cost	**65.4**	130.1
Debt securities held at fair value through other comprehensive income	**924.5**	353.7
Equities held at fair value through other comprehensive income	**1.2**	1.2
Equities held at fair value through profit and loss	**18.1**	11.5
Total investment securities	**1,009.2**	**496.5**

At start of year	**496.5**	624.9
Exchange rate adjustments	**(12.9)**	3.6
Acquisitions and transfers	**1,669.1**	1,137.0
Fair value movement recognised in other comprehensive income	**3.4**	0.3
Disposals and maturities	**(1,145.9)**	(1,269.1)
Amortisation of discounts and premiums	**(1.0)**	(0.2)
At end of year	**1,009.2**	**496.5**

13. Derivative financial instruments and hedge accounting

Accounting for derivatives

Derivatives include interest rate swaps and futures, cross currency swaps, forward foreign exchange contracts and options on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative instruments that do not meet the criteria to be designated as a hedge are deemed to be held for trading and are measured at fair value with the resultant profits and losses included in net trading income.

The fair value of exchange-traded derivatives is determined by reference to the quoted market price.

The fair value of over the counter derivatives is determined by calculating the expected cash flows under the terms of each specific contract, and then discounting these to their net present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices, or through modelling cash flows using appropriate pricing models. The effect of discounting expected cash flows back to present value is achieved by constructing discount curves derived from the market price of the most appropriate observable interest rate products such as deposits, interest rate futures and swaps.

The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments) is considered when measuring the fair value of derivative assets and the impact of changes in the Bank's own credit spreads (known as debit valuation adjustments) is considered when measuring the fair value of its derivative liabilities.

Hedge accounting

The Bank continues to apply the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' for hedge accounting purposes and consequently there have been no changes to the hedge accounting policies and practices following the adoption of IFRS 9.

Derivative financial instruments are used to hedge interest rate risk on fixed rate assets and liabilities and foreign exchange movement risk on highly probable forecast transactions. Instruments used for hedging purposes include interest rate derivatives, cross currency interest rate derivatives and foreign exchange forwards.

The criteria required for a derivative instrument to be classified as a hedge are as follows:

- At inception of the hedge the Bank formally documents the hedge relationship between hedged item and the hedging instrument. This will also include the aim and objective of the risk management and the method that will be used to assess the effectiveness of the hedging relationship.
- The hedge is expected to be highly effective.
- For cash flow hedges, any forecast transactions included must be highly probable and must present an exposure to variations in cash flows that could affect the profit and loss.
- The effectiveness of the hedge (hedged item and hedging instrument) can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge is designated.

The Bank applies either fair value or cash flow hedge accounting when the transaction meets the above criteria. Hedge accounting is discontinued when it is determined that the derivative ceases to be highly effective as a hedge. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. A hedge will also cease to be effective if the derivative or asset is sold, terminated, expires or matures, or when a forecast transaction is no longer deemed probable.

Interest rate benchmark reform

i) Phase 1 amendments

The Bank applies the IBOR Reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to the following uncertainties:

- the timing and/or amount of interest rate benchmark-based cash flows of the hedged item or the hedging instrument; and/or
- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified.

Notes to the financial statements For the year ended 31 March 2022 continued

13. Derivative financial instruments and hedge accounting continued

The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of the IBOR reform.

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Bank must assume, for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit and loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

ii) Phase 2 amendments

The Bank also applies IBOR Reform Phase 2 issued in August 2020.

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Bank amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the entity will assess hedge effectiveness.

The Bank amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Bank amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship. If changes are made in addition to those changes required by IBOR reform described above, then the Bank first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Bank amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

Fair value hedge accounting

For qualifying fair value hedges, the changes in fair value in respect of the hedged risk of both the hedged item and hedging derivative are recognised in profit and loss. Any ineffective portion of the hedge is immediately recognised in profit and loss under interest income.

If hedge relationships no longer meet the criteria for hedge accounting or the hedging derivative is sold, terminated, expires or matures, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised over the remaining period to maturity of the previously designated hedge relationship using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedge accounting

For qualifying cash flow hedges in respect of financial assets and liabilities, the effective portion of the change in the fair value of the hedging derivative is initially recognised in other comprehensive income and is released to profit and loss in the same periods during which the hedged item affects profit and loss. Any ineffective portion of the hedge is immediately recognised in profit and loss under net trading income.

Analysis of derivatives

The following tables show the notional amounts and fair values of the Bank's derivatives at 31 March 2022 and 31 March 2021.

	2022 Notional contract amount USDm	**2022 Fair value derivative assets USDm**	**2022 Fair value derivative liabilities USDm**	2021 Notional contract amount USDm	2021 Fair value derivative assets USDm	2021 Fair value derivative liabilities USDm
Trading derivatives						
Foreign exchange derivatives						
Forward foreign exchange	**211,178.6**	**1,358.2**	**(1,295.9)**	175,305.7	1,216.1	(1,169.1)
Currency swaps	**686.9**	**5.9**	**(5.9)**	1,006.5	6.1	(6.1)
Total trading derivatives	**211,865.5**	**1,364.1**	**(1,301.8)**	**176,312.2**	**1,222.2**	**(1,175.2)**
Derivatives held for risk management						
Foreign exchange derivatives						
Currency swaps – Fair value hedges	**–**	**–**	**–**	683.3	33.2	(17.2)
Currency swaps – Cash flow hedges	**680.3**	**43.9**	**(14.2)**	–	–	–
Total foreign exchange derivatives	**680.3**	**43.9**	**(14.2)**	**683.3**	**33.2**	**(17.2)**
Interest rate derivatives						
Interest rate swaps – Fair value hedges	**1,882.1**	**22.4**	**(6.6)**	1,882.9	0.3	(36.4)
Total interest rate derivatives	**1,882.1**	**22.4**	**(6.6)**	**1,882.9**	**0.3**	**(36.4)**
Total derivatives held for risk management	**2,562.4**	**66.3**	**(20.8)**	**2,566.2**	**33.5**	**(53.6)**
Total derivatives	**214,427.9**	**1,430.4**	**(1,322.6)**	**178,878.4**	**1,255.7**	**(1,228.8)**

Notes to the financial statements
For the year ended 31 March 2022 continued

13. Derivative financial instruments and hedge accounting continued

Hedge accounting

As part of its asset and liability management, the Bank uses derivatives as fair value and cash flow hedges to protect it against changes in the fair value of financial assets and financial liabilities due to movements in interest rates and against variability in cash flows arising from movements in foreign exchange rates. Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. These instruments frequently involve a high degree of leverage and can be volatile. Due to this, the Bank maintains very tight control over their use and whenever a derivative hedge is used it is imperative that the critical terms of the hedging instrument and the hedged item are closely aligned.

The Bank applies hedge accounting to manage interest rate and foreign exchange risk. Further details of how these risks arise and how they are managed by the Bank are discussed in note 4(b).

In order to hedge the risks to which the Bank is exposed, the hedging instruments employed are interest rate and cross currency interest rate swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in specified underlying indices such as an interest rate or foreign currency rate.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed or alternative floating rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a cross currency interest rate swap, the Bank pays the principal amount in one currency and receives the principal amount in the other currency at the start of the deal with the reverse at the maturity of the deal. Interim cash flows of interest are then exchanged on the same basis as an interest rate swap in that the Bank either receives or pays a floating rate of interest in one currency, in return for paying or receiving, respectively, a fixed rate of interest in the other currency.

The hedging instruments share the same risk exposure as the hedged items, being interest rate and currency risk. Before hedge accounting is applied, the Bank determines whether an economic relationship exists between the hedged item and the hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk and considers whether the critical terms of the hedged item and hedging instrument are closely aligned.

Hedge effectiveness is determined with reference to changes in the fair value of the hedged item compared with the fair value of the hedge on a cumulative basis. The hedge is considered effective if the results are in the range of 80% to 125%.

Sources of hedge ineffectiveness may arise from the following:

- mismatches between the contractual terms of the hedged item and hedging instrument, including differences in maturities or basis differences between the hedged item and the hedging instrument; or
- changes in credit risk of the hedging instrument.

Interest rate benchmark reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as IBOR has become a priority for global regulators. Since the changes are market driven, there is currently some uncertainty around the timing and precise nature of these changes.

The Bank's risk exposure is directly affected by interest rate benchmark reform, across its fair value hedge accounting activities where IBOR-linked derivatives are designated as a fair value hedge of fixed interest rate assets.

The Bank's risk exposure is predominantly to GBP, USD, EUR and JPY LIBOR.

Fair value hedges

The financial instruments hedged for interest rate risk include fixed rate loans and bonds. The Bank uses interest rate swaps to hedge interest rate risk (including currency swaps). Interest rate risk arises as the Bank holds a portfolio of medium- and long-term fixed rate customer loans whose fair value fluctuates due to movements in market interest rates. In such cases changes in the fair values in respect of the hedged risk of both the hedging instrument and the hedged item are recognised in profit and loss.

The Bank hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of fixed rate loans are significantly influenced by changes in the benchmark interest rate.

The following table shows the hedging instruments which are carried on the Bank's balance sheet within derivative assets and liabilities:

Hedge type	Risk category	Notional amount USDm	Carrying amount derivative assets USDm	Carrying amount derivative liabilities USDm	Change in fair value used as a basis to determine ineffectiveness USDm	Notional amount directly impacted by IBOR reform USDm
As at 31 March 2022						
Fair value	Interest rate risk	1,882.1	22.4	6.6	15.8	1,621.2
		1,882.1	**22.4**	**6.6**	**15.8**	**1,621.2**
As at 31 March 2021						
Fair value	Interest rate risk	1,882.9	0.3	36.4	36.1	1,623.1
		1,882.9	**0.3**	**36.4**	**36.1**	**1,623.1**

The following table summarises the significant hedge accounting exposures impacted by the IBOR reform as at 31 March 2022:

Current benchmark rate	Convergence to RFR	Notional amount of hedged items directly impacted by IBOR reform USDm	Notional amount of hedging instruments directly impacted by IBOR reform USDm
GBP London Interbank Offered Rate (LIBOR)	Reformed Sterling Overnight Index Average (SONIA)	789.2	789.2
USD LIBOR	Secured Overnight Financing Rate (SOFR)	82.2	82.2
JPY LIBOR	Tokyo Overnight Average (TONA)	749.8	749.8

Notes to the financial statements For the year ended 31 March 2022 continued

13. Derivative financial instruments and hedge accounting continued

The following table profiles the expected notional values of current hedging instruments:

Interest rate risk Hedge of loans and advances to customers	Maturity 31 March 2022 Less than 1 year	1 to 5 years	More than 5 years	Maturity 31 March 2021 Less than 1 year	1 to 5 years	More than 5 years
Notional amount (USDm)	297.5	1,135.2	449.4	241.2	1,357.2	284.5
Average fixed interest rate %	0.3%	0.3%	1.7%	0.3%	0.4%	1.9%

The following table shows the hedged items in fair value hedge accounting relationships:

At 31 March 2022 Hedged risk	Hedged item statement of financial position classification	Carrying amount USDm	Accumulated fair value hedge adjustments included in carrying amount USDm	Change in fair value used as a basis to determine ineffectiveness USDm	Hedge ineffectiveness recognised in the income statement USDm
Interest rate risk	Loans and advances to customers	1,863.8	(18.3)	(18.3)	–
		1,863.8	**(18.3)**	**(18.3)**	**–**

At 31 March 2021 Hedged risk	Hedged item statement of financial position classification	Carrying amount USDm	Accumulated fair value hedge adjustments included in carrying amount USDm	Change in fair value used as a basis to determine ineffectiveness USDm	Hedge ineffectiveness recognised in the income statement USDm
Interest rate risk	Loans and advances to customers	1,882.9	39.1	39.1	–
		1,882.9	**39.1**	**39.1**	**–**

Cash flow hedges

The Bank transacts cash flow hedges for hedging cross currency swaps and to reduce the foreign exchange risk on the cash flows arising from the Bank's forecast Sterling expenses for each financial year. The Bank enters into US Dollar–Sterling foreign exchange forward contracts to manage variability in the Bank's highly probable cash outflows in relation to Sterling expenses for each month of the financial year.

The following table shows the hedged items in cash flow hedge accounting relationships:

Hedge type	Risk category	Change in fair value used as a basis to determine ineffectiveness USDm	Balance in cash flow hedging reserve for assets USDm	Hedging gains or losses recognised in other comprehensive income USDm	Hedge ineffectiveness recognised in income statement USDm
As at 31 March 2022					
Cash flow hedge	Foreign exchange risk	9.2	9.2	9.2	–
		9.2	**9.2**	**9.2**	**–**
As at 31 March 2021					
Cash flow hedge	Foreign exchange risk	1.5	1.5	1.5	–
		1.5	**1.5**	**1.5**	**–**

The amount recycled from other comprehensive income due to hedged items affecting the income statement for cash flow hedges of foreign exchange rate was USD (1.1)m (2021: (3.9)m).

The following table shows the movements of the cash flow hedging reserve:

	Cash flow hedging reserve USDm
At 1 April 2021	**1.1**
Hedging gains for the year	**8.9**
Amounts reclassified in relation to cash flows affecting profit or loss	**(1.1)**
Tax	**(2.2)**
At 31 March 2022	**6.7**

	Cash flow hedging reserve USDm
At 1 April 2020	3.9
Hedging gains for the year	1.5
Amounts reclassified in relation to cash flows affecting profit or loss	(3.9)
Tax	(0.4)
At 31 March 2021	**1.1**

Offsetting of financial assets and financial liabilities

In accordance with IAS 32 'Financial Instruments: Presentation' the Bank does not offset any financial assets and liabilities. It does however receive or give collateral against certain derivative transactions and reverse repurchase agreements with such collateral subject to standard industry terms including the ISDA Credit Support Annex.

In addition, the Bank also enters into ISDA and similar master netting agreements which only allow offsetting on certain events, such as following an event of default. These do not meet the criteria for offsetting in the statement of financial position.

The disclosures set out below include derivative assets, derivative liabilities and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements.

		Related amounts not offset				
	Gross amounts recognised in the statement of financial position USDm	**Financial instruments USDm**	**Cash collateral USDm**	**Net amount USDm**	**Amounts not subject to enforceable netting arrangements USDm**	**Total USDm**
At 31 March 2022						
Derivative assets	**1,248.8**	**(787.0)**	**(165.0)**	**296.8**	**181.6**	**1,430.4**
Reverse repurchase agreements	**1,197.9**	**(1,197.9)**	**–**	**–**	**–**	**1,197.9**
	2,446.7	**(1,984.9)**	**(165.0)**	**296.8**	**181.6**	**2,628.3**
Derivatives liabilities	**1,156.7**	**(787.0)**	**(251.2)**	**118.5**	**165.9**	**1,322.6**
At 31 March 2021						
Derivative assets	1,098.2	(920.7)	(63.2)	114.3	157.5	1,255.7
Reverse repurchase agreements	1,732.7	(1,732.7)	–	–	–	1,732.7
	2,830.9	**(2,653.4)**	**(63.2)**	**114.3**	**157.5**	**2,988.4**
Derivatives liabilities	**1,128.4**	**(920.7)**	**(143.0)**	**64.7**	**100.4**	**1,228.8**

Notes to the financial statements For the year ended 31 March 2022 continued

14. Other assets

	2022 USDm	2021 USDm
Accrued income	**288.3**	350.2
Prepayments and other receivables	**26.9**	40.0
Cash collateral placed under Credit Support Annex	**381.1**	150.4
	696.3	**540.6**

15. Intangible assets and goodwill

Accounting for intangible assets

Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. The carrying values of intangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner which will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

For the year ended 31 March 2022, the Bank assessed the useful life of its intangible software assets and as these are primarily internally developed for core applications with a reasonable certainty of useful life of 5 years or longer, the Bank revised its software depreciation policy from 3 to 5 years, in accordance with IAS 8 – accounting for changes in estimates.

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Computer software	Up to 31 March 2021	3 years
	From 1 April 2021	5 years

Accounting for goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 'Business Combinations' and IAS 36 'Impairment of Assets'.

Goodwill arising on the acquisition of subsidiaries represents the excess of the fair value of the purchase consideration over the fair value of the Bank's share of the asset acquired and the liabilities and contingent liabilities assumed on the date of acquisition.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have incurred. The test involves comparing the carrying value of the cash generating unit (CGU) including goodwill with the present value of the pre tax cash flows, discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates, or the CGU's fair value if this is higher.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the CGU that is expected to benefit from that business combination. The carrying amount of goodwill, which is immaterial, is USD 1.9m (2021: USD 1.9m).

Software

The carrying amount of software is as follows:

	Internally generated software USDm	Other software USDm	Total USDm
At 1 April 2021	**15.7**	**111.5**	**127.2**
Additions	**4.1**	**16.8**	**20.9**
Disposals	**–**	**–**	**–**
At 31 March 2022	**19.8**	**128.3**	**148.1**
Accumulated amortisation			
At 1 April 2021	**9.9**	**79.3**	**89.2**
Charge for the year	**2.1**	**12.0**	**14.1**
Disposals	**–**	**–**	**–**
At 31 March 2022	**12.0**	**91.3**	**103.3**
Net book value at 31 March 2022	**7.8**	**37.0**	**44.8**
At 1 April 2020	12.4	94.1	106.5
Additions	3.4	17.5	20.9
Disposals	(0.1)	(0.1)	(0.2)
At 31 March 2021	**15.7**	**111.5**	**127.2**
Accumulated amortisation			
At 1 April 2020	6.9	63.2	70.1
Charge for the year	3.1	16.1	19.2
Disposals	(0.1)	–	(0.1)
At 31 March 2021	**9.9**	**79.3**	**89.2**
Net book value at 31 March 2021	**5.8**	**32.2**	**38.0**

The gross carrying amount of fully depreciated software still in use is USD 78.1m (2021: USD 61.4m).

16. Property and equipment

Accounting for property and equipment

Fixed tangible assets are stated at capitalised cost less accumulated depreciation and accumulated impairment losses. The carrying values of fixed tangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	10 years or over the remaining life of the lease, whichever is the shorter
Computer hardware	3 years
Motor vehicles	5 years
Equipment, fixtures and fittings	5 years

Accounting for leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Notes to the financial statements For the year ended 31 March 2022 continued

16. Property and equipment continued

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

The Bank presents right-of-use assets in property and equipment and lease liabilities in 'other liabilities' in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term (note 6). The total recognised in the income statement for the year ended 31 March 2022 was USD 6.6m (2021: USD 6.1m).

	Right-of-use assets Land and buildings USDm	Leasehold improvements USDm	Equipment USDm	Total USDm
Cost				
At 1 April 2021	**194.2**	**63.3**	**59.5**	**317.0**
Additions	**–**	**44.1**	**20.0**	**64.1**
Disposals	**–**	**–**	**–**	**–**
At 31 March 2022	**194.2**	**107.4**	**79.5**	**381.1**
Accumulated depreciation				
At 1 April 2021	**11.0**	**42.5**	**44.4**	**97.9**
Charge for the year	**23.6**	**1.5**	**3.5**	**28.6**
Disposals	**–**	**–**	**–**	**–**
At 31 March 2022	**34.6**	**44.0**	**47.9**	**126.5**
Net book value at 31 March 2022	**159.6**	**63.4**	**31.6**	**254.6**
Cost				
At 1 April 2020	30.5	55.1	47.4	133.0
Additions	178.7	8.3	12.1	199.1
Disposals	(15.0)	(0.1)	–	(15.1)
At 31 March 2021	**194.2**	**63.3**	**59.5**	**317.0**
Accumulated depreciation				
At 1 April 2020	8.7	40.7	38.5	87.9
Charge for the year	13.8	1.9	5.9	21.6
Disposals	(11.5)	(0.1)	–	(11.6)
At 31 March 2021	**11.0**	**42.5**	**44.4**	**97.9**
Net book value at 31 March 2021	**183.2**	**20.8**	**15.1**	**219.1**

The gross carrying amount of fully depreciated property plant and equipment still in use is USD 75.3m (2021: USD 71.3m).

The right-of-use assets additions in the year to 31 March 2021 of USD 178.7m relate to recognition of a new lease of 100 Liverpool Street and extension of existing leases of 99 Queen Victoria Street and 30 Gresham Street.

As the assets at the new office premises have been put to use effective 1 April 2021, the Bank started the depreciation booking during the year to 31 March 2022.

17. Debt securities in issue

	2022 USDm	2021 USDm
Certificates of deposit – held at amortised cost	**976.0**	853.6

All debt securities are expected to be settled no more than 12 months after the reporting date.

Notes to the financial statements For the year ended 31 March 2022 continued

18. Other liabilities

	2022 USDm	2021 USDm
Lease liabilities	**175.0**	192.0
Accruals and deferred income	**211.3**	181.7
Accounts payable to parent	**8.0**	6.3
Cash collateral received under Credit Support Annex	**182.4**	69.0
Other liabilities	**7.0**	50.3
	583.7	**499.3**

Lease liabilities

The Bank leases various offices under non-cancellable lease arrangements to meet its operational business requirements. The Bank does not have any material subleasing arrangements. Right-of-use assets relate to property leases only: refer to note 16 for a breakdown of the carrying amount of right-of-use assets.

The total expenses recognised during the year for short-term and low value leases were USD 6.1m (2021: USD 5.7m) and USD 0.5m (2021: USD 0.4m), respectively. The portfolio of short-term and low value leases to which the Bank is exposed at the end of the year is not dissimilar to the expenses recognised during the year.

	USDm
As at 31 March 2020	20.9
Interest expense	0.9
New leases	189.2
Disposals	–
Cash payments	(19.0)
As at 31 March 2021	**192.0**
Interest expense	1.9
New leases	–
Disposals	–
Cash payments	(18.9)
As at 31 March 2022	**175.0**

The undiscounted maturity analysis of lease liabilities at 31 March 2022 and 31 March 2021 is as follows:

	Up to 3 months USDm	3 to 12 months USDm	1 to 2 years USDm	2 to 3 years USDm	3 to 4 years USDm	4 to 5 years USDm	Over 5 years USDm	Total USDm
31 March 2022								
Lease payments	2.4	2.9	7.3	16.0	16.0	16.0	128.0	188.6
Finance charges	(0.5)	(1.3)	(1.8)	(1.7)	(1.5)	(1.4)	(5.4)	(13.6)
Net present values	1.9	1.6	5.5	14.3	14.5	14.6	122.6	175.0
31 March 2021								
Lease payments	2.5	7.5	5.6	7.7	16.8	16.8	151.3	208.2
Finance charges	(0.5)	(1.5)	(1.9)	(1.9)	(1.7)	(1.6)	(7.1)	(16.2)
Net present values	2.0	6.0	3.7	5.8	15.1	15.2	144.2	192.0

The Bank is not exposed to any additional cash flows in respect of variable lease payments or extension and termination options. Additionally, the Bank does not have any significant sale and lease back transactions and does not have any restrictions or covenants imposed by the lessor on its property leases which restrict its business.

In October 2020, the Bank completed the lease signing for the new office building property at 100 Liverpool Street. As at 31 March 2022, the liability in relation to this lease is USD 162.8m payable in the next 14 years. The move from the existing buildings to the new building will take place in the year to 31 March 2023.

19. Contingent liabilities

Accounting for contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

The Bank is a defendant in a LIBOR-related legal case alleging certain of the Bank's practices and actions were improper. Management believes that the Bank will be successful in resolving these matters to the extent that it is able to assess them. At the reporting date the amount at risk is not reasonably estimable. This is an area of significant judgement and the potential liability could be material to the results at the point they are recognised in future periods.

20. Called up share capital

	USDm
Issued, allotted and fully paid Share capital (Ordinary shares of USD 1,000 and GBP 1)	
At 31 March 2021	3,200.1
Additions	–
At 31 March 2022	**3,200.1**

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Prudential Regulation Authority in supervising banks.

The Bank's capital is managed to ensure the Bank complies with external requirements and, in order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital or issue capital securities. There were no changes to the objectives, policies or process for the management of capital in the year. During the year there were no breaches of the Bank's capital adequacy requirement which required reporting to the Prudential Regulation Authority.

The Bank's available regulatory capital as at year-end was USD 4,886.8m (2021: USD 4,787.9m) calculated as total equity per financial statements less regulatory adjustments as per the requirements laid down in the Capital Requirements Regulation.

The following table provides a reconciliation of the Bank's balance sheet position to the Bank's regulatory capital position:

	2022 USDm	2021 USDm
Shareholders' equity per financial statements	**4,946.2**	4,788.6
Reserves not included in Tier 1 capital – Cash flow hedge	**(6.7)**	(1.1)
Deductions and other adjustments	**(52.7)**	0.4
Tier 1 capital after deductions	**4,886.8**	**4,787.9**

Notes to the financial statements For the year ended 31 March 2022 continued

21. Guarantees and commitments

Accounting for guarantees

In the course of its business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium or the provision in line with the policy in note 4. The premium receivable is recognised in profit and loss in fees and commissions income using the effective interest rate method over the life of the guarantee. Any increase in the liability relating to financial guarantees is taken to profit and loss.

	2022 Contract amount USDm	2021 Contract amount USDm
Guarantees and letters of credit	**3,413.3**	3,136.2
Undrawn formal standby facilities, credit lines and other commitments to lend	**15,194.9**	12,469.6

Undrawn commitments includes USD 1,849.2m in relation to green and sustainability facilities.

Guarantees and letters of credit commit the Bank to make payments on behalf of customers upon the occurrence of an event, generally related to the import or export of goods.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Since commitments may expire without being drawn upon; the total contract amounts do not necessarily represent future cash requirements.

Guarantees, letters of credit and commitments carry the same credit risk as loans and are subject to the expected credit loss requirements of IFRS 9: for further details please refer to note 4.

22. Assets pledged

Assets are pledged as collateral to secure liabilities or as security deposits on derivatives. The following table summarises the nature and carrying amount of assets pledged against liabilities held.

	2022 USDm	2021 USDm
Loans and advances to customers	**417.1**	264.0
Other assets	**381.1**	150.4
	798.2	**414.4**

The loans and advances to customers were pledged to the Banque de France. These assets allow the Bank to draw additional liquidity as of the year-end of USD 417.1m (2021: USD 262.8m). The other assets have been pledged as security deposits on derivatives.

23. Related parties

Two or more parties are considered to be related when one party has direct or indirect control over the other party; or the parties are subject to common control from the same source; or one party has influence over the financial and operating policies of the other party to the extent that other party might be inhibited from pursuing at all times its own separate interests.

Key management personnel are the Directors of the Company. There were no loans or deposits with or to key management personnel (and their connected persons) of the Bank. Key management personnel compensation is as follows:

	2022 USDm	2021 USDm
Short-term employee benefits	**2.9**	3.0
Post employment benefits	**0.1**	0.1
	3.0	**3.1**

The Bank has entered into a Keep Well Deed under which the Bank and SMBC agree to certain financial arrangements, including the obligation of the parent to maintain tangible net worth in the Bank at all times sufficient to cover the Bank's obligations arising through any of its business activities.

Amounts receivable from related parties of the Bank are as follows:

	2022		2021	
	Loans and advances USDm	**Other assets USDm**	Loans and advances USDm	Other assets USDm
Amounts due from parent company	**2,289.9**	**496.0**	1,708.7	646.4
Amounts due from other related parties	**254.3**	**152.0**	333.3	94.1
Total	**2,544.2**	**648.0**	**2,042.0**	**740.5**

Loans and advances are made in the ordinary course of business and on the same terms as comparable transactions with third parties. Other assets predominantly include derivative assets and other receivables.

Amounts payable to related parties of the Bank are as follows:

	2022		2021	
	Deposits USDm	**Other liabilities USDm**	Deposits USDm	Other liabilities USDm
Amounts due to parent company	**21,094.4**	**218.2**	20,752.0	355.1
Amounts due to other related parties	**720.7**	**29.7**	471.1	58.8
Total	**21,815.1**	**247.9**	**21,223.1**	**413.9**

Notes to the financial statements For the year ended 31 March 2022 continued

23. Related parties continued

The Bank receives collateral consisting of cash (part of amounts due to the parent company) of USD 5,253.3m (2021: USD 4,392.3m), from SMBC, to mitigate large exposures on intra-group positions. Deposits are taken in the ordinary course of business and on the same terms as comparable transactions with third parties.

Guarantees received from related parties of the Bank are as follows:

	2022 USDm	2021 USDm
Guarantees received on customer accounts	**2,918.6**	2,830.9
Guarantees received on the Bank's liabilities	**363.1**	3,062.9

Amounts recognised in the statement of comprehensive income in respect of related party transactions are as follows:

2022	**Parent companies USDm**	**Other related parties USDm**	**Total USDm**
Interest income	**2.9**	**20.6**	**23.5**
Interest payable	**(56.5)**	**17.0**	**(39.5)**
Fees and commissions receivable	**287.2**	**160.1**	**447.3**
Fees and commissions payable	**(0.6)**	**(1.3)**	**(1.9)**
Net trading	**–**	**(0.2)**	**(0.2)**
Other expenses	**(32.3)**	**(2.3)**	**(34.6)**
Total	**200.7**	**193.9**	**394.6**

Interest expense includes a one-off credit on account of remeasurement of a loan liability by USD 48.1 million which was a non-recourse loan provided by a Group company against a lease asset which was classified as impaired as at 31 March 2022.

2021	Parent companies USDm	Other related parties USDm	Total USDm
Interest income	1.5	11.2	12.7
Interest payable	(97.0)	(35.4)	(132.4)
Fees and commissions receivable	385.5	20.4	405.9
Fees and commissions payable	(1.1)	(1.2)	(2.3)
Net trading	–	(0.3)	(0.3)
Other expenses	(16.3)	(3.1)	(19.4)
Total	**272.6**	**(8.4)**	**264.2**

24. Country-by-country report

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

Country-by-country disclosure

2022

Activity	Geographical location	**Turnover USDm**	**Profit or loss before income tax USDm**	**Cash tax USDm**	**Average headcount**
Corporate banking	UK	**784.7**	**172.8**	**85.4**	**1,404**
Corporate banking	France*	**99.5**	**8.0**	**6.7**	**78**
Intra-group adjustments		**(13.4)**			
		870.8	**180.8**	**92.1**	**1,482**

2021

Activity	Geographical location	Turnover USDm	Profit or loss before income tax USDm	Cash tax USDm	Average headcount
Corporate banking	UK	735.3	315.6	35.7	1,165
Corporate banking	France*	113.2	17.5	14.8	81
Intra-group adjustments		(7.5)			
		841.0	**333.1**	**50.5**	**1,246**

* The activity in France is carried out through the Bank's branch in Paris.

Basis of preparation

1. Activities:
   Corporate banking – refers to provision of credit and other banking services to corporate customers.

2. Geographical location – the country where the branch is established.

3. Turnover includes interest income, interest expense, fees and commissions income, fees and commissions expense and net trading (loss)/income. This is in line with the financial statements.

4. Cash tax – refers to cash amount of all corporation tax paid in each location during the period 1 April to 31 March each year including Group relief.

5. Public subsidies – refers to direct support by the Government. The Bank does not receive any public subsidies.

25. Parent companies

The Bank is a subsidiary undertaking of Sumitomo Mitsui Financial Group Inc which is the ultimate parent company incorporated in Japan. SMFG is the ultimate controlling party.

The largest group in which the results of the Company are consolidated is that headed by Sumitomo Mitsui Financial Group Inc. SMFG's consolidated financial statements can be obtained from its registered office at 1-1-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

The smallest group in which they are consolidated is that headed by Sumitomo Mitsui Banking Corporation, the Bank's immediate parent. The consolidated financial statements of SMBC can be obtained from its registered office at 1-1-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

Shareholder information

Registration

Registered as a public limited company in England and Wales under company number 04684034.

Registered office

100 Liverpool Street, London, EC2M 2AT, United Kingdom

Regulated status

Authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. The Bank's Financial Services Register number is 223304.

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Website

The Bank's website is:
www.smbcgroup.com/emea/smbcbi

Pillar 3 document

The Bank's Pillar 3 disclosures can be found at:
www.smbcgroup.com/emea/pillar3

Forward-looking statements

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

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

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

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

SMBC