SMBC

SMBC Group

A trusted partner for the long term

SMBC Bank International plc

Annual report and financial statements
Year ended 31 March 2024

SMBC Bank International plc serves corporate and institutional customers in the United Kingdom and in non-European Economic Area countries across Europe, the Middle East and Africa.

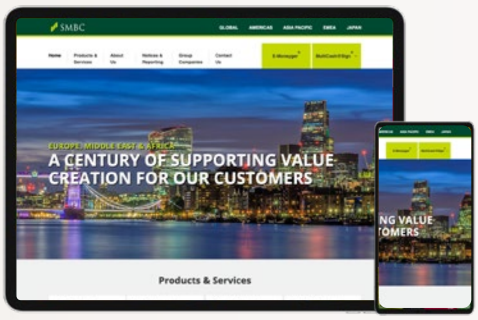
The Bank is wholly owned by SMBC, which is one of the world's largest banks by total assets, providing an extensive range of corporate and consumer banking services in Japan and globally. SMBC is a core member of SMFG, a Tokyo-based holding company which is one of Japan's largest financial institutions. Through its subsidiaries and affiliates, SMFG offers a diverse range of financial services, including commercial banking, leasing, securities, credit card, consumer finance and other services.

What's inside

Contents

Find out more online

+ smbcgroup.com/emea



Company registration

Registered as a public limited company in England and Wales under company number 04684034

Regulatory registration

Authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority

Financial Services Register number: 223304

Registered office

100 Liverpool Street, London, EC2M 2AT, United Kingdom

Pillar 3 document

https://www.smbcgroup.com/emea/notices-reporting/corporate-disclosures

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Presentation of information

In this annual report, the term 'Bank' refers 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, which is 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 CM'.

+ This annual report contains forward-looking statements that involve inherent risks and uncertainties. Please see Forward-looking statements on page 146.

Business overview

The Directors present the Strategic Report of SMBC Bank International plc for the year ended 31 March 2024.

The Bank works closely with other SMBC Group companies to provide a full range of financial services solutions. Many of the Bank's transactions are undertaken in cooperation with SMBC Nikko Capital Markets Limited (SMBC Nikko CM), which 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 that provides business and financial services in the European Economic Area.

Business overview

There are four main pillars to the Bank's business:

1 Relationships

The Bank's business is with selected corporate and sovereign institutional customers where it provides a range of corporate banking services, supported by the wider SMBC Group. The Bank works in EMEA with Japanese and Asian corporates and non-Japanese investment and sub-investment corporates, including financial institutions, and selected top-tier corporates and sovereigns in the emerging markets and other areas of EMEA.

2 Products and services

The Bank provides a wide range of products and services, including syndicated and bilateral loans and specialist financial advisory services, as well as deposits and foreign exchange. The Bank particularly seeks to leverage its presence and expertise in project finance in the energy and infrastructure sectors; trade finance including supply chain finance; aircraft and maritime finance; LBO finance; and ECA, advisory and other structured credit.

3 New business development

The primary approach to developing new business opportunities is to seek organic growth, leveraging the Bank's expertise and diversification of the credit portfolio. The expansion into new business areas is considered in conjunction with risk appetite.

4 Organisational growth

The development of the organisation, including strengthening governance and risk control, is recognised as the foundation for sustainable growth. The Bank provides management, marketing and other services to other SMBC Group companies under Service Level Agreements, receiving fees as income for those services.

Key client sectors

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

Products and services

- Corporate lending
- Deposits
- Diversified payment rights
- Foreign exchange
- Fund finance
- Leveraged finance
- Merger and acquisition (M&A) financing
- Sustainable finance
- Syndicated and bilateral loans
- Corporate and M&A advisory ●
- Cross-border M&A ●
- Debt and equity capital markets ●
- Equities and fixed income sales and trading ●
- Derivatives ●

● Offered by SMBC Nikko CM, but to be offered by the Bank following completion of the securities business transfer – further information can be found on **pages 12 and 13**.

● Offered by SMBC Nikko CM

Customer-facing departments

This overview of the Bank's customer-facing businesses reflects the comprehensive nature of the Bank's business offering in EMEA. In addition, further departments will be established following the completion of the securities business transfer from SMBC Nikko CM to the Bank.

Corporate and Investment Banking

Corporate Banking Department 1
Japanese and Asian corporates in EMEA

Corporate Banking Department 2
Non-Japanese corporates in Western Europe

CEEMEA Corporate Banking Department
Corporates in Central and Eastern Europe, the Middle East and Africa

Global FIG Department
Financial institutions

Loan Capital Markets Department
Syndication and asset distribution

Global Transaction Banking Department
Electronic and transaction banking services

Structured Finance Solutions

International & Structured Finance Department
Structured finance, advisory, ECA, project finance

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

Transportation Department
Aviation and maritime

Global Trade Finance Department
Trade finance products and services

Sales and Trading

Financial Markets Department
Treasury and foreign exchange

Purpose, strategy and objectives

The Bank's purpose

To be a trusted partner for the long term

"Trust" is a cornerstone of the Bank's and SMBC Group's offering.

"Partner" and **"partnership"** are words frequently used in the Bank and wider SMBC Group as they emphasise the two-way, win-win nature of what the Bank regards as a successful and mutually beneficial relationship.

"Long term" is naturally associated with trust, partnership and stability. Taking a long-term view and nurturing relationships as long-term associations is central to the Bank's business activities and approach.

The Bank's purpose is underpinned by its business model, which is to provide customers with access to a full suite of corporate finance solutions in a way that is aligned to the Bank's aspiration to deliver long-term sustainable growth while ensuring that it remains well funded and well controlled, and that there is an appropriate balance between risk and reward.

Strategy and objectives

The Bank has four corporate objectives:

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

Sustainable growth To run the 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 relevant SMBC Group entities through Service Level Agreements.

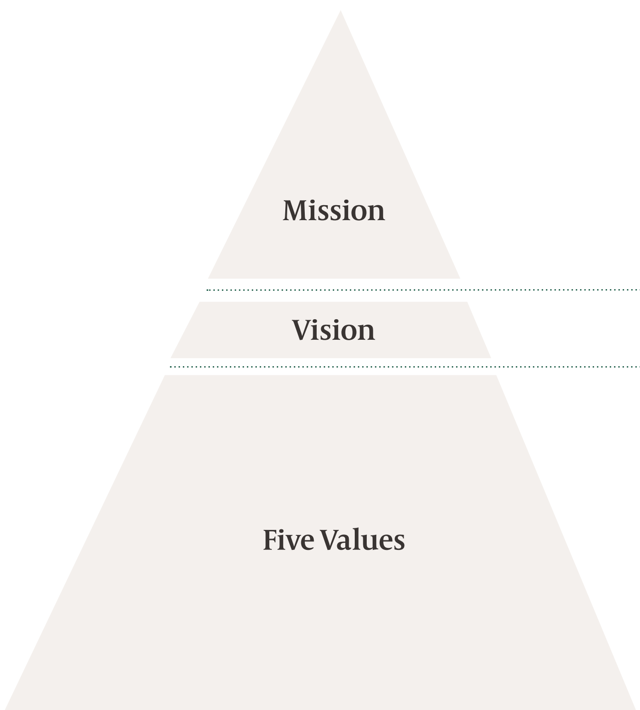
Competitive edges To establish and develop those areas where the Bank feels it has a particularly strong position in customer relationships, product capabilities and global reach.

Team SMBC Group To share and help realise SMBC Group's Mission, Vision and social value creation. The Bank also shares the Group's Five Values, which are an integral part of the Bank's culture.

SMBC Group's Mission, Vision and Five Values

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

The Bank's purpose and strategy are consistent with and support the wider SMBC Group's Mission, Vision and Five Values.



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.

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

Integrity As a professional, always act with sincerity and a high ethical standard.
Customer First Always look at it from the customer's point of view, and provide value based on their individual needs.
Proactive & Innovative Embrace new ideas and perspectives, don't be deterred by failure.
Speed & Quality Differentiate ourselves through the speed and quality of our decision-making and service delivery.
Team 'SMBC Group' Respect and leverage the knowledge and diverse talent of our global organisation as a team.

Chair's statement

"The Board would like to thank the Bank's team of dedicated professionals who continue to work tirelessly to deliver sustained success for SMBC Group, and for our clients and stakeholders."

Alan Keir
Chair

Highlights

26%
Increase in operating income

USD 535.6m
Profit before tax

The Bank performed well in FY2023, meeting or exceeding its financial commitments to its shareholder. The business was focused on optimising returns through rebalancing its portfolio, allocating more assets to profitable deals, and accelerating deposit-taking initiatives. By improving our overall portfolio quality and increasing our non-asset income, we achieved an enhanced Return on Equity (ROE) performance of 7.5%.

Despite the continued uncertain macroeconomic and geopolitical environment, the Bank has demonstrated resilience by maintaining a strong balance sheet and stable credit profile while holding significant liquidity reserves. Coupled with robust risk management practices, these measures have allowed the Bank to effectively navigate stressed market conditions and respond proactively, when required.

The Board would like to thank the Bank's team of dedicated professionals who continue to work tirelessly to deliver sustained success for SMBC Group, and for our clients and stakeholders.

The Bank's operating model and business activities continue to evolve, and we have progressed our preparation for the transfer of the securities business of SMBC Nikko CM to the Bank. This has been a multi-year project, with active engagement with our stakeholders and significant oversight from the Board, to ensure the Bank's governance and organisational arrangements are appropriate to manage the expanded business. Additionally, we also formalised the strategic partnership with Jefferies in EMEA, building on the initial partnership in Japan and the US. This latest arrangement will facilitate enhanced collaboration on M&A advisory services, equities, and debt capital markets businesses, and a joint coverage model for designated investment grade clients. These developments signal our commitment to the region, and our aspiration to provide our clients with an increasingly comprehensive suite of corporate finance solutions.

I have been pleased to see the further evolution of the Board of Directors this year. For our non-executive Directors, Charlotte Morgan stepped down, with Sophie O'Connor succeeding her as Chair of the Audit Committee. We also appointed James Garvey and Karen Briggs, who bring a wealth of corporate and investment banking and risk management experience.

The executive component of the Board was also enhanced with the appointments of Elena Paitra, Antony Yates and Hiroshi Ibaraki. James Fenner and Nobuyuki Takiguchi stepped down from the Board shortly after the year-end and I would like to thank them and Charlotte for their significant contributions to the Bank and wider SMBC Group.

The Bank continues to recognise the environment and community as key stakeholders and is committed to creating social value alongside economic value. The Bank is developing more integrated frameworks to connect its lending activities to its efforts on sustainability, diversity and inclusion, and Corporate Social Responsibility (CSR), with all colleagues encouraged to engage and participate.

From a climate perspective, the Bank's priority is to support clients in their journey to sustainability, alongside our own global net zero commitments. Clients are supported by an expanding range of sustainable financing solutions, and we continue to embed sustainability risk management and culture in all aspects of our business. We believe in our responsibility to help maintain the integrity of the sustainable finance market, and to facilitate capital flows towards clients and businesses that are best placed to thrive in a low carbon economy.

Attracting, developing and retaining diverse talent is a Board priority. We continue to ensure that the Bank's policies and processes are as fair, equitable and inclusive as possible, and that barriers to inclusion and social mobility are eliminated. While we have achieved our initial Women in Finance Charter targets, we recognise that there is more to do. To further accelerate our gender diversity progress, the Bank has set a new target of 30% by 2027 for females at the more senior level of Executive Director and above. The Bank is also a committed signatory to the UK's Race at Work Charter, and we are making progress on all the charter commitments for minority ethnic colleagues.

To achieve our strategic objectives, we are constantly looking at ways to streamline and automate aspects of our business. During the year, the Board implemented a new framework regarding our approach to Artificial Intelligence. The AI ecosystem we are developing contemplates both technical and principles-based elements, and will include strategy, innovation, risk, and governance. The approach is designed to both drive competitive edge and our readiness for forthcoming legislation and regulation in the UK and the EU.

> **To achieve our strategic objectives, we are constantly looking at ways to streamline and automate aspects of our business.**

In the coming year, we will focus on delivering our universal bank and further collaboration with Jefferies. Evolving our risk appetite into sectors such as sub-investment grade and financial sponsors will all help to enhance our ROE, with deposit-taking and transaction banking further reinforcing our lending business. The new business verticals structure implemented in preparation for the securities business transfer will help to drive our business forward, enhance operational efficiency, and strengthen our governance and control frameworks as we continue to grow our franchise in the region.

Finally, this will be my last statement as Chair, as I plan to retire from the Board in 2024, having served as a Director for almost eight years. Subject to regulatory approval, Sophie O'Connor will succeed me as Board Chair. Karen Briggs will then succeed Sophie as Audit Committee Chair. I am confident that these changes, alongside the further appointments outlined above, will leave the Board well-positioned to lead the Bank successfully through its next phase of growth.

Alan Keir
Chair
4 July 2024

Chief Executive Officer's statement

"I am pleased with how the Bank performed during the year, having delivered enhancements to the quality of our balance sheet and to our ROE performance."

Hideo Kawafune
Chief Executive Officer

The operating environment for the Bank, and for the sector overall, continues to be volatile and uncertain. Given the macroeconomic and geopolitical situation, global growth has remained sluggish, including in the UK and across Europe, compounded by the conflicts between Russia-Ukraine and, more recently, in Israel-Gaza. Core inflation levels remained stubborn and consequently interest rates have remained elevated for the majority of the preceding 12 months. The outlook, particularly given these ongoing conflicts, remains uncertain, with inflation likely to remain above target levels across the world.

Despite this backdrop, I am pleased with how the Bank performed during the year, having delivered enhancements to the quality of our balance sheet and to our ROE performance.

During the year, we announced the intention to start operations as a universal bank, commencing with the transfer of the securities business of SMBC Nikko CM, which is anticipated for completion in the fiscal year ending 31 March 2025. In preparation for this, in April 2024, the Bank implemented a reorganisation of its front office departments by establishing three business verticals, each led by a senior executive (or executives) responsible for coordinating the Bank's customer-facing activities. These steps, alongside the formalisation of the strategic alliance with Jefferies in EMEA, will result in an expansion of the Bank's product and service suite, thereby enhancing our ability to deliver integrated solutions to our clients from a single entity.

> **A significant area of focus for the management team has been to ensure that activities required to implement the integration were coordinated and managed through an appropriate project governance structure, underpinned by the active engagement of the Board, and with support from colleagues across the Bank and the wider SMBC Group.**

A significant area of focus for the management team has been to ensure that activities required to implement the integration were coordinated and managed through an appropriate project governance structure, underpinned by the active engagement of the Board, and with support from colleagues across the Bank and the wider SMBC Group. We have dedicated as much resource as possible to achieve our goal of establishing a universal bank, which is central to the Bank's future business strategy and the way in which we serve our clients in EMEA. Further information can be found on **pages 12 and 13**.

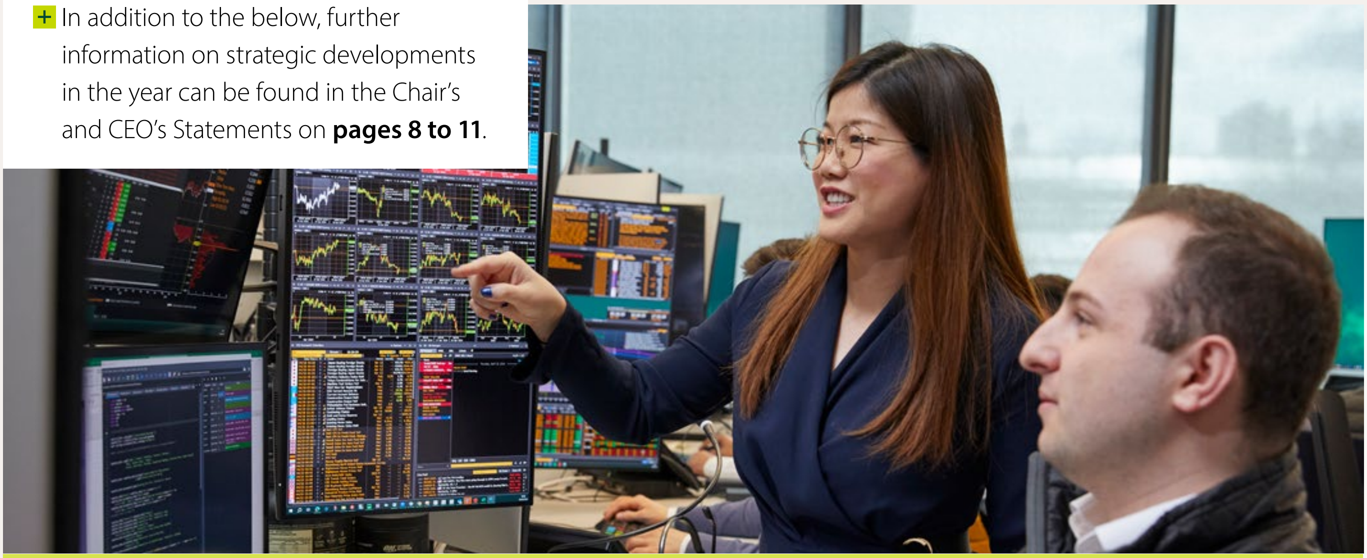
From a strategic perspective, I set out four goals for the Bank at the start of my tenure one year ago. The pillars of Profitable Growth; Transformation / Simplification; Sustainability; and Governance, Risk and Control remain priorities for the Bank, and the entire SMBC EMEA Division. They also align to the current management plan for SMBC Group's Global Business Unit, which continues to be a growth driver for the Group overall. I am confident that the Bank's simplified corporate and investment banking model will be more efficient and will enhance our clients' experience of partnering with us. We are excited about the opportunities in front of us and are committed to delivering profitable and sustainable growth for the benefit of our stakeholders.

Hideo Kawafune
Chief Executive Officer
4 July 2024

Review of the year

Developments in the year

+ In addition to the below, further information on strategic developments in the year can be found in the Chair's and CEO's Statements on **pages 8 to 11**.



Transfer of securities business

During the year, the Bank announced its intention to start operations as a universal bank. A central part of this process will be the transfer to the Bank of the securities business of SMBC Nikko CM, comprising a portfolio of debt securities and other fixed income assets. It is currently expected that the transfer, together with the establishment of a new branch in Abu Dhabi to support securities customers in the Middle East, will be completed in the current fiscal year, ending 31 March 2025. In addition to the portfolio transfer, it is also expected that in the current fiscal year, SMBC Nikko CM's employees will be transferred to the Bank, many of whom will provide services to that company through Service Level Agreements.

Following the portfolio transfer, the Bank's product and service suite will be expanded to include:

- primary debt securities underwriting;
- primary equity securities underwriting;
- fixed income secondary debt trading;
- equities secondary market trading; and
- M&A advisory services.

Derivatives business will continue to be undertaken by SMBC Nikko CM, but by individuals employed by the Bank.

The Bank believes that the business and employee transfer, once completed, will enable the Bank to better serve its customers by offering banking and securities products through a single entity providing a full range of financial services. The Directors expect to provide further information on this in next year's annual report and accounts.

In preparation for the planned transfer, there has been significant Board and management focus on overseeing the development of the Bank's governance and organisational arrangements so that these are appropriate to run and manage the expanded business and, in particular, that the risks arising from the new business lines can be appropriately assessed and managed. Information on planned enhancements to the Bank's risk management governance arrangements can be found on **pages 71 to 72**. The business transfer is expected to lead to an increase in trading book market risks, but at relatively modest levels, and the Bank is taking steps to maintain strong financial resilience as a result of this increase.

As set out in the CEO's statement, shortly after the year-end, the Bank established a business verticals structure to coordinate the expected expansion of the business-facing activities.

The development of the universal bank strategy and the preparations required to implement the portfolio and employee transfer have formed part of a multi-year project. This has been actively overseen by the Board and its Committees, which have engaged directly with the senior executives responsible for the management and delivery of the project. At an executive level, this work has been coordinated and managed through a project governance structure led by the CEO, with the involvement of colleagues across the Bank and the wider SMBC Group. The Board and senior management have sought to engage closely with the Bank's stakeholders during this process, and further information on how they have done so can be found in the Section 172(1) Statement on **page 65**.

Once completed, the Board, through its Risk Committee, plans to actively monitor the post implementation risks associated with the transfers. The Board will also keep the Bank's strategy, structure and business offering under review to assess whether these remain best positioned to serve the Bank's customers across EMEA.

The transfer to the Bank of the securities business of SMBC Nikko CM is expected to result in an increase of the Bank's asset balances, primarily in Reverse Repurchase Agreements, of circa USD 12.8bn, and Securities Assets of circa USD 1.8bn (based on 31 March 2024 balances). It is also expected to introduce additional Repurchase Agreement liabilities of circa USD 11.2bn and further Securities Liabilities of circa USD 1bn.

Performance commentary

Operating income at USD 1,274.2m increased vs. last year by 26%, primarily driven by increases in net interest income and trading income.

Net interest income at USD 440.4m increased year-on-year by 97%, mainly reflecting a higher interest rate environment and consistent balance sheet usage through loans and advances to customers.

Net fees and commissions income increased by 5% to USD 556m, primarily driven by an increase in fees received from customer-led activity. Fee income received from other SMBC Group companies through Service Level Agreement arrangements has remained stable. Since Brexit, the SMBC Group has changed its structure, leading to additional fees from SMBC Group companies for the Bank's contribution to deals booked in and services provided to SMBC Group's other locations.

Trading income has increased circa 6% year-on-year, driven by revenue from foreign exchange derivatives, which are used to manage the currency composition and liquid asset requirements of the Bank. This has benefitted from the rising interest rate environment on USD balances vs. other currencies and is broadly offset by increased interest expense incurred on USD-denominated deposits.

Operating expenses (excluding impairments) increased by circa 14% to USD 711m, driven by higher personnel expenses of USD 425m due to investment in business growth, compliance and control functions . Other Expenses of USD 231m have increased by 15% compared to the previous year due mainly to costs shared across the SMBC group and ongoing technology and people investment.

Impairment costs of USD 27m decreased by USD 21m year-on-year. This is driven by reduced model-driven provisions with revised economic indicators, and the reduction in certain post model adjustments. Since the start of the Russia-Ukraine conflict in February 2022, there has been elevated economic uncertainty, including a higher inflation and interest rate environment. The Bank considers this to assess the direct and indirect impact of these events when evaluating the provisions on its loan portfolio in the context of entities having operations in Russia and counterparties affected by ongoing economic challenges. The post model adjustments in relation to economic uncertainty decreased primarily due to reduced exposures. Overall Expected Credit Loss has remained broadly stable, with lower model-driven provisions partially offset by amounts provided against specific borrowers.

Profit before tax at USD 536m increased year-on-year due to higher operating income, partially offset by an increase in operating expenses.

The balance sheet at USD 50bn nominally decreased by 5% vs. the previous year, driven by a reduction in cash and balances held with central banks and lower intra-group funding balances.

In other comprehensive income, there was a net loss of USD 9m on the Bank's defined benefit pension scheme. The loss was primarily driven by a reduction in the valuation of the pension plan assets, reflecting the higher interest rate environment.

The full year results are set out in the Statement of Comprehensive Income on **page 82**. The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2024.

Key performance indicators

The Board and management use a range of financial and non-financial key performance indicators (KPIs) to help them understand how the Bank is performing and to monitor its compliance with regulatory requirements.

Set out below are the key KPIs used.

Financial KPIs

Return on equity

Profit after tax of USD 406.3m divided by the average monthly equity in the year of USD 5,405.4m

7.5%

2024	7.5%
2023	5.0%
2022	2.7%
2021	5.1%

Tier 1 capital ratio

Tier 1 capital of USD 5,476.9m divided by total risk weighted assets of USD 28,122.3m

19.5%

2024	19.5%
2023	17.8%
2022	16.3%
2021	16.7%

Cost income ratio

Net operating expenses (excluding impairment losses) of USD 711.4m divided by operating income of USD 1,274.2m

55.8%

2024	55.8%
2023	61.8%
2022	68.0%
2021	61.0%

Non-performing loan ratio

Gross exposure non-performing loans of USD 241.5m divided by on-balance sheet gross exposure total loans of USD 20,275.7m

1.2%

2024	1.2%
2023	2.3%
2022	2.0%
2021	2.0%

Leverage ratio

Regulatory Tier 1 capital of USD 5,476.9m divided by Capital Requirements Regulation leverage exposure of USD 36,713.4m

14.9%

2024	14.9%
2023	13.8%
2022	12.4%
2021	7.7%

Net profit

Profit for the year attributed to equity holders of the parent

USD 406.3m

2024	406.3m
2023	252.1m
2022	131.9m
2021	240.9m

Gross income

Operating income

USD 1,274.2m

2024	1,274.2m
2023	1,014.4m
2022	870.8m
2021	841.0m

Total assets

USD 50,064.1m

2024	50,064.1m
2023	52,661.1m
2022	54,017.1m
2021	53,568.5m

Non-financial KPIs

Progress against the Women In Finance Charter targets

+ Read more **page 25**

Carbon emissions

+ Read more **pages 35 to 43**

Supplier payment periods

+ Read more **page 56**

Risk management overview

Risk overview

The Bank has continued to operate in an uncertain macroeconomic and geopolitical environment. Although, globally, the economy performed better than expected in 2023, growth remained sluggish overall. Notably, economic growth outside the US region, has been modest, particularly in the UK and across Europe, with the UK dipping marginally into a technical recession at the start of 2024. Despite inflationary pressures diminishing worldwide, core inflation levels and consequently interest rates remained elevated for the majority of the preceding 12 months. The banking sector witnessed heightened volatility, marked by bank failures at the start of the year amongst fear of systemic contagion. The geopolitical climate has been dominated by the Russia-Ukraine conflict and more recently by the Israel-Gaza conflict.

In the year, the Bank has maintained a strong balance sheet, maintained a stable credit profile and held significant liquidity reserves. Coupled with robust risk management practices, these measures have allowed the Bank to effectively navigate the volatile market conditions and respond proactively, when required.

Risk classification

The way in which the Bank classifies the risks and uncertainties it faces are set out below.

Risk classification	
Type and 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, or 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 to a 99% confidence interval to measure and control market risk alongside other relevant metrics.
Operational and other non-financial The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. There is also an increasing regulatory and Bank focus on operational resilience.	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. Several approaches are used to manage other non-financial risks.
Conduct The risk of the Bank's actions, inactions or behaviours resulting in poor outcomes for its customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.	The FCA's Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank assesses conduct using a suite of targeted metrics.

Risk management overview continued

Risk classification	
Type and description	**How risks are managed**
Cyber The risk of cyber-attack which can result in wide-ranging impacts from information theft to unavailability of systems and services. 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 implemented technical and procedural controls at multiple levels to detect, prevent, and respond to potential threats and anomalous behaviour. 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 simulated phishing campaigns. A number of themes related to cyber events also feature in the Bank's operational risk scenario exercise and are reflected in operational risk capital assessment.
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. The Bank continues to enhance and embed the Operational Resilience framework in preparation for the regulatory deadline of March 2025.
Sustainability, including climate change Sustainability risk results from ESG issues, events or conditions that have the potential to substantially impact (financially, reputationally or physically) the Bank, SMBC Group, its clients, the environment and/or society. This risk can manifest itself across all risk types.	This is managed under the sustainability risk framework which is embedded in the broader risk framework and business.
Reputational risk The risk of current and prospective impact on earnings and capital arising from litigation or a decline in customer base from negative public opinion regarding the Bank's business practices and, therefore, its inability to establish new relationships or continue serving existing relationships.	This has been managed under the Financial Crime and Reputational Risk framework and the Bank intends to enhance the governance framework for this risk over the coming year.

Principal and emerging risks and uncertainties at 31 March 2024

The outlook for the geopolitical and macroeconomic environment remains uncertain, with the possibility for a spill-over from the Russia-Ukraine and Israel-Gaza conflicts referenced above impacting inflation more broadly. The key financial and non-financial risk drivers at 31 March 2024 are set out opposite. Principal risks are identified as those with the potential to affect the Bank's strategy and operations, and the sustainability of the long-term business model. Emerging risks are those with unknown elements, and their impacts could materialise over different timeframes.

Externally driven

- Middle East and Central Asian unrest
- Russia-Ukraine conflict
- Recession risk in UK, US and Eurozone
- Cyber and phishing attack
- Financial crime, sanctions and conduct
- General elections taking place within EMEA, the US and globally in 2024

Internally driven

Transfer of securities business of SMBC Nikko CM to the Bank.

Find out more

+ Information on the way in which the Bank manages risk can be found in the Risk management section on **pages 70 to 75** and this is incorporated by cross reference.

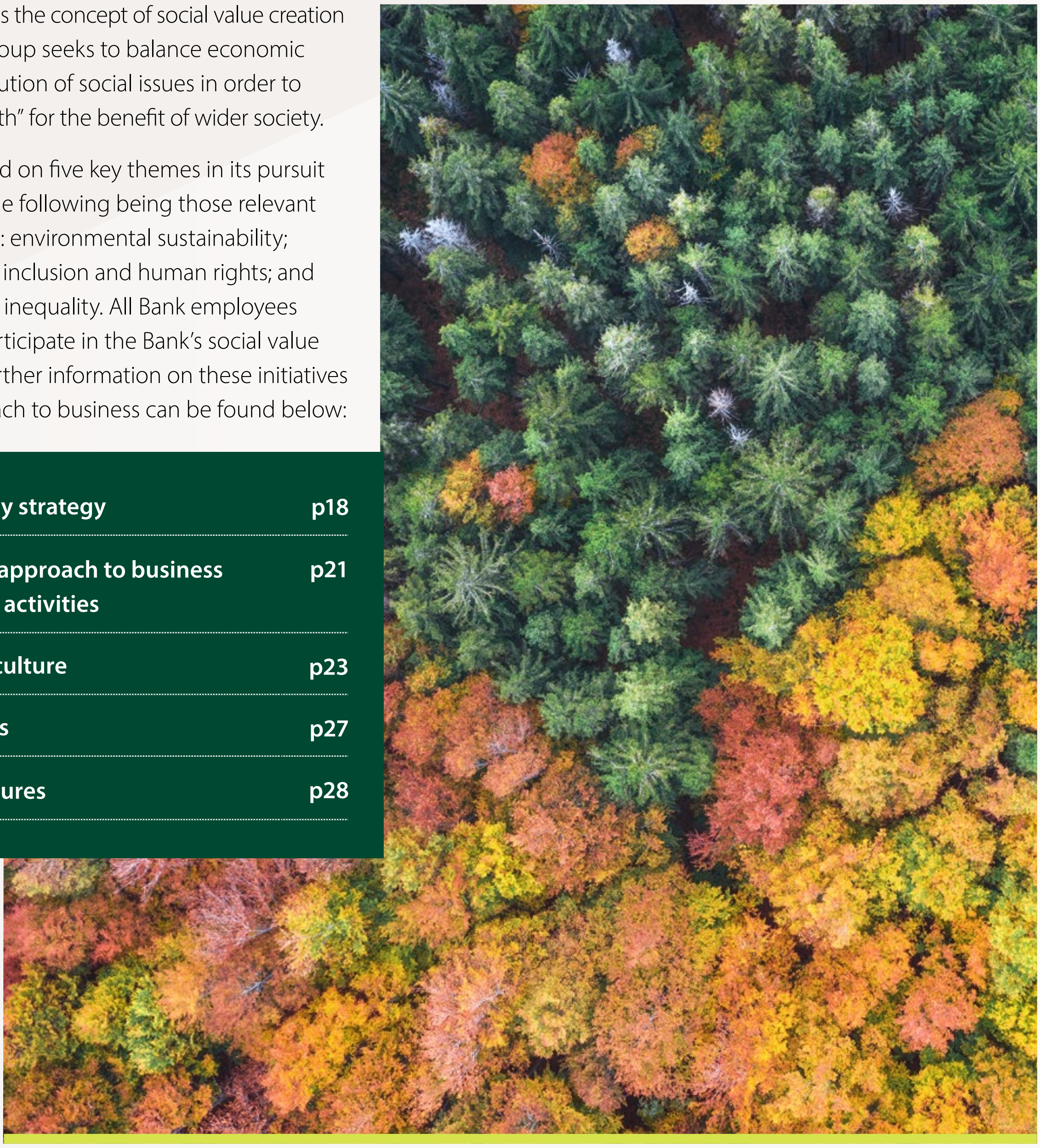
+ Additionally, information on the level of risk at the year-end can be found in the financial statements.

Sustainability and social value

The Bank shares SMBC Group's Mission, which is "we contribute to a sustainable society by addressing environmental and social issues".

Central to this Mission is the concept of social value creation through which the Group seeks to balance economic growth with the resolution of social issues in order to achieve "fulfilled growth" for the benefit of wider society.

SMBC Group is focused on five key themes in its pursuit of social value, with the following being those relevant to the Bank's activities: environmental sustainability; diversity, equality and inclusion and human rights; and reducing poverty and inequality. All Bank employees are encouraged to participate in the Bank's social value creation initiatives. Further information on these initiatives and the Bank's approach to business can be found below:



Sustainability and social value continued

1 Sustainability Strategy

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

The Bank seeks to support SMBC Group's vision of sustainability through its regional sustainability strategy, which is based on four pillars:

Our Customers
Support customers in their journey to sustainability.

Our Business
Embed sustainability management in our culture, risk appetite and all aspects of our business

Our Solutions
Recognised as a leading provider of green and sustainable finance solutions.

Our Impact
Pursue long-term economic growth through social value creation for stakeholders.

Our Customers

Support customers in their journey to sustainability

Given the Bank's key client sectors and supported markets, it is exposed to businesses that are natural resources intensive and markets that are at varying stages of regulating environmental and social standards. The Bank believes that the most direct means of influencing clients' sustainability performance is by using its long-standing client relationships to help identify their most material sustainability-related issues and opportunities, share insights on sector strategies and leading practice, and offer financing and advisory services for firms to invest in their performance.

The Bank has invested in its own capabilities by hiring technical experts from industry, working with external expert advisors to develop sector-specific research and ensuring functional specialists are involved in key external forums, such as the Science Based Targets initiative, the Loan Markets Association Sustainable Finance Steering Committee and the Net Zero Banking Alliance (NZBA) sector sub-tracks, so that employees can contribute to the development of the market and stay informed on leading practice. In addition to meeting individually with customers on their sustainability strategies, the Bank has held customer events through which it has shared insights and connected clients with functional specialists. Examples of topics covered include sustainability in emerging markets, changes in the renewable energy sector and developments in new energies.

Our Solutions

Recognised as a leading provider of green and sustainable finance solutions

The Bank recognises that maintaining the integrity of the sustainable finance market is critical in allowing capital to flow toward more sustainable business activities. Therefore, the Bank has set an ambition to not only make a significant contribution to SMBC Group's 10-year JPY 50 trillion sustainable finance commitment, but to do so in a way that respects market standards and aims to support ambitious performance. The Bank has put in place procedures, training and a governance process to facilitate ESG-labelled transactions that are aligned to market standards.

The Bank's sustainable finance performance is measured by the value of ESG-labelled transactions, the number of transactions for which the Bank is in the ESG Coordinator role, league table performance among our peer banks in EMEA, and the number of transactions that are escalated for review.

In 2023, SMBC acted as joint Sustainability Coordinator, Bookrunner and Mandated Lead Arranger for a transaction that was awarded the "Best social development deal" at the Project Finance Awards. This award was received for a transaction with a Turkish financial institution involving a social syndicated dual currency term loan with 100% allocated to disaster relief and emergency aid to those sadly impacted by the earthquake in Turkey. Although the lending for this transaction was ultimately undertaken by SMBC London branch, the Bank's specialist teams provided the expertise and engaged with the customer and other counterparties to the transaction.

Sustainability and social value continued

1 Sustainability Strategy continued

Our Business

Embed sustainability management in our culture, risk appetite and all aspects of our business

Risk management

The Bank recognises sustainability risk as a key component of the risk landscape. During the year, the Bank enhanced the governance over the way it assesses this risk through the establishment of the Sustainability Risk Management Committee (SRMC) and the further development of the regional sustainability risk framework. This framework facilitates integration of sustainability risk into the wider risk management framework and will evolve in line with regulatory requirements and market best practices.

The Bank considers sustainability risk, including climate change, in the same manner as all risk types, through the Identify, Measure, Monitor, Manage and Report (IMMMR) approach and uses the three lines of defence model to manage risk across the business (+ Read more on **page 70**).

The Bank's sustainability risk priorities are:

- Governance: enabling management and the Board to effectively oversee sustainability risk management and strategy integration.
- Risk management: development and implementation of risk management policies, processes, and portfolio monitoring.
- Data, Tools and Reporting: continued enhancement to IMMMR sustainability risk.

Training

The Bank has established a framework to train its people on sustainability and ESG topics with the objective of building the skills, knowledge and expertise required to deliver the sustainability strategy. The Sustainability Curriculum aligns with the four pillars of the Bank's sustainability strategy and is updated regularly. It includes modules on net zero alignment, financed emissions, sustainable finance and reputational risk. The Bank also delivers additional employee engagement initiatives, including an annual Sustainability Week which features internal and external speaker sessions, supported by senior management communications.

Our Impact

Pursue long term economic growth through social value creation for stakeholders

A significant area of focus in the year was on reducing the carbon footprint of the Bank's business activities and operations, in line with SMBC Group's public commitments to achieve net zero emissions in its own operations by 2030 and in its overall loan and investment portfolio by 2050. In line with this commitment, SMBC Group is a member of the NZBA and Net Zero Asset Managers (NZAM) initiative. SMBC Group has also set medium-term greenhouse gas emissions reduction targets for the power, oil and gas, coal, steel and automotive sectors, and has also established a Net Zero Transition Plan.

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, disclosing the alignment of its portfolio with the trajectory to achieve the United Nations' International Maritime Organisation's Greenhouse Gas (GHG) Strategy, which was updated in 2023 to target net zero well-to-wake emissions by 2050.

The Bank's net zero strategy is focused on using the key levers available to it to steer its portfolio towards clients and business activities that are best positioned to thrive in a low carbon economy. This year the Bank continued to make progress in supporting the Group's net zero commitment by scoring the majority of clients against the improved framework for evaluating client transition strategies and direct client engagement. This client-level engagement is a key lever available to the Bank to steer its portfolio, alongside Bank policies and the development of new, net zero aligned business activities.

2 Sustainable approach to business – conduct of activities

The Bank recognises that to achieve sustainable growth it is necessary for its activities to be conducted in line with all legal and regulatory requirements. Conduct key risk indicators, which seek to provide effective risk identification, are regularly reviewed, including by the Executive Committee and Risk Committee.

Compliance policy framework

The purpose of the policy framework is to help everyone who works for the Bank to understand good conduct, positive behaviour and how to raise and address concerns. The policies set out the Bank's approach to the identification, understanding and management of conduct risk at individual, departmental and organisational levels. They also explain that conduct applies to both financial and non-financial behaviours and that conduct is recognised as being closely linked to the Bank's values, culture and environment of psychological safety.

Prevention of financial crime and anti-bribery and corruption

The Bank is committed to complying with all applicable financial crime regulation and legislation, including sanctions laws and regulation, that prevent it from being used to facilitate financial crime. The Bank has no appetite for serious, repeated or material violations of laws, regulations and industry guidance in relation to financial crime, and acknowledges that in order to undertake its business activities it must implement systems and controls to mitigate residual financial crime risks. These include policies, standards, procedures, guidance, training, risk assessment models and operational processes. All employees are required to adhere to the Bank's prevention of financial crime policies, on which they receive training on joining the Bank and annually. The Money Laundering Reporting Officer reports at least annually to the Risk Committee and Board

Sustainability and social value continued
② Sustainable approach to business – conduct of activities continued

on the operation and effectiveness of the arrangements to counter the risk of the Bank being used to further financial crime. Areas of focus in the year have included enhancing the processes and systems through which the Bank monitors customer transactions for signs of suspicious activity and compliance with sanctions laws and regulations.

Prevention of slavery and human trafficking and protection of human rights

During the year, the Board reviewed and approved the Bank's Slavery and Human Trafficking Statement, and this has been signed by the CEO on behalf of the Board.

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. This approach is documented in an Anti-Slavery Policy and supported by operational standards, which set out the requirements and obligations applicable to all employees to prevent modern slavery and/or human trafficking, and on which training is given. The Policy and Standards are prepared in consideration of best practice guidance issued by the UK Home Office and international bodies, including the United Nations Guiding Principles on Business and Human Rights.

The Bank's Standards require anti-slavery due diligence to be undertaken on all counterparties. This includes seeking an Anti-Slavery Statement or equivalent document and undertaking adverse news screening incorporating specific terms relevant to slavery and human trafficking. 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 also expects its suppliers and business partners to undertake ethical business practices, particularly in, but not limited to, economic sectors where there are higher risks of slavery and human trafficking.

SMBC Group is a signatory to the United Nations Global Compact and the 10 principles related to human rights, labour standards, environment and anti-corruption measures. It sets human rights as one of its priority issues and has publicly announced its efforts to prevent, mitigate and remediate negative impacts on human rights. It also participates in the "Industrial Federation for Human Rights, Tokyo", through which it aims to establish respect for human rights as a core part of its corporate culture.

Further information can be found as follows:

- Slavery and Human Trafficking Statement: **https://www.smbcgroup.com/emea/notices-reporting/corporate-disclosures#antibribery.**
- SMBC Group's approach to respecting human rights: **https://www.smfg.co.jp/english/sustainability/group_sustainability/forrights/**

Prevention of market abuse

The Bank has a suite of policies in place setting out its arrangements for adhering to the regulatory and legal requirements that protect the integrity of the markets in which the Bank operates and the rules and standards of conduct to which all the Bank's people must adhere.

All employees are required on joining the Bank, and annually, to undertake training on the prevention of market abuse. In addition, all employees, regardless of role, are required to notify the Compliance Department immediately should they have a reasonable suspicion that a transaction might constitute insider dealing or market manipulation.

3 People and culture

Diversity and inclusion

The Bank is an inclusive and equal opportunities employer, and its policy is that all individuals are appointed, trained, developed and promoted on the basis of merit and ability.

Selection criteria and procedures are designed to eliminate bias, and opportunities for challenge are embedded within these to ensure processes are fair and equitable.

The Board recognises the importance of the Bank attracting, developing and retaining diverse talent. At an executive level, the diversity and inclusion initiatives are coordinated and overseen by the EMEA Diversity and Inclusion Steering Committee, the chair of which is responsible for reporting to the Board and Executive Committee on the progress made.

Diversity and Inclusion Strategy

Building equitable systems
Ensuring that policies and processes are as fair, equitable and inclusive as possible, and working to eliminate barriers that negatively impact specific groups.

Promoting balance
Attracting, developing and retaining diverse talent at all levels of the organisation, to ensure that our workforce is representative of the locations in which we operate and the global profile of our customers.

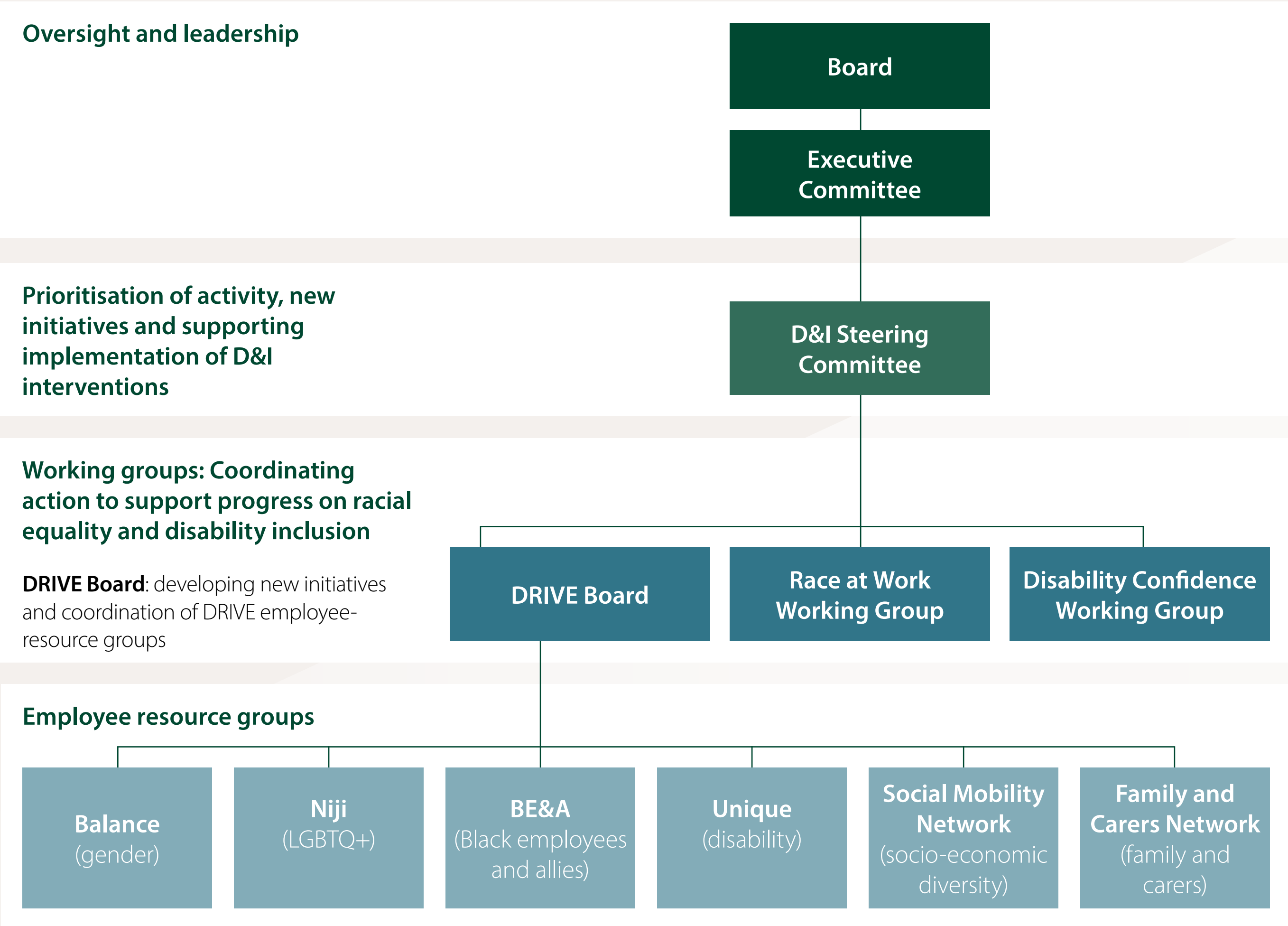
Leading with respect
Consciously creating an inclusive culture in which different perspectives are valued and leaders are inclusive role models.

Driving advocacy
Playing our part in ensuring that diversity and inclusion are prioritised not only within our own organisation, but also with our customers and through our wider relationships.

Sustainability and social value continued

3 People and culture continued

Diversity and Inclusion Governance



Building equitable systems

Building equitable systems includes evaluating the impact of the Bank's processes and policies on different groups. The Bank monitors its recruitment and talent development processes on an ongoing basis to look for bias that could create additional barriers for certain groups and designs interventions to address lack of equity. The Board and Executive Committee oversee this through regular consideration of reports on the gender and minority ethnic representation of new hires.

The Bank seeks to support female talent progression through a networking and mentoring programme called 'InspirHer!' in which senior female leaders provide advice on how to navigate careers, take ownership for personal development and progression into senior roles. 79% of the programme participants in the year indicated they would recommend it to their colleagues.

SMBC Group is a global signatory to the Valuable 500 and, in the year, the Bank reviewed the effectiveness of its approach to implementing workplace adjustments to support disabled colleagues, and joined the UK Government's Disability Confident scheme. The proactive consideration by the Bank of the needs of disabled colleagues and strengthening our commitment as a disability inclusive employer is the focus of the work of a newly established Disability Working Group, which reports to the Diversity and Inclusion Steering Committee.

Promoting balance

SMBC Group is a proud signatory of the Women in Finance Charter and, this year, the Bank achieved its target to have 30% female representation at Director and above roles by 31 July 2023. In recognition of the importance of sustaining the focus on gender diversity, and to further accelerate progress, the Bank set a new target at the more senior level of Executive Director and above of 30% by 2027. The Bank adjusted the population covered by its Women in Finance Charter target to focus more directly on building a strong pipeline for senior leadership roles.

Increased focus on supporting internal mobility has resulted in positive gender diversity for internal hires, with more than half of internal senior appointments being female. At a more junior level, the Bank has partnered with Code First Girls, a technology organisation aimed at introducing more female talent into IT to support gender balance in an industry where women continue to be under-represented.

+ The Bank's gender pay report can be found here **https://www.smbcgroup.com/emea/about-us/diversity-inclusion**.

The Bank believes that pay reporting helps it learn more about the key drivers of any gaps, and enables it to identify interventions that will address effectively the Bank's needs in relation to diversity and inclusion.

The Bank is a proud signatory to the UK's Race at Work Charter and our Race at Work Working Group supports the Bank in making progress on all the Charter commitments, including how we enable career progression for minority ethnic colleagues.

Improving access to careers in financial services for under-represented groups is a key focus of the Bank's early talent programmes. The 2023 intake into the Corporate and Investment Banking Programme was 60% female and 70% minority ethnic. Of those joining the programme in London, 90% had attended state schools and 40% were the first in their family to attend university. Our UK industrial placement programme intake for 2023 was 44% female and 56% minority ethnic, and students have joined us from 17 universities. 31% of Industrial Placement Students from our 2022 intake have since accepted offers and will join the Bank in 2024.

Leading with respect

The Diversity and Inclusion Steering Committee is responsible for setting the strategic direction of the Bank's D&I agenda, monitoring progress against priorities, and ensuring focus is given to key issues, as well as fostering collaboration across SMBC's EMEA region.

The Bank recognises that senior management accountability is critical for driving progress and that leaders play a pivotal role in creating a culture of inclusion. This year, the Bank further strengthened the connection between performance in relation to D&I and overall reward to drive greater accountability. The D&I metric in senior managers' performance evaluation accounts for approximately 10% of variable remuneration and serves to increase their ownership of Bank-wide diversity targets and the expectation they role model inclusive leadership to create psychological safety, foster allyship and support belonging.

Driving advocacy

The DRIVE (diversity, respect, inclusion, value and equality) employee resource groups play a key role in helping everyone in the Bank understand the different experiences people may have as a result of their identity. Many of our colleagues attended one of the 25 DRIVE events that took place during the last year.

Aligned with the Bank's priority to be representative of the communities in which it operates and the customers it serves, the Bank introduced a new Social Mobility Network, focused on driving engagement with our colleagues to support activities taking place across the Bank to widen access to careers in financial services, and a Family & Carers Network, to help the Bank provide the right support for working parents and employees with care-giving responsibilities.

Sustainability and social value continued

3 People and culture continued

Culture

The Bank promotes high ethical standards and a culture where everyone feels able to be their authentic selves at work. The Bank's culture is based on five pillars which are designed to both reflect the current situation and be aspirational for the future:

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

People development

The development of the people who work for the Bank is a core element of the Board-approved Human Resources strategy. During the year, and in response to employee feedback, all line managers received training on how to have effective conversations with their teams on performance management and development. In support of this, additional resources were also made available to our people on how to prepare and deliver their personal development plans. The Bank further supports its people by making available a series of talent programmes to develop leadership capability and enable the Bank to focus on critical organisational needs.

Shortly after the year end, SMBC Group was included in the 2024 LinkedIn Top Companies list in the UK, which highlights the 25 best large workplaces in the UK for growing a career. In addition, the Bank also featured in LinkedIn's inaugural Top 10 Companies in Financial Services list which looks at the best workplaces in this sector in the UK. These lists were compiled using LinkedIn data and methodology looking at different aspects of career progression including rate of promotion and skills gained, and recognise employers that make a substantial investment in the employee experience, leading the way in attracting and retaining employees.

The Chair of the Board and CEO are accountable for the Bank's culture, with further responsibility delegated to the senior leadership team. At an executive level, culture activities are coordinated by an EMEA Culture Forum, chaired by the head of Human Resources. Culture Champions have been allocated by each department and they are responsible, with support from their leadership team, to develop and implement culture action plans.

The Board and Executive Committee receive regular updates on the culture activities undertaken and the results of employee engagement surveys, and guide the Bank's response. During the year, the overall employee engagement score remained consistent.

4 Communities

The Bank's Corporate Social Responsibility strategy comprises four pillars:

1. **Elevating the levels of corporate philanthropy and charitable giving.**
2. **Supporting employees with their fundraising aspirations.**
3. **Increasing participation in volunteering to leverage the intellectual capital available across the Bank to help create positive social impact.**
4. **Leveraging the Bank's corporate assets by increasing engagement with corporate memberships and making real estate assets and networks available to support the Bank's local communities.**

The Bank recognises the importance of contributing to society and increasingly is connecting its work to its efforts on sustainability and D&I within the social value framework. The Bank offers employees a variety of ways to engage with community activities, including a paid volunteering allowance, matched funding of employee donations (up to a certain limit) and a Give-As-You-Earn salary sacrifice scheme.

The Bank's CSR activities in the year included:

- A fundraising appeal in support of the humanitarian aid work of the International Committee of the Red Cross in response to the Turkey-Syria earthquake.
- The hosting of a programme of team and individual volunteering opportunities, resulting in a three-fold increase in the number of hours donated in the year.
- Donation to the Broadgate Community Fund, to anchor the Bank's relocation to 100 Liverpool Street and to support the neighbouring communities aligned to the Bank's Culture Statement. Six local community organisations benefitted from donations from the fund, focused on the themes of employability skills and social exclusion.
- The evolution of a social mobility and schools outreach programme, including 10 paid summer internships and the hosting of City Taster Days in the Bank's offices.

Sustainability and social value continued

5 Task Force on Climate-related Financial Disclosures

SMBC Group recognises that addressing climate change is one of the most important global concerns of the 21st century.

The Bank fully supports SMBC Group's climate objectives and works closely with colleagues across the Group to align activities and apply global policies. As a result, certain aspects of this section describe activities the Bank has undertaken as part of SMBC Group. 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 activities.

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

This section is structured on the four pillars of the TCFD recommendations to disclose information on: Strategy, Governance, Risk management and Metrics and targets. The table on the following page provides an overview of the Bank's progress in the year and includes the references to the disclosure requirements of section 414CB of the Companies Act 2006.

Progress against TCFD recommendations			
TCFD disclosures	**CA2006 s.414CB**	**Page**	**Focus areas in the year**
Governance			
(a) Describe the board's oversight of climate-related risks and opportunities.	(a)	**30, 58**	– Establishment of a Sustainability Risk Committee (SRMC) which acts as the primary governance oversight and escalation point for sustainability risk and related matters. – Change the business vs. run the business.
(b) Describe management's role in assessing and managing climate-related risks and opportunities.		**31 to 35**	– Establishment of SRMC. – Enhanced management reporting and active engagement through business-as-usual governance. – Learning from other internal projects across SMBC Group.
Strategy			
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	(d), (e), (f)	**32 to 33**	– Output from Double Materiality Assessment. – Increased integration between strategy and risk.
(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.		**32 to 33**	– Increased integration between strategy and risk
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.		**32 to 33**	– Embedded Climate Risk metrics into Client and Capital Strategy Panel template to facilitate comparison of both client economic and climate performance by senior management.
Risk management			
(a) Describe the organisation's processes for identifying and assessing climate-related risks.	(b), (c)	**33 to 35**	– Continued embedding and evolution of existing processes and tools to identify and assess climate risk, including principal and emerging risks, KRI reporting, Regulatory Horizon Scanning, Risk Register/Inventory and Climate Change Ratings Assessment (CCRA) tool.
(b) Describe the organisation's processes for managing climate-related risks.		**33 to 35**	– During 2023, the sustainability risk framework (SRF) was further enhanced to codify the principles the Bank has adopted regarding its approach to sustainability risk management. – The Bank has put in place sustainability risk appetite metrics.
(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.		**33 to 35**	– The SRF codifies the processes and principles adopted to manage sustainability risk. The framework allows for incorporating sustainability risk into the overall risk management framework, e.g., ICAAP, risk appetite framework, and Risk Register (Inventory).
Metrics and targets			
(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	(g), (h)	**36 to 43**	– Continued metric development and enhancement, including financed emissions reporting, carbon-related exposure. – A carbon dashboard has been developed to help report and measure operational emission metrics.
(b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.		**36 to 43**	– Expanding operational emissions reporting to additional sectors for Scopes 1-3, with Scope 3 emissions for supply chain.

Sustainability and social value continued
5 Task Force on Climate-related Financial Disclosures continued

Governance

Sustainability governance – oversight

The Board, supported by its Committees, is responsible for setting and monitoring the development of the Sustainability Strategy.

Sustainability is an important element of the Board's ongoing education plan. During the year, the Directors received briefings from internal and external specialists on topics including reputational risk, greenwashing risk and trends in climate litigation. In addition, members of the Board have received briefings from professional advisers on climate matters.

+ Information on the sustainability activities undertaken by the Board and its Committees in the year can be found on **pages 58 to 63**.

Sustainability governance – implementation and execution

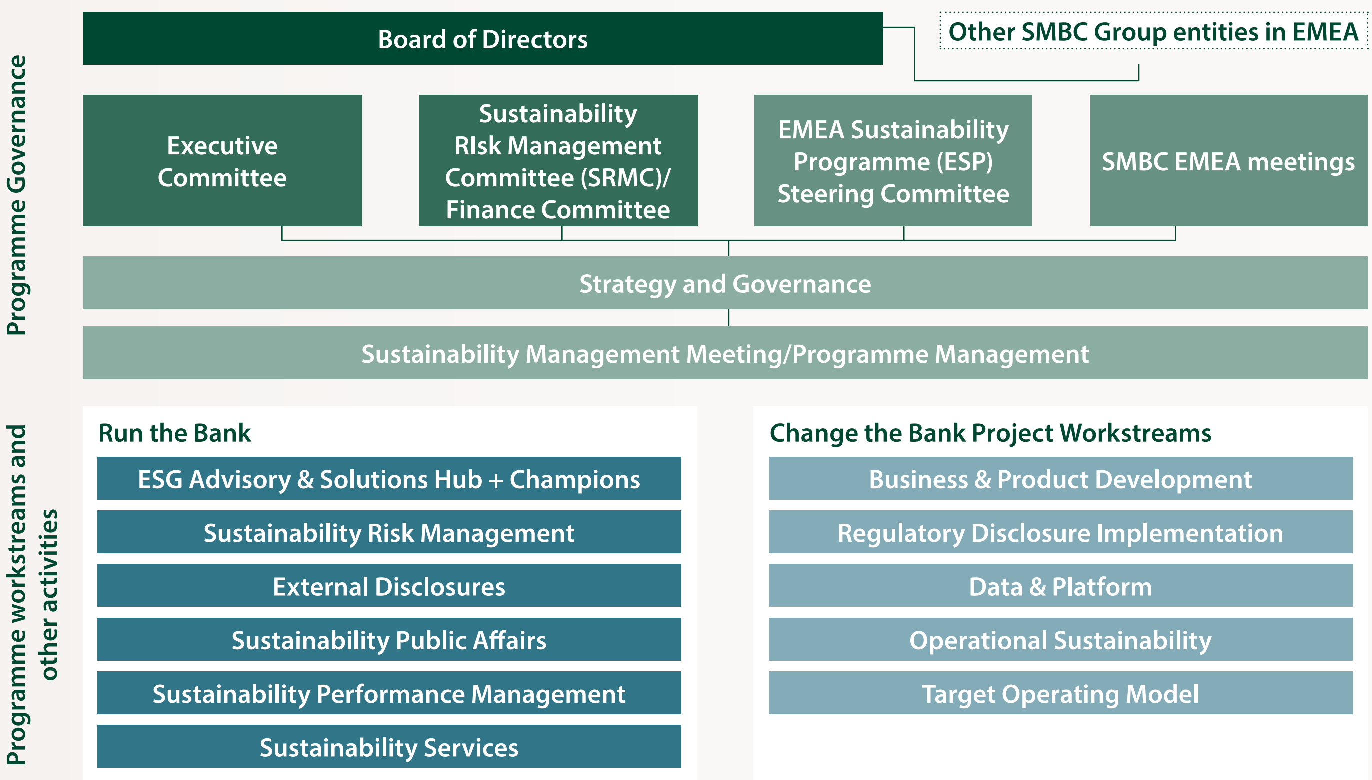
The Chief Financial Officer (CFO) is responsible for overseeing the Bank's climate and sustainability initiatives, developing the Sustainability Strategy and ensuring this is embedded within the overall Corporate Strategy, developing the sustainability risk framework, escalating significant business and strategic developments to the Board and overseeing overall climate governance. He is supported in this work by the Sustainability Risk Management Committee (SRMC), the EMEA Sustainability Programme (ESP) Steering Committee and functional specialists.

The SRMC oversees sustainability risk governance in EMEA and provides recommendations to the Board and other relevant meetings on sustainability risk matters. It is the primary escalation point for business-as-usual sustainability risk matters, providing executive review and governance of the sustainability risk framework and sustainability risk related matters. The SRMC allows for effective information sharing, governance, and escalation or recommendation of items to the relevant Boards or approval forums across the region.

The ESP Steering Committee is responsible for change projects and processes and for overseeing the Bank's sustainability change-related activities alongside the SRMC and other Risk and Control Committees, which consider sustainability issues at an operational level as part of the Bank's day-to-day activities.

+ Further information on the Risk and Control Committees can be found on **pages 71 to 72**.

Given the Bank's role as SMBC's headquarters in EMEA, the scope of the SRMC and ESP Steering Committee also includes SMBC Nikko CM and other SMBC Group entities in EMEA, which facilitates good coordination and alignment in sustainability activities.



Overview of meetings

EMEA Sustainability Programme (ESP) Steering Committee

Purpose and responsibilities
- 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 Sustainability Programme Management Meeting.
- Challenging the Sustainability Programme Management Meeting and Workstreams that timely progress is being made and approving resource needs.

Members
- Head of Sustainability Strategy (Chair)
- CFO, Chief Risk Officer, Chief Compliance Officer, General Counsel, heads of relevant departments and senior executives from SMBC EMEA affiliates.

Frequency and reporting
- Meets monthly and additionally as required, with significant discussions reported to the Board by the CFO and Head of Sustainability Strategy.

Sustainability Risk Management Committee

Purpose and responsibilities
- Champion and promote the development and integration of effective sustainability risk management across the Bank and SMBC's EMEA Region.
- Provide executive review and governance as the primary sustainability risk management escalation committee in the second line.
- Support the sustainability risk team to consistently deliver effective and proactive sustainability risk management and regulatory compliance through a sustainability risk framework integrated across the business in EMEA.

Members
- Head of Enterprise Risk (Chair).
- CFO, Head of Sustainability Risk, Head of Sustainability Strategy, senior second line executives.

Frequency and reporting
- Meets monthly and additionally as required, with significant discussions reported to the Board as necessary.

Sustainability Progamme Management Meeting

Purpose and responsibilities
- Delivery of the ESP's objectives and day-to-day management of the ESP.
- Assessing that business and regulatory requirements are met.
- Project planning, early identification and management of issues and risks, and addressing working group interdependencies and operating model impacts.

Members
- Head of Sustainability Strategy (Chair) and workstream leads.

Frequency and reporting
- Meets monthly and additionally as required, with reporting to the Steering Committee on progress toward agreed goals and notification of issues.

Workstreams

Purpose and responsibilities
- Progressing the ESP in their areas of expertise, including 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.

Members
- Workstream leads.

Frequency and reporting
- Meet monthly and each Workstream reports to the Management Forum.

Programme Management

Purpose and responsibilities
- ESP governance and planning, including ongoing robust project management, such as issues and actions tracking.
- Supporting the Steering Committee and Management Forum.

Members
- Head of Sustainability Strategy and the Programme Manager.

Frequency
- Meets as required.

Sustainability and social value continued

5 Task Force on Climate-related Financial Disclosures continued

Strategy

The Bank recognises that climate change will present both risks and commercial opportunities for its business, which will vary by time horizon considered. These risks and opportunities are considered in the Bank's strategic planning process. SMBC Group organises climate-related risks by category. These risks are anticipated to have extensive knock-on effects and materialise over various time frames, as set out in the table below.

Climate change – examples of main risk events by category

Risk Category	Definition	Event examples relating to physical risks <Timeframe>	Event examples relating to transition risks <Timeframe>
Credit Risk	Risk for the Bank of incurring losses due to reduction or loss of asset value (including off-balance sheet assets) resulting from credit events such as the deterioration of a borrower's financial standing.	– Risk of increasing credit costs for SMBC Group along with the deterioration of customer performance or impairment of collateral items due to natural disasters. <Short to long term>	Risk of increasing credit costs for SMBC Group along with the deterioration of customer performance resulting from a decline in revenue or impairment of existing assets. <Medium to long term>
Market Risk	Risk of incurring losses due to fluctuation in the market value of financial instruments resulting from changes in interest rates, currency rates, stock prices, etc.	– Risk of falling prices of strategically held stocks and funds along with the deterioration of customer performance due to natural disasters. <Short to long term>	Risk of falling prices of strategically held stocks and funds along with the deterioration of customer performance resulting from a decline in revenue or impairment of existing assets. <Short to long term>
Liquidity Risk	Risk of difficulty in procuring funds necessary for settlement due to mismatch in the period between fund management and procurement or unexpected outflow of funds; risk of incurring losses due to forced procurement of funds at a significantly higher interest rate than usual.	– Risk of losing deposits from SMBC Group along with the deterioration of customer performance due to natural disasters. <Short to long term>	Risk of deterioration of the funding environment and risk of a funds drain from deposits due to deterioration of the Group's reputation. <Short to long term>
Operational Risk	Risk of incurring losses resulting from improper or non-functional internal processes, people and/or systems, or from the occurrence of external events.	– Risk of business discontinuation due to damage to the head office and branch offices; risk of increasing costs due to the need for a response and recovery. <Short to long term>	Risk of incurring losses due to fines and court proceedings relating to sales of products and services that do not meet climate change measures and green finance criteria. <Short to long term>
Reputational Risk	Risk of an event leading to impairment in enterprise value or a decline in customer trust due to failure in meeting expectations regarding high ethics, sincerity, etc, by stakeholders, resulting from certain business operations of SMBC Group or a certain act conducted by an employee or another related person.	– Risk of being criticised for a delayed response to business recovery from a damaged head office and/or branch offices. <Short to long term>	Risk of deterioration in the reputation of SMBC Group due to a lack of response to climate change and a delayed response to requests from stakeholders for information disclosure. <Short to long term>

(Short term: approximately 3 years, medium term: approximately 4 to 10 years, long term: over 10 years).

Considering the Bank's climate and wider sustainability-related opportunities, the Bank believes that SMBC Group's status as one of the world's leading project financiers and renewable energy lenders positions it well to finance the significant investment needed into new energies, renewable energy and power infrastructure in the short to medium term. The Bank also has close and long-standing relationships across the energy, power, transportation and building sectors where transition advisory services are in high demand.

These risks and opportunities are reflected in the Bank's Sustainability Strategy, which has been approved and is overseen by the Board.

The Bank's virtual ESG Advisory & Solutions Hub, a focused group of ESG experts who provide internal advice to colleagues as well as advice to customers on topics such as how to finance their low carbon transition needs, technological and sectoral developments, and investor perspectives on ESG, has been key in allowing the Bank to capitalise on sustainability-related opportunities. In conjunction with this group, the Bank is embedding sustainable finance in all aspects of the business through a network of ESG Champions, and ESG-related business has continued to grow because of this strong collaboration.

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 and ESG ratings and framework advisory. Additionally, in partnership with SMBC Nikko Capital Markets, SMBC Group is able to offer a range of ESG-related capital markets products, including ESG derivatives.

The Bank labels loans Green, Social or Sustainability-Linked where they comply with market-standard guidance from external parties, such as the Loan Market Association (LMA), which can be verified by a Second Party Opinion if necessary. The Bank also takes a wider view of the sustainability-related aspects of the financing of renewable energy and other facilities related to the energy transition, in accordance with the SMBC Group Transition Finance Playbook and supporting taxonomy. Resources are made available to employees through the intranet and supported with regular training. Members of the ESG Advisory & Solutions Hub represent SMBC Group on the LMA's Sustainable Finance Steering Committee, which provides guidance to the industry on loan structuring, as well as the Science Based Targets initiative (SBTi) Oil and Gas Expert Advisory Group so that the Bank's energy sector clients have access to robust and science-based advice.

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 engaging with existing customers to understand their transition plans, and focusing on growing its business by serving customers who it believes are either embarking on a credible transition or are already engaged in business activities needed to support the future net zero economy. The Bank requires that a Transition Plan assessment is undertaken for the majority of customers, with methodologies updated regularly to reflect SMBC Group enhancements.

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 current or planned efforts to engage with clients in these sectors to evaluate and support their transition maturity, offer sustainable finance solutions to meet their needs, and adjust the appetite for future business opportunities based on clients' transition maturity.

Risk management

Sustainability risk results from ESG issues, events or conditions that have the potential to substantially impact (financially, reputationally or physically) the Bank, SMBC Group, its customers, the environment and/or society. This risk can manifest itself across all risk types.

Information also relevant to the TCFD Report can also be found in the Sustainability Report as follows:

Disclosures	Page
Sustainability risk governance and how this is implemented in the risk management framework	**20**

Sustainability and social value continued
5 Task Force on Climate-related Financial Disclosures continued

Risk-based approach to client assessment

Over the year, the Bank has continued to develop and embed sustainability risk management across the three lines of defence. SMBC's approach is to currently focus on the highest risk sectors as defined by its policies and processes, and is evolving the tools, processes and factors to assess sustainability risk materiality.

Sustainability risk is assessed and managed at the client or transaction level across three key areas: net zero alignment, sustainability and reputation risk, and greenwashing risk.

The key tools in place that inform business and strategy decisions include:

- Climate Change Ratings Assessment
- Portfolio monitoring and reporting
- Stress testing and ICAAP
- Risk Register/Taxonomy
- Principal and emerging risks
- Regulatory Horizon Scanning Tool
- Risk appetite framework

Description of tools and processes

Climate Change Ratings Assessment (CCRA)

The Bank continues to develop sustainability risk management tools to better understand the impacts of sustainability risk, including climate change. CCRA is one such example, having been internally developed in 2020. CCRA is embedded within the Bank's sustainability framework and an important component of SMBC's risk management toolkit, by facilitating individual ratings to be performed to generate an overall score for each customer for transition risks (financial losses arising from the transition towards a low carbon economy) and physical risks (financial losses arising as a result of climate and weather-related events). These ratings, combined with input from external data providers, such as greenhouse gas emissions, asset intensity, sectoral vulnerability to transition risk and country-level vulnerability to physical risk, enables the Bank to better understand the distribution of climate related risks embedded within the portfolio, providing a means of oversight through the transactional approval process in a single platform. All the Bank's clients are in scope of CCRA except sovereign and sub-sovereign public sector clients, as the tool is designed for assessing commercial customers.

CCRA, in conjunction with other components of the sustainability framework, assists the Bank in its efforts to understand customers' sustainability risk, energy transition plans and their alignment with sector pathways and Bank goals, with the ultimate aim of reducing financed emissions as the Bank seeks to deliver against its net zero target. Future enhancements are planned to CCRA capabilities through the delivery of environmental and social due diligence forms, which will include further qualitative assessments as part of the client engagement process to cover the full spectrum of ESG monitoring.

Portfolio monitoring and reporting

Using the output from the CCRA and other tools, the Bank undertakes portfolio monitoring so that performance is appropriately managed.

Stress testing and ICAAP

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 CCRA scorecard, with most of the Bank's portfolio covered except public sector obligors.

The Bank's scenario analysis is broadly aligned with the Bank of England's (BoE's) Climate Biennial Exploratory Scenario (CBES) (announced in November 2020 with results published in May 2022) 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). 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 Bank's capital assessment and ICAAP document. 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 is utilised in the calibration of climate risk-related Probabilities of Default.

The Bank has conducted a gap analysis by comparing the BoE's results and its observations on firms' practices with the Bank's climate stress tests results and methodology. The result of the gap analysis showed that the Bank had made good progress in integrating climate risk into its existing risk and reporting frameworks. The Bank's climate risk stress test results are broadly in line with those of CBES participants with respect to impact on annual profits. As part of the overall remediation plan based on this gap assessment, the Bank's climate stress test methodology will be further enhanced to better align with the CBES participants and to address the data and modelling gaps identified.

Risk Register/Taxonomy

An internal taxonomy of key risks and controls is used to inform the ongoing identification of risks. The Bank recognises that sustainability risks, including climate change, are inherent across the spectrum of risk categories. 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. The Bank continues to enhance the integration of sustainability risk factors into the Risk Register in preparation for the UK's adoption of International Sustainability Standards Board disclosure guidance.

Principal and emerging risks

The primary objective of the principal and emerging risks process is to inform senior management of the most pertinent risks currently facing the Bank. ESG components are incorporated into the risks identified.

Regulatory Horizon Scanning Tool

The Bank uses a Regulatory Horizon Scanning Tool to monitor sustainability-related consultations and legislative and regulatory developments across EMEA. Outputs from this tool are triaged and reviewed by relevant teams and subject matter experts. Items requiring further action to meet expectations are formally escalated and assigned to a workstream to oversee delivery and compliance. ESG items are reported at the ESP Steering Committee.

Risk appetite framework

The purpose of risk appetite is to define the broad-based level of risk the Bank is able and willing to undertake in pursuit of its objectives. The risk appetite framework ensures formal identification and consensus about the strategic-level risks the Bank is facing and is a key tool for the business. With effect from 1 April 2023, SMBC Group introduced targets, of which a number were climate related, to its Group-wide framework to manage portfolio GHG emissions, alongside its published commitments. The Bank is aligned to the Group's climate-related targets. The Bank has KRIs and control measures in respect of climate and sustainability within its risk appetite framework and intends to further develop its capabilities and evolve sustainability risk appetite measures in the future.

Metrics and targets

Management information

Sustainability-related metrics and targets are key components of the sustainability strategy and sustainability risk governance, and are used to measure whether the Bank is delivering in line with its strategy and commitments, and managing risks effectively. The sustainability-related metrics align to the Bank's strategic objectives and reflect the most material sustainability risks and opportunities.

During the year, the Bank further developed its approach to and catalogue of climate metrics, and enhanced the governance and control framework around its performance reporting and management information. In particular, the Bank is expanding the number of sectors for which it measures its climate impact through a financed emissions metric and will now measure the emissions associated with its lending to the steel and automotive manufacturing sectors (in addition to the power and energy sectors first disclosed last year). This is aligned to the net zero strategy and commitment to decarbonise the Group's investment and lending activities.

In terms of governance, climate and sustainability-related risk metrics used by the Bank are owned by the Sustainability Risk Management Committee, which approves the use of the metric and any associated targets or thresholds, as well as being the escalation point for internal reporting of the metric. The Bank will continue to evolve its approach with the aim of increasing usability and transparency, while considering proportionality, data quality and other factors.

In line with the Bank's Booking Policy, many transactions originated or supported by Bank employees are ultimately booked in other EMEA entities of the SMBC Group. Given this, some of the Bank's sustainability metrics are prepared on an SMBC (EMEA) basis, rather than on a Bank-specific basis, and targets are managed accordingly. The Bank believes this approach encourages its people to work more closely with SMBC Group to benefit customers. As other legal entities within the SMBC EMEA region begin to disclose sustainability performance externally, in future, the Bank may begin to report sustainable financing performance and targets on a standalone basis.

Sustainability and social value continued

5 Task Force on Climate-related Financial Disclosures continued

Overview

Presented below is a selection of the most relevant sustainability-related metrics and targets, with further information and explanation shown later in this section for each metric. The table displays which metrics are prepared on an SMBC (EMEA) basis and which are prepared on a Bank-specific basis. These metrics are selected for inclusion as they reflect the sustainability strategy and most material sustainability risks, are aligned with metrics disclosed by the wider SMBC Group, and documented evidence of the underlying data and processes means the indicators are reliable and verifiable.

Measure	Metric	Basis	Target	FY2023	FY2022
Sustainable finance	Sustainable finance – USDbn	SMBC (EMEA)	USD 16.3bn	USD 11.99bn	USD 16.13bn
Operational emissions	tCO_2 per FTE	SMBC BI	Net zero by 2030**	0.51 tCO_2e/FTE	0.83 tCO_2e/FTE
Financed emissions	GHG emissions from loan/ investment portfolio:	–	Net zero by 2050**	–	–
	Oil & Gas – $MtCO_2e$	SMBC BI	Reduction of 12 – 29% by 2030**	0.22 $MtCO_2e$	0.19 $MtCO_2e$*
	Power – gCO_2e/kWh	SMBC BI	Reduction of 138 – 195 gCO2e/ kWh by 2030**	167 gCO_2e/kWh	191 gCO_2e/kWh
Exposure to carbon-related sectors	Exposure to carbon-related sectors – % of portfolio	SMBC BI	–	52%	58%

* Financed emissions for FY2022 has been re-stated from 0.15 to 0.19 due to sector re-classifications and improved data availability. The Bank regularly monitors the quality of data and as an outcome of this review has further refined the Bank's sector classification.

** SMBC Group level target – SMBC's net zero targets are Group-level global targets. The Bank measures its performance on these metrics to ensure it is contributing to the Group's overall net zero goal.

Sustainable finance

The Bank has strategic ambitions to support its customers in their journey to sustainability and to be recognised as a leading provider of green and sustainable products. The target to provide USD 16.3bn of sustainable finance in the reporting year is how the Bank measures its achievement in those ambitions. This is an EMEA-wide target, so it is prepared on an SMBC Group (EMEA) basis. The EMEA-wide target contributes to SMBC Group's global commitment to provide JPY 50 trillion between financial years 2020 and 2029.

Furthermore, this financing contributes societally to the vast investments that are required to transition the economy in line with the goals of the Paris Agreement. As a globally important financial institution, SMBC is positioned to provide this investment. In this report, the Bank sets out its sustainable finance by product type, with certain products such as green loans, green bonds and renewable project finance particularly contributing to the investment required to transition the economy to net zero.

In the reporting year, overall provision of sustainable financing decreased versus the previous reporting year, in line with a slower sustainable financing market overall as well as an exceptional advisory mandate which was counted in the previous financial year. Positively, SMBC (EMEA) continued to maintain its leadership position in the sustainable financing market, considering its strong performance in terms of league table position.

Product (amounts in USDm)	FY2023 SF – greater of lending/ underwriting amount and arrangement amount	FY2023 SF – lending/ underwriting amount	FY2022 SF – greater of lending/ underwriting amount and arrangement amount	FY2022 SF – lending/ underwriting amount
Sustainability-Linked Loan	3,144	3,137	5,675	4,429
Green Loan	2,526	2,526	1,087	947
Social Loan	452	452	313	313
Renewable Project Finance	1,483	814	4,528	2,167
Sustainability-Linked Bond	392	392	410	409
Green Bond	3,995	3,995	4,118	4,118
Total	**11,992**	**11,316**	**16,131**	**12,383**

Presented above is the Bank's sustainable finance achievement by product type. The product types included are aligned with the Bank's internal definition of sustainable finance and what types of transactions qualify as sustainable finance. The Bank's internal definition refers to and is informed by best practice industry standards such as the LMA Sustainability-Linked Loan Principles and ICMA Green Bond principles. Under the Bank's definition of sustainable finance, for a particular transaction, either the amount lent, underwritten, or arranged for our customer is counted as sustainable finance, as applicable. In the Financed Emissions section below, the amount lent or underwritten is also presented.

Operational emissions (Streamlined Energy and Carbon Reporting)

The UK Government's Streamlined Energy and Carbon Reporting (SECR) policy was implemented on 1 April 2019. The Bank meets the SECR qualification criteria in the UK and, as in previous years, is reporting emissions from its operations using the financial control approach.

Under the reporting requirements, the Bank has measured mandatory Scope 1, 2 and 3 emissions for its UK operations within the financial reporting period of 1 April 2023 to 31 March 2024. This includes energy consumption associated with premises occupied, energy associated with data centres and business travel for UK based employees (including fuel associated with grey fleet). Furthermore, water and waste emissions associated with the headquarters building are also voluntarily provided.

The results show that the Bank's total energy use and total gross greenhouse gas (GHG) emissions in the UK amounted to 7,744 MWh and 1,000 gross tonnes of CO_2 equivalent (tCO_2e) respectively in the financial year. The Bank has opted to disclose emission intensity through the metric tCO_2e per FTE. This metric has reduced by 39%, compared to previous reporting year, to 0.51 tCO_2e/FTE.

Energy consumption (MWh), both direct and indirect, has decreased by 20% compared to the previous reporting period. Additionally, location-based Scope 1 and 2 emissions in the period have reduced by 34%. This has been driven by an energy optimisation programme, a consolidation of the Bank's office locations and a large decrease in estimated data.

A range of energy efficiency activities has been implemented across the period. One project, beginning in June 2023, involved working with the site landlord of the Bank's headquarters building to reduce baseload consumption by optimising out of hours and weekend consumption, which has resulted in an average monthly saving of circa 7,000 kWh across the whole site. This demonstrates the Bank's commitment to decarbonisation, and despite being hosted in a BREEAM excellent premises, proactive management continues to improve the building performance and reduce the Bank's overall emission and energy footprint.

Scope 3 emissions have increased as a result of a further increase in office occupancy. This has also been driven by the improvement in data collection and reporting.

Sustainability and social value continued

5 Task Force on Climate-related Financial Disclosures continued

	FY2023	FY2022
Total energy use (MWh)	**7,744**	**9,646**
Total GHG emissions Scope 1 and 2 (location-based tCO_2e)	993	1,494
Total GHG emissions Scope 1 and 2 (market-based tCO_2e)	163	682
Total SECR mandatory GHG emissions (location-based tCO_2e)	1,000	1,497
Total SECR mandatory GHG emissions (market-based tCO_2e)	170	685
– Of which Scope 1 (location-based tCO_2e)	178	416
– Of which Scope 1 (market-based tCO_2e)	–	237
– Of which Scope 2 (location-based tCO_2e)	815	1,078
– Of which Scope 2 (market-based tCO_2e)	164	444
– Of which Scope 3 (grey fleet tCO_2e)	6	4
Total Scope 3 emissions (tCO_2e)**	5,660	2,286
Of which		
– Business Travel	4,946	1,802
– Electricity	707	477
– Grey Fleet	–	4
– Waste	0.5	0.5
– Other	6.5	2.5
Emissions per employee (tCO_2e/FTE)	**0.51**	**0.83**

* Total energy use includes gas, electricity consumption associated with leased offices and data centres, plus fuel from grey fleet: emissions from business travel in rental cars or employee-owned vehicles.

**Total Scope 3 emissions includes the mandatory SECR requirements (fuel from grey fleet) and voluntary categories of business travel, electricity including transmission and distribution losses, waste, and water emissions.

Boundary:
Included within its boundary are Scope 1 and 2 emissions, as well as Scope 3 emissions. The UK Government's GHG Conversion Factors for Company Reporting have been used as part of the carbon emissions calculation. The Bank used the UK Government GHG conversion factors 2023 version 1.1.

Methodology:
The methodology the Bank uses to account for its operational emissions aligns with the GHG Protocol Corporate Accounting & Reporting Standard. The Bank uses the Operational Control boundary definition to define its carbon footprint boundary. The reporting period for compliance is 1 April 2023 to 31 March 2024.

Financed emissions

SMBC Group is committed to aligning its lending portfolio with net zero emissions by 2050 and joined the Net Zero Banking Alliance in October 2021. Measuring the emissions associated with its lending, known as financed emissions, is how the Bank assesses its progress towards its net zero commitment.

Currently, the Bank measures the financed emissions associated with its lending in the oil and gas and power sectors. The methodology used is aligned with the Partnership for Carbon Accounting Financials (PCAF) Standard and is detailed below.

SMBC has set Group-level interim targets for the financed emissions associated with its lending. The targets are:

- Reduce the absolute amount of financed emissions from its oil and gas portfolio by between 12% and 29%, compared to a 2020 baseline, by 2030.
- Reduce the emissions intensity of its power portfolio to between 138 and 195 gCO2e/kWH by 2030.
- Reduce the emissions intensity of its steel portfolio to between 1.2 and 1.8 tCO2e/t steel by 2030.
- Reduce the emissions intensity of its automotive manufacturing portfolio to between 120 and 161 gCO2e/vkm by 2030.

  SMBC Group publicly announced its global baseline and interim targets for the steel and automotive sectors in May 2024. As a result, the Bank will now measure and report financed emissions measurement for these sectors in future financial years.

Presented below is the Bank's financed emissions performance, including the amount of exposure in scope of financed emissions monitoring and control, the emissions performance, and the PCAF data quality score, a measure of the data quality on which the Bank's financed emissions calculations are based.

The measurement of financed emissions performance is a relatively new process for the Bank and, as such, it is continually working to expand the scope and quality of measurement, for example, through the provision of more and better-quality emissions data. Additionally, due to the PCAF calculation methodology, changes in financed emissions year-on-year can be impacted by a variety of factors aside from real-world emissions reductions, such as changes in client drawing levels or company market values. Given this, the Bank anticipates some fluctuation in financed emissions performance as market practice and data availability matures.

In the reporting year, the Bank has seen an increase in absolute financed emissions in the oil and gas sector and a decrease in emissions intensity in the power sector. Due to the relatively small size of the Bank's oil and gas portfolio, modest changes in exposure can drive material increases in total emissions. During the financial year, transaction level governance was developed and implemented to assist the Bank in implementing the net zero strategy. The decrease in emissions intensity in the power sector was due to a decrease in exposure to higher intensity obligors as well as changes in data quality.

		FY2023			FY2022		
Sector	**Target**	**Total outstanding (USDm)**	**Financed emissions**	**PCAF data quality score**	Total outstanding (USDm)	Financed emissions	PCAF data quality score
Oil & Gas	Reduction of 12 – 29% by 2030**	**69**	**Scope 1-3 0.22 $MtCO_2e$**	**3.13 Scope 1-2 3.05 Scope 3**	67*	Scope 1-3 0.19* $MtCO_2e$	3.71 Scope 1-2 3.04 Scope 3
Power***	Reduction of 138 – 195 gCO_2e/kWh by 2030**	**1,045**	**Scope 1 167 gCO_2e/kWh**	**2.94 Scope 1**	1,000	Scope 1 191 gCO_2e/kWh	2.84 Scope 1

* Financed emissions for FY2022 has been restated from 0.15 to 0.19 with the Total outstanding amount reduced from USD 149m to USD 67m, due to sector re-classifications and improved data availability. The Bank regularly monitors the quality of data and as an outcome of this review has further refined the Bank's sector classification.

** SMBC Group level target – SMBC's net zero targets are Group-level global targets. The Bank measures its performance on these metrics to ensure it is contributing to the Group's overall net zero goal.

*** This total outstanding excludes USD 49m due to insufficient data (FY2023); USD 181m due to insufficient data (FY2022).

Sustainability and social value continued
5 Task Force on Climate-related Financial Disclosures continued

As stated in the Strategy section on **pages 32 to 33**, the Bank intends to achieve its emissions reduction targets by increasing its exposure to customers with credible climate transition plans and projects, and activities aligned to a net zero economy of the future. To put this into practice and control its financed emissions, the Bank has implemented new guidelines for business originated in the power and oil and gas sectors (guidelines will also be implemented for other sectors in scope of financed emissions calculations). In line with these guidelines, all transactions in these sectors are reviewed with the aim of originating business with clients that have transition plans that meet the Bank's internal guidelines. The impact on portfolio financed emissions is also assessed for each transaction reviewed.

The Bank also intends to increase engagement with clients with insufficient transition plans with the goal of providing the financing needed to implement lower emissions business models, and ultimately to limit exposure to customers or projects not on a similar trajectory to SMBC Group, through its lending policy.

By steering the portfolio towards clients with credible transition plans that will make real-world emissions reductions, the Bank intends to reduce its financed emissions based on real-world emissions reductions rather than simply on the transfer of polluting assets from one owner to another.

Overview of financed emissions calculation methodology
The methodology used to calculate financed emissions is aligned to the PCAF Standard. A core principle of the PCAF Standard is that emissions are attributed to financial institutions so they take responsibility for their 'fair share' of the real-world emissions of the client financed, determined by the lending or investment they provide as a proportion of the total debt and equity financing of the client. The general formula for calculating financed emissions is:

Financed Emissions

$$\sum_i \textit{Attribution factor}_i \times \textit{Emissions}_i$$

(with i = borrower or investee)

$$\frac{\textit{Outstanding drawn amount}_i}{\textit{Total Debt} + \textit{Equity}_i}$$

In line with the general formula for calculating financed emissions, the methodology used by the Bank involves first quantifying client emissions using reported data if possible, or if that is not possible, estimating client emissions using internal data, external vendor data or public proxy data, and then attributing the fair share of those emissions to the Bank's lending using internal and external data to calculate financed emissions.

The sectors in scope of financed emissions calculations for the Bank are power and oil and gas with steel and automotive manufacturing being added from this fiscal year. The inclusion of sectors is determined based on materiality of GHG emissions from the sector, exposure of the Bank to the sector, and availability of accessible data and published scenario pathways for the sector.

The asset classes in scope of financed emissions calculations for the Bank are on-balance sheet lending including corporate loans and project finance. Off-balance sheet activity including guarantees is out of scope, as are derivatives and capital markets activities. The inclusion of asset classes is determined based on the availability and maturity of industry standards for accounting financed emissions for that asset class.

Power
For the power sector, companies that have power generating activities are included in scope of financed emissions. Companies involved only in transmission and distribution, or retail are out of scope. This is where most emissions occur along the supply chain, through the combustion of fossil fuels. Only Scope 1 emissions of clients are included in the calculations. This is because direct emissions from companies that generate power account for the majority of emissions in the power supply chain. Taken together, the focus on the upstream portion of the value chain, and on Scope 1 emissions, means the Bank is focusing on the most material sources of emissions.

Scope of financed emissions calculations

Due to the electrification of transportation, heating and other activities over the coming decade, global electricity demand and supply is expected to expand significantly, in absolute terms and as a share of energy consumption. Over time, using clean sources to generate electricity rather than fossil fuels will mean energy generation can be decoupled from GHG emissions. An emissions intensity metric does not measure the overall volume of GHG emissions from power generation, but the efficiency of power generation with respect to GHGs emitted. As such, the use of an emissions intensity metric for power allows the Bank to account for both the anticipated increase in electricity demand, and the need to rapidly grow the proportion of electricity that is generated from clean sources. The intensity metric used is gCO_2e/kWh.

The formula used for emissions intensity is:

$$\text{Emissions Intensity } (gCO_2e/kWh) = \sum_i \frac{\text{Outstanding drawn amount}_i}{\text{Total power portfolio outstanding}} \times \frac{\text{Emissions}_i}{\text{Power production}_i}$$

(with i = corporate or project)

Oil and gas

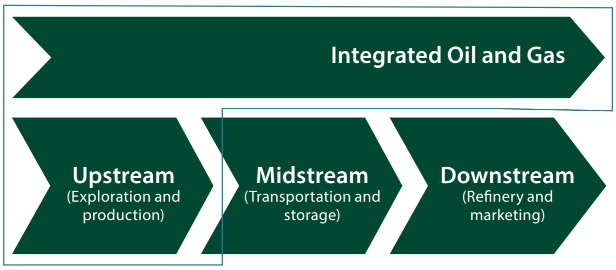
For the oil and gas sector, the Bank focuses on where most emissions occur along the supply chain. The most significant emissions occur at end-use when the oil or gas is burned. However, there are also significant emissions associated with energy-intensive processes along the supply chain such as during production.

Methodological consideration	Oil & Gas	Power
Assets	Loans and advances to customers	
Sector definition	Borrowers in the Oil & Gas sector with upstream production operations	Borrowers in the Power sector with power generation operations
Value chain/ scopes	Scope 1, 2 and 3 (Category 11 – Use of sold products)	Scope 1
GHGs covered	Greenhouse gas emissions are defined as those gases which contribute to the trapping of heat in the Earth's atmosphere, including carbon dioxide (CO_2), methane, nitrous oxide, and others. GHGs covered depends on client reporting – for clients that report all GHGs in CO_2e, all GHGs are covered, for clients that only report CO_2, only CO_2 is covered	
Metric	$MtCO_2e$	Emissions intensity gCO_2e/kWh
Offsets	Offset of borrowers in scope of financed emissions calculations are not currently considered	
Data sources	Data hierarchy as follows: 1. Reported data, from data vendor 2. Estimate based on production data, and public emissions factors 3. Estimate based on revenue data, and public proxies 4. Estimate based on sector, and public proxies	
Portfolio aggregation	Absolute portfolio emissions	Portfolio intensity using weighted average approach
Reference scenario	IEA NZE / SDS	IEA NZE / SDS

Sustainability and social value continued

5 Task Force on Climate-related Financial Disclosures continued

Therefore, integrated oil and gas companies and oil and gas producers are included in scope as they have leverage to reduce the amount of product produced and ultimately burned, as well as leverage to reduce process emissions through operational efficiency. Scope 1, 2 and 3 emissions of clients are included in the calculations. It is particularly important to include Scope 3 emissions because the emissions occurring when oil and gas are burned are categorised in Scope 3 category 11 – Use of sold products. Taken together, the focus on the carbon-intensive portions of the value chain and the inclusion of end-use emissions means SMBC EMEA is focusing on the most material sources of emissions.



Scope of financed emissions calculations

To meet the goals of the Paris Agreement, the oil and gas sector must sharply reduce its emissions, principally driven by a sharp fall in the amount of oil and gas demanded and produced as the world shifts its energy system onto low carbon sources. An absolute emissions metric is a direct measure of GHG emissions from an entity's activity. Therefore, using an absolute emissions metric preserves a direct link to GHG emissions reductions in the real economy. The Bank uses the absolute emissions metric $MtCO_2e$.

The formula used for absolute emissions is:

$$\text{Financed Emissions } (MtCO_2e) = \sum_i \frac{\text{Outstanding drawn amount}_i}{\text{EVICi or total debt+Equity}_i} \times \text{Emissions}_i \quad \text{(with i = corporate or project)}$$

Exposure to carbon-related sectors

The Bank measures exposure to sectors it defines as carbon-related, as this can be used as a proxy for climate transition risk, given certain industry sectors are more likely to be financially impacted than others due to their exposure to certain transition and physical risks around greenhouse gas (GHG) emissions, energy, or water dependencies associated with their operations and products. Companies operating in carbon-intensive sectors have a greater reliance on carbon-based energy and therefore would be expected to be faced with greater transition risks and uncertainties, as the global economy is transitioning from carbon-based energy to lower carbon energy. These non-financial industries are grouped into four key areas: Energy; Transportation; Materials and Buildings; and Agriculture, Food, and Forest Products.

Based on portfolio level assessments (including for industry sectors) on climate risk, the Bank identifies sectors with heightened risk to climate change. However, in each sector, there is a range of vulnerabilities, meaning not all of the clients in these sectors have high emissions and, accordingly, should not be interpreted as an indicator of relative carbon intensity. For example, included in the exposure to carbon-related sectors is green and sustainable finance extended to clients in hard-to-abate sectors. The Bank will continue to evolve its understanding and differentiation of exposure to these sectors.

Exposure to carbon-related sectors is measured separately to general sector limits that the Bank maintains to control credit risk more generally.

Presented on the following page is the Bank's exposure to carbon-related sectors, as defined below, broken down by the sub-sectors as per the Task Force on Climate-related Financial Disclosures definition of carbon-related.

Carbon-related assets (inc. sub-sector breakdown)	FY2023 Loans and advances to customers (USDm)	FY2023 Commitments and guarantees (USDm)	FY2023 Total (USDm)	FY2022 Loans and advances to customers (USDm)	FY2022 Commitments and guarantees (USDm)	FY2022 Total (USDm)
Energy	**2,150**	**4,107**	**6,257**	**2,227**	**4,445**	**6,672**
Electric utilities	678	2,892	3,570	898	2,796	3,694
Oil and gas	1,470	1,200	2,670	1,327	1,634	2,961
Coal	2	15	17	2	15	17
Transportation	**1,725**	**1,274**	**2,999**	**2,300**	**1,074**	**3,374**
Air freight	12	19	31	29	1	30
Passenger air transportation	180	–	180	315	–	315
Maritime transportation	648	314	962	692	7	699
Rail transportation	167	141	308	171	142	313
Trucking services	–	–	–	208	88	296
Automobiles and components	718	800	1,518	885	836	1,721
Materials and Buildings	**4,642**	**3,732**	**8,374**	**4,641**	**4,002**	**8,643**
Metals and mining	197	214	411	305	0	305
Chemical products	106	262	368	106	279	385
Construction materials	115	1,100	1,215	154	1,110	1,264
Capital goods	968	844	1,812	945	1,256	2,201
Real estate	3,252	1,312	4,564	3,110	1,357	4,467
Steel	4	–	4	21	–	21
Agriculture, Food and Forest Products	**607**	**330**	**937**	**296**	**683**	**979**
Beverages	235	302	537	206	582	788
Agriculture	372	28	400	90	53	143
Packaged food and meat	–	–	–	–	48	48
Paper and forestry products	–	–	–	–	–	–
Carbon-related assets Grand Total	**9,124**	**9,443**	**18,567**	**9,464**	**10,204**	**19,668**
Total loans and advances & commitments and guarantees	**18,052**	**17,504**	**33,556**	**17,713**	**16,191**	**33,904**
Carbon-related assets / Total loans & advances & Commitments and guarantees	**51%**	**54%**	**52%**	**53%**	**63%**	**58%**

The total exposure levels shown are for the Bank only and include on-balance sheet and off-balance sheet exposure. The sectors subject to evaluation were extracted as per the definition of carbon-related assets in the supplementary guidance of the TCFD recommendations. This is presented differently from the SMBC Group calculation. SMBC Group reports carbon-related assets exposure as SMBC total exposure including consolidated subsidiaries (total assets on consolidated financial statements + off-balance sheet assets), while the Bank uses Total loans and advances to customers and Commitments and guarantees in order to align to the financial statements of this annual report.

Governance

Board of Directors

The Board of Directors

The Directors who were in office at the date of signing the financial statements are set out below.

Name	Board of Directors	Committees: Audit	Nomination & Governance	Remuneration	Risk
Non-executive Directors					
Alan Keir	C	–	C	M	M
Karen Briggs ●	M	M	M	M	M
James Garvey	M	M	–	–	M
Kazuya Ikeda	M	–	–	M	M
Patricia Jackson	M	M	M	M	C
Keith Macdonald	M	M	M	C	M
Sophie O'Connor	M	C	M	M	M
Executive Directors					
Hideo Kawafune	M	–	–	–	–
Hiroshi Ibaraki ●	M	–	–	–	–
Elena Paitra ●	M	–	–	–	–
Antony Yates ●	M	–	–	–	–

C Chair of Board or Committee

M Member of Board or Committee

● Joined after the year-end

+ A list of the changes to the Board in the year can be found in the Directors' Report on **page 67.**

Alan Keir

Chair

Appointed to the Board:
12 October 2016

Appointed 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.

Other appointments

Non-executive director and Chair of the Audit and Risk Committee of Majid Al Futtaim Holding LLC and a non-executive director and Chair of the Risk Committee of Nationwide Building Society.

Karen Briggs

Independent non-executive Director

Appointed to the Board:
1 April 2024

Skills and experience

Karen is a Chartered Accountant and has significant audit and risk management experience in financial services. She was a partner at KPMG and held a number of leadership roles including Head of Risk Consulting, Head of Tax, Pensions and Legal Services, Head of Technology Services and was a member of the Executive Board. She has also worked as the Head of Bank Investigations at the Bank of England.

Other appointments

Non-executive Chair of Audit and Risk Committee of Chubb Underwriting Agencies Limited, non-executive director at Vanquis Banking Group plc, member of the Board of Happold LLP, non-executive director and Trustee of Invictus Games Foundation Board and non-executive director and Chair of the Audit and Risk Committee of Imperial College London.

James Garvey

Independent non-executive Director

Appointed to the Board:
1 March 2024

Skills and experience

James has significant commercial and investment banking experience, having previously been Head of European Fixed Income Origination at UBS, Head of EMEA Debt Capital Markets at Goldman Sachs and Head of Capital and Traded Markets at Lloyds Banking Group.

Other appointments

Non-executive Chair of Goodbody Stockbrokers, non-executive director at S&P Global Ratings UK and S&P Global Ratings Europe and Chair of Martello Financial Services, a firm he co-founded.

Kazuya Ikeda

Non-executive Director

Appointed to the Board:
1 June 2022

Skills and experience

Kazuya is a Managing 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.

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 CM 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

Non-executive Chair of the Board of SMBC Nikko CM and a non-executive director of Handelsbanken PLC.

The Board of Directors continued

Keith Macdonald

Independent non-executive Director
Appointed to the Board:
12 October 2022

Skills and experience
Keith left Standard Chartered in 2021 having most recently been the Chief Operating Officer for Corporate, Commercial and Institutional Banking. He has significant technology experience gained through leadership roles at Standard Chartered and Bear Stearns and through the establishment of his own technology businesses. He also has significant experience in business operations and finance.

Other appointments
A director of Circularity.IO Limited, a digital advertising company, of which he is co-founder.

Sophie O'Connor

Independent non-executive Director
Appointed to the Board:
31 May 2023

Skills and experience
After qualifying as a Chartered Accountant, Sophie held a variety of roles at Bank of America Merrill Lynch where she gained experience of finance, risk management and operations, through Chief Finance Officer and Chief Operating Officer roles of businesses in the UK and US. She is now an experienced financial services non-executive director who has chaired the audit committee of a number of significant financial services firms.

Other appointments
Non-executive Chair of the Audit Committee of Rothesay Life plc, Chair of the Finance and Audit Committee at Tide Holdings Limited and senior independent director and Chair of the Risk Committee of BUPA Insurance Limited. She is also a trustee of the charity Chance to Shine.

Hideo Kawafune

Chief Executive Officer
Appointed to the Board:
3 April 2018
Appointed as CEO:
4 April 2023

Skills and experience
Alongside his role as CEO, Hideo is also Managing Executive Officer and Head of EMEA Division of SMFG and SMBC. Prior to his appointment as CEO, he was Deputy CEO with responsibility for overseeing internal controls and governance. He was the Bank's Chief Operating Officer between 2018 and 2021 with responsibility 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
A non-executive Director of SMBC Nikko CM, Chair of the Supervisory Board of SMBC Bank EU AG and Chair of the Supervisory Board of Shimano Europe B.V.

Hiroshi Ibaraki

Deputy Chief Executive Officer
Appointed to the Board:
1 June 2024

Skills and experience
Hiroshi is the Deputy Chief Executive Officer responsible for oversight of the control and support functions. He previously performed a similar role for SMBC's Global Banking Unit and has had experience of leading businesses in Japan and Canada. He has also undertaken senior roles in global human resources management. Hiroshi is an executive officer of SMBC.

Other appointments
None.

Elena Paitra

Head of Corporate and Investment Banking

Appointed to the Board:
1 June 2024

Skills and experience

Elena is head of Corporate and Investment Banking, which manages the coverage, private side capital markets and transaction banking businesses at SMBC EMEA. The coverage universe spans corporates and financial institutions in Europe as well as borrowers in the Middle East and Africa. In addition, Elena is also General Manager of Corporate Banking Department 2, which manages relationships with large cap and predominantly investment grade corporates across western Europe. Elena's previous experience includes coverage roles in the consumer and technology sectors and product roles in capital markets and derivatives. She is an executive officer of SMBC.

Other appointments

None.

Antony Yates

Deputy Chief Executive Officer

Appointed to the Board:
1 May 2024

Skills and experience

In addition to his role as Deputy CEO responsible for oversight of the securities and S&T businesses, Antony is Deputy Head of EMEA Division, SMBC Group, and the CEO of SMBC Nikko CM, a position he has held since 2002. He has significant experience in all aspects of the securities and derivatives businesses of SMBC Group globally. He is an executive officer of SMFG, SMBC and SMBC Nikko Securities Inc.

Other appointments

CEO of SMBC Nikko CM, Executive Chairman of SMBC Derivative Products Limited, non-executive Director of SMBC Capital Markets Asia Limited and Supervisory Board member of SMBC Bank EU AG.

Statement of Corporate Governance arrangements

The Board is committed to maintaining high standards of corporate governance within the Bank and, for the year ended 31 March 2024, has applied the Wates Corporate Governance Principles for Large Private Companies (Wates Principles). Information on how the Wates Principles have been applied can be found as follows:

Principle 1
Board composition

Purpose and Leadership

The Bank's purpose is to be "a trusted partner for the long term", which reflects the long-term relationship-based approach the Bank adopts in carrying out its business for the benefit of its stakeholders. The Purpose Statement is underpinned by Five Values set at SMBC Group level, which form a framework that helps guide corporate and individual behaviours and are central to the Bank's culture. On joining the Bank, employees are made aware of this framework through the Employee Handbook and their induction process, with further resources available on the intranet. Information on the Five Values can be found on **page 7** and information on how the Board oversees and guides the Bank's culture can be found on **page 26**.

The Board is responsible for setting the Bank's strategy and requires executives to explain how matters submitted to the Board for approval relate to and are consistent with the Purpose Statement.

Employees are regularly updated on major business initiatives and achievements through CEO emails and townhalls, and through news articles on the Bank's intranet. These communications often include examples of business transactions or internal project activities to illustrate how the Bank's values, culture, purpose and strategy have been embedded in practice.

Principle 2
Board composition

Board size and structure

At the date of signing the financial statements, the Board comprised 11 Directors: seven non-executive (six of whom independent) and four executive. The Board has appointed a separate Chair and CEO to provide a clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The CEO is assisted in his role by the other executive Directors and the senior management team, and through the work of the Executive Committee.

Diversity

The Board is committed to enhancing its overall diversity and to taking action to source applications from under-represented groups. During the year, the Nomination and Governance Committee approved an increase to the Board's gender diversity target to 33% (previously 25%) female Directors by 1 January 2025, while also overseeing that there is an appropriate mix of skills, experience and competencies on the Board. All candidates considered for appointment to Board and senior management positions are evaluated for their competence in relation to diversity, equity and inclusion. In addition, the level of diversity on senior management succession plans is considered as part of the Nomination and Governance Committee's annual review.

The Board reviews the Bank's broader diversity and inclusion activity quarterly, including the progress being made against the Women in Finance Charter commitments and the Bank's focus on disability, race and ethnicity, sexual orientation, social mobility and gender diversity.

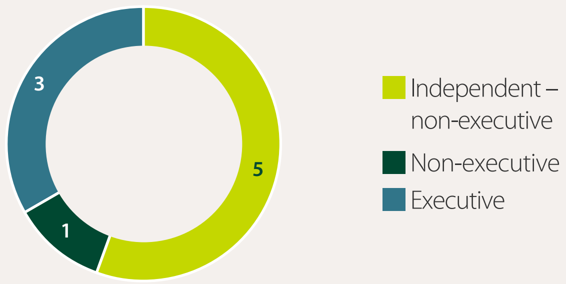
At the year-end, two of nine Directors (22%) were female. Following changes to the Board after the year-end, at the date of signing the financial statements, four of the 11 Directors (36%) were female.

Principle 2 continued

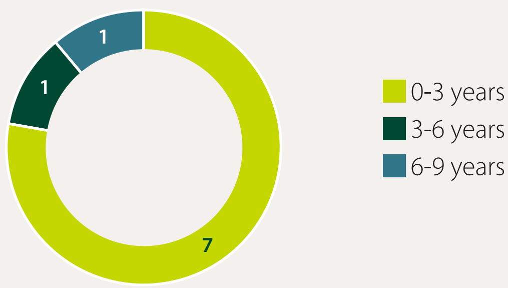
Board composition at the year-end

Gender diversity

Types of Director



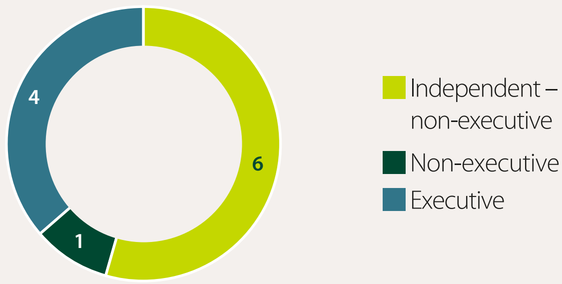
Length of service



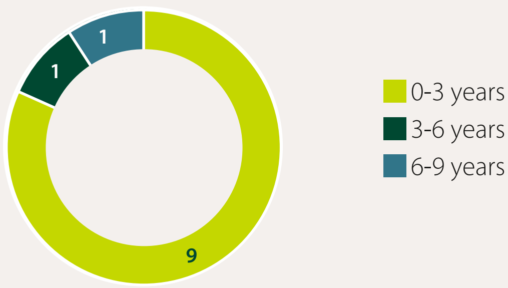
Board composition at the date of signing the financial statements

Gender diversity

Types of Director



Length of service



Board appointments

The Nomination and Governance Committee leads the process for assessing and recommending Director candidates to the Board for approval. As part of its review, the Committee considers a candidate's skills, experience and values, and has regard to the overall level of Board diversity and main areas of competency.

During the year, James Garvey joined the Board to enhance its overall commercial banking and capital markets experience, while Karen Briggs joined after the year-end with the intention of being appointed Chair of the Audit Committee. James and Karen were selected following a search undertaken by an independent firm to identify a diverse list of candidates. Following interviews with the Board Chair, CEO and the Nomination and Governance Committee members, their appointments were approved by the Board based on recommendations from the Committee. Sophie O'Connor also joined the Board in the year, and information on her appointment can be found in last year's report. Subject to regulatory approval, the Board has approved that Sophie will be appointed Board Chair in 2024.

In addition, on the recommendation of the Nomination and Governance Committee, the Board approved the appointments of Hiroshi Ibaraki, Elena Paitra and Antony Yates as executive Directors. Hiroshi has considerable control and support experience from roles across SMBC Group, while Elena and Antony bring commercial and investment banking business experience to the Board.

Statement of Corporate Governance arrangements continued

Principle 2 continued

Board composition

Effectiveness

The effectiveness of the Board and its Committees is reviewed on an annual basis. This year's review was facilitated by the Company Secretary and focused on the degree to which improvements had been made in addressing the findings of the prior year's assessment, which was carried out by an independent reviewer.

The results of this year's assessment were reviewed by the Board and Nomination and Governance Committee, which concluded that while the Board and its Committees remained effective, there were areas where improvements could be made. The Board subsequently agreed the action plans to be taken to implement those improvements, as shown below. During the year, the Company Secretariat also delivered training to executive teams on the Directors' expectations for Board and Committee papers.

Themes	Action taken
Customer development	Discussion held at the annual Strategy Day and introduction of a new regular Board report from senior business heads on client and business trends.
Strategic focus	Implementation of deep-dive reviews in Board meetings on topics to be agreed by the Board Chair.
Culture	Future reviews to be undertaken by the Board of the Bank's culture and the methods through which the Board engages with employees.

Independence

All Directors are required annually to complete a questionnaire through which any potential conflicts of interest are identified. The non-executive Directors are also 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. Conflicts of interest are also considered at each meeting so that these can be identified and managed on a case-by-case basis. A Director will not be regarded as independent if he or she has been an employee of the Bank or its shareholder within the last five years. Through these processes, it has been determined that the independent non-executive Directors have no material business or other relationships with the Bank that could influence their exercise of independent judgement.

Board professional development

The Chair is responsible for leading the development and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the Board.

The Directors appointed in the year were given a personalised induction and development plan. These plans were considered by the Nomination and Governance Committee and updated in discussion with the relevant Director during the induction period. Ongoing Board education was also provided in the year, covering topics including: conduct risk, the cyber threat environment, macro economic and sectoral trends, model risk management, and sustainability (see **page 30** for further information). These topics were suggested by individual Directors, identified through effectiveness or skills reviews, or reflected specific matters of importance to the Bank's stakeholders.

Principle 3

Director responsibilities

Accountability and responsibilities

The Directors each have in place an annually reviewed role description document and, as required by the Senior Managers Regime, a Statement of Responsibilities. Any change to an individual's Statement of Responsibilities requires the approval of the Board so that oversight can be given to the allocation of responsibilities. This is supported by the Board's Corporate Governance documentation, which sets out role profiles of Board and Committee Chairs and the other Directors. The Remuneration Committee has agreed a framework through which relevant independent non-executive Directors can input into the performance evaluation of the CEO and certain senior executives in Board and control function positions.

Role profiles	
Chairs	The Board and Committee Chairs are responsible for ensuring that meeting members operate effectively as a team and that debate is encouraged and facilitated, whilst achieving closure of items. They are also responsible for ensuring that appropriate time is allocated to consider agenda items and that members have sufficient time to consider issues and obtain answers to questions or concerns, and are not faced with unrealistic deadlines for decision-making. They are also responsible for overseeing the receipt of clear, accurate and timely information. Committee Chairs are responsible for reporting to the Board the activities of their Committee and for recommending items to the Board for approval as required.
Non-executive Directors	The non-executive Directors are responsible for the provision of independent judgement on all matters related to the Bank's strategic direction, leadership, performance, resources, risk management and overall governance. They are also expected to constructively challenge and test strategic proposals.
Executive Directors	The executive Directors, under the leadership of the CEO, are responsible for running the business, implementing the strategies approved by the Board, and ensuring the Board's decisions are implemented appropriately. They are also required to be knowledgeable about all aspects of the business even if responsible for a specific area of the business.

Board and Committees

The Board has established the Committees shown below and is responsible for appointing the Chairs. The membership of the Committees is determined by the Board in consultation with the relevant Chair. To maintain independence, no executive Directors are members of the Board Committees. The Committees also hold meetings as required in the absence of members of the executive. The CEO Chairs the Executive Committee and determines the members of that Committee.

Statement of Corporate Governance arrangements continued

Principle 3 continued

Integrity of information

Multiple systems capture, record, process and store the financial and non-financial information used for Board, Committee and corporate reporting. An internal control framework is in place with the aim of ensuring this information complies with all legal and regulatory requirements and that the risk of unexpected losses, accounting errors and inaccurate financial reporting is minimised. Key components of this framework include risk and control matrices and flow charts for financial statement components, participation in an annual SMBC Group Internal Controls Over Financial Reporting process, balance sheet substantiation and attestation, accounting and regulatory reporting policies and procedures, and assurance through internal and external audit. During the year, the Audit Committee reviewed quarterly a report on management's assessment on the effectiveness of the Bank's internal financial controls.

Independence of external audit arrangements

The Audit Committee is responsible for managing the Bank's relationship with its external auditor, KPMG LLP, and for ensuring that it remains independent of the Bank. The Committee's responsibilities include considering at least every 10 years the re-tender of the external audit and at least every five years the rotation of the lead audit partner. During the year, the Committee met the audit partner in the absence of executive management and private meetings were also held between the Audit Committee Chair and the audit partner. Through these meetings any matters of concern can be escalated.

The Audit Committee has concluded that during the year and, to the date of its report, KPMG remained independent of the Bank. It reached this view following presentation by the KPMG audit partner to the Committee of a letter which confirmed that KPMG's procedures for safeguarding its independence and objectivity and for the provision of non-audit services were consistent with the relevant FRC Ethical Standards.

Principle 4

Opportunity and risk

Opportunity

Medium- and long-term strategic opportunities are identified through the annual corporate strategy development process, which in the year involved:

- consideration by the Board of high-level strategic principles, including those of SMBC Group;
- a strategy discussion meeting involving the Boards and senior management of the Bank, SMBC Nikko CM and SMBC Bank EU; and
- review and challenge of the draft and final strategy document.

The CEO and CFO report quarterly to the Board on strategic and business developments and are accountable to the Board for the delivery of the strategy.

The development of the strategy and identification of strategic opportunities are discussed at various senior executive-level meetings held throughout the year. Any expansion of the business into new areas or the identification of short-term strategic opportunities are considered in conjunction with risk appetite and discussed by the Board and relevant committees.

Risk

The risk management framework is designed to provide that effective risk governance and management is in place across all business activities.

The Board is responsible for setting the risk appetite statement annually and for establishing a framework of controls that enables risk to be managed and assessed in line with appetite. The Board delegates the ongoing monitoring of the adequacy and effectiveness of risk management and internal controls to the Risk and Audit Committees and receives regular reports from those Committees on the work undertaken. Risk appetite is developed alongside the corporate strategy and embedded within capital and liquidity planning, including the annual Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Assessment Process (ILAAP), Recovery Plan and Resolution Pack and Solvent Wind Down Plan, all of which were approved by the Board in the year.

The Chief Risk Officer (CRO) is responsible for the formation and execution of Bank-wide risk strategies and policies that are consistent with risk appetite measures and business strategy. The CRO oversees all major risks to which the Bank is or could potentially be exposed and reports to the Risk Committee and Executive Committee. The CRO has a right of veto on credit and underwriting transactions, reflecting that credit risk is the Bank's largest risk category.

Other senior executives involved in overseeing the management of risk include the Chief Compliance Officer, who is responsible for the formation and execution of Bank-wide compliance risk strategies and policies and for overseeing the Bank's external and internal compliance with the regulators' financial crime and conduct requirements. The General Counsel is responsible for the overall management of the legal function and for advising senior management on legal, regulatory, strategic and any other matters.

+ More information can be found in the Risk management report on **page 70.**

Assessment of risk and effectiveness of risk management and internal controls in the year

Risk Committee

The Risk Committee reviewed and challenged the status of risk against appetite, the principal and emerging risks faced by the Bank and how risk is being managed. The Committee also considered the results and management response to the Compliance Monitoring Review activity, which provides assurance on compliance with relevant laws. In addition, the Committee has overseen activities to enhance internal controls and risk management arrangements where these have been identified, including through internal audit activity. The Risk Committee has also focused on assessing key risk elements related to the transfer of SMBC Nikko CM's securities business to the Bank and the post transfer risk appetite framework.

Audit Committee

The Audit Committee assessed the effectiveness of internal financial controls and considered the results of external audit findings. It also considered the results of internal audits, which address the design and implementation of risk controls in each audited entity, and monitored the improvements identified. The Committee has also overseen finance-related elements of the securities business transfer, including the status of user acceptance testing, IT development and related matters.

Principle 5
Remuneration

The Remuneration Committee's responsibilities include overseeing the development and implementation of the Bank's remuneration policies and practices.

+ Information on the members and activities undertaken by the Committee in the year can be found on **page 61**.

The Bank's approach to fixed and variable rewards is set out in a Remuneration Policy, an updated version of which was approved by the Remuneration Committee and Board in the year. 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 Policy aims to support the Bank's long-term aims and seeks to encourage long-term stability and sustainability, particularly of the capital base, and promote steady growth and keen risk awareness. Consistent with this:

- All employees are eligible to participate in the annual performance-related bonus scheme, with variable pay outcomes determined by the performance of the Bank and relevant department and by both the contribution and conduct of the employee.
- The Risk Committee assessed the risk adjustments inherent within the overall bonus pool calculation to ensure these took suitable account of the Bank's performance in the year and the current and future risk environment.
- Base salary levels, and both individual variable award levels (individual bonus awards) and total variable award funding levels (bonus pools), were benchmarked against relevant peer organisations. The results of this benchmarking exercise were discussed by the Remuneration Committee and helped inform the Bank's approach to remuneration strategy.
- Performance of the most senior individuals was assessed using a balanced scorecard to drive sustainable business performance. The scorecards included financial goals, non-financial goals linked to the Bank's five cultural pillars (including ESG and D&I targets), as well as an assessment of the individual's conduct. In addition, the Remuneration Committee reviewed and approved the variable and salary awards made to all Material Risk Takers.

Statement of Corporate Governance arrangements continued

Principle 6
Stakeholder relationships and engagement

Stakeholders – overview
The Bank's key stakeholders are those groups that most materially impact the Bank's strategy or are impacted by it and are:

- Customers
- Environment and community
- Colleagues
- Suppliers
- Regulators
- SMBC Group

Stakeholder engagement
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. The Bank therefore engages with stakeholders in many ways and at all levels of the business to understand their needs, priorities and concerns. These interactions take place in the context of the strategies and policies set by the Board and its Committees, and significant interactions are reported as necessary to those meetings. The Board also actively seeks opportunities to engage directly with stakeholders. Set out below are examples of engagement that have occurred in the year and the impact of that engagement. This complements the information shown elsewhere within the Strategic Report.

+ A further example of how the Board considers the interests of stakeholders can be found in the Section 172(1) Statement on **page 65.**

Customers
'Customer first' is one of the Bank's core values and it seeks to build its brand by being a reliable and trusted partner to its customers, providing quality and innovation through products and services.

The Bank engages with its customers on a continuous basis to understand their needs and to inform them of the Bank's strategy and operations, and the impact upon them. Interaction is primarily through relationship managers and product specialists, but the CEO and other members of the management team also frequently meet customers to develop strategic partnerships. The Bank holds regular customer training events, with topics in the year including debt capital markets, derivatives and risk hedging. Feedback from these events is discussed with a view to enhancing customer engagement across product teams.

Significant interactions and notable transactions are reported to the Board as required, often as part of business updates. These reports enable the Board to determine whether the Bank remains well placed to serve its customers and deliver its strategy, and how the Bank's capabilities should be further enhanced. These discussions in turn inform the Board's Strategy Day topics.

+ Further information on how the strategy has been developed can be found on **page 52.**

The Bank values receiving both positive and negative feedback from its customers on their experiences when dealing with the Bank and uses this information to improve and develop its products, services and processes. A Customer Voice policy and framework is in place for handling expressions of dissatisfaction from customers. All such feedback is reviewed, responded to and reported to senior management in a timely manner. Insight into the feedback received is reported to the Executive Committee and Risk Committee.

Environment and community

The Bank recognises the importance of working towards building and sustaining a better world. It aims to create social value by balancing economic growth with initiatives aimed at tackling social issues.

The Board and Committees, supported by the EMEA Sustainability Programme, have been actively engaged in overseeing and developing the Bank's sustainability capabilities in the year. The outcomes of this can be found in the TCFD Report starting from **page 28**.

Information on the steps being taken to operate more sustainably is made available to all employees through the intranet, with specific material available for front office colleagues on how they can best support the Bank's customers. Townhalls and other briefings have also been held in the year, such as the Annual Sustainability Week in November 2023, which included awareness-raising events on topics such as strategy, sustainable finance, personal environmental impacts, operational sustainability and social value.

Information on the Bank's approach to and outcome from community activities can be found on **page 27.**

Colleagues

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

The Board seeks feedback from colleagues in a combination of ways, including through direct engagement and by considering the results of employee surveys. Areas of focus for the Board and the Nomination and Governance Committee in the year have included diversity and inclusion, management development, talent programmes and career progression. Matters such as employee attrition and progress against the Human Resources strategy are also reported to the Board and help inform the Board's view on how it can attract and retain employees.

The Board regularly met representatives of the DRIVE employee networks to discuss areas of activity and focus for that network and their experiences of working in the Bank. In addition, the participants on the Bank's management development programme presented to the Board on ways to address some of the key strategic challenges facing the Bank.

The Directors have also individually participated in events at both the department and Bank level. These interactions give the Directors the opportunity to hear directly from employees and these insights are frequently shared at Board and Committee meetings and help inform the development of the human resources and diversity and inclusion strategies.

+ Further information on the outcome of engagement undertaken can be found in the People and culture report on **pages 23 to 26**.

Statement of Corporate Governance arrangements continued

Principle 6 continued

Stakeholder relationships and engagement

Speak Up

Speak Up is a key component of the governance and risk management framework. The Bank's aim is that all colleagues feel able to raise concerns about incidents of wrongdoing or suspected malpractice (financial and/or non-financial), without fear of criticism, discrimination or unfair punishment.

The Speak Up framework seeks to create a culture of openness for all staff including those working remotely and to demonstrate that malpractice and wrongdoing are taken seriously and will be dealt with at the highest level to prevent poor outcomes for employees, customers and other stakeholders. There are various internal and external channels available to raise concerns and include an independent firm working in partnership with the Bank through which reports can be raised anonymously.

During the year, the Audit Committee reviewed trends in whistleblowing reports received to understand whether these gave any indication of potential risk issues across the Bank.

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.

Engagement with suppliers is overseen by a dedicated team that supports the executives who require supplier services. Third party risk and procurement processes are in place for all engagements, which include a rigorous pre-contracting due diligence process. These checks include steps relating to compliance with laws and regulations, such as anti-bribery and corruption, modern slavery, and cost management, as well as work to incorporate operational resilience regulatory requirements. Management approval and regulatory notification are required for those engagements that are determined as critical. Post contracting, ongoing monitoring of suppliers is also undertaken, where particular focus is given to relationships that are subject to applicable regulation and the Bank's EMEA third party risk management framework.

During the year, the Bank paid 93% (FY2022: 59%) of its invoices within 30 days, with the average being paid within 13 days (FY2022: 39 days). These improvements arise from process changes to improve payment performance and long-term actions to maintain those improvements. The Bank engaged closely with its vendors as it made those enhancements during the year.

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 Board recognises that failure to comply with these requirements will impact the Bank's ability to carry out its business and serve its customers.

The Board seeks to maintain an open and cooperative relationship with all regulators. During the year, individual Directors and members of the Executive Committee met the PRA and FCA at annual strategy, continuous assessment and other meetings. The Board and Committees have also received regular reports on significant regulatory matters, such as liquidity and capital supervisory reviews, new regulation and Dear CEO, CRO and CFO letters. These interactions enabled the Board and its Committees to understand regulatory priorities and expectations, and to oversee the Bank's response to matters including regulatory consultations, the annual evaluation letter, the evolving sanctions environment and USD LIBOR transition.

The Bank has established a Public Affairs function to follow the development of new legislation and regulations affecting the financial sector and its clients, and to engage with key stakeholders in the regulators and the Government to better understand their impacts. The Bank also participates in various industry bodies to understand the changing regulatory landscape, share best practice and promote the interests of the sector. Reflecting the importance and expansion of this activity, in the year, the Board reviewed the current priorities in EMEA of the Public Affairs function and how the activities undertaken by it are coordinated across SMBC Group.

SMBC Group

The Bank recognises the importance of the role it plays to further the Mission and Vision of SMBC Group, particularly through the expansion of the Group's franchise in EMEA and provision of services to a number of SMBC Group companies in EMEA. SMBC is also the Bank's sole shareholder and therefore the Board has identified SMBC Group as a key stakeholder.

The Bank engages closely with SMBC and Group affiliated companies at all levels. A representative of the shareholder, Kazuya Ikeda, is appointed to the Board and, during the year, provided quarterly updates on SMBC Group strategy and significant business developments across the Group, which were then reflected as necessary in the Bank's strategic planning and business development processes. He has also acts as a link between the Board and SMBC Group on matters requiring Group input and helps ensure that the Bank's strategy and business development is in line with the shareholder's expectations.

The independent non-executive Directors regularly met SMBC Group senior executives in the year to exchange views on the Bank's and Group's business and operations. During the year, the Board received the first of a periodic report from the CEO of SMBC Bank EU AG on matters including the provision of services by the Bank to that company.

Board activities

The activities of the Board and its Committees in the year are set out in the following pages.

The Board met eight times in the year and the below table sets out its key areas of focus.

Responsibility in terms of reference	Area of focus
Strategy and business	– Development of the corporate strategy and individual business strategies in response to changes in the business environment and SMBC Group strategy. A number of strategic business themes were discussed at the annual Strategy Day. ● – Operational resilience self-assessment. ● – Slavery and Human Trafficking Statement and Anti-Bribery Principles Statement. ● – Governance framework to oversee the implementation, including the risks and opportunities, of artificial intelligence. Regulatory developments in respect of AI technologies were also reviewed.
Securities business and employee transfer	– Status of overall implementation, including stakeholder engagement, systems testing and oversight of the response to assurance work undertaken. – Establishment of a Branch in Abu Dhabi. ● – Subsequent to the year-end, approval to enter into the Business Transfer Agreement. ●
Financial	– Annual report and financial statements, Pillar 3 disclosure and UK Tax Strategy. ● – Return on Equity calculation methodology.
Risk management and regulatory	– ICAAP, ILAAP and recovery and resolution documentation. ● – PRA Periodic Summary Meeting letter. – FCA Dear CEO letter to wholesale banks. – Holding of an externally facilitated ransomware scenario exercise.
Sustainability	– Revised sustainability risk framework incorporating internal and external developments and evolving regulatory expectations. ● – Progress made against the sustainability strategy, including performance against ESG targets and development of the governance framework for the ownership and control of sustainability targets and risks. – Assessing regulatory trends and the Bank's response, including developments at SMBC Group level and implications for the Bank.
People and culture	– Review of emerging regulatory requirements and internal developments on D&I, and monitoring progress against gender diversity targets. – Review of progress of the Human Resources strategy. – Review of culture and ESG initiatives and strategy, and the results of employee engagement surveys.
Governance	– Appointments of new Directors to the Board and changes to Committee composition. ●

● Approved by the Board.

● Approved by the Board following Board Committee recommendation.

Report of Board Committees

Audit Committee Report

Responsibilities

The Audit Committee's responsibilities include:

- Monitoring the integrity of the financial statements and advising the Board whether the annual report and financial statements are fair, balanced and understandable.
- Overseeing the Bank's relationship with the external auditor and monitoring their performance, independence and objectivity.
- Monitoring the effectiveness of internal financial controls.
- Safeguarding the independence and overseeing the performance of Audit Department, considering the results of Internal Audit activity and the appointment and dismissal of the Co-General Managers of the Audit Department.
- Overseeing the integrity, independence and effectiveness of the whistleblowing arrangements.

Composition

The Committee comprises independent non-executive Directors. It is chaired by Sophie O'Connor, who is a Chartered Accountant with extensive financial services experience.

On the invitation of the Committee Chair, meetings were also attended by the executive Directors, Co-Heads of Audit Department and Head of Finance and Control. The engagement partner of the external auditor, KPMG, also attended meetings.

During the course of the year, the Committee members met representatives of Internal Audit and the external auditor in the absence of executive management.

Activities

During the year, the Audit Committee met seven times. The below table sets out the key areas of focus for the Committee in the year.

Responsibility in terms of reference	Area of focus
Financial statements	– Approving key accounting judgements and assumptions, including relating to the pensions scheme valuation and the litigation provision. – Approving the approach to the calculation of Expected Credit Losses and challenging the IFRS9 post model adjustments. – Reviewing the approach to preparing, and the content of, the sustainability disclosures. – Recommending the annual report and financial statements to the Board for approval and signing. ●
Regulatory reporting	– Reviewing the Pillar 3 disclosures and recommending the full year disclosures to the Board for approval. ●
Taxation	– Recommending the UK Tax Strategy to the Board for approval. ●
Finance function and internal financial controls	– Enhancement of the Finance function, including implementation of enhanced control framework and use of new technologies to improve efficiency and support innovation. – The status of internal financial controls and the results of systems testing in preparation for the transfer of the securities business to the Bank.
External audit	– Approving the terms of the engagement, including the fees payable for the statutory audit and other mandated reporting. – Determination that the auditor remains independent of the Bank and that the objectivity of the partner and audit staff had not been impaired. – The previous year's audit process and the actions agreed between management and the auditor to improve the efficiency of the process.
Internal audit	– Approving the annual Internal Audit plan, monitoring Internal Audit resourcing arrangements and employee professional development. – The reports issued by Internal Audit, the responses from management and the implementation of agreed action plans.
Whistleblowing	– The themes identified through whistleblowing reports made in the year and the Chief Compliance Officer's view of the effectiveness on the whistleblowing systems and controls.

● Recommended to the Board for approval.

Report of Board Committees continued

Audit Committee Report (continued)

Disclosures Committee (Sub-Committee of the Audit Committee)

The Disclosures Committee reports to the Audit Committee and is responsible for overseeing the development of the annual report and financial statements. Sophie O'Connor also chairs this Committee, with the other attendees being the CFO, Head of Finance, Head of Communications and the Company Secretary. The CFO, under delegated authority from the Board, determines the executive membership of the Committee.

During the year, the Disclosures Committee met three times. The below table sets out the key areas of focus for the Committee in the year.

Responsibility in terms of reference	Area of focus
External reporting trends	– Review of relevant FRC publications, including the annual review of corporate reporting.
Financial statements	– Assessment of the impact of new or amended accounting standards.
Annual report and financial statements	– Approach to the development and review of the sustainability disclosures. ● – Review of financial and non-financial disclosures.

● Recommended to the Audit Committee for approval

Nomination and Governance Committee Report

Responsibilities

The Committee's responsibilities include:

- Assessing and recommending candidates to the Board to fill Board, Senior Manager Function and other senior executive management vacancies.
- Assessing Board composition, performance and skills.
- Reviewing Board and senior management succession plans.
- Reviewing Board governance arrangements.

Composition

The Committee comprises independent non-executive Directors and is chaired by Alan Keir. On the invitation of the Committee Chair, meetings were also attended by Hideo Kawafune, other relevant executive Directors and the Head of Human Resources.

Expansion of responsibilities and change of name

During the year, the Committee's terms of reference were revised to include responsibility for reviewing the Board's governance arrangements, and for assessing whether these are consistent with best practice while remaining appropriate for and proportionate to the Bank's size, complexity and strategy. With this expansion of responsibilities, the Committee's name was changed to the Nomination and Governance Committee.

Activities

During the year, the Committee met seven times. The below table sets out the key areas of focus for the Committee in the year.

Responsibility in terms of reference	Area of focus
Diversity and inclusion	– Revised Board gender diversity target – + see **page 48** for further information.
Board composition	– Appointments of new Directors, including assessing their fitness and propriety for the role and their induction plans. ● – Appointment of Keith Macdonald as Chair of the Remuneration Committee. ● – The results of a skills and experience assessment, which helped inform changes to the composition of the Board.
Succession planning and management appointments	– Appointment of a new CFO and other senior-level executive appointments. ● – Succession plans for the Board and senior executives. – Framework for the development of senior and middle management capabilities and skills.
Effectiveness	– Findings of the Board and Committee effectiveness review and discussion of action to address the points identified – + see **page 50** for further information.
Governance	– Results of a review of the Board's governance arrangements relative to leading practice and oversight of subsequent actions undertaken.

● Recommended to the Board for approval.

Remuneration Committee Report

Responsibilities

The Committee's responsibilities include:

- Overseeing the development and implementation of remuneration policies and practices, which includes specific responsibility for recommending the Remuneration Policy to the Board for approval.
- Approving the remuneration of Material Risk Takers (MRTs) and the bonus fund cap calculation.
- Approving regulatory returns and public remuneration disclosures.

Composition

The Committee comprises non-executive Directors. During the year, Keith Macdonald was appointed Chair of the Committee, replacing Alan Keir. This change was made to reflect the UK Corporate Governance Code provision that the Chair of the Board should not also chair the Remuneration Committee. Although the Board has not adopted the UK Corporate Governance Code, it recognises the Code as best practice and agreed it appropriate to make this change.

On the invitation of the Chair, meetings were also attended by Hideo Kawafune, other relevant executive Directors, the Head of Human Resources and, as necessary, the Chief Risk Officer.

Activities

During the year, the Committee met six times. The below table sets out the key areas of focus for the Committee in the year.

Responsibility in terms of reference	Area of focus
Remuneration review	– Strategy for the remuneration reviews for the year ended 31 March 2024, including setting the budget for the salary review and the bonus fund, and the approach to employee promotions. – Balanced scorecard metrics and weightings for the senior management team. – Revised Remuneration Policy. ● – Results of the previous year's remuneration review.
Remuneration arrangements	– Specific MRT remuneration awards, including the release of deferred awards following assessment of individual conduct. – Revised MRT identification guidelines and list of individual MRTs. – Approving the Bonus Fund Cap Calculation Operating Procedures, which include ESG measures of departmental performance.
Disclosures	– Gender Pay Gap disclosures, Pillar 3 remuneration statement and the required annual remuneration returns to the regulators.

● Recommended to the Board for approval.

Report of Board Committees continued

Risk Committee Report

Responsibilities

The Committee's responsibilities include:

- Considering risk management structures and systems and internal controls.
- Assessing the status of risk relative to risk appetite and the main areas of risk faced.
- Reviewing the ICAAP, ILAAP, and recovery and resolution documentation.
- Overseeing operational resilience and outsourcing arrangements.
- Overseeing regulatory engagement and compliance.
- Safeguarding the independence and overseeing the performance of the risk and compliance functions and the Money Laundering Reporting Officer.

Composition

The Committee comprises the non-executive Directors and is Chaired by Patricia Jackson. On the invitation of the Chair, meetings were attended by the executive Directors, Chief Risk Officer, Chief Compliance Officer, General Counsel and Co-Heads of Audit Department.

Activities

During the year, the Committee met seven times. The below table sets out the key areas of focus for the Committee in the year.

Responsibility in terms of reference	Area of focus
Project – transfer of securities business and employees	– The framework of decision-making to inform the Board's approval to the transfers. – Assessing the progress to implement an updated risk management framework in preparation for the transfers. – Assessment of risk in preparation for the transfers and the actions being taken to mitigate those risks.
Risk management framework	– Sustainability risk framework, updated to include regulatory and internal developments and risk appetite framework metrics. – Development of the overall risk management and controls framework, including the enhancement of the three lines of defence framework. – Oversight of progress being made to implement the new model risk management regulatory requirements.
Credit Risk	– Deep dives into business lines and specific areas of credit risk, including consideration of stress testing results.
Systems, security and data	– Cyber risk threat environment and the status of internal controls. External regulatory developments in respect to cyber were also considered. – Oversight of the actions arising from a Board ransomware test exercise.
Financial crime prevention	– The annual Money Laundering Reporting Officer's Report was reviewed, setting out the systems and controls that enable the Bank to identify, assess, monitor and manage financial crime risk. – Development of the frameworks through which sanctions screening and transaction monitoring are undertaken.
Capital, liquidity and resolution	– ICAAP, ILAAP, and recovery and resolution documentation. ●

● Recommended to the Board for approval.

Executive Committee Report

Responsibilities

The Executive Committee is responsible for overseeing the management of all aspects of the Bank's business.

Composition

The Committee is chaired by the CEO and attended by members of the senior management team. The Committee meets monthly and the non-executive Directors receive a copy of the papers and minutes of meetings.

Activities

During the year, the Committee met 12 times. The below table sets out the key areas of focus for the Committee in the year.

Responsibility in terms of reference	Area of focus
Projects	– The status of the overall project portfolio and significant projects.
Risk management	– The overall risk profile, significant risk developments and changes to the principal and emerging risks. – The impact of changes in credit markets and macro economic conditions on the credit portfolio, including the level of impairment costs.
Compliance, financial crime and legal	– Status of conduct risk KRIs and the results arising from Compliance Monitoring Programme reviews. – Monitoring regulatory developments in the UK and EMEA and their impact on the Bank, and public relations activities. – Implementation of new conduct policies and compliance controls. – Developments in global sanctions regulation impacting the Bank.
Business, strategy and financial performance	– Business developments and the drivers of overall financial performance. – Setting of sustainable finance targets.
People and culture	– Proposals for new Women in Finance Charter targets to 2027. – Enhancement of the Learning and Development Strategy. – The results of employee engagement surveys were assessed, resulting in the establishment of a working group to review the hybrid working arrangements. This led to clarification being issued on the guidelines issued to employees.
Systems and cyber security	– Regulatory and industry developments on the use of artificial intelligence technologies and status of implementation in SMBC Group.
Operations	– Review of major initiatives including implementation of a new Data Management Office, status of customer account periodic reviews and operational processing trends. – Monitoring supplier payment performance.
Audit	– Results of internal audit review activities and the progress made by management to implement recommendations made.

Section 172(1) Statement

The Directors are committed to discharging their responsibilities under section 172(1) of the Companies Act 2006 to act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to the factors shown in section 172(1) (a) to (f). This section forms the statement required under section 414CZA of the Companies Act 2006.

The Board recognises that the Bank's success is dependent on its stakeholders and that the Bank's activities impact its stakeholders in different ways. When presenting to the Board and its Committees, members of management are required to identify in supporting documentation the stakeholder groups relevant to the item, with approval items also requiring confirmation of the section 172(1) factors, which are then considered by the Directors in their discussions and decision-making. Information on how in the year the Directors have had regard to these factors when performing their duty under section 172(1) can be found throughout the Strategic Report, with key references indicated below.

Section 172(1) factor	Further information
(a) likely consequences of any decision in the long term	During the year, the Board approved the corporate strategy and monitored performance against the core business objectives and financial targets. The strategy, together with the Board-approved ICAAP and ILAAP documents, are prepared on a three-year time horizon. + Further information on the linkage between strategy and culture and values can be found on **page 48.** See also the information on the development of the Bank's strategy in the CEO's Report on **page 10** and Review of the Year on **pages 12 to 13.**
(b) interests of employees	Employees are identified as one of the Bank's key stakeholder groups and the Board regularly considers their views and opinions. + Further information can be found on **page 55**.
(c) need to foster business relationships with suppliers, customers and others	Suppliers and customers are identified as key stakeholder groups. + Information on how the Bank has interacted with these groups can be found on **pages 54 to 57**.
(d) impact of the company's operations on the community and the environment	The creation of social value is a key part of the Bank's sustainability objectives, and the Board regularly considers sustainability matters. Further information on the Bank's community activities can be found on **page 27**. Information on the way in which the Bank monitors the risks and opportunities arising from climate change can be found on **pages 32 to 35**.
(e) desirability of the company maintaining a reputation for high standards of business conduct	The Board recognises the need for the Bank to exercise high standards of business conduct. Oversight of conduct is exercised primarily through the Risk Committee and Executive Committee and information on how they do so is set out on **pages 21 to 22.**
(f) need to act fairly as between members of the company	As the Bank is a wholly-owned subsidiary of SMBC, the need to act fairly as between members of the company is less relevant to the Directors' discussions than the other section 172(1) matters. There is close collaboration with SMBC and other member companies of SMBC Group to progress the Group's overall Mission and Vision. + Further information can be found on **page 57**.

Example of how the section 172(1) matters and stakeholder interests have been considered

Stakeholder engagement has been central to the Bank's preparations for the securities business and employee transfer from SMBC Nikko CM. The Board has received regular updates on the stakeholder engagement undertaken, the feedback from that engagement and how the Bank has responded. This project has also required the Board to give particular consideration to the section 172(1) matters relating to the likely long-term consequences of the business transfer, the interests of employees, business relationships with suppliers and customers, and the maintenance of high standards of business conduct.

The fair treatment of SMBC Nikko CM customers migrating to the Bank was recognised as a key principle at the outset of the transfer project. During the year, the Bank launched a communications programme with the objective of overseeing the delivery to customers of clear, concise and timely communications on the migration timeframe and actions required to ensure they were ready to transact with the Bank. Customer enquiries were managed by a dedicated customer communications team, and regular information on responses and queries received, including average resolution time, was presented to senior management weekly. In addition, the Board received regular reports on customer response rates and plans for future engagement. The feedback received from customers enabled the Bank to improve its communications over time and facilitated individual customer conversations. Similar engagement methods were employed for impacted suppliers, with this being coordinated by a dedicated workstream responsible for negotiating new contractual arrangements.

A programme of communication and consultation was also put in place to update and support colleagues in SMBC Nikko CM who are expected to transfer to the Bank. They were kept informed of the transfer through a dedicated intranet site, senior leader townhall meetings and regular updates in CEO emails, and were briefed on the Bank's products and services. Discussion and feedback sessions were also held and, in response to feedback received, the Bank ran a series of senior management briefing sessions to enhance knowledge of the securities business across the Bank.

The members of the Board and senior management team also met the PRA and FCA at continuous assessment and other meetings to discuss aspects of the transfer process, with the Board actively engaged in overseeing the progress of the Bank's response to enquiries received.

Non-Financial and Sustainability Information Statement

Below is the Non-Financial and Sustainability Information Statement as required by sections 414CA and 414CB of the Companies Act 2006. The information set out in the table is incorporated by cross-reference.

One requirement of section 414CB is to include information on the policies pursued in the five areas shown below. The Bank has policies and processes in place 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	Relevant policies and documents	Section of the annual report	Page references
Environmental matters	– Credit policies	– Sustainability – TCFD	**18 to 20, 28 to 43**
Employees	– Employee Handbook – Whistleblowing 'Speak Up' Policy – Gender Diversity targets	– People and culture – Stakeholders – Colleagues	**23 to 26, 55 to 56**
Social matters	– Compliance policies – Anti-Money Laundering and Combating Terrorist Finance Policy – Market Abuse Regulation Policy and related policies	– Sustainability – Stakeholders – Environment and community	**21 to 22, 55**
Respect for human rights	– Anti-Slavery Policy – Slavery and Human Trafficking Statement	– Sustainability	**22**
Anti-corruption and anti-bribery	– Anti-Bribery and Corruption Policy	– Sustainability	**22**
Climate-related financial disclosures		– TCFD	**28 to 43**
Description of the business model		– At a glance	**6 to 7**
Principal risks		– Risk management overview	**15 to 16**
Explanation of amounts in financial statements		– Review of the year	**13**
Non-financial key performance indicators		– People and culture – TCFD – Stakeholders – Suppliers	**25, 35 to 43, 56**

Approved by the Board of Directors and signed on behalf of the Board.

Hideo Kawafune
Chief Executive Officer
4 July 2024

Directors' Report

The Directors submit their Report and the audited financial statements for the year ended 31 March 2024.

Other information that is relevant to the Directors' Report, and which is incorporated by reference into this Report, can be found as follows:

Other information	Section	Page
Principal and emerging risks	Risk management overview	**15 to 16**
Policy on the employment of disabled persons	People and culture – Diversity and Inclusion	**23 to 24**
Streamlined Energy and Carbon Report	Task Force on Climate-related Financial Disclosures	**37 to 38**
Statement of Corporate Governance arrangements	Corporate governance	**48 to 57**
Engagement with employees	Stakeholders	**55**
Engagement with suppliers, customers and other stakeholders	Stakeholders and Section 172(1) Statement	**54 to 57**
Managing risk	Risk Management Report	**70 to 75**
Financial instruments	Notes 3(e), 4 and 5 to the financial statements	**93 to 119**
Hedge accounting	Note 13 to the financial statements	**129 to 135**

Results and dividends

The Bank recorded net profit of USD 406.3m for the year ended 31 March 2024 (2023: net profit of USD 252.1m). No dividends were declared or paid in the year and the Directors do not recommend the payment of a final dividend.

Directors

The list of current Directors can be found in the Corporate Governance Report on **page 44**. Changes to the Directors during the year and up to the signing of this Report are set out below.

Name	Position	Effective date of appointment/ resignation
Sophie O'Connor	Independent non-executive Director	Appointed 31 May 2023
Charlotte Morgan	Independent non-executive Director	Resigned 31 August 2023
James Garvey	Independent non-executive Director	Appointed 1 March 2024
Karen Briggs	Independent non-executive Director	Appointed 1 April 2024
James Fenner	Executive Director	Resigned 1 May 2024
Antony Yates	Executive Director	Appointed 1 May 2024
Hiroshi Ibaraki	Executive Director	Appointed 1 June 2024
Elena Paitra	Executive Director	Appointed 1 June 2024
Nobuyuki Takiguchi	Executive Director	Resigned 1 June 2024

Directors' Report
continued

During the financial year, the independent non-executive Directors benefitted from qualifying third party indemnity arrangements, which remain in place at the date of this Report. The Bank also maintained directors' and officers' liability insurance in the year.

Political donations

The Bank made no political donations or contributions during the year (2023: nil).

Overseas office

Through the year and at the date of signing this Report, the Bank had a branch in Paris, France.

Research and development

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

Likely future developments

Information on the transfer to the Bank of the securities business of SMBC Nikko CM and other related changes can be found on **pages 12 to 13**. An indication of other likely future developments can be found in the Strategic Report.

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, liquidity, and capital requirements and resources.

+ Further information can be found in note 2 to the financial statements on **pages 86 to 88**.

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 LLP 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.

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

Mark Bradley
Company Secretary
4 July 2024

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and financial statements

The Directors are responsible for preparing the annual report, 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 UK-adopted international accounting standards and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 UK-adopted international accounting standards;
- 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.

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

Hideo Kawafune
Chief Executive Officer
4 July 2024

Risk Management Report

This section sets out the Bank's approach to managing risk.

+ Further information can be found in the Risk Management Overview (**pages 15 to 16**) and the level of risk at the year-end can be found in the financial statements.

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

– Achieve sustainable business growth and reduce earnings volatility by prudent risk taking and appropriate pricing of risk.

Solvency and liquidity

– Maintain capital and liquidity resources in surplus over business needs and regulatory requirements.

Conducting business

– Adhere to the letter and spirit of all applicable legal and regulatory requirements and ensure that actions (or failure to act) does not cause an adverse outcome for the Bank, its customers, suppliers and other key stakeholders.

Operational Resilience

– Maintain an operational risk framework comprising of people, processes and systems to a high standard in order to ensure resilience against both internal and external operational disruptions.

Risk management objectives

The Bank's risk management objectives are to:

– ensure the Bank's strategic risk pillars, risk strategy statements and risk appetite measures are observed and maintained in the pursuit of the Bank's strategic objectives;
– maintain a risk appetite that achieves appropriate risk/return whilst ensuring that the Bank always maintains adequate capital;
– ensure that prudent levels of liquidity are in place to fund the Bank even under stressed conditions;
– maintain fair and ethical relationships with all the Bank's customers;
– manage and mitigate risk that the Bank assumes because of its business strategy;
– maintain an adequate and effective control environment; and
– ensure that the Bank adheres 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. In the year, the Risk Committee provided oversight of a project to further enhance the Bank's three lines of defence model.

First line

Senior managers in the first line of defence are ultimately responsible for the risks and controls that fall within their area of responsibility. Each department operates within the risk appetite threshold 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 they operate within a governance framework that allows them to exercise professional judgement and make recommendations in an effective and impartial manner.

Third line

Audit Department is the third line of defence and comprises an Internal Audit Group and a Credit Review Group, and is independent of the Bank's business units. 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 Bank's assets, reputation and sustainability. 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 and is similar to a credit quality assurance function.

Executive level risk and control committees

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

Asset and Liability Management Committee

Considers 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.

Compliance & Financial Crime Committee

Assesses the robustness of the compliance management framework, discusses material compliance matters and reviews the progress of the implementation of initiatives, which cover key and emerging risks arising from, or significant issues including, regulatory affairs, governance, conduct, financial crime, monitoring and surveillance.

Enterprise Risk Management Committee

This Committee has the dual purpose of: (i) coverage of specific Enterprise Risk Management matters, such as examining the governance processes, assumptions and results related to the ICAAP and ILAAP, recovery and resolution planning, and regulatory horizon scanning; and (ii) acting as an overarching risk management committee through which it also considers risk matters in aggregation.

Finance Committee

Provides control, governance, transparency and challenge around finance matters. Key matters overseen and considered by the Committee are financial and non-financial reporting, external audit, regulatory reporting and taxation.

Model Risk Committee

Examines and discusses matters relating to model risk management issues. The subjects discussed include model risk issues arising in relation to the overall governance of the model risk management framework and relevant elements, such as mitigation measures, monitoring principal and emerging model risks, and reporting and regulatory matters.

Operational Risk and Resilience Committee

Examines and discusses 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, outsourcing oversight, 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.

Sustainability Risk Management Committee

Examines and discusses matters related to sustainability risk management issues, including developing effective sustainability risk management through a Sustainability Risk Framework integrated across the business in EMEA. It also reviews matters such as sustainability Risk appetite setting, topic monitoring, and review and observation of the risk appetite framework, control measures, KRI thresholds and the control environment.

Future planned enhancements to risk management governance

The Bank plans to further enhance its risk management governance in the current fiscal year, primarily in order to put in place appropriate arrangements for the management and oversight of the risks arising from the transfer of the SMBC Nikko CM securities business to the Bank. These enhancements include establishment of the following Committees:

Credit and Counterparty Credit Risk Committee

The existing Credit Risk Committee is planned to be expanded to additionally cover counterparty credit risks. It will be responsible for discussing a range of credit issues including consideration of credit and counterparty credit risk key risk indicators, portfolio analysis, sector analysis and asset allocation, as well as credit risk appetite. It will also review matters such as business origination guidelines and issues arising from the ongoing credit review activity performed by Audit Department's Credit Review Group.

IT Risk Management Committee

Three existing technology and cyber risk committees will be unified under one overarching Committee, chaired by the Chief Information Officer.

Market Risk Committee

Focuses on market risks associated with the securities business being transferred. The subjects discussed will include issues arising in relation to the Market Risk Management Policy and elements thereof. It will also review matters such as the effectiveness of risk mitigation measures, identifying risks and emerging risks, and evaluate market risk regulatory developments.

Risk Management continued

Reputational Risk Committee

Will discuss and examine matters related to reputational risk management issues, including the oversight and governance processes as well as reviewing and decision-making on country, sector and customer/business specific reputational risk appetite positions.

Risk management framework

The Bank's risk management framework sets out the overarching principles and information for the key areas of risk. The key elements of the Bank's approach to risk management are described below:

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.

The Bank has several processes in place to identify and assess its risks, including principal and emerging risks, Risk Register, scenario analysis and stress testing.

Risk measurement

The key principles for risk measurement and monitoring are to:

- measure risk exposure by loss modelling, enterprise-level KRIs, Risk Register execution and scenarios;
- provide capital methodology and implementation;
- facilitate senior management understanding of the severity of the risk;
- appropriately report to the Board, Risk Committee and Executive Committee inherent and post mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite; and
- maintain a record of accepted risks.

Model risk management framework

All internal models used to conduct stress testing are subject to the Model Risk Management Policy. This Policy is the governing document for all stress testing-related models, covering credit, market, liquidity and operational risks. All stress testing models are subject to a self-assessment against the model risk management principles published by the PRA and the findings of this are reported in the ICAAP document. In the year, the Bank enhanced its model risk management framework to align it to the latest regulatory requirements. These enhancements included the development of the model inventory, establishment of the model risk appetite framework and implementation of new processes to enhance accountability and transparency. This work is expected to continue during the current fiscal year.

Stress testing and scenario analysis

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

Reverse stress testing (RST) is used to identify and monitor the factors and the stress levels that have the potential to cause the Bank's business model to become unviable. Reverse stress testing is an important part of the overall risk management framework and assists management in understanding key vulnerabilities within the business model and to identify potential control enhancements.

The Bank's RST is developed in conjunction and alignment with the risk assessment processes (Risk Register and principal and emerging risks) and is included in the ICAAP.

Risk management (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.

Risk management training

The key principles for risk management training are:

- to facilitate senior management understanding and engagement with key risk management topics and processes;
- to ensure an appropriate and up-to-date framework is in place so that the required skill sets are updated and refreshed regularly, thereby reinforcing the three lines of defence; and
- to communicate and embed the Bank's risk culture and framework throughout the organisation.

The Bank conducts training across all user groups and levels of seniority, through an ongoing process, tailored as appropriate to each group.

Risk appetite

The purpose of risk appetite is to define the broad-based level of risk the Bank is willing to accept in pursuit of its strategic objectives. The risk appetite and risk strategy are complementary, aligning with and supportive of the corporate strategy.

The Bank's key principles for its risk appetite framework are:

- risk appetite is set by the Board. This is undertaken on an annual basis as part of the strategic planning process;
- the risk appetite is driven by both top-down Board leadership and bottom-up involvement of business units and second line teams;
- 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 about the risk profile of the Bank as a result of its activities;
- to be adaptive, where appropriate, to changes in business and market conditions;
- to cover all Bank 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 the Bank's strategy.

Risk reporting and escalation

The key principles for risk reporting and escalation are as follows:

- that senior management is provided with the necessary information regarding the Bank's principal risks so that an informed view of the Bank's risk profile can be made;
- that all material risks are reported and deliver a complete view of the whole range of risks facing the Bank;
- the principal risks facing the Bank are reported at the appropriate monthly Risk and Control Committee meetings. These Committees have responsibility for the principal risk categories and related risk management matters;
- delivering a Risk Report that incorporates the key themes/ messages from the Risk and Control Committees to the Executive Committee monthly.

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.

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.
- understanding vulnerabilities through stress testing and reverse stress testing.
- a model governance framework that 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 assess 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

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.

Risk Management continued

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 (parallel/non-parallel) that 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, which considers the Bank's current positions against past crises;
  - daily market risk reporting of net basis point value limits for the overall portfolio and by the respective major currency (GBP, USD, EUR and JPY) maturity ladder;
  - monitoring and assessing the daily profit and loss to review that this in line with the Bank's expectation; and
  - managing, monitoring and reporting the Bank's early warning indicators.

Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its liabilities, or 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; and
- 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.

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 enable the operational risk profile to be 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/material incident reporting, scenario analysis, risk register, risk issue/acceptance identification, product approval framework, operational risk capital approach, risk indicator governance framework, third party risk management/outsourcing, IT and cyber risk oversight and project monitoring.

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. The Bank's core business concerns generating revenue as a direct result of taking credit risk through its lending portfolio, and operational resilience is a crucial factor in helping it achieve its business plan. This entails preventing, as far as possible, a major operational disruption from occurring.

The following are the key components of the existing

Operational Resilience framework which is still being developed, enhanced and embedded in preparation for the regulatory deadline of March 2025. These components complement the operational risk processes, which are focused on the prevention of disruption, to introduce the operational resilience concepts of response and recovery to normal operations without materially impacting clients, market integrity or financial stability:

- Important Business Services (IBS)
- Impact Tolerances
- Mapping
- Scenario Testing
- Self-assessment
- Boards and Governance

Conduct risk

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

The Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank has a policy framework to help all colleagues in understanding good conduct and positive behaviours, and raising and addressing concerns.

To support the policy framework, the Bank provides training, communications, advice and guidance to help colleagues in meeting the regulatory and legal requirements and the rules and standards of conduct, including avoiding non-financial misconduct, to which all staff must adhere. This is supported by monitoring, surveillance, reporting and oversight of adherence to the policy and procedure framework and regulatory expectations.

Conduct key risk indicators, which seek to provide effective risk identification, are regularly reviewed, including by the Executive and Risk Committees, with the aim of ensuring these remain proportionate and relevant to encourage organisational learning, constructive challenge, and inclusion as well as improved engagement and accountability.

Sustainability risk

See the Task Force on Climate-related Financial Disclosures (TCFD) Report on **pages 28 to 43**.

Independent Auditor's Report to the members of SMBC Bank International Plc

KPMG

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 2024 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 2024 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 fifteen financial years ended 31 March 2024. 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 2023: $10.0m) 4.2% (31 March 2023: 4.2%) of average profit before tax of the last three years	
Key audit matters		**vs 31 March 2023**
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 (unchanged from March 2023), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures.

These matters were 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 these matters.

	The risk	Our response
Impairment of loans and advances at amortised cost, including off-balance sheet elements Charge: $27.2m (31 March 2023: $47.7m) Provision: $279.9m (31 March 2023: $265.1m) *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 estimation** – 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 94% of the total loans and advances to customers and banks), in particular the PD model, which has 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 in determining the economic scenarios used and the probability weights applied. - **Lifetime expected credit losses on customer exposures in Stage 3** – The identification and measurement of Stage 3 assets is an inherently judgemental 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: — **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 the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences. — **Our economic scenario expertise:** We involved 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. — **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;

Independent Auditor's Report continued

	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 judgements 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 are key to understanding the key judgements and material inputs to the IFRS 9 ECL results.	— **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 uncertainty PMA, we assessed whether the key assumptions used were reasonable and the method used for calculation of the PMA is appropriate. 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 judgements and assumptions made was sufficiently clear. We performed the tests above, rather than seeking to rely on the Bank's controls as the detailed testing is inherently the most effective means of obtaining audit evidence. **Our results** Based on the testing performed, we found the resulting estimate to be acceptable. (31 March 2023: 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 2023: $10.0), determined with reference to a benchmark of average profit before tax (PBT) over the past three years, of which it represents 4.2% (31 March 2023: 4.2%).

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 2023: 75%) of materiality for the financial statements as a whole, which equates to $11.2m (31 March 2023: $7.5m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.[7]

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.75m (31 March 2023: $0.5m), 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.

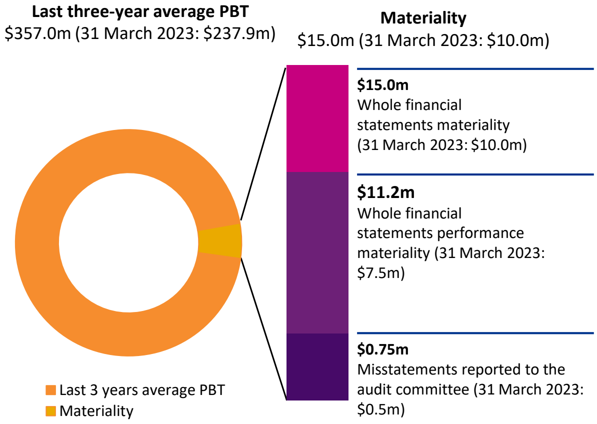
We were able to rely upon the Bank's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in other areas the scope of the audit work performed was fully substantive.

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. We conducted on-site visits of both the locations to perform a review of the procedures performed at these locations.



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 recent market experience and volatility including: the UK/EMEA high commodity prices and supply chain inflation resulting from geopolitical conflict escalation; the run up to the US elections and the high debt to GDP issues in Japan.

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 2(b) 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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Independent Auditor's Report continued

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 69, 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.

Satish Iyer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
4 July 2024

KPMG

Statement of comprehensive income For the year ended 31 March 2024

	Notes	2024 USDm	2023 USDm
Interest income[1,2]		**2,477.4**	1,240.6
Interest expense		**(2,037.0)**	(1.016.5)
Net interest income		**440.4**	224.1
Fees and commissions income		**582.0**	570.1
Fees and commissions expense		**(25.9)**	(41.6)
Net fees and commissions income		**556.1**	528.5
Net trading income		**277.7**	261.8
Operating Income		**1,274.2**	1,014.4
Net impairment loss on financial assets	4	**(27.2)**	(47.7)
Personnel expenses	6	**(424.6)**	(373.2)
Depreciation and amortisation	15,16	**(55.6)**	(51.9)
Other expenses	6	**(231.2)**	(201.3)
Net operating expenses		**(738.6)**	(674.1)
Profit before income tax		**535.6**	340.3
Income tax charge	10	**(129.3)**	(88.2)
Profit for the year attributed to equity holders of the parent		**406.3**	252.1
Other comprehensive income net of tax:			
Items that will never be reclassified to profit and loss			
Actuarial (losses)/gains on defined benefit scheme		**(9.2)**	(12.7)
Items that will be reclassified to profit and loss			
Movement in cash flow hedge reserve		**(6.6)**	3.5
Movement in fair value hedge reserve		**(0.1)**	0.3
Other comprehensive income net of income tax		**(15.9)**	(8.9)
Total comprehensive income for the year		**390.4**	243.2

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 86 to 145 are an integral part of these financial statements.

Statement of financial position
As at 31 March 2024

	Notes	2024[1] USDm	2023[1] USDm
Assets			
Cash and balances at central banks		**22,951.2**	25,880.0
Settlement balances		**95.5**	115.5
Loans and advances to banks	11	**3,453.5**	3,223.6
Loans and advances to customers	11	**18,051.7**	17,712.7
Reverse repurchase agreements		**1,710.4**	1,266.9
Investment securities	12	**668.5**	1,045.1
Derivative assets	13	**1,973.0**	2,085.6
Other assets	14	**763.8**	928.9
Intangible assets and goodwill	15	**70.2**	56.4
Property and equipment	16	**243.5**	254.4
Current tax asset	10	**5.5**	24.2
Deferred tax asset	10	**43.7**	26.0
Pensions surplus	9	**33.6**	41.8
Total assets		**50,064.1**	52,661.1
Liabilities			
Deposits by banks		**21,151.7**	24,989.5
Customer accounts		**19,829.1**	18,669.0
Debt securities in issue	17	**901.9**	1,048.7
Derivative liabilities	13	**1,625.2**	1,877.3
Other liabilities	18	**938.6**	847.3
Other provisions		**11.0**	12.0
Current tax liability		**–**	–
Deferred tax liability	10	**26.8**	27.9
Total liabilities		**44,484.3**	47,471.7
Shareholders' equity			
Called up share capital	20	**3,200.1**	3,200.1
Other reserves		**103.8**	110.5
Retained earnings		**2,275.9**	1,878.8
Total equity		**5,579.8**	5,189.4
Total liabilities and equity		**50,064.1**	52,661.1

1 The risk management policy disclosures on credit, market and liquidity risk described on pages 70 and 75 are incorporated into these financial statements by reference.

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

Hideo Kawafune
Chief Executive Officer
4 July 2024

The notes on pages 86 to 145 are an integral part of these financial statements.

Company registration number 04684034

Statement of changes in equity
For the year ended 31 March 2024

	Share capital USDm	Retained earnings USDm	Capital redemption USDm	Hedge reserve USDm	Fair value reserve USDm	Total USDm
At 1 April 2023	**3,200.1**	**1,878.8**	**100.0**	**10.2**	**0.3**	**5,189.4**
Total comprehensive income for the year						
Net profit for the period	**–**	**406.3**	**–**	**–**	**–**	**406.3**
Other comprehensive income, net of tax						
Net gains/(losses) transferred to net profit	**–**	**–**	**–**	**(10.2)**	**–**	**(10.2)**
Actuarial gain/(loss) on defined benefit scheme	**–**	**(9.2)**	**–**	**–**	**–**	**(9.2)**
Change in fair value of assets classified as fair value through other comprehensive income (FVOCI)	**–**	**–**	**–**	**–**	**–**	**–**
Effective portion of changes in fair value	**–**	**–**	**–**	**3.6**	**(0.1)**	**3.5**
Effect of changes in tax rate	**–**	**–**	**–**	**–**	**–**	**–**
At 31 March 2024	**3,200.1**	**2,275.9**	**100.0**	**3.6**	**0.2**	**5,579.8**
At 1 April 2022	3,200.1	1,639.4	100.0	6.7	–	4,946.2
Total comprehensive income for the year						
Net profit for the period	–	252.1	–	–	–	252.1
Other comprehensive income, net of tax						
Net gains/(losses) transferred to net profit	–	–	–	(6.7)	–	(6.7)
Actuarial gain/(loss) on defined benefits scheme	–	(12.7)	–	–	–	(12.7)
Change in fair value of assets classified as FVOCI	–	–	–	–	0.3	0.3
Effective portion of changes in fair value	–	–	–	10.2	–	10.2
Effect of changes in tax rate	–	–	–	–	–	–
At 31 March 2023	**3,200.1**	**1,878.8**	**100.0**	**10.2**	**0.3**	**5,189.4**

The notes on pages 86 to 145 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 March 2024

	2024 USDm	2023 USDm
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit for the year before tax	**535.6**	340.3
Adjustments for non-cash items:		
Net impairment loss on financial assets	**27.2**	47.7
Unrealised exchange movements on non operating assets and liabilities	**(161.3)**	(1,076.0)
Depreciation and amortisation	**55.6**	51.9
Changes in operating assets and liabilities:		
Changes in loans and advances to banks	**(276.4)**	736.4
Changes in reverse repurchase agreements	**(443.5)**	(69.0)
Changes in derivative financial instruments	**(139.5)**	(100.5)
Changes in loans and advances to customers	**(321.5)**	2,255.5
Changes in other assets	**162.5**	(214.0)
Changes in deposits by banks	**(4,082.8)**	(1,387.4)
Changes in customer accounts	**1,157.2**	(1,085.1)
Changes in other liabilities	**99.4**	245.9
	(3,387.5)	(259.1)
Taxes paid	**(122.8)**	(91.6)
Net cash from/(used in) operating activities	**(3,510.3)**	**(350.7)**
Purchase of investment securities	**(2,849.6)**	(1,025.2)
Proceeds from sale or redemption of investment securities	**3,217.3**	992.4
Purchase of intangible assets	**(34.5)**	(24.5)
Proceeds from sale of intangible assets	**–**	–
Purchase of property and equipment	**(24.0)**	(37.1)
Proceeds from sale of property and equipment	**–**	–
Net cash used in investing activities	**309.2**	**(94.4)**
Cash flow from financing activities		
Payment of lease liabilities	**(8.3)**	(5.3)
Proceeds from issue of debt securities	**901.9**	1,048.7
Repayment of debt securities	**(1,048.7)**	(976.0)
Net cash from financing activities	**(155.1)**	**67.4**
Net decrease in cash and cash equivalents	**(3,356.2)**	**(377.7)**
Cash and cash equivalents at start of the year	**25,995.5**	**25,352.3**
Exchange differences in respect of cash and cash equivalents	**159.5**	1,020.9
Cash and cash equivalents at 31 March	**22,798.8**	**25,995.5**
Cash and cash equivalents comprise:		
Cash and balances at central banks and overdrafts	**22,703.3**	25,880.0
Settlement balances	**95.5**	115.5
	22,798.8	**25,995.5**

Interest received was USD 2,445.5m (2023: USD 1,405.9m) and interest paid was USD 1,983.1m (2023: USD 1,197.1m).

At 31 March 2024, 178.2m (2023: USD 264.6m) was not available for use by SMBC BI due to a range of restrictions.

The notes on pages 86 to 145 are an integral part of these financial statements.

Notes to the financial statements For the year ended 31 March 2024

1. Reporting entity

The Bank is a company domiciled in England and Wales. 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 as set out more fully on pages 4 and 5. The registered office is 100 Liverpool Street, London, EC2M 2AT, UK. Further information on the Bank's activities can be found in the Strategic Report.

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, 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 geopolitical factors although a range of other risks are also considered, including the risks associated with the transfer of the securities business of SMBC Nikko CM to the Bank. This assessment is based on the 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:

- **Global Economic Downturn:** US and China tensions intensify with political volatility leading up to US elections. US fiscal and political instability, compounded by inflation pressures resulting in recession. Increased risk of reciprocal sanctions driving a Global slowdown with Chinese real estate impacts, lower market liquidity affecting financial institutions.
- **UK and EU recession:** Commodity price and supply chain shocks resulting from wider Middle East conflict driving inflation and interest rates higher across the UK and Europe which results in recession.
- **Japan recession:** Japan public finances hit by lower export revenues and higher social welfare with credit rating on negative outlook. Central Bank support limited by economy, inflation remains elevated and debt ratio leads to sovereign downgrade.

The economic scenarios for the liquidity stress included:

- **UK and EU market wide:** The scenario models the impact of a UK and EMEA recession, mainly driven by geopolitical factors with Middle East conflict driving inflation with commodity and supply chain shocks.
- **Japanese stress:** The scenario models the impact of a Japanese recession effect driven by rising tensions between China and Taiwan impacting growth and liquidity. Inflation outpaces growth with the BoJ increasing interest rates.
- **SMBC Group idiosyncratic stress:** 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 EMEA/UK or Japan market-wide scenario 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 hundred thousand 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

Amendments to IAS 12 "International Tax Reform – Pillar Two Model Rules"

On 17th November 2022 the UK Government confirmed its intention to implement the G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up tax rule. This legislation, which was enacted in 2023, will seek to ensure that UK headquartered multinational enterprises pay a minimum tax rate of 15 per cent on UK and overseas profits arising after 31 December 2023. As the UK rate if corporation tax is now 25 per cent, the impact of these rules is not expected to be material.

There were no other new standards or amendments to standards that had an effect on these financial statements.

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.

Notes to the financial statements For the year ended 31 March 2024 continued

2. Basis of preparation continued

(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 2024, 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 loan 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 2024 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.

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.

Notes to the financial statements
For the year ended 31 March 2024 continued

3. Significant accounting policies continued

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 overdrafts. These comprise highly liquid investments that are readily convertible into cash with an insignificant risk of changes in value.

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.

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

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 creditworthiness 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
(G7A, G7B)	(J7A, J7B)	Borrowers requiring caution
G7R	J7R	Substandard borrowers
G8	J8	Potentially bankrupt borrowers
G9	J9	Virtually bankrupt borrowers
G10	J10	Bankrupt borrowers

* G rade – 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.

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.

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 the 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 a 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.

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

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 creditworthiness 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, a minimum cure period of two years as a normal borrower before they can be moved out of Stage 3.

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, and 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 the Frye-Jacob approach as the theoretical foundation and leverages the same macroeconomic 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 macroeconomic 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.

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.

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

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 equity prices and GDP .

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 and UK Equity Price and EU and UK GDP 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% (2023: 10%)
- Base: 50% (2023: 46%)
- Moderate pessimistic: 20% (2023: 26%)
- Severe stress: 13% (2023: 18%)

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:** as 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 is 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.

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

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 2024, the Bank did not hold any financial assets that are purchased or originated credit-impaired (2023: none).

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 Enterprise Risk Management Committee, which reports into the 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.

	2024 USDm	2023 USDm
Impairment allowance pre PMAs	**151.3**	95.6
Sector and Country PMA	**9.0**	23.2
Uncertainty PMA	**119.6**	146.3
Total impairment allowance	**279.9**	**265.1**

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. Over the last 24 months, the Russia–Ukraine conflict has continued to impact on macroeconomic conditions. The conflict continues to be a threat to global security, Western political systems, the cybersphere and food and energy supply chains. Energy prices have remained elevated, which, along with increased consumer and business spending following the COVID-19 pandemic, has resulted in worldwide inflation.

As a result, the Bank has applied a number of PMAs in the year to 31 March 2024 and 31 March 2023, to reflect the additional factors that impact the impairment provisions.

Post-model adjustments 31 March 2024

As at 31 March 2024 the Bank has applied two PMAs: one covers sectors and countries, and one is focused on uncertainty regarding Russian exposures.

Sector and Country PMA – the sector overlay aims to capture idiosyncratic risks that could impact certain sectors as a result of the current economic conditions. High risk sectors were identified using revenue and share price performance prior to and post the commencement of the Russia–Ukraine conflict and the ongoing uncertainty in the Middle East. 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, seven sectors (2023: eight) which were identified as most significantly impacted received a two-notch downgrade. A further seven sectors (2023: nine) received a single-notch downgrade based on the moderate pessimistic scenario, and under the optimistic scenario, eleven sectors (2023: one) were identified as outperforming and was subject to a one-notch upgrade.

In addition to this, a country-level model adjustment has been included to capture the bilateral trade and energy dependencies of certain countries upon Russia and the cost of living impact of these countries' fiscal and external positions to cope with the above. Countries with low country rank that don't use common currency are considered to have a weaker fiscal and external position.

A review of these countries was performed internally. For those countries with weak financial and/or external positions and that therefore are more vulnerable to financial market spillover 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 9.0m (2023: 23.2m), reflecting improvement in macro-economic variables.

Uncertainty PMA – the Bank had non-defaulted Russian exposures of USD 252m at 31 March 2024 (2023: USD 440m). Considering continued geopolitical uncertainty around potential resolution of the conflict in Ukraine, increasing global economic sanctions against Russian people and corporates, and reciprocal tightening of restrictions on foreign-owned entities operating in Russia and inflexibility in payment remittance and the introduction of Type-C operations, the Bank acknowledged the heightened risks through assessment of PMAs on Russia exposures by calculating the risk of these defaulting within one year using different scenarios. A 1% positive shift in the applied scenario will impact the PMA by approximately USD 0.6m, a 1% negative shift in the applied scenario will impact the PMA by approximately USD (1.5)m.

An uncertainty overlay for these names of USD 119.6m has been included as of 31 March 2024 (2023: 146.3m). Overall uncertainty PMAs have decreased due to reductions in exposures being partially offset by the Bank's decision to uplift default probabilities for some Russian exposures within the PMA calculation due to continued uncertainty.

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

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.

	2024 USDm	2023 USDm
Cash and balances at central banks	**22,951.2**	25,880.0
Settlement balances	**95.5**	115.5
Loans and advances to banks	**3,453.5**	3,223.6
Loans and advances to customers	**18,051.7**	17,712.7
Reverse repurchase agreements	**1,710.4**	1,266.9
Investment securities	**668.5**	1,045.1
Derivative assets	**1,973.0**	2,085.6
	48,903.8	**51,329.4**
Guarantees and letters of credit	**2,819.4**	3,353.9
Commitments	**14,684.2**	12,837.5
	17,503.6	**16,191.4**
Total	**66,407.4**	**67,520.8**

Cash and balances with central banks comprises current and short-term deposits with the Bank of England of USD 9,348.0m (2023: USD 11,452.4m) and the Banque de France of USD 13,603.2m (2023: USD 14,427.6m).

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 7,827.7m (2023: USD 5,237.0m). This collateral is held against loans and advances to banks and customers, and reverse repurchase agreements of USD 1,715.8m (2023: USD 3,137.2m) and derivative assets of USD 186.7m (2023: USD 772.4m). 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 52.3m (2023: USD 289.7m).

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 2024 and 31 March 2023.

As at 31 March 2024	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	22,951.2	–	–	22,951.2	–	–	–	–	22,951.2
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8-10	–	–	–	–	–	–	–	–	–
Total		**22,951.2**	**–**	**–**	**22,951.2**	**–**	**–**	**–**	**–**	**22,951.2**
Settlement balances										
Normal borrowers	1-6	92.8	2.7	–	95.5	–	–	–	–	95.5
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8-10	–	–	–	–	–	–	–	–	–
Total		**92.8**	**2.7**	**–**	**95.5**	**–**	**–**	**–**	**–**	**95.5**
Loans and advances to banks at amortised cost										
Normal borrowers	1-6	3,378.1	157.8	–	3,535.9	0.9	81.5	–	82.4	3,453.5
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8-10	–	–	–	–	–	–	–	–	–
Total		**3,378.1**	**157.8**	**–**	**3,535.9**	**0.9**	**81.5**	**–**	**82.4**	**3,453.5**
Loans and advances to customers at amortised cost										
Normal borrowers	1-6	16,663.9	980.0	–	17,643.9	13.4	14.2	–	27.6	17,616.3
Borrowers requiring caution	7A, 7B	–	300.2	–	300.2	–	62.6	–	62.6	237.6
Substandard borrowers and below	7R, 8-10	–	–	241.5	241.5	–	–	96.0	96.0	145.5
Total		**16,663.9**	**1,280.2**	**241.5**	**18,185.6**	**13.4**	**76.8**	**96.0**	**186.2**	**17,999.4**
Investment securities at amortised cost										
Normal borrowers	1-6	10.3	–	–	10.3	–	–	–	–	10.3
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8-10	–	–	–	–	–	–	–	–	–
Total		**10.3**	**–**	**–**	**10.3**	**–**	**–**	**–**	**–**	**10.3**
Investment securities at FVOCI										
Normal borrowers	1-6	637.0	–	–	637.0	–	–	–	–	637.0
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8-10	–	–	–	–	–	–	–	–	–
Total		**637.0**	**–**	**–**	**637.0**	**–**	**–**	**–**	**–**	**637.0**
Off-balance sheet loans and commitments and financial guarantee contracts										
Normal borrowers	1-6	17,050.3	408.8	–	17,459.1	3.9	5.2	–	9.1	17,450.0
Borrowers requiring caution	7A, 7B	–	35.7	–	35.7	–	0.8	–	0.8	34.9
Substandard borrowers and below	7R, 8-10	–	–	8.8	8.8	–	–	1.1	1.1	7.7
Total		**17,050.3**	**444.5**	**8.8**	**17,503.6**	**3.9**	**6.0**	**1.1**	**11.0**	**17,492.6**

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

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

As at 31 March 2023	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	25,880.0	–	–	25,880.0	–	–	–	–	25,880.0
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**25,880.0**	**–**	**–**	**25,880.0**	**–**	**–**	**–**	**–**	**25,880.0**
Settlement balances										
Normal borrowers	**1–6**	115.1	0.4	–	115.5	–	–	–	–	115.5
Borrowers requiring caution	**7A, 7B**	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	**7R, 8–10**	–	–	–	–	–	–	–	–	–
Total		**115.1**	**0.4**	**–**	**115.5**	**–**	**–**	**–**	**–**	**115.5**
Loans and advances to banks at amortised cost										
Normal borrowers	**1–6**	3,003.6	256.0	–	3,259.6	1.9	34.1	–	36.0	3,223.6
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**3,003.6**	**256.0**	**–**	**3,259.6**	**1.9**	**34.1**	**–**	**36.0**	**3,223.6**
Loans and advances to customers at amortised cost										
Normal borrowers	1–6	14,384.5	2,497.0	–	16,881.5	17.1	36.2	–	53.3	16,828.2
Borrowers requiring caution	7A, 7B	–	651.3	–	651.3	–	141.0	–	141.0	510.3
Substandard borrowers and below	7R, 8–10	–	–	396.7	396.7	–	–	22.5	22.5	374.2
Total		**14,384.5**	**3,148.3**	**396.7**	**17,929.5**	**17.1**	**177.2**	**22.5**	**216.8**	**17,712.7**
Investment securities at amortised cost										
Normal borrowers	1–6	29.3	–	–	29.3	–	–	–	–	29.3
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**29.3**	**–**	**–**	**29.3**	**–**	**–**	**–**	**–**	**29.3**
Investment securities at FVOCI										
Normal borrowers	1–6	997.0	–	–	997.0	–	–	–	–	997.0
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–	–	–
Total		**997.0**	**–**	**–**	**997.0**	**–**	**–**	**–**	**–**	**997.0**
Off-balance sheet loans and commitments and financial guarantee contracts										
Normal borrowers	1–6	9,212.9	6,865.9	–	16,078.8	7.0	3.0	–	10.0	16,068.8
Borrowers requiring caution	7A, 7B	–	85.1	–	85.1	–	1.4	–	1.4	83.7
Substandard borrowers and below	7R, 8–10	–	–	27.5	27.5	–	–	0.6	0.6	26.9
Total		**9,212.9**	**6,951.0**	**27.5**	**16,191.4**	**7.0**	**4.4**	**0.6**	**12.0**	**16,179.4**

In addition to the ECL disclosed above, there is USD 0.3m 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 2024	PD Range 0.0% to < 3.7% USDm	PD Range 3.7% to < 23.4% USDm	PD Range 23.4% to 100% USDm	Total USDm	PD Range 0.0% to < 3.7% %	PD Range 3.7% to < 23.4% %	PD Range 23.4% to 100% %	Total %
Cash and balances at central banks at amortised cost	**22,951.2**	**–**	**–**	**22,951.2**	**100%**	**–**	**–**	**100%**
Settlement balances	**95.5**	**–**	**–**	**95.5**	**100%**	**–**	**–**	**100%**
Loans and advances to banks at amortised cost	**3,453.5**	**–**	**–**	**3,453.5**	**100%**	**–**	**–**	**100%**
Loans and advances to customers at amortised cost	**17,616.3**	**237.6**	**145.5**	**17,999.4**	**98%**	**1%**	**1%**	**100%**
Investment securities at amortised cost	**10.3**	**–**	**–**	**10.3**	**100%**	**–**	**–**	**100%**
Investment securities at FVOCI	**637.0**	**–**	**–**	**637.0**	**100%**	**–**	**–**	**100%**
Off-balance sheet loans and commitments and financial guarantee contracts	**17,450.0**	**34.9**	**7.7**	**17,492.6**	**100%**	**–**	**–**	**100%**

As at 31 March 2023	PD Range 0.0% to < 3.7% USDm	PD Range 3.7% to < 23.4% USDm	PD Range 23.4% to 100% USDm	Total USDm	PD Range 0.0% to < 3.7% %	PD Range 3.7% to < 23.4% %	PD Range 23.4% to 100% %	Total %
Cash and balances at central banks at amortised cost	25,880.0	–	–	25,880.0	100%	–	–	100%
Settlement balances	115.5	–	–	115.5	100%	–	–	100%
Loans and advances to banks at amortised cost	3,223.6	–	–	3,223.6	100%	–	–	100%
Loans and advances to customers at amortised cost	16,828.2	510.3	374.2	17,712.7	95%	3%	2%	100%
Investment securities at amortised cost	29.3	–	–	29.3	100%	–	–	100%
Investment securities at FVOCI	997.0	–	–	997.0	100%	–	–	100%
Off-balance sheet loans and commitments and financial guarantee contracts	16,068.8	83.7	26.9	16,179.4	99%	1%	–	100%

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.

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

Financial assets at amortised cost

At 31 March 2024	Gross exposure Stage 1 USDm	 Stage 2 USDm	 Stage 3 USDm	 Total USDm
Balance at beginning of year	44,409.4	3,404.7	396.7	48,210.8
Transfers from Stage 1 to 2	(408.9)	408.9	–	–
Transfers from Stage 2 to 1	1,201.8	(1,201.8)	–	–
Transfers to Stage 3	–	(179.6)	179.6	–
Transfers from Stage 3	108.2	197.8	(306.0)	–
Net drawdowns and movements due to exposure and risk parameter changes	1,624.5	(17.9)	(14.3)	1,592.3
Financial assets derecognised	(3,838.7)	(1,171.4)	–	(5,010.1)
Write-offs	–	–	(14.5)	(14.5)
Balance at end of year	43,096.3	1,440.7	241.5	44,778.5

At 31 March 2024	Impairment allowance Stage 1 USDm	 Stage 2 USDm	 Stage 3 USDm	 Total USDm
Balance at beginning of year	19.3	211.3	22.5	253.1
Transfers from Stage 1 to 2	(0.9)	0.9	–	–
Transfers from Stage 2 to 1	17.2	(17.2)	–	–
Transfers to Stage 3	–	(80.8)	80.8	–
Transfers from Stage 3	2.2	1.4	(3.6)	–
Net drawdowns and movements due to exposure and risk parameter changes	(20.8)	51.5	1.5	32.2
Financial assets derecognised	(2.7)	(8.8)	–	(11.5)
Write-offs	–	–	(5.2)	(5.2)
Balance at end of year	14.3	158.3	96.0	268.6

The above provisions and movements thereon relate 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 2023	Gross exposure Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	47,598.7	2,385.5	492.6	50,476.8
Transfers from Stage 1 to 2	(1,521.5)	1,521.5	–	–
Transfers from Stage 2 to 1	328.0	(328.0)	–	–
Transfers to Stage 3	(27.6)	–	27.6	–
Transfers from Stage 3	–	–	–	–
Net drawdowns and movements due to exposure and risk parameter changes	4,116.9	356.4	(65.5)	4,407.8
Financial assets derecognised	(6,085.1)	(530.7)	(58.0)	(6,673.8)
Write-offs	–	–	–	–
Balance at end of year	**44,409.4**	**3,404.7**	**396.7**	**48,210.8**

At 31 March 2023	Impairment allowance Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	67.3	136.7	45.8	249.8
Transfers from Stage 1 to 2	(0.7)	0.7	–	–
Transfers from Stage 2 to 1	0.6	(0.6)	–	–
Transfers to Stage 3	–	–	–	–
Transfers from Stage 3	–	–	–	–
Net drawdowns and movements due to exposure and risk parameter changes	(45.2)	76.4	(0.8)	30.4
Financial assets derecognised	(2.7)	(1.9)	(22.5)	(27.1)
Write-offs	–	–	–	–
Balance at end of year	**19.3**	**211.3**	**22.5**	**253.1**

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

At 31 March 2024	**Gross exposure Stage 1 USDm**	**Stage 2 USDm**	**Stage 3 USDm**	**Total USDm**
Balance at beginning of year	**9,212.9**	**6,951.0**	**27.5**	**16,191.4**
Transfers from Stage 1 to Stage 2	**(228.4)**	**228.2**	**–**	**–**
Transfers from Stage 2 to Stage 1	**1,000.6**	**(1,000.6)**	**–**	**–**
Transfers to Stage 3	**–**	**(7.4)**	**7.4**	**–**
Transfers from Stage 3	**20.1**	**–**	**(20.1)**	**–**
New drawdowns, net remeasurement and movements due to exposure and risk parameter changes	**7,045.1**	**(5,726.9)**	**(6.0)**	**1,312.2**
Balance at end of year	**17,050.3**	**444.5**	**8.8**	**17,503.6**

At 31 March 2024	**Impairment allowance Stage 1 USDm**	**Stage 2 USDm**	**Stage 3 USDm**	**Total USDm**
Balance at beginning of year	**7.0**	**4.4**	**0.6**	**12.0**
Transfers from Stage 1 to Stage 2	**(0.5)**	**0.5**	**–**	**–**
Transfers from Stage 2 to Stage 1	**2.4**	**(2.4)**	**–**	**–**
Transfers to Stage 3	**–**	**(3.2)**	**3.2**	**–**
Transfers from Stage 3	**–**	**–**	**–**	**–**
New drawdowns, net remeasurement and movements due to exposure and risk parameter changes	**(5.0)**	**6.7**	**(2.7)**	**(1.0)**
Balance at end of year	**3.9**	**6.0**	**1.1**	**11.0**

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

At 31 March 2023	Gross exposure Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	17,499.0	1,020.4	88.8	18,608.2
Transfers from Stage 1 to Stage 2	(1,208.6)	1,208.6	–	–
Transfers from Stage 2 to Stage 1	19.6	(19.6)	–	–
Transfers to Stage 3	–	–	–	–
Transfers from Stage 3	–	19.0	(19.0)	–
New drawdowns, net remeasurement and movements due to exposure and risk parameter changes	(7,097.1)	4,722.6	(42.3)	(2,416.8)
Balance at end of year	**9,212.9**	**6,951.0**	**27.5**	**16,191.4**

At 31 March 2023	Impairment allowance Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	6.0	25.6	2.9	34.5
Transfers from Stage 1 to Stage 2	(0.2)	0.2	–	–
Transfers from Stage 2 to Stage 1	0.2	(0.2)	–	–
Transfers to Stage 3	–	–	–	–
Transfers from Stage 3	–	–	–	–
New drawdowns, net remeasurement and movements due to exposure and risk parameter changes	1.0	(21.2)	(2.3)	(22.5)
Balance at end of year	**7.0**	**4.4**	**0.6**	**12.0**

Reconciliation of ECL movement to impairment charge for the period

	2024 USDm	2023 USDm
ECL movements since beginning of the period	**14.8**	54.7
Effect of disposals	**–**	(20.3)
Loss on disposal of impaired assets	**–**	19.0
Recovery of amounts previously written off	**–**	(4.4)
Amounts written off	**12.1**	–
Foreign exchange and other movements	**0.3**	(1.3)
Impairment charge for the period	**27.2**	**47.7**

Coverage ratios

The tables below show the coverage ratio as of 31 March 2024 and 31 March 2023.

As at 31 March 2024	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to banks at amortised cost	0.03	51.61	–	2.33
Loans and advances to customers at amortised cost	0.08	6.00	39.77	1.02
Off-balance sheet loan commitments and financial guarantee contracts	0.02	1.35	12.37	0.06
Total	**0.05**	**8.73**	**38.80**	**0.71**

As at 31 March 2023	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to banks at amortised cost	0.06	13.29	–	1.10
Loans and advances to customers at amortised cost	0.12	5.64	5.68	1.21
Off-balance sheet loan commitments and financial guarantee contracts	0.08	0.06	2.29	0.07
Total	**0.10**	**2.08**	**5.46**	**0.71**

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:

- Full ground invasion eliminates Hamas leadership and Middle East conflict to end in 2024.
- Russia-Ukraine conflict to end in 2024. Ceasefire agreement reached between Russia-Ukraine.
- Inflation is under control and interest rate falling gradually triggered by the end of wars in Ukraine and Gaza. Consumer confidence is restored and economic recovery gaining momentum in UK and EU.
- Interest rate firmly under control and inflation is back to the central bank's target of around 2%.

Base scenario – sourced externally. Assumes:

- Middle East causes some disruptions to energy supply and prices but overall this does not significantly affect supply chains and inflation which continues to decline from the previous year.
- Russia's war in Ukraine becomes a protracted conflict and does not escalate.
- Consistent with a fall in inflation, policy rate cuts across advanced economies.
- Central banks largely succeeded in taming inflation which stabilises (albeit slightly above central bank target rates).

Notes to the financial statements For the year ended 31 March 2024 continued

4. Financial risk management continued

Moderate pessimistic scenario – produced internally. Assumes:

- Middle East and Russia–Ukraine conflicts remains ongoing.
- Inflation remains well above central banks targets which forces central banks to continue to increase interest rates to dampen inflationary pressure.
- Inflation is increasing and financial conditions start to tighten, consumers get squeezed and corporate activities are jolted causing the economy to enter into a recession.
- Consumer confidence is still fragile and UK and EU in a moderate recession.

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:

- The Israel-Hamas war spreads in the Middle East region and becomes a regional war. Hamas's key patron Iran and the US have heated confrontations. As a result, the US is advancing its military presence in the Middle East region.
- Tensions continue between NATO-Russia. NATO countries continue to support Ukraine in the form of financial and military aid.
- Oil and gas prices spike higher in response to these events.
- UK falls into recession and a recession develops in Europe, with Germany weighing down the region and ECB and BOE respond by significantly increasing interest rates.

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 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 %**
Scenario probability weightings as at 31 March 2024	**13**	**20**	**50**	**17**

	Scenario probability weighting			
	Severe pessimistic %	Moderate pessimistic %	Base %	Optimistic %
Revised scenario probability as at 31 March 2023	18	26	46	10

As at 31 March 2024		**Key macroeconomic variables** Severe pessimistic %	Moderate pessimistic %	Base %	Optimistic %
Economic and Monetary Union GDP Real[1]	2024	-2.3%	-0.5%	0.5%	2.3%
	2025	-2.7%	-0.9%	1.5%	3.9%
	2026	0.0%	0.8%	1.6%	2.4%
	2027	0.9%	1.1%	1.6%	2.6%
Economic and Monetary Union Equity[2]	2024	-12.8%	-7.4%	1.3%	17.4%
	2025	-13.2%	-10.2%	-1.5%	30.9%
	2026	-3.3%	-3.1%	-1.9%	7.8%
	2027	-4.5%	2.5%	-0.8%	9.0%
United Kingdom GDP Real[3]	2024	-2.7%	-0.5%	0.1%	2.2%
	2025	-2.7%	-1.5%	1.0%	3.8%
	2026	0.0%	1.1%	1.4%	2.2%
	2027	0.5%	0.9%	1.3%	2.3%
United Kingdom Equity[4]	2024	-15.3%	-5.7%	1.6%	17.7%
	2025	-13.3%	-8.4%	2.9%	33.3%
	2026	-1.6%	0.7%	2.7%	9.0%
	2027	-1.6%	0.8%	2.9%	9.0%
Japan Nominal GDP[5]	2024	2.0%	2.6%	3.3%	4.1%
	2025	3.0%	3.5%	3.5%	3.7%
	2026	3.1%	4.4%	3.1%	3.3%
	2027	2.7%	5.0%	2.8%	2.7%

1 Year-on-year percentage change.
2 Year-on year percentage change, lagged by one quarter.
3 Year-on year percentage change.
4 Year-on-year percentage change, lagged by one quarter.
5 Four-quarter GBP average year-on-year percentage change.

As at 31 March 2023		Key macroeconomic variables Severe pessimistic %	Moderate pessimistic %	Base %	Optimistic %
Economic and Monetary Union GDP Real[1]	2023	-4.2%	-2.2%	0.5%	2.5%
	2024	-3.6%	-1.6%	1.4%	4.0%
	2025	0.9%	1.0%	1.9%	3.0%
	2026	1.1%	0.8%	1.6%	2.3%
Economic and Monetary Union Equity[2]	2023	-22.9%	-12.3%	-3.2%	10.4%
	2024	-20.6%	-13.4%	-1.0%	26 4%
	2025	-7.1%	-4.4%	-1.2%	16.8%
	2026	1.2%	0.8%	0.7%	5.7%
United Kingdom GDP Real[3]	2023	-4 9%	-2.9%	-0.4%	3.0%
	2024	-3.4%	-1.5%	0.6%	3.5%
	2025	0.3%	0.3%	1.3%	3.0%
	2026	1.4%	1.6%	1.5%	2.2%
United Kingdom Equity[4]	2023	-22.0%	-9 5%	1.0%	13.2%
	2024	-19.3%	-10 8%	0.7%	24.7%
	2025	-6.4%	-1.8%	0.6%	15 9%
	2026	1.7%	1.2%	1.6%	4.6%
Japan Nominal GDP[5]	2023	0.4%	0.9%	1.8%	1.9%
	2024	1.8%	1.9%	3.6%	4.0%
	2025	3.0%	3.4%	3.6%	3 9%
	2026	3.0%	2.9%	3.2%	3.3%

1 Year-on-year percentage change.
2 Year-on year percentage change, lagged by one quarter.
3 Year-on year percentage change.
4 Year-on-year percentage change, lagged by one quarter.
5 Four-quarter GBP average year-on-year percentage change.

Notes to the financial statements For the year ended 31 March 2024 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 2024 USDm	**Weighted ECL**	**Severe pessimistic**	**Moderate pessimistic**	**Base**	**Optimistic**
Original model results[1]	**54.2**	**88.8**	**70.5**	**48.3**	**25.7**

At 31 March 2023 USDm	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base	Optimistic
Original model results[1]	81.4	125.2	99.0	63.6	38.1

1 The above results do not include the impact of the post-model adjustments.

Credit risk by sector

The exposure by major industrial sectors can be analysed as follows:

31 March 2024 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	**22,951.2**	**–**	**–**	**–**	**–**	**–**	**–**	**22,951.2**
Settlement balances	**95.5**	**–**	**–**	**–**	**–**	**–**	**–**	**95.5**
Loans and advances to banks	**3,453.5**	**–**	**–**	**–**	**–**	**–**	**–**	**3,453.5**
Loans and advances to customers	**2,230.1**	**303.6**	**1,181.4**	**1,027.0**	**11,470.4**	**597.8**	**1,241.4**	**18,051.7**
Reverse repurchase agreements	**809.4**	**–**	**–**	**–**	**901.0**	**–**	**–**	**1,710.4**
Investment securities	**31.5**	**636.8**	**–**	**–**	**–**	**–**	**0.2**	**668.5**
Derivative assets	**1,456.5**	**1.6**	**243.7**	**7.2**	**237.7**	**26.3**	**–**	**1,973.0**
Total on-balance sheet	**31,027.7**	**942.0**	**1,425.1**	**1,034.2**	**12,609.1**	**624.1**	**1,241.6**	**48,903.8**
Commitments and guarantees	**2,293.4**	**0.5**	**2,315.4**	**402.9**	**12,491.4**	**–**	**–**	**17,503.6**
Total	**33,321.1**	**942.5**	**3,740.5**	**1,437.1**	**25,100.5**	**624.1**	**1,241.6**	**66,407.4**

31 March 2023 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	25,880.0	–	–	–	–	–	–	25,880.0
Settlement balances	115.5	–	–	–	–	–	–	115.5
Loans and advances to banks	3,223.6	–	–	–	–	–	–	3,223.6
Loans and advances to customers	1,572.1	188.8	1,451.7	815.7	9,958.7	1,093.6	2,632.1	17,712.7
Reverse repurchase agreements	534.2	–	–	–	732.7	–	–	1,266.9
Investment securities	49.2	995.8	–	–	0.1	–	–	1,045.1
Derivative assets	1,543.3	0.8	203.9	6.6	314.0	15.7	1.3	2,085.6
Total on-balance sheet	32,917.9	1,185.4	1,655.6	822.3	11,005.5	1,109.3	2,633.4	51,329.4
Commitments and guarantees	976.7	45.6	2,373.1	3,272.2	9,523.8	–	–	16,191.4
Total	33,894.6	1,231.0	4,028.7	4,094.5	20,529.3	1,109.3	2,633.4	67,520.8

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 9,348.0m to the Bank of England (2023: USD 11,452.4m) and USD 13,603.2m to the Banque de France (2023: USD 14,427.6m).

Credit risk by location

The table below analyses the geographical spread of financial assets based on country of residence of the counterparty.

31 March 2024 USDm	**United Kingdom**	**France**	**Other Europe**	**Eastern Europe**	**Japan**	**Middle East & Africa**	**Other countries**	**Total**
Cash and balances at central banks	**9,348.0**	**13,603.2**	**–**	**–**	**–**	**–**	**–**	**22,951.2**
Settlement balances	**18.8**	**18.3**	**20.1**	**6.3**	**–**	**2.7**	**29.3**	**95.5**
Loans and advances to banks	**217.8**	**108.1**	**492.5**	**98.5**	**1,061.3**	**1,306.6**	**168.7**	**3,453.5**
Loans and advances to customers	**6,835.0**	**3,529.9**	**2,987.5**	**107.4**	**306.3**	**2,613.1**	**1,672.5**	**18,051.7**
Reverse repurchase agreements	**1,221.7**	**–**	**–**	**–**	**488.7**	**–**	**–**	**1,710.4**
Investment securities	**10.4**	**–**	**637.0**	**1.2**	**–**	**–**	**19.9**	**668.5**
Derivative assets	**960.5**	**313.8**	**643.7**	**–**	**23.5**	**1.4**	**30.1**	**1,973.0**
Total on-balance sheet	**18,612.2**	**17,573.3**	**4,780.8**	**213.4**	**1,879.8**	**3,923.8**	**1,920.5**	**48,903.8**
Commitments and guarantees	**6,084.5**	**6,889.7**	**1,523.5**	**423.4**	**175.5**	**669.7**	**1,737.3**	**17,503.6**
Total	**24,696.7**	**24,463.0**	**6,304.3**	**636.8**	**2,055.3**	**4,593.5**	**3,657.8**	**66,407.4**

31 March 2023 USDm	United Kingdom	France	Other Europe	Eastern Europe	Japan	Middle East & Africa	Other countries	Total
Cash and balances at central banks	11,452.4	14,427.6	–	–	–	–	–	25,880.0
Settlement balances	2.1	–	32.6	12.5	15.2	0.4	52.7	115.5
Loans and advances to banks	212.7	2.5	576.9	92.0	759.5	1,446.7	133.3	3,223.6
Loans and advances to customers	6,260.3	3,759.9	2,892.9	271.8	352.7	2,517.9	1,657.2	17,712.7
Reverse repurchase agreements	988.8	–	–	–	278.1	–	–	1,266.9
Investment securities	29.5	–	995.8	1.2	–	–	18.6	1,045.1
Derivative assets	1,092.8	243.8	691.7	–	43.6	–	13.7	2,085.6
Total on-balance sheet	20,038.6	18,433.8	5,189.9	377.5	1,449.1	3,965.0	1,875.5	51,329.4
Commitments and guarantees	5,227.9	7,211.4	1,676.9	343.5	313.5	668.9	749.3	16,191.4
Total	25,266.5	25,645.2	6,866.8	721.0	1,762.6	4,633.9	2,624.8	67,520.8

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 2024 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 Board of Directors 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 2024				To 31 March 2023			
	Maximum USDm	**Minimum USDm**	**Average USDm**	**31 March USDm**	Maximum USDm	Minimum USDm	Average USDm	31 March USDm
Trading	**1.3**	**–**	**0.2**	**1.3**	0.4	–	0.1	0.1
Banking	**3.6**	**2.0**	**2.7**	**2.0**	3.4	2.4	2.9	3.2
Total	**4.8**	**2.3**	**3.3**	**3.1**	3.5	2.4	2.9	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 2024 USDm	31 March 2023 USDm	**31 March 2024 USDm**	31 March 2023 USDm
Profit and loss impact	**(4.1)**	1.0	**6.4**	6.6

(c) Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its liabilities or 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 2024 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	22,951.2	–	–	–	22,951.2
Settlement balances	95.5	–	–	–	95.5
Loans and advances to banks	2,056.1	769.8	579.9	47.7	3,453.5
Reverse repurchase agreements	1,710.4	–	–	–	1,710.4
Derivative assets	788.1	648.6	531.4	4.9	1,973.0
Loans and advances to customers	4,196.3	1,686.4	8,009.0	4,160.0	18,051.7
Investment securities	638.4	30.1	–	–	668.5
Total financial assets	32,436.0	3,134.9	9,120.3	4,212.6	48,903.8
Liabilities					
Deposits by banks	10,740.8	934.9	9,476.0	–	21,151.7
Customer accounts	19,147.2	654.9	27.0	–	19,829.1
Derivative liabilities	597.6	532.1	492.8	2.7	1,625.2
Debt securities in issue	876.6	25.3	–	–	901.9
Total financial liabilities	31,362.2	2,147.2	9,995.8	2.7	43,507.9
Cumulative gap financial assets less financial liabilities	1,073.8	2,061.5	1,186.0	5,395.9	5,395.9

At 31 March 2023 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	25,880.0	–	–	–	25,880.0
Settlement balances	115.5	–	–	–	115.5
Loans and advances to banks	1,901.0	241.9	1,025.4	55.3	3,223.6
Reverse repurchase agreements	1,266.9	–	–	–	1,266.9
Derivative assets	743.1	679.3	655.7	7.5	2,085.6
Loans and advances to customers	4,196.9	1,367.4	7,596.3	4,552.1	17,712.7
Investment securities	833.7	211.4	–	–	1,045.1
Total financial assets	34,937.1	2,500.0	9,277.4	4,614.9	51,329.4
Liabilities					
Deposits by banks	13,667.8	932.9	10,388.8	–	24,989.5
Customer accounts	17,252.3	1,416.7	–	–	18,669.0
Derivative liabilities	714.4	561.0	597.0	4.9	1,877.3
Debt securities in issue	1,014.0	34.7	–	–	1,048.7
Total financial liabilities	32,648.5	2,945.3	10,985.8	4.9	46,584.5
Cumulative gap financial assets less financial liabilities	2,288.6	1,843.3	134.9	4,744.9	4,744.9

Notes to the financial statements For the year ended 31 March 2024 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 2024	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	10,934.7	1,351.0	10,196.3	–	22,482.0
Customer accounts	19,322.6	678.6	28.2	–	20,029.4
Debt securities in issue	886.2	25.7	–	–	911.9
Issued financial guarantee contracts	531.2	1,856.7	492.4	2.3	2,882.6
Unrecognised loan commitments	157.2	1,422.6	10,810.6	1,586.6	13,977.0
	31,831.9	5,334.6	21,527.5	1,588.9	60,282.9
Derivative liabilities	620.1	512.0	493.1	–	1,625.2
Total liabilities, issued guarantees and commitments	32,452.0	5,846.6	22,020.6	1,588.9	61,908.1

Maturity of liabilities as at 31 March 2023	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	13,805.8	1,219.4	11,053.2	–	26,078.4
Customer accounts	17,357.3	1,452.9	–	–	18,810.2
Debt securities in issue	1,023.8	35.2	–	–	1,059.0
Issued financial guarantee contracts	1,118.5	1,732.5	501.0	2.0	3,354.0
Unrecognised loan commitments	68.3	1,044.3	9,390.4	1,764.5	12,267.5
	33,373.7	**5,484.3**	**20,944.6**	**1,766.5**	**61,569.1**
Derivative liabilities	744.4	595.6	570.3	1.3	1,911.6
Total liabilities, issued guarantees and commitments	**34,118.1**	**6,079.9**	**21,514.9**	**1,767.8**	**63,480.7**

(d) Interest rate benchmark reform

The reform and replacement of IBOR-based benchmark interest rates has continued to be a priority for global regulators, with the cessation of all LIBOR rates and other local interest rate benchmarks. Since 2021, the Bank has undertaken amendments to the vast majority of financial instruments which reference GBP, EUR, JPY and USD LIBOR to incorporate new benchmark rates based on 'near risk-free rates' (RFRs).

The Bank has a limited number of legacy contracts which remain to be transitioned, all of which utilise USD LIBOR as a reference rate. These legacy contracts are often part of more complex or structured transactions or arrangements, making them more difficult to transition. The FCA has authorised the use of "synthetic" USD LIBOR until at least 30 September 2024, which acts as a temporary solution for these non-transitioned contracts. The Bank has detailed plans, processes and procedures in place to monitor these legacy contracts and to work with all relevant counterparties to remediate them to an RFR based on the Secured Overnight Financing Rate (SOFR) as soon as possible in line with official sector expectations and milestones.

There have been no changes to the Bank's risk management strategies following IBOR reform. The main risks to which the Bank is exposed as a result of IBOR reform are operational – for example, through the renegotiation of contracts with counterparties and the updating of systems and operational controls related to the reform. Financial risk is predominantly limited to interest rate risk as the Bank continues to have a limited number of contracts referencing LIBOR which could become unrepresented. This will continually be monitored, but the liquidity risk arising from this is considered low.

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 2024.

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 2024	**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	**3.9**	**–**	**–**	**–**
USD LIBOR	**613.1**	**1.9**	**1,700.0**	**–**
JPY LIBOR	**–**	**–**	**–**	**–**

At 31 March 2023	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	3.8	115.1	–	–
USD LIBOR	2,422.8	632.6	2,500.0	533.9
JPY LIBOR	83.7	–	–	–

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.

Notes to the financial statements For the year ended 31 March 2024 continued

5. Fair value of financial instruments continued

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 2024 **USDm**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Loans and advances to banks	**–**	**–**	**–**	**–**
Loans and advances to customers	**–**	**52.3**	**–**	**52.3**
Derivative assets	**–**	**1,973.0**	**–**	**1,973.0**
Investment securities	**110.9**	**526.1**	**21.2**	**658.2**
Total assets	**110.9**	**2,551.4**	**21.2**	**2,683.5**
Financial liabilities				
Derivative liabilities	**–**	**1,625.2**	**–**	**1,625.2**
Total liabilities	**–**	**1,625.2**	**–**	**1,625.2**

There are no significant movements between level 1, level 2 or level 3.

At 31 March 2023 USDm	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Loans and advances to banks	–	–	–	–
Loans and advances to customers	–	–	–	–
Derivative assets	–	2,085.6	–	2,085.6
Investment securities	–	995.8	20.0	1,015.8
Total assets	–	3,081.4	20.0	3,101.4
Financial liabilities				
Derivative liabilities	–	1,877.3	–	1,877.3
Total liabilities	–	1,877.3	–	1,877.3

Of the total movement in level 3 assets during the year of USD 1.2m (2023: USD 0.7m), USD 0.2m (2023: USD 0.8m) relates to gains through the profit and loss account, USD 1.2m (2023: USD 1.9m) relates to purchases and USD (0.2)m relates to settlements (2023: (2.0)m).

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.

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 2024 **USDm**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets					
Cash and balances at central banks	**–**	**22,951.2**	**–**	**22,951.2**	**22,951.2**
Settlement balances	**–**	**95.5**	**–**	**95.5**	**95.5**
Loans and advances to banks	**–**	**–**	**3,476.3**	**3,476.3**	**3,453.5**
Loans and advances to customers	**–**	**–**	**18,142.4**	**18,142.4**	**17,999.4**
Reverse repurchase agreements	**–**	**1,710.4**	**–**	**1,710.4**	**1,710.4**
Investment securities	**–**	**10.3**	**–**	**10.3**	**10.3**
Liabilities					
Deposits by banks	**–**	**21,184.8**	**–**	**21,184.8**	**21,151.7**
Customer accounts	**–**	**19,827.2**	**–**	**19,827.2**	**19,829.1**
Debt securities in issue	**–**	**901.9**	**–**	**901.9**	**901.9**

31 March 2023 USDm	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and balances at central banks	–	25,880.0	–	25,880.0	25,880.0
Settlement balances	–	115.5	–	115.5	115.5
Loans and advances to banks	–	–	3,263.4	3,263.4	3,223.6
Loans and advances to customers	–	–	17,966.5	17,966.5	17,712.7
Reverse repurchase agreements	–	1,266.9	–	1,266.9	1,266.9
Investment securities	–	29.3	–	29.3	29.3
Liabilities					
Deposits by banks	–	25,012.1	–	25,012.1	24,989.5
Customer accounts	–	18,666.7	–	18,666.7	18,669.0
Debt securities in issue	–	1,048.7	–	1,048.7	1,048.7

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.

Notes to the financial statements For the year ended 31 March 2024 continued

6. Personnel and other expenses

	2024 USDm	2023 USDm
Salaries and bonuses	**319.2**	272.7
Compulsory social security obligations	**62.3**	59.0
Pension costs – contribution plans	**27.3**	21.7
Pension costs – defined benefit plans	**1.5**	2.1
Other staff costs	**14.3**	17.7
Total personnel costs	**424.6**	**373.2**
Operating lease payments	**5.9**	5.5
Other operating expenses	**225.3**	195.8
Total personnel and other costs	**655.8**	**574.5**
		No.
Average number of front office department employees	**554**	526
Average number of support department employees	**1,185**	1,055
Average number of employees	**1,739**	**1,581**

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 49.0m (2023: USD 25.4m).

7. Auditor's remuneration

	2024 USDm	2023 USDm
Fees payable to the Bank's auditor for the audit of Bank's annual accounts	**2.2**	1.7
Audit-related assurance services	**0.3**	0.2
	2.5	**1.9**

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 0.3m (2023: USD 1.0m) were paid by SMBC and SMFG.

8. Directors' emoluments

	2024 USDm	2023 USDm
Directors' fees	**0.8**	0.6
Directors' emoluments (excluding fees)	**2.9**	3.3
Post-employment benefits	**0.1**	0.1
	3.8	**4.0**

The highest paid Director received emoluments of USD 1,585,944 (2023: USD 1,053,118).

Directors received no pension contributions in the year. In the year, one Director received cash in lieu of pension of USD 119,648 (2023: One Director with contributions of USD 122,608). These amounts are included within the Directors' emoluments figures above. Four Directors received a bonus (2023: 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. Further information on the Directors can be found in the Strategic Report on pages 44 to 47. The changes to the Directors in the year can be found in the Directors' Report on page 67.

9. Pension costs

Accounting for pension and other post-retirement benefits

The Bank operates, for the majority of employees, 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 2024 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:

	2024	2023
Discount rate	**4.80%**	4.80%
Future salary increase (weighted average)	**3.65%**	3.40%
Future pension increase	**3.20%**	3.20%
Inflation assumption (RPI)	**3.30%**	3.30%
Inflation assumption (CPI)	**2.65%**	2.40%

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 0.65% per annum less than RPI has been used as at 31 March 2024 (31 March 2023: 0.9% per annum less than RPI).

The discount rate applied as at 31 March 2024 reflects prevailing market yields for high quality bonds, and per the requirements of IAS 19 has resulted in a net impact through Actuarial gains/(losses) on defined benefit scheme of USD (12.7)m.

Notes to the financial statements For the year ended 31 March 2024 continued

9. Pension costs continued

The underlying mortality assumption is based upon the standard table known as S3PA Light on year of birth usage with CMI 2022 future improvement factors with a long-term annual rate of future improvement of 1.25% p.a. (31 March 2023: 1.0% p.a.). This results in the following life expectancies:

- Male aged 65 now has a life expectancy of 23.2 years from retirement (previously 23.1 years).
- Female aged 65 now has a life expectancy of 24.8 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	
	2024 USDm	2023 USDm	**2024 USDm**	2023 USDm	**2024 USDm**	2023 USDm
Balance at beginning of year	**132.7**	185.4	**174.5**	245.8	**41.8**	60.4
Included in profit or loss						
Current service cost	**1.1**	1.5	**–**	–	**(1.1)**	(1.5)
Past service cost	**–**	–	**–**	–	**–**	–
Interest expense	**6.4**	4.7	**–**	–	**(6.4)**	(4.7)
Interest income	**–**	–	**8.5**	6.2	**8.5**	6.2
Effect of movements in exchange rates	**2.9**	(10.5)	**3.8**	(13.8)	**0.9**	(3.3)
	10.4	**(4.3)**	**12.3**	**(7.6)**	**1.9**	**(3.3)**
Included in other comprehensive income						
Actuarial (loss)/gain arising from:						
Financials	**(0.5)**	(50.1)	**–**	–	**0.5**	50.1
Demographic	**0.4**	–	**–**	–	**(0.4)**	–
Experience	**4.8**	6.6	**–**	–	**(4.8)**	(6.6)
Return on plan assets excluding interest income	**–**	–	**(8.0)**	(61.2)	**(8.0)**	(61.2)
	4.7	**(43.5)**	**(8.0)**	**(61.2)**	**(12.7)**	**(17.7)**
Other						
Contributions paid by employer	**–**	–	**2.6**	2.4	**2.6**	2.4
Benefits paid by fund	**(4.6)**	(4.9)	**(4.6)**	(4.9)	**–**	–
	(4.6)	(4.9)	**(2.0)**	(2.5)	**2.6**	2.4
Balance at end of year	**143.2**	**132.7**	**176.8**	**174.5**	**33.6**	**41.8**

The Bank contirbutes 71.5% of pensionable salaries in respect of future service accrual, this is expected to move to 34.9% once a new Schedule of Contributions is in place post completion of a recent scheme valuation. 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 2024, there was no additional balance sheet liability arising in respect of any funding commitment the Bank has to the scheme.

The weighted average duration of the benefit payments reflected in the defined benefit obligation for the Sumitomo Mitsui Banking Corporation Europe Ltd Pension Scheme is 16 years (2023: 16 years).

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 2025 in respect of future accrual contributions is USD 1.6m.

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.

– **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.

Scheme assets were made up of the following:

	2024 USDm	2023 USDm
Equity securities	**–**	9.3
Government bonds	**117.2**	158.1
Corporate bonds	**35.1**	–
Cash	**24.5**	7.1
	176.8	**174.5**

Sensitivity analysis

The approximate impact on the defined benefit obligation of changes in the significant assumptions is shown below:

Assumption varied	**2024 % change in defined benefit obligation**	2023 % change in defined benefit obligation
Discount rate 0.1% p.a. lower	**1.2%**	1.6%
Salary increase rate 0.1% p.a. lower	**-0.1%**	-0.1%
Inflation increase (in payment and in deferment) rate 0.1% p.a. lower	**-0.4%**	-0.6%
Minimum rate of improvement of mortality of 1 year (2023 0.5% p.a.)	**-2.6%**	-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 2024. Therefore, the analysis is only approximate as at the year ended 31 March 2024.

Notes to the financial statements For the year ended 31 March 2024 continued

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	**2024 USDm**	2023 USDm
Current tax charge		
Current year	**143.6**	60.2
Overseas tax	**22.3**	15.9
Adjustment for prior years	**(24.5)**	(0.7)
Foreign exchange differences	**–**	(1.6)
	141.4	**73.8**
Deferred tax charge		
Origination and reversal of temporary differences	**(19.1)**	11.8
Adjustment for prior years	**6.9**	2.6
Deferred tax change in rate	**–**	–
Withholding tax	**0.1**	–
	(12.1)	14.4
Total income tax expense	**129.3**	**88.2**

Reconciliation of effective rate of tax	**USDm**	USDm
Profit before income tax	**535.5**	340.3
Income tax using the domestic corporation tax rate (including surcharge) of 28% (2023: 27%)	**149.9**	91.9
Adjustment for prior years	**(17.6)**	1.8
Deferred tax change in rate	**–**	–
Expenses not deductible for tax purposes	**–**	1.2
Banking surcharge allowance	**(2.5)**	(1.6)
Overseas tax	**(0.6)**	(3.5)
Foreign exchange differences	**–**	(1.6)
Withholding tax	**0.1**	–
	129.3	**88.2**

The prior year adjustment arises from claiming enhanced capital allowances under the temporary "super deductions" regime that was introduced by the UK government to encourage capital investment and the release of an over-accrual in respect of prior years.

Effective from 1 April 2023, the headline rate of corporation tax has increased from 19% to 25% and the banking surcharge rate of 8%, applicable to profits of banking companies under the Finance (No.2) Act 2015, has been reduced to 3%.

On 17 November 2022 the UK Government confirmed its intention to implement to G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. The legislation, which was enacted in 2023, will seek to ensure that UK headquartered multinational enterprises pay a minimum rate of 15 per cent on UK and overseas profits arising after 31 December 2023. As the UK rate of corporation tax is now 25%, the impact of these rules is not expected to be material.

Income tax recognised in other comprehensive income:

Income tax recognised in other comprehensive income	**Before tax 2024 USDm**	**Tax (expense) /benefit 2024 USDm**	**Effect of changes in tax rate 2024 USDm**	**Net of tax 2024 USDm**	Before tax 2023 USDm	Tax (expense)/ benefit 2023 USDm	Effect of changes in tax rate 2023 USDm	Net of tax 2023 USDm
Actuarial gains/(losses) on defined benefit scheme	**12.7**	**(3.5)**	**–**	**9.2**	17.6	(4.9)	–	12.7
FVOCI	**0.2**	**(0.1)**	**–**	**0.1**	(0.4)	0.1	–	(0.3)
Cash flow hedges	**9.2**	**(2.6)**	**–**	**6.6**	(5.0)	1.4	–	(3.5)
IFRS 9 transitional adjustments	**–**	**–**	**–**	**–**	–	–	–	–
	22.1	**(6.2)**	**–**	**15.9**	**12.2**	**(3.4)**	**–**	**8.9**

Deferred tax

The components of deferred taxes disclosed on the statement of financial position are as follows:

	USDm 2024	USDm 2023
Deferred tax liability	**(26.8)**	(27.9)
Deferred tax asset	**43.7**	26.0
Net deferred tax asset	**16.9**	**(1.9)**

Movements on deferred tax assets and liabilities were as follows:

	Fixed asset temporary differences USDm	**Bonus accrual USDm**	**Pensions and other retirement benefits USDm**	**AFS & CFH USDm**	**Unremittable interest on Russian loans USDm**	**IFRS 9 transitional adjustment USDm**	**Paris branch IFRS 9 and upfront fees USDm**	**Total USDm**
Asset/(liability) at 1 April 2023	(9.3)	8.8	(11.7)	(4.1)	–	(2.8)	17.2	(1.9)
Adjustments relating to prior years	(8.4)	1.7	–	–	(0.2)	–	–	(6.9)
Movement through the P&L account	4.4	0.2	(1.3)	–	(0.2)	–	16.0	19.1
Movement through other comprehensive income	–	–	3.5	2.7	–	0.6	–	6.8
Exchange rate changes	–	–	–	–	–	–	(0.2)	(0.2)
At 31 March 2024	**(13.3)**	**10.7**	**(9.4)**	**(1.5)**	**(0.4)**	**(2.2)**	**33.0**	**16.9**
Asset/(liability) at 1 April 2022	3.5	5.0	(17.0)	(2.6)	–	(3.4)	23.5	9.0
Adjustments relating to prior years	(8.4)	3.8	0.1	–	–	–	1.9	(2.6)
Movement through the P&L account	(4.4)	–	0.3	–	–	–	(7.7)	(11.8)
Movement through other comprehensive income	–	–	4.9	(1.5)	–	0.6	–	4.0
Exchange rate changes	–	–	–	–	–	–	(0.5)	(0.5)
At 31 March 2023	**(9.3)**	**8.8**	**(11.7)**	**(4.1)**	**–**	**(2.8)**	**17.2**	**(1.9)**

The amount of deferred tax asset expected to be recovered after more than 12 months is USD 14.7m (2023: USD 3.8m).

Notes to the financial statements For the year ended 31 March 2024 continued

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 date 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.

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.

	2024 USDm			2023 USDm		
	Loans to banks	**Loans to customers**	**Total**	Loans to banks	Loans to customers	Total
Gross loans and advances at amortised cost	**3,535.9**	**18,185.6**	**21,721.5**	3,259.5	17,929.5	21,189.0
Gross loans and advances at FVTOCI	**–**	**52.3**	**52.3**	–	–	–
Less: impairment provisions (note 4)	**(82.4)**	**(186.2)**	**(268.6)**	(36.0)	(216.8)	(252.8)
Loans and advances at amortised cost	**3,453.5**	**18,051.7**	**21,505.2**	**3,223.6**	**17,712.7**	**20,936.2**

Loans and advances to customers includes USD 1,657.9m (2023: USD 862.9m) of Green and Sustainability-Linked Loans.

Loans and advances to banks includes balances with a carrying value of USD 20.7m (2023: USD 0.7m) which are subject to restrictions.

	2024 USDm	2023 USDm
Amount included within loans and advances to customers expected to be recovered more than 12 months after the reporting date	**12,169.0**	12,148.4

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.

Notes to the financial statements For the year ended 31 March 2024 continued

12. Investment securities continued

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.

	2024 USDm	2023 USDm
Investment securities held at amortised cost	10.3	29.3
Investment securities at fair value through other comprehensive income	637.0	997.0
Investment securities at fair value through profit and loss	21.2	18.8
Total investment securities	**668.5**	**1,045.1**

	USDm	USDm
Debt securities held at amortised cost	10.3	29.3
Debt securities held at fair value through other comprehensive income	637.0	995.8
Equities held at fair value through other comprehensive income	1.2	1.2
Equities held at fair value through profit and loss	20.0	18.8
Total investment securities	**668.5**	**1,045.1**

At start of year	1,045.1	1,009.2
Exchange rate adjustments	(12.0)	–
Acquisitions and transfers	2,849.6	1,025.1
Fair value movement recognised in other comprehensive income	0.8	0.3
Disposals and maturities	(3,217.3)	(992.4)
Amortisation of discounts and premiums	2.3	2.9
At end of year	**668.5**	**1,045.1**

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 the 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.

Notes to the financial statements For the year ended 31 March 2024 continued

13. Derivative financial instruments and hedge accounting continued

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.

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 2024 and 31 March 2023.

	2024 Notional contract amount USDm	**2024 Fair value derivative assets USDm**	**2024 Fair value derivative liabilities USDm**	2023 Notional contract amount USDm	2023 Fair value derivative assets USDm	2023 Fair value derivative liabilities USDm
Trading derivatives						
Foreign exchange derivatives						
Forward foreign exchange	**288,841.6**	**1,612.2**	**(1,482.8)**	269,128.7	1,708.8	(1,834.1)
Currency options	**11,217.3**	**222.5**	**(140.1)**	15,409.7	191.5	(42.0)
Total trading derivatives	**300,058.9**	**1,834.7**	**(1,622.9)**	**284,538.4**	**1,900.3**	**(1,876.1)**
Derivatives held for risk management						
Foreign exchange derivatives						
Currency swaps – Cash flow hedges	**511.4**	**78.5**	**(0.7)**	650.4	100.2	(0.2)
Total foreign exchange derivatives	**511.4**	**78.5**	**(0.7)**	**650.4**	**100.2**	**(0.2)**
Interest rate derivatives						
Interest rate derivatives	**127.8**	**–**	**(0.1)**	–	–	–
Interest rate swaps – Fair value hedges	**1,865.2**	**59.8**	**(1.5)**	2,014.6	85.1	(1.0)
Total interest rate derivatives	**1,993.0**	**59.8**	**(1.6)**	**2,014.6**	**85.1**	**(1.0)**
Total derivatives held for risk management	**2,504.4**	**138.3**	**(2.3)**	**2,665.0**	**185.3**	**(1.2)**
Total derivatives	**302,563.5**	**1,973.0**	**(1,625.2)**	**287,203.4**	**2,085.6**	**(1,877.3)**

Notes to the financial statements For the year ended 31 March 2024 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 2024						
Fair value	Interest rate risk	1,865.2	59.8	1.5	58.3	1,742.2
		1,865.2	**59.8**	**1.5**	**58.3**	**1,742.2**
As at 31 March 2023						
Fair value	Interest rate risk	2,014.6	85.1	1.0	84.1	1,689.8
		2,014.6	**85.1**	**1.0**	**84.1**	**1,689.8**

The following table summarises the significant hedge accounting exposures impacted by the IBOR reform as at 31 March 2024

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)	714.2	714.2
JPY LIBOR	Tokyo Overnight Average (TONA)	429.7	429.7
USD LIBOR	Secured Overnight Financing Rate (SOFR)	598.3	598.3

Notes to the financial statements For the year ended 31 March 2024 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 2024 Less than 1 year	1 to 5 years	More than 5 years	Maturity 31 March 2023 Less than 1 year	1 to 5 years	More than 5 years
Notional amount (USDm)	**455.0**	**1,061.0**	**349.2**	636.6	1,013.0	365.0
Average fixed interest rate %	**0.7%**	**1.8%**	**2.0%**	0.3%	0.8%	2.0%

The following table shows the hedged items in fair value hedge accounting relationships:

At 31 March 2024 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	1,806.8	(58.4)	(58.4)	–
		1,806.8	**(58.4)**	**(58.4)**	**–**

At 31 March 2023 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	1,932.6	(82.0)	(82.0)	–
		1,932.6	**(82.0)**	**(82.0)**	**–**

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 2024					
Cash flow hedge	Foreign exchange risk	5.0	5.0	5.0	–
		5.0	**5.0**	**5.0**	**–**
As at 31 March 2023					
Cash flow hedge	Foreign exchange risk	14.2	14.2	14.2	–
		14.2	**14.2**	**14.2**	**–**

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 10.2m (2023: USD 6.7m).

The following table shows the movements of the cash flow hedging reserve:

	Cash flow hedging reserve USDm
At 1 April 2023	**10.2**
Hedging gains for the year	**5.0**
Amounts reclassified in relation to cash flows affecting profit or loss	**(10.2)**
Tax	**(1.4)**
At 31 March 2024	**3.6**

	Cash flow hedging reserve USDm
At 1 April 2022	6.7
Hedging gains for the year	14.2
Amounts reclassified in relation to cash flows affecting profit or loss	(6.7)
Tax	(4.0)
At 31 March 2023	**10.2**

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 2024						
Derivative assets	**1,540.0**	**(1,286.6)**	**(253.4)**	**–**	**433.0**	**1,973.0**
Reverse repurchase agreements	**1,710.4**	**(1,710.4)**	**–**	**–**	**–**	**1,710.4**
	3,250.4	**(2,997.0)**	**(253.4)**	**–**	**433.0**	**3,683.4**
Derivatives liabilities	**1,477.7**	**(1,286.6)**	**(191.2)**	**–**	**147.5**	**1,625.2**
As at 31 March 2023						
Derivative assets	1,751.6	(1,293.5)	(265.4)	192.7	334.0	2,085.6
Reverse repurchase agreements	1,266.9	(1,266.9)	–	–	–	1,266.9
	3,018.5	**(2,560.4)**	**(265.4)**	**192.7**	**334.0**	**3,352.5**
Derivatives liabilities	**1,695.7**	**(1,293.5)**	**(365.1)**	**37.1**	**181.6**	**1,877.3**

Notes to the financial statements
For the year ended 31 March 2024 continued

14. Other assets

	2024 USDm	2023 USDm
Accrued income	**498.4**	484.8
Prepayments and other receivables	**64.9**	54.2
Cash collateral placed under Credit Support Annex	**200.5**	389.9
	763.8	**928.9**

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.

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 (2023: USD 1.9m).

Software

The carrying amount of software is as follows:

	Internally generated software USDm	Other software USDm	Total USDm
At 1 April 2023	**22.8**	**149.8**	**172.6**
Additions	**3.7**	**30.8**	**34.5**
Disposals	**–**	**–**	**–**
At 31 March 2024	**26.5**	**180.6**	**207.1**
Accumulated amortisation			
At 1 April 2023	**14.3**	**103.8**	**118.1**
Charge for the year	**2.8**	**17.9**	**20.7**
Disposals	**–**	**–**	**–**
At 31 March 2024	**17.1**	**121.7**	**138.8**
Net book value at 31 March 2024	**9.4**	**58.9**	**68.3**
At 1 April 2022	19.8	128.3	148.1
Additions	3.0	21.5	24.5
Disposals	–	–	–
At 31 March 2023	**22.8**	**149.8**	**172.6**
Accumulated amortisation			
At 1 April 2022	12.0	91.3	103.3
Charge for the year	2.3	12.5	14.8
Disposals	–	–	–
At 31 March 2023	**14.3**	**103.8**	**118.1**
Net book value at 31 March 2023	**8.5**	**46.0**	**54.5**

The gross carrying amount of fully depreciated software still in use is USD 3.1m (2023: USD 93.0m).

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
Equipment, fixtures and fittings	5 years

Notes to the financial statements For the year ended 31 March 2024 continued

16. Property and equipment continued

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.

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 2024 was USD 5.9m (2023: USD 5.5m)..

	Right-of-use assets: Land and buildings USDm	Leasehold improvements USDm	Equipment USDm	Total USDm
Cost				
At 1 April 2023	**178.9**	**79.7**	**87.9**	**346.5**
Additions	**16.9**	**2.7**	**4.4**	**24.0**
Disposals	**(11.8)**	**(2.6)**	**–**	**(14.4)**
At 31 March 2024	**184.0**	**79.8**	**92.3**	**356.1**
Accumulated depreciation				
At 1 April 2023	**38.5**	**16.7**	**36.9**	**92.1**
Charge for the year	**14.7**	**5.9**	**14.3**	**34.9**
Disposals	**(11.8)**	**(2.6)**	**–**	**(14.4)**
At 31 March 2024	**41.4**	**20.0**	**51.2**	**112.6**
Net book value at 31 March 2024	**142.6**	**59.8**	**41.1**	**243.5**
Cost				
At 1 April 2022	194.2	107.4	79.5	381.1
Additions	0.1	5.2	31.8	37.1
Disposals	(15.4)	(32.9)	(23.4)	(71.7)
At 31 March 2023	**178.9**	**79.7**	**87.9**	**346.5**
Accumulated depreciation				
At 1 April 2022	34.6	44.0	47.9	126.5
Charge for the year	19.1	5.6	12.4	37.1
Disposals	(15.2)	(32.9)	(23.4)	(71.5)
At 31 March 2023	**38.5**	**16.7**	**36.9**	**92.1**
Net book value at 31 March 2023	**140.4**	**63.0**	**51.0**	**254.4**

The gross carrying amount of fully depreciated property, plant and equipment still in use is USD 24.6m (2023: USD 26.2m).

17. Debt securities in issue

	2024 USDm	2023 USDm
Certificates of deposit – held at amortised cost	**901.9**	1,048.7

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 2024 continued

18. Other liabilities

	2024 USDm	2023 USDm
Lease liabilities	**173.8**	161.8
Accruals and deferred income	**465.0**	390.9
Cash collateral received under Credit Support Annex	**285.9**	292.5
Other liabilities	**13.9**	2.1
	938.6	847.3

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 5.9m (2023: USD 5.5m) and USD nil (2023: nil), 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 2022	175.0
Interest expense	1.7
New leases	–
Disposals	(9.6)
Cash payments	(5.3)
As at 31 March 2023	**161.8**
Interest expense	**1.9**
New leases	**14.9**
Disposals	**–**
Foreign exchange movements	**3.5**
Cash payments	**(8.3)**
As at 31 March 2024	**173.8**

The undiscounted maturity analysis of lease liabilities at 31 March 2024 and 31 March 2023 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 2024								
Lease payments	**3.9**	**12.9**	**17.4**	**17.4**	**16.9**	**16.5**	**101.9**	**186.9**
Finance charges	**(0.6)**	**(1.7)**	**(2.0)**	**(1.8)**	**(1.6)**	**(1.4)**	**(4.0)**	**(13.1)**
Net present values	**3.3**	**11.2**	**15.4**	**15.6**	**15.3**	**15.1**	**97.9**	**173.8**
31 March 2023								
Lease payments	**1.0**	**5.8**	**15.1**	**15.1**	**15.1**	**14.6**	**106.2**	**172.9**
Finance charges	**(0.4)**	**(1.3)**	**(1.6)**	**(1.4)**	**(1.3)**	**(1.1)**	**(4.0)**	**(11.1)**
Net present values	**0.6**	**4.5**	**13.5**	**13.7**	**13.8**	**13.5**	**102.2**	**161.8**

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.

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 2023	3,200.1
Additions	–
At 31 March 2024	**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 5,476.7m (2023: USD 5,083.0m) 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:

	2024 USDm	2023 USDm
Shareholders' equity per financial statements	**5,579.8**	5,189.4
Reserves not included in Tier 1 capital – Cash flow hedge	**(3.6)**	(10.2)
Deductions and other adjustments	**(99.5)**	(96.2)
Tier 1 capital after deductions	**5,476.7**	**5,083.0**

Notes to the financial statements For the year ended 31 March 2024 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.

	2024 Contract amount USDm	2023 Contract amount USDm
Guarantees and letters of credit	**2,819.4**	3,353.9
Undrawn formal standby facilities, credit lines and other commitments to lend	**14,684.2**	12,837.5

Undrawn commitments includes USD 2,202.3m (2023: USD 1,999.3m) 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.

	2024 USDm	2023 USDm
Loans and advances to customers	**264.1**	250.4
Other assets	**200.5**	386.5
Total	**464.6**	**636.9**

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 264.1m (2023: USD 250.4m). 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 the 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:

	2024 USDm	2023 USDm
Short-term employee benefits	**2.9**	3.3
Post-employment benefits	**0.1**	0.1
Total	**3.0**	**3.4**

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:

	2024		2023	
	Loans and advances USDm	**Other assets USDm**	Loans and advances USDm	Other assets USDm
Amounts due from parent company	**3,295.5**	**755.7**	1,360.9	1,160.4
Amounts due from other related parties	**9.3**	**7.7**	24.0	9.9
Total	**3,304.8**	**763.4**	**1,384.9**	**1,170.3**

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:

	2024		2023	
	Deposits USDm	**Other liabilities USDm**	Deposits USDm	Other liabilities USDm
Amounts due to parent company	**16,955.9**	**684.5**	21,549.5	592.5
Amounts due to other related parties	**12.3**	**0.2**	96.0	12.3
Total	**16,968.2**	**684.7**	**21,645.5**	**604.8**

Notes to the financial statements For the year ended 31 March 2024 continued

23. Related parties continued

The Bank receives collateral consisting of cash (part of amounts due to the parent company) of USD 5,773.6m (2023: USD 3,909.6m), 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:

	2024 USDm	2023 USDm
Guarantees received on customer accounts	**3,474.3**	1,610.0
Guarantees received on the Bank's liabilities	**365.3**	318.9

Amounts recognised in the statement of comprehensive income in respect of related party transactions are as follows:

2024	**Parent companies USDm**	**Other related parties USDm**	**Total USDm**
Interest income	**139.1**	**0.5**	**139.6**
Interest payable	**(903.5)**	**(0.2)**	**(903.7)**
Fees and commissions receivable	**473.9**	**1.1**	**475.0**
Fees and commissions payable	**(8.4)**	**–**	**(8.4)**
Net trading	**(0.1)**	**–**	**(0.1)**
Other expenses	**(48.6)**	**–**	**(48.6)**
Total	**(347.6)**	**1.4**	**(346.2)**

2023	Parent companies USDm	Other related parties USDm	Total USDm
Interest income	28.9	0.7	29.6
Interest payable	(450.4)	(0.3)	(450.7)
Fees and commissions receivable	498.1	1.4	499.5
Fees and commissions payable	(2.4)	(0.6)	(3.0)
Net trading	–	(0.1)	(0.1)
Other expenses	(49.3)	–	(49.3)
Total	**24.9**	**1.1**	**26.0**

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

2024

Activity	Geographical location	**Turnover USDm**	**Profit or loss before income tax USDm**	**Cash tax USDm**	**Average headcount**
Corporate banking	UK	**1,152.3**	**510.5**	**106.7**	**1,641**
Corporate banking	France*	**141.4**	**25.1**	**16.1**	**98**
Intra-group adjustments		**(19.5)**	**–**	**–**	**–**
		1,274.2	**535.6**	**122.8**	**1,739**

2023

Activity	Geographical location	Turnover USDm	Profit or loss before income tax USDm	Cash tax USDm	Average headcount
Corporate banking	UK	921.7	252.5	70.7	1,492
Corporate banking	France*	103.8	87.8	20.9	89
Intra-group adjustments		(11.1)	–	–	–
		1,014.4	340.3	91.6	1,581

* 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.

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.

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