SMBC

SMBC Group

SMBC BANK INTERNATIONAL

Pillar 3 Disclosures

As of 31st March 2021

Contents

Document disclaimer

- The purpose of the Pillar 3 disclosures as contained within this Disclosure Document is to explain how Sumitomo Mitsui Banking Corporation Bank International plc ("SMBC BI" or "the Bank") complies with certain capital related requirements and to provide information about the management of risks relating to those requirements.

- This Disclosure Document does not constitute any form of financial statement on behalf of the Bank and should be read in conjunction with the Bank's Annual Report & Financial Statements.

- This Disclosure Document reflects, where appropriate, information which is contained within the Bank's Annual Report & Financial Statements.

- The Information has been subject to internal review but has not been audited by the Bank's external auditors.

- Although Pillar 3 disclosures are designed to provide transparent capital disclosure by banks on a common basis, the information contained in this disclosure document may not be directly comparable with that made available by other banks. This may be due to several factors such as:
    - The different approaches to calculating capital allowed under the Capital Requirements Directive IV ("CRDIV");
    - The mix of corporate exposure types between banks;
    - The different risk appetites and profiles of banks; and
    - The different waivers applied for and granted by the Prudential Regulation Authority ("PRA").

- Pillar 2 capital requirements do not form part of this Disclosure Document but nevertheless play a major role in determining both the total capital requirements of the Bank and any surplus capital available. However, reference has been made to SMBC BI's Total Capital Requirements ("TCR").

1. Overview

1.1 Background

The ongoing capital requirements for international banks are governed on an overall basis by a capital accord formulated by the Basel Committee on Banking Supervision, commonly referred to as Basel 3, implemented in Europe under CRDIV, made up of a Capital Requirements Directive ("CRD") and Capital Requirements Regulation ("CRR"). The framework involves a three-pillar approach, with each individual Pillar being an important and mutually reinforcing element in determining the overall capital which an institution needs to have in place:

- Pillar 1 is Minimum & Enhanced Capital Requirement (quantification of credit risk, market risk and operational risk);
- Pillar 2 is Supervisory Review (involving Total Capital Requirement & Assessment by the regulator based on consideration of Individual Bank Risk and Business & Control Risk Factors. This enables capture of other wider general risks not captured sufficiently under Pillar 1); and
- Pillar 3 is Market Discipline (requires disclosure to allow market participants to understand the Bank's risk profile).

SMBC BI is authorised by the PRA in the United Kingdom ("UK"). The Bank is regulated by the Financial Conduct Authority ("FCA") and PRA from which it receives information for assessing capital adequacy and setting capital requirements for SMBC BI.

The relevant requirements are contained in the CRR. Part 8 of the CRR lays out the disclosure requirements applicable to banks and building societies, in accordance with Pillar 3. These requirements are designed to promote market discipline by providing market participants with key information on a firm's risk exposures, risk management processes, and capital adequacy. Improved public disclosures of such information are intended to ensure increased transparency and hence more effective market discipline.

1.2 Disclosure overview

This Disclosure Document contains both qualitative and quantitative information, concerning the following areas:

- **Key Metrics** (section 2)
- **Risk Management;** both in relation to overall risk management issues and specific risk categories (sections 3 - 8);
- **Own funds** (sections 9)
- **Credit risk exposures** (section 10)
- **Leverage Ratio** (section 11)
- **Asset Encumbrance** (section 12)
- **Remuneration disclosures** (section 13)

1.3 Basis and Frequency of Disclosures

In accordance with Part 8 of the CRR, these disclosures are based on 31 March 2021 year end data. The Corporate Governance disclosures set out in Sections 3.2 are correct as at the date of approval of the Bank's Annual Report & Financial Statements, 6 July 2021.

After due consideration of the size and complexity of operations, the Bank has determined that this Disclosure Document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year.

1.4 Consolidation basis

The Bank is required by the PRA to produce regulatory reports in order to assess its capital resources and capital requirements. There is no difference in the basis of consolidation for accounting and prudential purposes.

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

1.5 Location and verification

This Disclosure Document has been reviewed and approved by the Bank's senior management but has not been subject to external audit. However, where data is equivalent to that included in the Bank's Annual Report and Financial Statements, then such data has been subject to external audit during the formal review and verification process.

The Disclosure Document is published on the Bank's corporate website, which is felt to be the most appropriate medium as per CRR Article 434.

This can be found at https://www.smbcgroup.com/emea/notices-and-reporting/corporate-disclosures/

1.6 Company name and status

On 30 September 2020, we re-registered as a public limited company and changed name from Sumitomo Mitsui Banking Corporation Europe Limited to SMBC Bank International plc.

2. Key Metrics

The key metrics dashboard provides an overview of the Bank's prudential regulatory situation including its capital requirements, leverage ratio and key liquidity monitoring metrics. SMBC BI's Total Capital Requirement ("TCR", Pillar 1 + Pillar 2A) currently stands at 9.7%. Supplementary information can be found in the table references provided.

2.1 Key metrics

All figures in this section in USD millions

		Ref	31 March 2021	31 March 2020
	Available capital			
1	Common Equity Tier 1 (CET1)	9.1	4,787.9	4,583.3
2	Tier 1	9.1	4,787.9	4,583.3
3	Total capital	9.1	4,787.9	4,583.3
	Risk-weighted assets			
4	Total risk-weighted assets (RWA)	9.4	28,662.1	28,958.3
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	9.4	16.7%	15.8%
6	Tier 1 ratio (%)	9.4	16.7%	15.8%
7	Total capital ratio (%)	9.4	16.7%	15.8%
	Additional CET1 buffers requirements as a percentage of RWA			
8	Capital conservation buffer requirements (2.5% from 2019)		2.500%	2.500%
9	Countercyclical buffer requirement	9.6	0.037%	0.091%
11	Total of bank CET1 specific buffer requirements		2.537%	2.591%
	Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	11.1	62,531.4	67,858.7
14	Basell III leverage ratio (%)	11.1	7.7%	6.8%
	Liquidity Coverage Ratio			
15	Total High-Quality Liquid Assets ("HQLA")*		25,266.0	25,678.8
16	Total Net 30-day Cash Outflow		17,426.3	20,351.9
17	LCR ratio (%)		145.0%	126.2%
	Net Stable Funding Ratio			
15	Total Available Stable Funding		27,000.0	23,740.4
16	Total Required Stable Funding		19,923.0	22,064.3
18	NSFR Ratio (%)		135.5%	107.6%

**Total HQLAs include Pillar 2 requirement as set out in Article 105 Capital Requirement Directive ("CRD")*

3. Risk Management Framework

3.1 Risk Management Strategy and objectives

SMBC BI's business model is designed to ensure that the Bank remains a well-funded, well-controlled corporate banking institution focusing resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced growth. The key risks related to the business model are managed within the risk appetite framework and are further described in the Strategic Report of the Annual Report and Financial Statements.

SMBC BI's risk strategy has been developed to support the corporate strategy and the achievement of long-term sustainable growth. The risk strategy comprises 4 pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives:

Business Model (Sustainable Growth)

SMBC BI generates revenue as a direct result of taking credit risk through its lending portfolio. Therefore, the bank has an active appetite for well controlled credit risk and limited appetite for market risk.

SMBC BI ensures that its pricing for risk is appropriate for maintaining a sustainable business.

SMBC BI seeks to limit the volatility of its earnings to ensure that under a moderate (1 in 10 year) stress, the Bank does not make a loss.

SMBC BI intends to grow its sustainable finance business and help customers to transition to a low-carbon economy. SMBC BI will manage the material sustainability and climate change risks within its portfolio and own operations.

Maintaining Solvency & Liquidity

SMBC BI aims to ensure it is robust from a capital and liquidity perspective, in excess of regulatory minimum and risk appetite levels

In addition to controlling earnings volatility, the Bank needs to manage more extreme stresses (1 in 1000 year), to ensure it is capitalised in line with regulatory expectations.

SMBC BI maintains enough cash and liquid assets to cover plausible but extreme stresses. The bank will consider the key liquidity risks and ensure that the balance sheet is robust to cover the resulting stresses.

Resolvability is demonstrated through the maintenance of a liquidity structure that can plausibly support the Solvent Wind Down Plan. ("SWDP")

Conducting Business

Through the strong management of our business, we will ensure that we do not, through action or inaction, cause an adverse outcome for customers, suppliers, regulators and/or our wider stakeholder group and that we do not adversely impact our reputation.

The Bank always seeks to manage its business with the aim of meeting applicable financial crime regulatory requirements of all bodies and countries within which it operates.

The Bank will seek to emphasise its "customer first" value through fair and transparent dealings with its customers. The Banks aims to minimise regulatory/compliance risk by meeting both the spirit and letter of all applicable regulation.

The Bank's staff and the culture of the organisation are key strengths in achieving sustainable growth, guided by the organisation's five values.

The Bank wishes to maintain a balance between the emphasis on team rather than individual, and individual accountability. The Bank wants to maintain a "customer first" focus, whilst ensuring that there is a strong and embedded risk sensitivity and conservatism.

Maintaining Operational Risk & Resilience

The Bank's systems, processes and infrastructure should have strong market standard defences and be able to withstand plausible operational risk scenarios such as cyber-attacks, supplier failure, natural disasters, pandemic and terrorist activity etc.

This will include actionable recovery plans such as Business Continuity Plans, Disaster Recovery Plans, and Incident management that minimise recovery times and limit disruption.

The Bank should ensure that critical services can be maintained during resolution.

The Bank's risk management objectives are as follows:

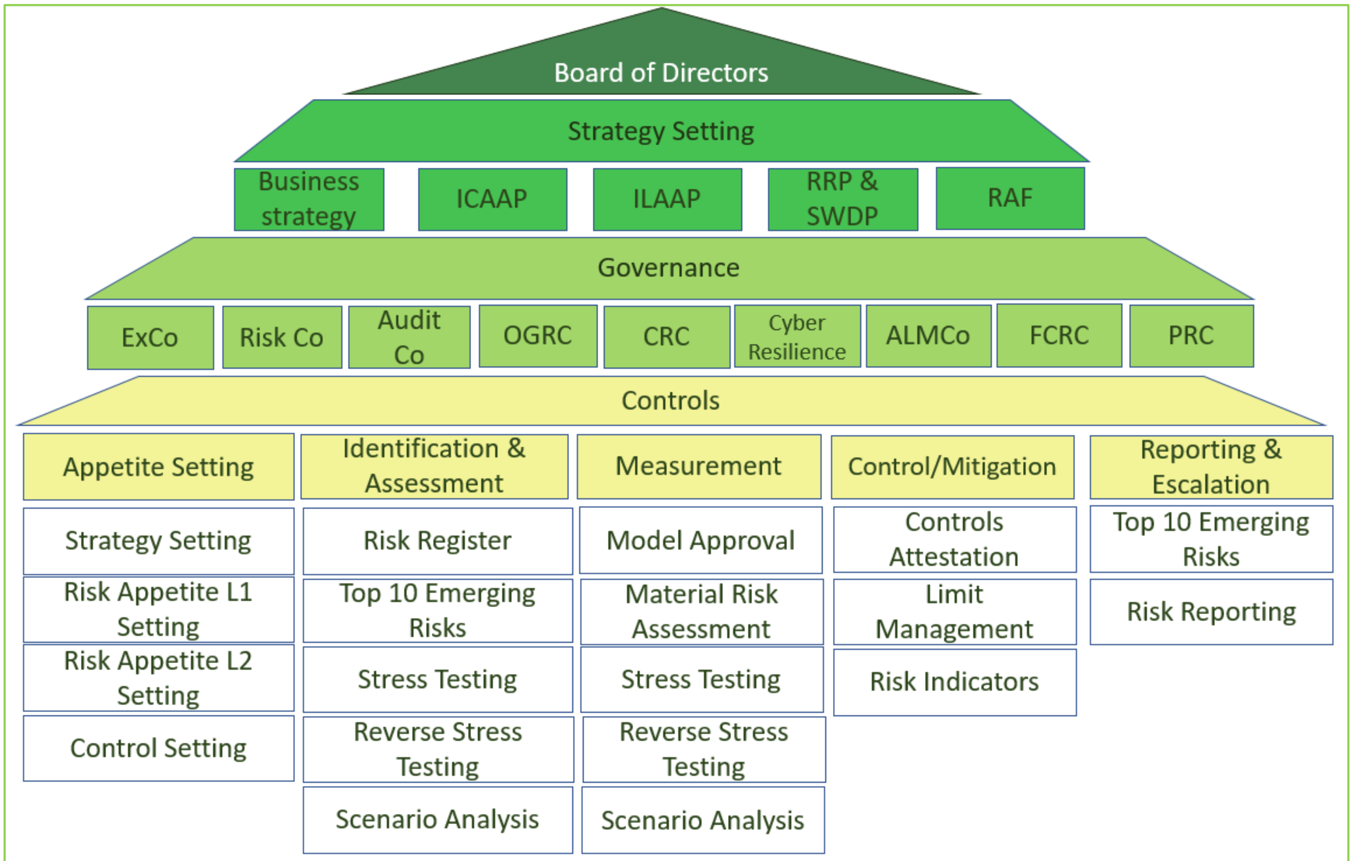
- To ensure the Bank's strategic risk pillars, risk strategy statements and risk appetite measures are observed and maintained in the pursuit of the Bank's strategic objectives,
- To maintain a risk appetite that maximises risk/return whilst ensuring that the Bank maintains adequate capital at all times,
- To ensure that prudent levels of liquidity are in place to fund the Bank even under stressed conditions,
- To maintain fair and ethical relationships with all our customers,
- To manage and mitigate risk that we assume as a consequence of our business strategy e.g. Operational Risk, Conduct Risk.
- To maintain an adequate and effective control environment, and
- To ensure that we adhere to the letter and spirit of laws and regulations governing our business.

SMBC BI's key principles to ensure an effective risk management strategy are:

- A fit for purpose risk management framework,
- An independent and robust 2nd Line of Defence,
- Having a clear corporate strategy and risk appetite framework setting out the level of risk the Bank is able and willing to undertake,
- Ensuring that risk issues associated with business development activities are being correctly identified, measured and properly reported, and
- Obtaining appropriate assurance that there are sufficient controls in place to control risk

As part of the overall strategic and risk governance, the Bank undertakes a number of critical processes and produces key documents, which are outlined in the diagram below:

SMBC BI Risk Management Framework



ExCo:	Executive Committee
RiskCo:	Risk Committee
AuditCo:	Audit Committee
OGRC:	Operational and General Risk Committee
CRC:	Credit Risk Committee
ALMCo:	Asset and Liability Management Committee
FCRC:	Financial Crime & Reputational Risk Committee
PRC:	Prudential Regulatory Committee
FC:	Finance Committee

3.1.1 Corporate Strategy

The high-level principles of the Bank's Corporate Strategy are that:

- The SMBC BI Board has overall responsibility for the Bank's Corporate Strategy and also for ensuring that there is an appropriately aligned Risk Appetite Framework (RAF) in place,
- The Bank pursues an annual strategic planning cycle, with the business strategy being developed in the last quarter of each financial year,
- Corporate Strategy is approved by the Board in June/July each year, following review of the draft in April, and
- The long-term planning of Capital and Liquidity management and Recovery & Resolution Planning is a key component of the Corporate Strategy.
- The ICAAP, ILAAP and RRP documents and the Credit, Market and Operational Risk policies are key elements of the risk management framework and are aligned to the Bank's Risk Appetite and Corporate Strategy.

3.1.2 Climate Change

Climate change is identified as one of the Bank's top risks and is a topic of considerable Board and management focus. In this section we set out our approach to managing the risks and opportunities arising from climate change.

Governance; We have clearly defined and documented the roles and responsibilities of the Board and management in the oversight and management of climate-related risks. We are carrying out our activities based on these roles and responsibilities. We have appointed Hideo Kawafune, an executive Director and Chief Operating Officer, to oversee our response to climate change. Sustainability is discussed at all Board meetings.

Strategy; We have developed a Sustainability Strategy, which has been approved by the Board.

Risk Management; Holistic risk management approach has been developed to ensure climate risks are considered in key risk processes.

Metrics and Targets; Initial identification of metrics implemented, including targets such as for new business and our net zero ambition. We expect further enhancement and evolution of metrics over time.

3.1.3 Capital Planning

As part of the Corporate Strategy process the Board critically assesses the capital requirements to support the business plan, and the requirements under stress. This is documented through the Internal Capital Adequacy Assessment Process (ICAAP).

The Bank adopts a Pillar 1 'plus' approach, using the Pillar 1 elements (Credit, Market and Operational risk) as a basis. It then quantifies any other material risks, not covered or adequately captured by Pillar 1, under Pillar 2A.

Risk Category	Pillar 1 approach
Credit Risk	
- Credit risk weighted assets	Standardised approach under Chapter 2, Title II, Part Three of CRR
- Funded credit risk mitigation	Financial collateral comprehensive method under CRR Article 223
- Counterparty credit risk	Mark-to-market method under CRR Article 274
Market Risk	
- Interest rate general market risk	Maturity-based approach under CRR Article 339
- Interest rate specific market risk	Standardised approach under CRR Article 336
- Equity risk	Standardised approach under Section 3, Chapter 2, Title IV, Part Three of CRR
- Foreign exchange risk	Standardised approach under CRR Article 352
Operational Risk	Basic Indicator Approach under Chapter 2, Title III, Part Three of CRR.
Credit Valuation Adjustment Risk	Standardised method under CRR Article 384
Settlement Risk	CRR Article 378

The Bank's Total Capital Requirement (TCR) currently stands at 9.7%.

See section 4, 5 and 7 for further details.

3.1.4 Liquidity Planning

As part of the Corporate Strategy process the Board critically assesses the liquidity and funding the Bank needs to support the business plan and those requirements under stress. This is documented through the Internal Liquidity Adequacy Assessment Process (ILAAP).

See section 6 for further details.

3.1.5 Risk Appetite

As part of the Corporate Strategy process the Board will approve a risk appetite that supports the long-term objective of sustainable growth and balances the need for long term profitability with prudent risk management.

3.1.6 Recovery and Resolution Planning

The Board also considers, on an annual basis, extreme but plausible scenarios which can be systemic or idiosyncratic in nature and result in the Bank invoking its Recovery Plan options. The Recovery Plan, that includes a wind down plan and a resolution pack, is approved by the Board annually.

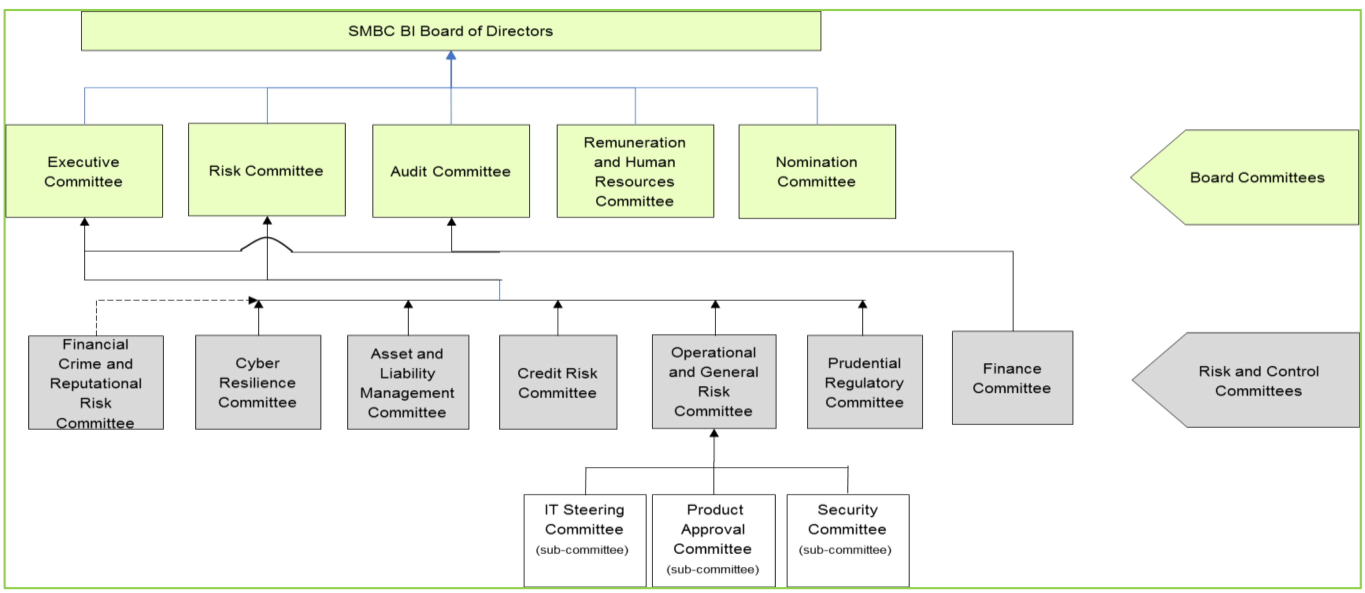
3.2 Governance Structure

The Directors are committed to maintaining a high standard of corporate governance within the Bank.

SMBC BI Governance Structure

This part sets out key components of the Bank's risk governance.

The Bank's Board and Committee framework is as follows:



3.2.1 Overview of responsibilities

The Board is responsible for our leadership, direction and control and for ensuring that we comply with our legal and regulatory requirements. Matters reserved for the Board's approval include key appointments, strategy, budgeting, capital and liquidity adequacy, recovery and resolution planning and the financial statements.

The Board has established the Committees shown below to provide oversight and make recommendations on the matters delegated to them by the Board. Details of the roles and responsibilities of the Board Committees and their respective memberships and activities are also shown. These are detailed more fully in terms of reference, which are reviewed regularly and updated as required.

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

The Board meets quarterly and, additionally, when necessary. Between these meetings there is regular contact between the executive and non-executive Directors. The Board has delegated certain responsibilities to its Committees as documented in their terms of reference. The Board and the Audit, Risk, Nomination and Remuneration and Human Resources Committees are each Chaired by an independent non-executive Director. The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed during the course of each year. These Committees are as follows:

Audit Committee

The Audit Committee comprises the non-executive Directors.

On the invitation of the Chair, meetings are also attended by members of management, including Keiichiro Nakamura and Hideo Kawafune, the Co-Heads of Audit Department and the Head of Finance and Control. A representative of our external auditors, KPMG, also attends meetings.

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

Executive Committee

The Executive Committee is Chaired by Keiichiro Nakamura, with the other members being Hideo Kawafune, Stanislas Roger, Katsufumi Uchida and members of the Bank's senior management team.

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

Nomination Committee

The Nomination Committee comprises the independent non-executive Directors, Keiichiro Nakamura, Hideo Kawafune and Stanislas Roger.

On the invitation of the Chair, meetings are also attended by the Head of Human Resources.

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

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee comprises the non-executive Directors.

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

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

Risk Committee

The Risk Committee comprises the non-executive Directors.

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

The Risk Committee is principally responsible for considering the Bank's risk management structure and systems, the main areas of risk faced by the Bank, the Internal Capital Adequacy Assessment Process document, the Individual Liquidity Adequacy Assessment Process document, the Recovery Plan and Resolution Plan and regulatory engagement and compliance.

Executive level risk committees

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

Asset and Liability Management Committee

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

Credit Risk Committee

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

Cyber Resilience Committee

This Committee is primarily responsible for driving actions to ensure we meet the expectations set out by our regulators and the SMBC Group in the area of cyber and technical resilience. This Committee, the Security Committee and the IT Steering Committee all contribute to our cyber and technical resilience.

Financial Crime and Reputational Risk Committee

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

Operational and General Risk Committee

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

The Operational and General Risk Committee has established the following sub-committees:

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

Prudential Regulatory Committee

This Committee is primarily responsible for considering a number of prudential risk issues, including examining the governance processes, assumptions and results related to: the Internal Capital Adequacy Assessment Process, Recovery and Resolution planning, Wind Down Analysis, Internal Liquidity Adequacy Assessment, credit risk management models and non-credit risk related models (such as the Operational Risk model).

Finance Committee

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

3.2.2 Board composition and diversity

At the date of signing this Report, the Board comprised eight Directors, four of whom are executive and four of whom are non-executive. Three of the non-executive Directors are deemed to be independent. The Board has appointed a separate non-executive Chair and Chief Executive to ensure there is clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The Board believes that its overall size and composition is appropriate, but regularly keeps this under review.

Appointments to Board are made on the basis of the candidate's fitness and propriety for the role, which includes an assessment of their competencies, skills, experience and values.

During the year, the Company Secretary facilitated a review of the skills and experience of the Board, the results of which were considered by the Nomination Committee. All Directors possess international banking experience and have other individual areas of expertise, including in tax, accounting, strategic development, regulatory compliance, human resources management and risk management. The Nomination Committee concluded that while the current composition of the Board, including its skills and experience profile, was appropriate for the nature, size and complexity of our business, this should continue to be kept under review.

The Board's Senior Management Appointment and Diversity Policy sets out the approach for the selection and appointment of individuals to Board Director and senior executive management positions. This Policy states a target that at least 25 per cent of the Board will be made up of women, while also ensuring an appropriate mix of skills, experiences and competencies on the Board. The Board currently meets this target. During the year, the Board revised this Policy to document that it commits to taking positive action to source applications from Asian, Black and other minority ethnic candidates for Director vacancies.

We put in place a bespoke training and development programme for all new members of the Board and senior management. The purpose of such programmes is to give those individuals the information they need for them to become as effective as possible in their new role within the shortest practicable time. In addition, ongoing training is provided to the Directors on significant topics.

3.2.3 Directorships

The below table shows the Bank's Directors and the number of internal and external directorships they each held at 31 March 2021.

Name of Director	Internal directorships and trusteeships (including the Bank)	External directorships and trusteeships
Hideo Kawafune	6	0
Alan Keir	1	2
Charlotte Morgan	1	3
Keiichiro Nakamura	5	2
Laurel Powers-Freeling	1	6
Hirofumi Otsuka	1	0
Stanislas Roger	2	0
Katsufumi Uchida	2	0

The below table shows the names of the Bank's Directors and their position in each committee at 31 March 2021.

Name	Board of Directors	Committees				
		Audit	Nomination	Remune-ration *	Risk	Executive
Non-Executive Directors						
Laurel Powers-Freeling	C	M	C	C	M	-
Alan Keir	M	M	M	M	C	-
Charlotte Morgan	M	C	M	M	M	-
Hirofumi Otsuka	M	M	-	M	M	-
Executive Directors						

Keiichiro Nakamura	M	-	M	-	-	C
Hideo Kawafune	M	-	M	-	-	M
Stanislas Roger	M	-	M	-	-	M
Katsufumi Uchida	M	-	-	-	-	M

C – Chair of Board or Committee
M – Member of Board or Committee

** The full name is Remuneration and Human Resources Committee.*

On the invitation of the respective Chairs, members of the Board and management team also attend meetings.

3.3 Enterprise Risk Management Model

The Bank utilises the industry-wide standard 3 Lines of Defence ("3 LOD") model to manage its risk across the enterprise. The model is used to communicate clear accountabilities to achieve and assure overall effective risk governance, management and assurance, reflecting and reinforcing the Bank's internal control framework.

The 3 LOD approach separates the ownership/management of risk from the functions that oversee risk and the functions that provides independent assurance:

First Line of Defence – Functions that own and manage risk,

Second Line of Defence – Functions that independently oversee risk,

Third Line of Defence – Functions that provide independent assurance.

The model is illustrated in the diagram below:

The First Line of Defence ("LOD 1") comprises business and operational units including information technology.

SMBC BI's key principles for LOD 1 are; -

- Any risk which results from the Bank's business activities is a risk for which the LOD 1 are responsible,
- First Line of Defence staff may not necessarily be directly responsible for "operationalising" all controls which mitigate the risks but should understand the controls and how well they are working.

The **General Managers** as **Risk Owners** and **Control Owners** are ultimately responsible for each of the risks and controls that fall within their area of responsibility and are responsible for ensuring that appropriate controls are in place to mitigate the risks.

Risk Management Department, Compliance Department and Credit Department are collectively the Bank's Second Line of Defence ("LOD 2"). These departments are independent from the business areas that generate risk and operate within a governance framework that allows them to exercise professional judgement and make recommendations in an effective and impartial manner.

LOD 3 – Internal and External audit provide independent assurance.

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

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

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

3.4 Risk measurement and monitoring systems (Scope and nature of risk reporting)

SMBC BI's key principles for risk measurement and monitoring are:

- Measure risk exposure by loss modelling, enterprise level KRIs and scenarios,
- Provide capital methodology and implementation,
- Facilitate senior management understanding of the severity of the risk,
- Ensure appropriate reporting to Board and ExCo of 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.

Risk reporting to senior management and the management body is disseminated through the Risk Report submitted at Executive Committee and Board Risk Committee meetings, on a monthly and quarterly basis respectively. Risk reporting covers the Bank's key risks. The Risk Report includes:

- The Chief Risk Officer report;
- A Credit risk report;
- The Top 10 emerging risks;
- A Risk Appetite dashboard (risk profile versus risk appetite);
- A Liquidity risk report (risk profile);
- A Market risk report (risk profile); and
- A report on status of annual risk management regulatory processes (ICAAP, ILAAP, RRP).

Risk management strategies are embedded in the risk appetite framework. Risk strategies are delivered through the implementation of the risk appetite framework. Risk appetite is systematically reviewed on a monthly basis and reported to the relevant risk and Executive Committees. Board reviews risk appetite on a quarterly basis. The RAF, which includes the risk strategy, is reviewed annually in parallel with the Corporate Strategy to ensure it remains effective and fit for purpose.

For more information on the Bank's annual review of internal controls and adequacy of risk management systems please refer to the Strategic Report section of the Financial Statements.

3.4.1 Model risk management framework

SMBC BI has developed a comprehensive Model Risk Management ("MRM") framework which comprises four key components Model Governance & Control, Model Management, Model Development and Independent Model Validation.

Model risk governance and control is based on the framework that clearly outlines roles and responsibilities in accordance with three line of defence approach. This allows alignment of responsibility and authority as well as identifying potential conflict of interests.

Model stakeholders including Model Users, Owners and Developers are the first line of defence in the MRM. The Model Validation team (independent group entity) acts as the second line providing independent challenge. The third line of defence is Internal Audit which reviews and provides assurance of the overall effectiveness of the MRM framework.

3.4.2 Stress Testing and Scenario Analysis

- Stress testing and scenario analysis are used by RMD across the principal risks to ensure that the Bank can adequately understand and quantify not only risks as they currently exist, but as they might develop in times of stress.
- Stress testing is a key tool to calculate the impact of several scenarios over differing timeframes. Stress testing models the impact of low-frequency, downside and extreme impact events that might not be sufficiently captured by other risk management techniques. The methodologies used often involve forward looking estimates but insight can also be gained by using historic periods of stress applied to the current portfolio. Stress testing is performed annually as part of the ICAAP/ILAAP/RRP and also on an ad-hoc basis for management information or when a possible new risk materialises.
- When conducting stress testing, where appropriate the Bank will apply the stress scenario across various risk types to understand the combined impact of the scenario. For instance, an EU recession scenario will have an impact across Credit, Liquidity and Market risk.

3.4.3 Reverse Stress Testing

- The UK PRA Supervisory Statement (SS 31/15) requires "In carrying out its reverse stress testing, a firm should consider scenarios in which the failure of one or more of its major counterparties or a significant market disruption arising from the failure of a major market participant, whether or not combined, would cause the firm's business to fail"
- Reverse Stress Testing is utilised to identify and monitor the factors and stress levels that have the potential to cause SMBC BI's business model to become unviable. Reverse stress testing is seen as an important part of the overall risk management framework of the Bank, since it can aid understanding of key vulnerabilities.
- Reverse stress testing work has assisted in developing a better understanding of the relationship between movements in capital and liquidity.
- The RST is developed in conjunction and alignment with the Risk Assessment processes (Risk Register and Emerging Top 10 Risks).

3.5 SMBC BI's Risk Profile and ratios

The Bank's goal is to achieve sustainable growth in its business over the long-term.

The Bank uses Risk Appetite to define the broad-based level of risk that the Bank is able and willing to undertake in carrying out its business. The Bank's Risk Appetite ensures formal management identification and consensus about the strategic level risks that the Bank is facing and, as such, is a key tool for managing business. The Bank's risk level is managed to be within its approved risk appetite

The Bank's principal risk categories are summarised below:

- Credit Risk – 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 borrowers financial standing. The Bank's total maximum exposure to credit risk as at 31 March 2021 was USD 68.3 billion (2020: USD 73.5 billion) and can be found in the Financial Statements Note 4.
- Market Risk – the possibility that fluctuations in Interest Rates, Foreign Exchange rates, Bonds, or Stock prices will change the market value of financial products, leading to a loss. The Bank uses Value at Risk ("VaR") to a 99% confidence interval to measure market risk alongside other relevant metrics. During FY2020 the average VaR was USD 2.4 million.
- Liquidity Risk – the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due. The Bank maintains a strong and stable liquidity position. As at the 31 March 2021, the Bank's CRD IV Delegated Act Liquidity Coverage Ratio (LCR) was at 145% and the Net Stable Funding Ratio (NSFR) based on the latest Basel III rules was 135.5%.
- Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Historically, losses in this risk category have been low.
- Model Risk - a potential loss an institution may incur because of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or uses of such models.
- Conduct Risk – The risk of our actions, inactions or behaviours resulting in poor outcomes for our customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition. Any significant failure in this area could lead to regulatory censure and/or reputational damage.
- Other non-financial risks – as a result of its activities the Bank assumes other potential risk impacts such as reputational and others which it manages with in the overall policy framework. Historically, losses in this risk category have been low.

The above list should not be considered exhaustive as the Bank could also be exposed to other potential risks and uncertainties.

The Bank's Risk Appetite for Market Risk, Conduct Risk, Operational Risk, Model Risk and Other Non-Financial Risks is low. As a consequence, the main risks that the Bank manages are Credit Risk and Liquidity Risk.

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

3.6 Business Environment

The Bank operates in an environment of high uncertainty, despite recent improvements in economics forecasts. Given this uncertainty, we will continue to give a high level of focus to our overall credit risk. We also recognise that an improvement or growth phase in some economies may lead to increased credit concerns and defaults amongst some corporate customers. We will continue to monitor and manage individual credit exposures where we identify signs of credit deterioration. We will also continue to manage our capital and liquidity positions to ensure that we are well-positioned to navigate the current business environment. The Bank's strategic plan, which incorporates the challenges and opportunities presented by the COVID-19 recovery, cybersecurity risk from remote working, and the impact of Brexit are discussed in the Bank's Annual Report and Financial Statements

4. Credit Risk Management

4.1 The Framework

Credit risk is the risk of any losses we 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 Board is ultimately responsible for ensuring that the level of credit risk we take is in line with our risk appetite and business model. It achieves this 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 (CRO). The CRO 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:
- By the implementation of the Bank's risk appetite framework;
- Ensuring understanding of vulnerabilities through stress testing and reverse stress testing;
- Having strong rating systems to measure the risk on individual transactions;
- By regular reviews conducted by Audit Department – Credit Review Group to ensure compliance with policies, procedures; and
- Market best practice.

4.1.1 Credit Assessment

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

The rating system consists of two indicators namely:

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

Where a borrower is domiciled overseas, internal ratings for credit include consideration of the country rank, which represents an assessment of the credit quality of each country, based on its political and economic situation as well. Within SMBC BI, the obligors are graded as per J (Japanese) -Series or G (Global)-Series Model

- J-Series covers all Japanese large corporates and SMEs
- G-Series covers all non-Japanese obligors that includes Large Corporate, Sovereign, Banks and

Specialised lending.

The Bank's internal obligor 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:

J-series	(Benchmark) S&P	G-series	(Benchmark) S&P	Borrower's Category
J1	AAA to AA-	G1	AAA to A-	Normal Borrowers
J2	A+ to A-	G2	BBB+ to BBB-	
J3	BBB+ to BBB-	G3	BB+ to BB-	
J4	BB+ and lower	G4	B+	
J5		G5	B	
J6		G6	B-	
J7		G7	CCC and lower	Borrowers Requiring Caution
J7R		G7R		Substandard Borrowers
J8		G8		Potentially Bankrupt Borrowers
J9		G9		Virtually Bankrupt Borrowers
J10		G10		Bankrupt Borrowers

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

The internal ratings, G7R and J7R through to G10 and J10 are recognised as "Default" in terms of CRD IV and in line with regulatory default definition.

In addition to the above internal rating assessment, to ensure a fully comprehensive credit assessment, further analysis is undertaken including:

- Analysis of a variety of financial measures (e.g. cash flow); and
- Quantitative analyses of industrial trends such as the competitiveness of a borrower's products, services and management calibre.

The results of the credit risk assessments are used to make optimal business decisions across the whole range of operations, such as pricing, reporting, stress testing, formulating business plans or providing a standard against which individual credit applications are assessed.

4.1.2 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 change.

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'normal borrowers' 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 Management Department performs validation of the grading models at least annually to ensure the appropriateness and conservatism 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 always maintained to cover potential losses incurred during extreme but plausible events.

The scope and definitions of "past-due" and "impaired" exposures are contained in Note 4 of the Financial Statements.

The description of methods used for determining general and specific credit risk adjustments is contained in Note 3 of the Financial Statements.

4.1.3 Industry Exposures

The exposure by major industrial sectors of cash and balances at central banks, advances and loans to banks and customers and debt securities can be analysed and found in Note 4 of the Financial Statements.

4.1.4 Geographical Exposures

Please refer to Note 4 of the Financial Statements for analysis of the geographical spread of cash and balances at central banks, advances and loans to banks and customers, and debt securities. This is based on country of domicile of the counterparty.

4.1.5 Maximum exposure to credit risk

Please refer to Note 4 of the Financial Statements which 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.

4.1.6 Use of credit risk mitigation techniques

The Bank's corporate lending is often secured by fixed and floating charges on the assets of borrowers. However, unless the asset is impaired, the only types of collateral which are valued on a continuous basis are cash and Government Bonds. 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 use of credit risk mitigation techniques is described in the Bank's Security Management procedures. This contains the policies and processes for collateral valuation and management.

Management and recognition of credit risk mitigation is assessed under the ICAAP and subject to Board oversight and approval.

SMBC BI assesses, on a monthly basis, the potential impact of a downgrade in its credit rating on collateral requirements.

4.1.7 Offsetting of financial assets and financial liabilities

The Bank receives or gives collateral against certain derivative transactions with such collateral subject to standard industry terms including ISDA Credit Support Annex.

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 in Note 13 of the Financial Statements include derivative assets and derivative liabilities that are offset in the Bank's Statement of Financial Position or are subject to enforceable master netting arrangements or similar agreement irrespective of whether they are offset in the Statement of Financial Position.

4.1.8 Credit quality of counterparty per class of financial assets

A detailed breakdown of credit quality of counterparty per class of financial assets can be found in Note 4 of the Financial Statements.

4.1.9 Counterparty Credit risk

Counterparty Credit Risk (CCR) is the risk of loss from the default of a counterparty to derivatives, margin lending, securities lending, repurchase and reverse repurchase or long settlement transactions before the settlement of the transaction cash flows and where the exposure at default is crucially dependent on market factors. For further information on counterparty credit risk exposure see Table 10.9.

4.1.10 Qualitative information on external credit ratings

SMBC BI uses ratings from External Credit Assessment Institutions (ECAI) to derive risk weights under the Standardised Approach for all exposure. ECAI nominated by SMBC BI for external ratings for corporates is Standard & Poor's Ratings Services (S&P).

Issuer and issue specific ratings are captured by using information from S&P and information in SMBC BI booking systems. An identifier for each issuer / issue is booked in the SMBC BI booking systems. These identifiers are then used to map ratings from an automated data feed provided by S&P.

All exposures to credit risk can be found in section 10.

5. Market Risk Management

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. As articulated in the Bank's risk strategy, SMBC BI generates revenue as a direct result of taking credit risk through its lending portfolio. Therefore, the bank has an active appetite for well controlled credit risk and limited appetite for market risk.

Framework

The Bank's Board is ultimately responsible for ensuring that the level of Market Risk run by the Bank is in line with their risk appetite and business model. It achieves this through the following main measures:

- The establishment of a clear, consistent Risk Appetite Framework ("RAF") that is understood across the organisation;
- Defining clear roles and responsibilities for the management of Market Risk under normal and stressed circumstances;
- A robust committee framework to manage Market 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.

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 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 program of stress-testing using scenarios relevant to the current portfolio composition. The scenarios involve historic stress events such as Black Monday, Exchange Rate Mechanism crisis and Lehman crisis in order to assess potential losses.

Interest rate risk on the Banking book is assessed according to regulatory requirements and utilising the SMBC BI Banking Group net basis point value position for the major currencies being EUR, GBP and USD (we do not carry any significant positions in other currencies except JPY). The assessment is based on several market shift scenarios, such as curve steepening, curve flattening and parallel shift, as per the European Banking Authority prescribed scenarios.

Market risk is managed within RAF and exposures outside of appetite need to be closed or hedged as described in the Market Risk policy.

5.1 Exposure to interest rate risk on positions not included in the trading book

Exposure to interest rate risk on positions not included in the trading book is described below and covers:

(a) Nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of measurement of the interest rate risk); and

(b) The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

The nature of the Banking book consists of loans to corporates, group and financial organisations and the funding thereof by similar entities, including non-maturity deposits.

In order to assess IRRBB, a monthly stress test is conducted utilizing the SMBC BI Banking Group net basis point value ("BPV") position for the major currencies (the Bank does not carry any significant positions in other currencies). Six Economic Value of Equity ("EVE") scenarios for each currency, based on historical analysis are conducted on the banking book positions with a maximum loss scenario reported to management. The scenarios also include a floor starting with -100bp's and increasing by 5bp's each year until 0% for 20 year maturity. Aggregation of positive changes can also be included, with a 50% weighting.

The Bank's VaR exposures can be found in Note 4 of the Financial Statements. The income sensitivity table in the Financial Statements 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.

The market risk governance structure is described in 3.1 and 3.2. ALMCo is the risk committee with primary responsible for considering market risk.

Fair value of derivative assets and liabilities

The tables in Note 13 of the Financial Statements show the Bank's fair value disclosures at 31 March 2021 and 31 March 2020.

Market risk-weighted assets under the standardised approach:

All figures in this template in USD millions

31 March 2021

		RWA amounts	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	135.5	10.8
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	587.4	47.0
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	0.5	0.0
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**723.4**	**57.9**

Please refer to section 10 for a definition of "RWA".

6. Liquidity Risk Management

Liquidity Risk

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

The Board is ultimately responsible for ensuring that the level of liquidity risk is in line with our risk appetite and business model. It achieves this 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 organisation.
- 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 we are operating within risk appetite, along with other select metrics.
- Regular senior management training.

Within the governance framework outlined above, the Bank has established a liquidity risk management approach as a core component of the risk management process. The purpose of the framework is to ensure that the Bank successfully follows its strategy while operating within the bounds outlined by the liquidity risk appetite statement. In developing the framework, the Bank considered the following factors:

- Development of proactive and practical risk management policies to adopt market best practice;
- Accurate quantification and communication of risk;
- Adequate control of the relevant risk limits;
- Ensuring the transparency of risk management;
- Ensuring the validity of reports through appropriate checks and comparisons; and
- Accurate and timely risk measurement.

The Bank uses a variety of metrics to measure and control liquidity risk. In terms of Liquidity Metrics, we use Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) both monitored on a daily basis. LCR is measuring the ability of a bank's liquid asset resources to absorb stressed net outflows over a 30-day period and NSFR defines the minimum proportion of stable funding that is required in relation to the amount of long-term assets held by the Bank. The Risk Appetite levels are set at 105% for LCR and 103% for NSFR.

Stress testing is conducted on a weekly basis and is used to understand what can happen in various scenarios to the liquidity of the Bank and provide management with a way of assessing the adequacy of the liquidity buffer. Key metrics are the 3-month SMBC BI combined stress scenario and the 30 days SMBC Group idiosyncratic crisis test both of which are reported to the monthly Liquidity Management Committee.

In addition, a number of controls are in place to monitor and escalate any issues observed on our liquidity position. Key controls include monitoring our cash flow mismatch, observe market volatility and impact on our liquidity profile and finally observing our funding concentration risk and whether that imposes any threat to our viability.

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including US, French, Swiss, Swedish and Norwegian Government bonds and cash held at Bank of England and Banque de France reserve accounts. The quantity of this buffer of liquid assets is managed such that the Bank meets its Liquidity Coverage Ratio regulatory requirement at internally set limits and internally set Net Stable Funding Requirement.

Analysis of liquidity risk

The tables in Note 4 of the Financial Statements show the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments.

Contractual maturity of financial assets and liabilities form an important source of information used by management for the management of liquidity risk. Impairment provisions on loans and advances to banks and customers are included in the up to 3 months column. From 1 April 2014, the Bank has chosen not to net derivative assets and liabilities.

7. Operational Risk Management

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 due to our 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. In addition, this is further supported by the execution of the following processes to ensure the operational risk profile is understood and managed: operational risk appetite definition and calibration; operational risk identification, assessment, measurement; control and mitigation; reporting and escalation.

SMBC BI formally identifies, assesses and manages its operational risks through the following processes and tools:

- Operational Risk Event Reporting - This is the reporting and recording of operational risk losses, near misses and other non-monetary events. These events are captured and logged centrally and are analysed to pro-actively manage risk through root cause analysis.

- Local Scenario Analysis - This process seeks to identify the high impact, low likelihood but plausible events that could impact the Bank and also estimate the respective severities and probabilities used across main risk categories to ensure that the Bank can adequately understand and quantify not only risks as they currently exist, but also those in extreme circumstances. The analysis focuses on high impact, low probability events. The process also identifies potential areas for further control remediation.

- Risk Register (Risk and Control Self-Assessment) - This process is used to assess the Bank's existing key or expected risks. It assesses the inherent risks, control effectiveness and resultant residual risks of the key risks that the Bank is exposed to and which could negatively impact the achievement of strategic objectives. In this way the Bank ensures that appropriate controls are in place to mitigate risk and loss impact.

- Risk Acceptance - The first line and department heads are expected to identify risks, risk issues or control failings that need to be mitigated. In certain circumstances, risk mitigation may not be possible or may require a longer period for remediation. In those situations, the risk must be accepted. This process supports this need and describes the approach for raising, accepting, monitoring and reporting a Risk Acceptance.

- Product and Service Approval Framework - This describes the governance of the "Product Approval Committee" and the process for product and service approval, monitoring and review. It ensures adequate risk assessment, compliance with relevant requirements and standards of the regulatory system; while ensuring customer fair treatment is addressed. It is an important component of the Conduct Risk management agenda.

- Risk Indicator Governance Framework - The Bank has identified a number of Operational Risk Key Risk Indicators ("KRIs"). The monitoring, reporting and escalation (where required) of KRIs is another risk management tool which seeks to alert the Bank to potential deterioration in the operational risk profile.

- Third Party Risk Management / Outsourcing ("TPRM") - Operational Risk Management Group ("ORMG") currently owns the TPRM framework with process implementation to be supported by a centralised inhouse team under supervision of Finance & Control (F&C). The framework involves ensuring that the outsourcing business assesses the criticality of the service and performs a risk assessment of the supplier. In addition, ongoing monitoring of the performance of the supplier and cyclical reviews of the relationship and a review of the criticality and supplier assessments are required. This is governed by a more detailed policy.

The output from the above processes are analysed in order to give a view of the operational risks that the Bank is exposed to versus its risk appetite, and therefore mitigated or risk acceptance (as required) and act as a further input into the business activities and strategy of the Bank.

The Bank's operational risk management framework also includes processes for capital calculations and stress testing. The Bank applies the Standardised Approach for calculating its regulatory operational risk capital. A modelling approach is used to calculate economic capital (Pillar 2A). Stress testing is utilised to calculate any additional capital requirement deemed necessary under stressed conditions.

Operational resilience is a key focus of the regulators and the over the last few years Bank has continued to develop a framework in line with regulatory expectations/publications (latest being PS 6/21)

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

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

The following are the key components of the existing Operational Resilience framework which is being developed, enhanced and implemented. These components complement the operational risk processes, which are largely focused on the prevention of disruption, to introduce the operational resilience concepts of response and recovery to normal operations, 'without materially impacting clients, market integrity or financial stability'.

Important Business Services (IBS)

- IBS are services provided to an external user and do not include internal services (e.g. HR, IT etc) and are required to be at a proportionate level of granularity

Impact Tolerances

- At least one Impact Tolerance will be required for each IBS

Mapping:

- Firms are expected to conduct extensive and meaningful mapping i.e. map all the resources (people, processes, systems, third party services, data/ information to the IBSs at a sufficient level of granularity

Scenario testing:

- Firms are expected to test their ability to stay within impact tolerances in severe but plausible scenarios - these should be tests of the response and recovery measures (not prevention)

Self-assessment

- Firms are expected to prepare a self-assessment to demonstrate their compliance with the requirements and to document the: IBSs, the impact tolerances, the scenario tests and results, and actions planned to remain within impact tolerances

Boards and governance

- Boards are expected to oversee the operational resilience compliance and approve IBSs, impact Tolerances, scenario tests and results, actions planned and the self-assessment itself

The Bank currently assesses the level of operational resilience at the Bank using an 'Operational Resilience Questionnaire. These covers:

- People
- Process
- Systems
- 3rd Parties
- Risk Management
- Strategies and Governance

An Operational Resilience Programme (Programme) has commenced under the 1st Line of Defence. ORMG will continue to develop the framework subject to the output of the Programme and its definition of 1st and 2nd line responsibilities. ORMG and will retain the responsibility for challenge and where relevant, ongoing development of the framework.

8. Conduct Risk Management

Conduct Risk is the risk of our actions, inactions or behaviours resulting in poor outcomes for our customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.

Conduct risk management is integrated with our wider risk management framework. We identify and assess current and emerging conduct risks across our business lines ensuring controls are effectively mitigating these risks for all our stakeholders. These conduct risk mitigants include the following:

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

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

9. Own funds

9.1 Overview of Own Funds

All figures in this section in USD millions

Ref*	Own funds	31 March 2021	31 March 2020
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	3,200.1	3,200.0
	- Ordinary shares	3,200.1	3,200.0
2	Retained earnings	1,487.6	1,274.1
3	Accumulated other comprehensive income (and other reserves)	100.9	103.2
6	**Common equity tier 1 capital before regulatory adjustments**	**4,788.6**	**4,577.3**
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	(2.9)	(3.8)
8	Intangible assets (net of related tax liability)	(39.9)	(38.3)
11	Fair value reserves related to gains or losses on cash flow hedges	(1.1)	(3.9)
12	Negative amounts resulting from the calculation of expected loss amounts	.0	.0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0.5	0.4
15	Defined benefit pension fund assets	(26.5)	(45.4)
16	Adjustment under IFRS 9 transitional arrangements	69.2	96.85
28	**Total regulatory adjustments to common equity tier 1**	**(.7)**	**5.9**
29	**Common Equity Tier 1 (CET1) Capital**	**4,787.9**	**4,583.3**
59	**Total capital**	**4,787.9**	**4,583.3**

* The references identify the lines prescribed in the European Banking Authority ('EBA') template on the disclosure of own funds requirements. Lines represented in this table are those lines which are applicable and where there is a value.

For this calculation CET1 capital and RWAs are calculated applying the transitional arrangements under the CRR, including the IFRS 9 transitional arrangements.

9.2 Reconciliation of Total Capital to Shareholders' Equity

	31 March 2021	31 March 2020
Shareholders Equity per Financial Statements	4,788.6	4,577.4
Reserves not included in Tier 1 capital	(1.1)	(3.9)
Cash flow hedge	(1.1)	(3.9)
Available for sale reserve	-	-
Total deductions and other adjustments	.4	9.8
Tier 1 capital after deductions	**4,787.9**	**4,583.3**

9.3 Pillar 1 overview

The Standardised Approach ("SA") is used for all assets classes and the capital requirements are calculated as credit risk-weighted assets amount multiplied by 8%.

The risk-weighted assets and Pillar 1 capital requirements, by key regulatory exposure class, of SMBC BI as at 31 March 2021 are presented in the table below:

	31 March 2021	31 March 2020
Credit risk capital required	**2,097.8**	**2,157.5**
Standardised approach	**2,097.7**	**2,157.5**
Corporate exposures	1,792.5	1,876.5
Central governments or central banks	19.5	18.3
Institutions	119.1	160.6
Equity	0.0	0.4
Exposures in default	24.6	5.0
Secured by mortgages on immovable property	65.6	53.8
Items associated with particularly high risk	53.5	27.2
Multilateral Development Banks	1.3	7.2
Public sector entities	1.4	1.0
Retail	0.0	-
Other items	20.2	7.6
Other credit risk	**0.1**	**0.1**
Contributions to the default fund of a central counterparty	0.1	0.1
Credit valuation adjustment	**8.3**	**5.1**
Market risk capital required	**57.9**	**29.8**
Interest rate risk	10.8	8.2
Options transactions	0.0	0.0
Foreign exchange risk	47.0	21.6
Operational risk capital required	**129.0**	**124.2**
Total capital requirements	**2,293.0**	**2,316.7**

9.4 Capital adequacy ratio & capital requirements

	31 March 2021	31 March 2020
Common Equity Tier 1 ratio	**16.7%**	**15.8%**
Tier 1 ratio	**16.7%**	**15.8%**
Total capital ratio	**16.7%**	**15.8%**
Total risk-weighted assets	**28,662.1**	**28,958.3**
Total capital requirements (8% of RWAs)	**2,293.0**	**2,316.7**
Capital requirements of credit risk	2,097.8	2,157.5
Capital requirements for credit valuation adjustment	8.3	5.1
Capital requirements for market risk	57.9	29.8
Capital requirements for operational risk	129.0	124.2

9.5 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

31 March 2021

Geographical breakdown	General credit exposures	Own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
Austria	22.3	1.8	0.091%	0.000%
Belgium	98.1	7.8	0.398%	0.000%
Croatia	24.7	1.5	0.078%	0.000%
Cyprus	77.0	6.2	0.312%	0.000%
Czech Republic	50.2	4.0	0.204%	0.500%
Denmark	68.1	4.5	0.227%	0.000%
Finland	49.2	3.9	0.200%	0.000%
France	6,719.0	452.1	22.945%	0.000%
Germany	156.6	11.8	0.598%	0.000%
Greece	158.4	12.7	0.643%	0.000%
Hong Kong	88.5	7.0	0.355%	1.000%
Hungary	95.7	7.3	0.370%	0.000%
Ireland	142.0	11.4	0.576%	0.000%
Italy	60.6	4.6	0.231%	0.000%
Luxembourg	865.4	70.6	3.580%	0.500%
Netherlands	1,002.0	82.8	4.203%	0.000%
Norway	374.9	26.9	1.364%	1.000%
Poland	4.3	0.3	0.018%	0.000%
Portugal	4.6	0.4	0.023%	0.000%
Slovakia	17.9	1.4	0.072%	1.000%
Spain	659.4	53.5	2.717%	0.000%
Sweden	240.7	19.3	0.977%	0.000%
United kingdom	8,838.6	681.1	34.563%	0.000%
Other countries	7,894.6	497.6	25.25%	0.000%
	27,712.7	**1,970.5**	**100.00%**	

9.6 Amount of institution-specific countercyclical capital buffer

31 March 2021

	Total
Total risk-weighted assets	**28,662.1**
Institution specific countercyclical capital buffer rate	**0.037%**
Institution specific countercyclical capital buffer requirement	**10.6**

9.7 Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

31 March 2021

SMBC BI has adopted the EU's regulatory transitional arrangements for IFRS 9 Financial Instruments under CRR Article 473a as published on 27 December 2017. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The Bank elected to apply the transitional arrangements at a consolidated level and implemented these on 1 January 2018.

On 26th of June 2020 European Union adopted an increased capital relief for IFRS9 provisions as part of the measures to mitigate the impact of Covid-19. The new regulation allows SMBC BI to add back to its capital 100% of the increases in Stage 1 and 2 provisions observed since the beginning of FY20. The old regulation allowed for an add-back of 70%. The IFRS9 transitional relief is scheduled to expire by the end of 2024. This will take place via the multipliers of 70% and 100% decreasing over time to zero.

The table below provides a comparison of the Bank's Capital Ratios, Risk-Weighted Assets, and Leverage Ratio with and without the application of IFRS 9 transitional arrangements.

		Ref	31 March 2021
	Available capital		
1	Common Equity Tier 1 (CET1) Capital	9.1	4,787.9
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4,718.7
3	Tier 1 capital	9.1	4,787.9
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4,718.7
5	Total capital	9.1	4,787.9
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4,718.7
	Risk-weighted assets		
7	Total risk-weighted assets (RWA)	10.2	28,662.1
8	Total risk-weighted assets (RWA) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		28,570.6
	Capital Ratios		
9	Common Equity Tier 1 ratio (%)	10.2	16.7%
10	Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		16.5%
11	Tier 1 ratio (%)	10.2	16.7%
12	Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		16.5%
13	Total capital ratio (%)	10.2	16.7%
14	Total capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		16.5%
	Leverage Ratio		
15	Leverage ratio total exposure measure	11.1	62,531.4
16	Leverage ratio	11.1	7.7%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		7.5%

10. Credit Risk Exposures

Overview

All figures in this section in USD millions

Credit risk is 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 risks are calculated based on the borrower's overall ability to repay.

For these purposes the Bank has adopted the Standardised approach, with the PRA's article 149 waiver approval. The tables below identify the Bank's credit risk exposures by approach and exposure class.

Please note the values as at 31 March 2021 for net original exposure, EAD, RWA and specific provisions have all been impacted by the application of IFRS 9 transitional arrangement as detailed in Section 9.7 above.

Please note the following definitions of values when referring to the tables within this section:

- **Original exposure:** The original exposure of the transaction before credit risk mitigation ("CRM") and credit conversion factors ("CCF").

- **Net original exposure:** The original exposure (as described above) less allowances/impairments (on-balance-sheet) and provisions (off-balance-sheet).

- **Average exposure value:** The average of the net original exposure values observed at the end of each quarter of the observation period.

- **EAD:** Exposure at Default ("EAD") is the value that the Bank is exposed to at the time of default. This is calculated after CRM factors using the Bank's Standardised approach.

- **RWA:** Risk-Weighted Assets ("RWA") are the product of multiplying the EAD by the risk-weight assigned to the obligor or guarantor of the asset.

- **Equity exposure:** Equities not included in the trading book under article 447 of the CRR have been included in the exposure class categories for the purpose of completeness of SMBC BI's total credit risk exposure. Please note that all other disclosures under this article are excluded based on materiality.

- Please note that **impaired assets** broken down in templates 10.2 to 10.4 are allocated according to original obligor and, therefore, original exposure is used here.

10.1 Credit risk exposure – by exposure class and approach

31 March 2021

	Original Exposure	Net original exposure	Average exposure value	EAD	RWA
Standardised approach	70,027.6	69,879.1	74,190.7	56,322.0	26,222.0
Corporates	34,990.6	34,902.1	37,388.5	24,138.9	22,407.1
Central governments or central banks	26,228.6	26,228.3	28,555.5	27,260.4	244.3
Institutions	6,358.7	6,356.7	6,138.8	2,984.2	1,488.4
Equity	0.0	0.0	1.6	0.0	0.0
Exposures in default	654.0	621.1	340.6	207.3	307.2
Secured by mortgages on immovable property	842.0	840.9	827.4	820.3	820.3
Items associated with particularly high risk	650.0	626.3	510.9	446.0	669.0
Multilateral Development Banks	21.4	21.4	121.3	126.5	15.8
Public sector entities	29.7	29.7	146.1	85.7	17.1
Retail	0.1	0.1	0.1	0.1	0.1
Other items	252.6	252.6	159.9	252.6	252.6
As at 31 March 2021	**70,027.6**	**69,879.1**	**74,190.7**	**56,322.0**	**26,222.0**

31 March 2020

	Original Exposure	Net original exposure	Average exposure value	EAD	RWA
Standardised approach	74,240.2	74,053.8	73,917.8	59,834.1	26,969.2
Corporates	36,735.1	36,603.1	37,990.1	25,177.3	23,455.7
Central governments or central banks	26,262.2	26,261.9	27,490.9	27,325.7	228.8
Institutions	9,705.6	9,702.8	6,800.8	6,002.9	2,007.1
Equity	2.9	2.9	1.9	2.9	5.1
Exposures in default	110.5	79.9	117.3	51.0	62.0
Secured by mortgages on immovable property	693.8	691.0	777.7	672.4	672.4
Items associated with particularly high risk	385.6	367.7	368.3	226.9	340.3
Multilateral Development Banks	100.9	100.8	100.7	138.6	90.3
Public sector entities	148.3	148.3	184.5	140.8	12.0
Other items	95.4	95.4	85.5	95.4	95.4
As at 31 March 2020	**74,240.2**	**74,053.8**	**73,917.8**	**59,834.1**	**26,969.2**

10.2 Credit risk exposure – by industry

The following table shows the net original exposure broken down by credit exposure class and the industrial sector associated with the obligor or counterparty.

31 March 2021

	Financial and insurance activities	Manufacturing	Construction	Electricity, gas, steam and air conditioning supply	Transport and storage	Mining and quarrying	Wholesale and retail trade	Other industries *	Net original exposure
Standardised approach	37,384.1	6,503.4	2,696.4	4,761.9	3,260.6	2,359.4	3,773.8	9,139.5	69,879.1
Corporates	6,126.5	6,486.0	2,163.7	4,670.5	2,910.6	2,253.3	3,773.8	6,517.7	34,902.1
Central governments or central banks	24,604.6	-	-	-	-	-	-	1,623.7	26,228.3
Institutions	6,269.4	-	-	-	-	-	-	87.3	6,356.7
Equity	-	0.0	-	-	-	-	-	-	0.0
Exposures in default	-	17.4	-	30.2	313.0	46.2	-	214.2	621.1
Secured by mortgages on immovable property	-	-	447.8	-	-	-	-	393.1	840.9
Items associated with particularly high risk	109.5	-	84.9	61.1	36.9	60.0	-	273.8	626.3
Multilateral Development Banks	21.4	-	-	-	-	-	-	-	21.4
Public sector entities	0.1	-	-	-	-	-	-	29.6	29.7
Retail	-	-	-	-	-	-	-	0.1	0.1
Other items	252.6	-	-	-	-	-	-	-	252.6
As at 31 March 2021	**37,384.1**	**6,503.4**	**2,696.4**	**4,761.9**	**3,260.6**	**2,359.4**	**3,773.8**	**9,139.5**	**69,879.1**
Memorandum items:									
Specific credit risk adjustments	*14.1*	*17.2*	*1.9*	*14.1*	*13.8*	*21.7*	*4.6*	*61.3*	*148.5*
General credit risk adjustments	-	-	-	-	-	-	-	-	-
Credit risk adjustment charges in the period	*1.3*	*(4.3)*	*(0.4)*	*(10.7)*	*6.0*	*1.3*	*(0.7)*	*(27.4)*	*(37.9)*
Impaired assets	*6.6*	*5.3*	-	*9.5*	*316.8*	*56.0*	-	*229.7*	*623.9*

31 March 2020

	Financial and insurance activities	Manufacturing	Construction	Electricity, gas, steam and air conditioning supply	Transport and storage	Mining and quarrying	Wholesale and retail trade	Other industries *	Net original exposure
Standardised approach	39,869.5	7,752.5	2,424.9	4,214.3	3,524.6	2,210.2	3,409.8	10,648.1	74,053.8
Corporates	5,023.8	7,750.8	1,942.9	4,126.3	3,506.3	2,144.8	3,409.8	8,698.4	36,603.1
Central governments or central banks	24,735.2	-	-	-	-	-	-	1,526.7	26,261.9
Institutions	9,702.8	-	-	-	-	-	-	-	9,702.8
Equity	2.9	0.0	-	-	-	-	-	-	2.9
Exposures in default	-	1.6	-	55.3	2.6	4.8	-	15.5	79.9
Secured by mortgages on immovable property	76.5	-	453.9	-	-	-	-	160.6	691.0
Items associated with particularly high risk	12.1	-	28.1	32.7	15.7	60.6	-	218.6	367.7
Multilateral Development Banks	100.8	-	-	-	-	-	-	-	100.8
Public sector entities	120.0	-	-	-	-	-	-	28.4	148.3
Other items	95.4	-	-	-	-	-	-	-	95.4
As at 31 March 2020	**39,869.5**	**7,752.5**	**2,424.9**	**4,214.3**	**3,524.6**	**2,210.2**	**3,409.8**	**10,648.1**	**74,053.8**
Memorandum items:									
Specific credit risk adjustments	*12.8*	*21.5*	*1.4*	*24.9*	*7.8*	*20.4*	*9.0*	*88.6*	*186.4*
General credit risk adjustments	-	-	-	-	-	-	-	-	-
Credit risk adjustment charges in the period	*3.1*	*12.0*	*(0.4)*	*(13.9)*	*2.3*	*6.0*	*(0.7)*	*63.9*	*81.3*
Impaired assets	*6.4*	*4.8*	-	*84.7*	*3.8*	*14.2*	-	*17.5*	*131.3*

10.3 Credit risk exposure – by maturity

31 March 2021

	Up to 1 year	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years to 7 years	More than 7 years	Net original exposure
Standardised approach	39,504.5	12,251.8	10,693.5	1,946.6	5,482.8	69,879.1
Corporates	8,827.4	9,945.4	9,901.4	1,555.1	4,672.7	34,902.1
Central governments or central banks	24,971.9	874.6	57.7	-	324.1	26,228.3
Institutions	5,283.9	982.1	90.6	-	-	6,356.7
Equity	0.0	-	-	-	-	0.0
Exposures in default	18.4	103.8	85.4	142.7	270.8	621.1
Secured by mortgages on immovable property	4.3	214.6	432.7	189.3	-	840.9
Items associated with particularly high risk	134.5	131.2	125.7	59.5	175.4	626.3
Multilateral Development Banks	11.2	-	-	-	10.2	21.4
Public sector entities	0.1	-	-	-	29.6	29.7
Retail	0.0	0.1	0.0	-	-	0.1
Other items	252.6	-	-	-	-	252.6
As at 31 March 2021	**39,504.5**	**12,251.8**	**10,693.5**	**1,946.6**	**5,482.8**	**69,879.1**
Memorandum items:						
Specific credit risk adjustments	*29.4*	*36.2*	*51.1*	*12.0*	*19.8*	*148.5*
General credit risk adjustments	-	-	-	-	-	-
Impaired assets	*30.2*	*116.0*	*87.2*	*119.6*	*270.8*	*623.9*

31 March 2020

	Up to 1 year	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years to 7 years	More than 7 years	Net original exposure
Standardised approach	43,924.3	9,161.6	12,939.1	2,732.4	5,296.4	74,053.8
Corporates	9,103.8	7,704.3	12,180.0	2,678.6	4,936.5	36,603.1
Central governments or central banks	25,194.2	947.4	72.2	-	48.1	26,261.9
Institutions	9,263.8	335.7	103.3	-	-	9,702.8
Equity	2.9	-	-	-	-	2.9
Exposures in default	5.6	15.5	4.1	-	54.7	79.9
Secured by mortgages on immovable property	17.8	49.6	579.6	44.0	-	691.0
Items associated with particularly high risk	30.5	109.0	-	9.8	218.4	367.7
Multilateral Development Banks	90.4	-	-	-	10.4	100.8
Public sector entities	120.0	-	-	-	28.4	148.3
Other items	95.4	-	-	-	-	95.4
As at 31 March 2020	**43,924.3**	**9,161.6**	**12,939.1**	**2,732.4**	**5,296.4**	**74,053.8**
Memorandum items:						
Specific credit risk adjustments	*26.1*	*44.2*	*54.2*	*35.1*	*26.9*	*186.4*
General credit risk adjustments	-	-	-	-	-	-
Impaired assets	*32.3*	*17.6*	*11.9*	-	*69.5*	*131.3*

10.4 Credit risk exposure – by geographical area

31 March 2021

	Europe			Asia & Oceania		Rest of the World	Net original exposure
	Total Exposure	Of which UK	Of which France	Total Exposure	Of which Japan		
Standardised approach	56,745.1	23,913.5	24,489.2	4,334.2	3,255.3	8,799.9	69,879.1
Corporates	27,378.1	9,752.2	11,287.8	1,184.9	394.6	6,339.0	34,902.1
Central governments or central banks	24,923.2	11,459.8	13,109.8	-	-	1,305.1	26,228.3
Institutions	2,716.5	1,812.8	62.0	3,071.8	2,843.2	568.4	6,356.7
Equity	0.0	0.0	-	-	-	-	0.0
Exposures in default	229.3	184.2	-	17.6	17.6	374.2	621.1
Secured by mortgages on immovable property	789.2	164.9	-	-	-	51.8	840.9
Items associated with particularly high risk	426.3	286.7	-	60.0	-	140.0	626.3
Multilateral Development Banks	-	-	-	-	-	21.4	21.4
Public sector entities	29.7	0.1	29.6	-	-	-	29.7
Retail	0.1	0.1	-	-	-	-	0.1
Other items	252.6	252.6	-	-	-	-	252.6
As at 31 March 2021	**56,745.1**	**23,913.5**	**24,489.2**	**4,334.2**	**3,255.3**	**8,799.9**	**69,879.1**
Memorandum items:							
Specific credit risk adjustments	*122.7*	*74.6*	*15.2*	*1.0*	*0.0*	*24.8*	*148.5*
General credit risk adjustments	-	-	-	-	-	-	-
Impaired assets	*254.6*	*192.4*	-	*17.6*	*17.6*	*351.8*	*623.9*

31 March 2020

	Europe			Asia & Oceania		Rest of the World	Net original exposure
	Total Exposure	Of which UK	Of which France	Total Exposure	Of which Japan		
Standardised approach	59,558.0	29,764.0	20,906.4	4,414.3	3,176.7	10,081.5	74,053.8
Corporates	27,152.6	9,009.7	10,786.2	1,363.3	336.8	8,087.3	36,603.1
Central governments or central banks	25,165.3	14,690.3	10,042.9	-	-	1,096.5	26,261.9
Institutions	6,021.5	5,411.6	48.9	2,990.5	2,839.9	690.8	9,702.8
Exposures in default	49.7	22.0	-	-	-	30.2	79.9
Secured by mortgages on immovable property	646.7	242.9	-	-	-	44.3	691.0
Items associated with particularly high risk	276.8	172.1	-	60.6	-	30.3	367.7
Multilateral Development Banks	-	-	-	-	-	100.8	100.8
Public sector entities	148.3	120.0	28.4	-	-	-	148.3
Other items	95.4	95.4	-	-	-	-	95.4
As at 31 March 2020	**59,558.0**	**29,764.0**	**20,906.4**	**4,414.3**	**3,176.7**	**10,081.5**	**74,053.8**
Memorandum items:							
Specific credit risk adjustments	*169.9*	*86.9*	*17.4*	*2.4*	*0.0*	*14.1*	*186.4*
General credit risk adjustments	-	-	-	-	-	-	-
Impaired assets	*100.9*	*36.4*	-	-	-	*30.4*	*131.3*

10.5 Derivative counterparty credit exposures

31 March 2021

	Mark to Market Method
Gross positive fair value of contracts	1,255.7
Netting benefits	(897.7)
Net Current Credit Exposure	**358.0**
Collateral held	(59.3)
Potential future credit exposure	937.9
Net Derivative Credit Exposure	**1,236.6**

31 March 2020

	Mark to Market Method
Gross positive fair value of contracts	1,776.3
Netting benefits	(840.4)
Net Current Credit Exposure	**935.8**
Collateral held	(169.1)
Potential future credit exposure	864.2
Net Derivative Credit Exposure	**1,630.9**

10.6 Credit risk mitigation – by exposure class

The table below analyses the exposure that has been covered by eligible financial collateral or by guarantee resulting in credit risk mitigation (CRM):

31 March 2021

	Exposure covered by eligible financial collateral	Exposure covered by guarantees	Total exposure covered by CRM
Standardised approach	6,458.2	5,430.2	11,888.4
Corporates	127.5	4,285.1	4,412.7
Central governments or central banks	1.5	428.0	429.4
Institutions	6,329.2	250.0	6,579.2
Equity	-	-	-
Exposures in default	-	348.7	348.7
Secured by mortgages on immovable property	-	20.6	20.6
Items associated with particularly high risk	-	87.6	87.6
Multilateral Development Banks	-	10.3	10.3
Public sector entities	-	-	-
Retail	-	-	-
Other items	-	-	-
As at 31 March 2021	**6,458.2**	**5,430.2**	**11,888.4**

Note that in order to avoid double counting CRM covered exposures, items covered by both a guarantee and collateral are classified as exposures covered by collateral

31 March 2020

	Exposure covered by eligible financial collateral	Exposure covered by guarantees	Total exposure covered by CRM
Standardised approach	7,548.7	5,526.3	13,075.0
Corporates	35.6	4,988.8	5,024.4
Central governments or central banks	-	245.0	245.0
Institutions	7,513.1	230.0	7,743.1
Equity	-	-	-
Exposures in default	-	28.9	28.9
Secured by mortgages on immovable property	-	18.6	18.6
Items associated with particularly high risk	-	4.6	4.6
Multilateral Development Banks	-	10.5	10.5
Public sector entities	-	-	-
Other items	-	-	-
As at 31 March 2020	**7,548.7**	**5,526.3**	**13,075.0**

10.7 Standardised approach – by exposure class and risk-weight

31 March 2021

The following tables represent SMBC BI's exposures under the Standardised approach by risk-weight and have been broken down by EAD.

Exposure classes	Risk weight						Total	Of which unrated
	0%	20%	50%	100%	150%	250%		
Central governments or central banks	26,526.2	598.5	78.2	38.8	-	18.7	27,260.4	38.8
Regional governments or local authorities	-	-	-	-	-	-	-	-
Public sector entities	-	85.7	-	-	-	-	85.7	29.7
Multilateral development banks	110.7	-	-	15.8	-	-	126.5	15.8
International organisations	-	-	-	-	-	-	-	-
Institutions	-	1,187.3	1,091.9	705.0	-	-	2,984.2	1,112.9
Corporates	-	398.5	2,960.6	19,406.6	544.6	1.2	24,138.9	15,724.4
Retail	-	-	-	-	-	-	0.1	0.1
Secured by mortgages on immovable property	-	-	-	820.3	-	-	820.3	820.3
Exposures in default	-	-	-	7.3	200.0	-	207.3	188.4
Items associated with particularly high risk	-	-	-	-	446.0	-	446.0	446.0
Covered bonds	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-
Equity	-	-	-	0.0	-	-	0.0	0.0
Other items	-	-	-	252.6	-	-	252.6	252.6
As at 31 March 2020	**26,636.9**	**2,270.0**	**4,130.6**	**21,246.5**	**1,190.6**	**19.9**	**56,322.0**	**18,629.0**

31 March 2020

Exposure classes	Risk weight						Total	Of which unrated
	0%	20%	50%	100%	150%	250%		
Central governments or central banks	26,512.1	681.0	99.8	26.2	-	6.6	27,325.7	26.2
Regional governments or local authorities	-	-	-	-	-	-	-	-
Public sector entities	80.8	60.0	-	-	-	-	140.8	88.4
Multilateral development banks	48.3	-	-	90.3	-	-	138.6	90.3
International organisations	-	-	-	-	-	-	-	-
Institutions	-	4,540.0	727.6	735.2	-	-	6,002.9	974.9
Corporates	-	614.9	3,456.4	20,109.3	996.8	-	25,177.3	16,135.2
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	672.4	-	-	672.4	672.4
Exposures in default	-	-	-	28.9	22.1	-	51.0	51.0
Items associated with particularly high risk	-	-	-	-	226.9	-	226.9	226.9
Covered bonds	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-
Equity	-	-	-	1.5	-	1.4	2.9	2.9
Other items	-	-	-	95.4	-	-	95.4	95.4
As at 31 March 2020	**26,641.2**	**5,895.9**	**4,283.8**	**21,759.4**	**1,245.8**	**8.1**	**59,834.1**	**18,363.7**

10.8 Changes in the stock of general and specific credit risk adjustments

31 March 2021

Provisions in this table are stated without the application of IFRS 9 transitional arrangements as detailed in Section 9.7. The opening balance reflects the impact of the adoption of IFRS 9 from 01.01.18

	IFRS 9 provisions for loan losses
Opening balance	**273.6**
Increases due to amounts set aside for estimated loan losses during the period	193.9
Decreases due to amounts reversed for estimated loan losses during the period	(262.0)
Transfers between credit risk adjustments	-
Impact of exchange rate differences	0.0
Closing balance	**205.5**

11. Leverage Ratio

Leverage Ratio

The Bank's leverage ratio is calculated as its Tier 1 capital divided by its total exposure measure. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted when determining the Tier 1 capital.

The following tables focus on the Bank's leverage ratio calculation and provide a breakdown of the on and off-balance sheet exposures that are used. Further analysis of qualitative items includes descriptions of the processes used to manage the risk of excessive leverage and the factors that had an impact on the leverage ratio:

All figures in this section USD millions

11.1 Table LRCom: Leverage ratio common disclosure

31 March 2021

Leverage ratio common disclosure	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	50,668.0
Asset amounts deducted in determining Tier 1 capital	(66.4)
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral	**50,601.6**
Derivative exposures	
Replacement cost associated with derivatives transactions	356.5
Add-on amounts for PFE associated with derivatives transactions	973.3
Total derivative exposures	**1,329.8**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting)	1,732.7
Add-on amount for counterparty credit risk exposure for SFT assets	11.9
Total securities financing transaction exposures	**1,744.6**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	16,121.7
Adjustments for conversion to credit equivalent amounts	(7,266.3)
Total off-balance sheet exposures	**8,855.4**
Capital and Total Exposures	
Tier 1 capital	**4,787.9**
Total Exposures	**62,531.4**
Leverage Ratios	
End of quarter leverage ratio	**7.7%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	**Transitional**
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-

"SFTs" refers to securities financing transactions where securities are used to borrow cash or other high investment-grade securities (or vice versa).

11.2 Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

31 March 2021

Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts
Total assets as per published financial statements	53,568.5
Adjustments for derivative financial instruments	74.1
Adjustments for securities financing transactions	11.9
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	8,855.4
Other adjustments	21.6
Leverage ratio exposure	**62,531.4**

11.3 Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives and SFTs)

31 March 2021

Split-up of on-balance sheet exposures (excluding derivatives and SFTs)	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	**50,668.0**
Trading book exposures	-
Banking book exposures, of which:	50,668.0
Exposures treated as sovereigns	27,091.4
Institutions	5,551.8
Corporate	16,212.3
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1,812.5

11.4 Table LRQua: Disclosure on qualitative items

31 March 2021

Disclosure on qualitative items	
Description of the processes used to manage the risk of excessive leverage	The leverage ratio is calculated and reported to senior management on a monthly basis by Finance and Control. The ratio is monitored on a monthly basis by Risk Management department and is managed within Board approved Amber and Red thresholds. The thresholds are established to allow sufficient headroom above regulatory minimum standards and sufficient time for remedial action to be undertaken. Should these thresholds be breached the Bank has an internal escalation policy which would be implemented.
Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	- The decrease in institution exposures. - The decrease in derivative exposures. - The increase in undrawn commitments.

12. Asset Encumbrance

Asset Encumbrance affects the transferability of assets and can restrict its free use. An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The Bank assesses asset encumbrance in the following disclosure of on-balance sheet encumbered and unencumbered assets, off-balance sheet collateral and matching liabilities. Please note that the values reported in the following templates are based on the median values across the four quarters through the financial year.

All figures in this section USD millions

12.1 Encumbrance: Assets

31 March 2021

	Carrying amount of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	**355.4**	**177.3**	**57,042.0**	**31,356.1**		
Loans on Demand	174.0	-	26,406.9	26,364.6		
Equity instruments	-	-	8.8	-	8.8	-
Debt securities	115.1	115.1	560.5	347.4	559.9	337.1
of which: issued by general governments	159.3	159.3	347.4	347.4	337.1	337.1
of which: issued by financial corporations	-	-	187.7	-	191.8	-
Loans and advances other than loans on demand	63.5	62.2	28,332.0	4,644.1		
Other assets	2.7	-	1,733.8	-		

12.2 Encumbrance: Collateral received

31 March 2021

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**5,024.6**	**212.6**	**3,804.2**	**1,442.9**
Loans on demand	81.7	-	-	-
Debt securities	212.6	**212.6**	1,442.9	1,442.9
of which: issued by general governments	212.6	**212.6**	1,442.9	1,442.9
Loans and advances other than loans on demand	4,730.3	-	2,361.4	-
Other collateral received	-	-	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**5,366.5**	**302.9**		

12.3 Sources of encumbrance

31 March 2021

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	5,168.8	5,301.7

12.4 Accompanying narrative information

The main sources of funding that contribute to SMBC BI's low levels of encumbrance include cash lending under repo transactions, derivative margin given, and placement of cash ratio deposits with the Bank of England.

13. Remuneration

The SMBC BI Remuneration Policy applies to all locally hired employees of SMBC Bank International plc ("SMBC BI" or "the Bank"). Except for certain aspects of variable pay for Material Risk Takers and other employees as defined below, it does not apply to employees of Sumitomo Mitsui Banking Corporation ("SMBC") seconded from SMBC, whose remuneration is governed by rules established by SMBC in Japan.

Our Policy forms a significant part of the Policy for SMBC in Europe, Middle East and Africa ("EMEA" or "EMEA Region") and the calculation of the bonus fund is based on the results of SMBC in EMEA.

This policy is reviewed annually, or more frequently if required, by the Head of Human Resources Group. The Remuneration and Human Resources Committee ("RemCo") will approve significant revisions to the policy.

The RemCo will oversee the development of, and implementation of, our remuneration policies and practices. In particular it has the responsibility to:

- set, and recommend to the Board for approval, the Remuneration Policy;
- ensure the policy, amongst other things, assesses the impact of pay arrangements on culture and all elements of risk management; and
- ensure the Policy adheres to the Remuneration Code.

In addition, the RemCo is responsible for specific matters and remuneration arrangements including the following:

- Reviewing and approving current and deferred remuneration, including performance adjustments, malus and clawback for identified Material Risk Takers; and
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments

While STPD-HR owns the Remuneration Policy, HR consults with the Risk Management Department ("RMD") and Compliance Department ("CPD") regularly concerning remuneration policy and formally once a quarter about concerns to be addressed about department, group and/or individual remuneration especially variable pay.

Under proportionality principles and regulations as set out by the PRA and FCA, the Bank is considered to be a Level 2 institution.

Remuneration Policy Objectives

SMBC BI's remuneration policy is an expression of the Bank's overall philosophy, aims and objectives with regard to how we pay our employees.

It is our intention that:

1) Our policy will support the Bank's long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
2) The remuneration policy promotes sound and effective risk management and is consistent with our Risk Management Strategy and objectives as set out in section 3.1;
3) Decisions about remuneration policy will be reviewed, considered and approved/ratified by the RemCo;
4) Employees are remunerated by means of the following elements - basic salary, allowances, benefits and variable pay – that may be relevant to their location and function;

5) The amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and

6) Employees have the opportunity to share in the success of the Bank in years of good performance and also accept diminished levels of variable pay in times of poor performance or losses.

Governance

SMBC BI has established a RemCo which has the discretion to adjust the bonus pool and individual payments at any stage in the annual pay review process, from the calculation and determination of the fund itself to the final distribution. The RemCo comprises three independent Non-Executive Directors (one of whom is Chair of the RemCo) and one Shareholder Non-Executive Director. Non-Executive Directors do not receive any form of variable pay.

The Business Performance Rating ("BPR") of each Department includes an independent assessment on both financial and non-financial, and qualitative and quantitative by RMD, CPD, Audit Department, Credit Department, Operations and Administration Department and Human Resources of their contribution to and engagement with our risk management and compliance activities respectively. The Personal Performance Rating ("PPR") of each individual includes an assessment of their compliance, risk management and overall behaviour.

We consult with PricewaterhouseCoopers LLP for remuneration advice and Simmons & Simmons for legal advice in respect of the development of remuneration practices.

Material Risk Takers

We identify Material Risk Takers ("MRT") in line with the quantitative and qualitative criteria as set out by the European Banking Authority. The criteria identify staff as MRT as a result of their role, their seniority, their authority to expose the institution to material credit, market or other identified risks, and also their compensation.

We are satisfied that we have identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk due to their professional responsibilities.

Employees, including Material Risk Takers, understand that their bonus is based on the Risk Adjusted performance of the EMEA Region as a whole and that individual financial performance will not have any direct influence on their individual bonus. They also know that credit cost, liquidity cost and conduct will directly affect the calculation of the bonus fund and that there is therefore a clear incentive to develop prudent sustainable business.

Control Function Employees

Employees engaged in Risk, Audit and Compliance functions are independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front line business units in the process. The Remuneration Committee reviews and approves Risk, Audit and Compliance function pay for MRTs. Control function pay is predominantly made up of fixed pay.

Discretionary Bonus Scheme

All employees are eligible to participate in the annual performance related bonus scheme with Company, Department and personal performance all assessed to form a view on recommended variable pay outcomes. The Bonus Scheme is a team-based bonus scheme, a key objective of which is to emphasise the shared purpose of all colleagues across SMBC in EMEA, including SMBC BI.

Risk adjustment

The calculation of the bonus fund is a percentage of SMBC EMEA Net Income after Risk Adjustment ("NIARA"). Net Income is adjusted for the credit cost of non-impaired assets, liquidity cost, an adjustment for the prudent valuation of fair valued positions, and then by the Risk Adjustments. These risk adjustments focus on a Value at Risk ("VaR") approach for key risk types reflecting potential loss scenarios to a 90% confidence level for credit, market and operational risk. Liquidity risk reflects the cost of a parallel shift of 100bp in the yield curve. These adjustments link to the most important risks identified through the risk register and ICAAP process.

Each Department is also assessed against three core considerations, each of equal weighting, that our Management believes are essential for the sustainable growth of the EMEA Region. These are Financial Performance, Non-Financial Performance and Management and Compliance. This qualitative review considers our risk appetite, operational needs and significant factors such as risk, control or compliance events, together with any other factors that our Management may consider significant including conduct. These assessments will provide a Business Performance Rating ("BPR") that dictates the pool available to that Department.
In addition, all support functions are requested to input onto the assessment of all back office and front office departments. This assessment happens on an annual basis and encompasses a wide ranging review of activities with the information provided included as part of the annual assessment of the BPR for each Department.

Individuals' performance is also assessed, with each employee given a Personal Performance Rating ("PPR"), which
distinguishes performance based on the following evaluations which are equally weighted:

1) An evaluation of outcomes (the "what") – an employee's performance against objectives and quality of work; and,
2) An evaluation of behaviours (the "how") – an employee's performance against expected compliance, risk management and workplace behaviours

Employees' performance evaluation will be determined with reference to the following grid:

Q1 - Outcomes	FY20 PPR Evaluations			
Exceptional Performance	Unsatisfactory Performance	Developing Performance	Exceptional Performance	Exceptional + Performance
Successful Performance	Unsatisfactory Performance	Developing Performance	Successful Performance	Exceptional Performance
Developing Performance	Unsatisfactory Performance	Developing Performance	Developing Performance	Successful Performance
Unsatisfactory Performance	Unsatisfactory Performance	Unsatisfactory Performance	Unsatisfactory Performance	Unsatisfactory Performance
Q2 - Behaviours	Unsatisfactory Performance	Developing Performance	Successful Performance	Exceptional Performance

These weightings may change from year to year, subject to the approval of the RemCo.

Leverage

We believe that fixed pay should be sufficient for any individual to maintain an acceptable standard of living, without reliance on variable pay. We also believe that variable pay should continue to be a relatively modest aspect of total remuneration. We seek an appropriate balance of fixed and variable remuneration. Management is satisfied that its leverage ratios are appropriate for its business.
SMBC BI operates a cap on the maximum variable pay award of 200% of fixed pay following the approval from SMBC, the sole shareholder of SMBC BI on 11 August 2015.

The only variable remuneration operated by SMBC BI is the Discretionary Bonus Scheme. All other remuneration is considered fixed remuneration, and includes salary, fixed pay allowances and benefits.

Deferral Policy

Our philosophy and commitment to a conservative risk appetite extends from our business risk approach to how we pay risk taking employees. We also believe that our risk profile is conservative and the Bank's ratio of variable to fixed pay is low. It is also our belief that deferring the variable pay of the MRTs and higher earning staff provides incentives for both good conduct and the prudent risk decision. MRT deferral awards are subject to malus and clawback strengthening the link between conduct and reward.

Our deferral policy provides for between 20% and 60% of bonus to be deferred for 2 to 7 years for Material Risk Takers and senior staff at Managing Director level and above, depending on the particular remuneration of the individual. The policy allows for deferral in cash and non-cash, depending on the particular remuneration of the individual. Any amounts paid in the non-cash instrument are subject to a holding period of either 6 or 12 months depending on the category of the Material Risk Taker (including Senior Manager Functions).

For identified Material Risk Takers, 50% of each tranche of variable remuneration will be awarded in instruments other than cash. To this end, SMBC BI has established a Cash and Phantom Share Scheme. Benefits under the scheme are linked to the change of the share price of SMFG between award date and release date.

The Phantom Share Scheme is used to align the long-term performance of SMFG to the interest of the individuals deemed to have a material impact on SMBC BI.

The UK and EU regulators view MRT remuneration below certain regulatory thresholds as not material enough to warrant deferment. In such cases, we apply "de-minimus" to the variable award and pays the bonus on award date.

Performance Adjustment – Malus and Clawback

Our policy provides that any deferred bonus is subject to performance adjustment. Performance adjustment seeks to take account of matters that were not apparent at the time of the original variable award and may result in the loss of bonus. Decisions on performance adjustment will be considered and decided by Management, the RemCo and the Board, as necessary.

The RemCo and the Board have the authority to withhold payment of any bonus in the event of significant organisational stress or incident, including but not limited to the following circumstances:

a) there is reasonable evidence of employee misbehaviour or material error; or
b) there is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the Bank; or
c) there is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety; or
d) the firm or the relevant business unit suffers a material failure of risk management; or
e) the firm or the relevant business unit suffers a material downturn in its financial performance

The RemCo and the Board have the authority to reclaim payments of any bonus for Material Risk Takers, during a period which may be up to seven years after the award date in the event that the Participant is involved in or responsible for any of the circumstances detailed in a) – d) above.

For PRA Senior Managers, this period may be extended to at least ten years should the Bank or a regulator have commenced an enquiry into potential material failures.

Extraordinary Covid-19 intervention

In light of the Covid-19 economic challenges, the Prudential Regulatory Authority ("PRA") instructed institutions to take prudent decisions to safeguard their capital and maintain liquidity. In response to this, the Remuneration Committee approved a series of actions in response to the regulator's COVID-19 expectations.

Guaranteed variable remuneration

Guaranteed variable remuneration will only be made in exceptional circumstances to new joiners. In all circumstances guarantees will not be made for a period longer than 12 months from the date of joining.

Severance Payment Policy

We follow all local statutory severance requirements. Severance payments made will not be disproportionate but will appropriately compensate the employee in cases of early termination of the contract. Severance payments do not reward failure and will not be awarded where there is a failure in risk management or misconduct.

FY20 Aggregate Remuneration in respect of Material Risk Takers split into fixed and variable remuneration

All of SMBC BI works in a single business area – international commercial banking, and hence no disaggregation is required.

All figures in this table in USD millions

	Remuneration amount		Senior management	Other material risk takers
1	Fixed remuneration	Number of employees	12	73
2		Total fixed remuneration	3.7	28.4
3	Variable remuneration	Number of employees	5	65
4		Total variable remuneration	1.9	14.5
5	Total remuneration (2 + 4)		5.6	42.9

Appendix I

Glossary

3 LOD	3 Lines of Defence
ACPQM	Active Credit Portfolio Quality Management
ADIA	Audit Department Internal Audit Group
ALMCo	Asset and Liability Management Committee
AuditCo	Audit Committee
BP	Basis Points
BPR	Business Performance Rating
BPV	Basis Point Value
CCF	Credit Conversion Factors
CD	Credit Department
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CISCO	Chief Information Security Officer
COO	Chief Operating Officer
CPD	Compliance Department
CRC	Credit Risk Committee
CRD	Capital Requirement Directive
CRDIV	Capital Requirements Directive IV
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EAD	Exposure at Default
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EL	Expected Loss
EMEA	Europe, Middle East & Africa
EHQLA	Extremely High-Quality Liquid Assets
EU	European Union
EUR	Euro (currency)
ExCo	Executive Committee
FCA	Financial Conduct Authority
FCRRC	Financial Crime and Reputational Risk Committee
FSA	Financial Services Authority
FX	Forex
FY	Financial Year
HQLA	High Quality Liquid Assets
HR	Human Resources, Planning Department
ICAAP	Internal Capital Adequacy Assessment Process
ICRCU	Independent Credit Risk Control Unit
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IPRE	Income Producing Real Estate
ISDA	International Swaps & Derivatives Association
KRI	Key Risk Indicator

LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LOD	Line of Defence
LOD 1	First Line of Defence
LOD 2	Second Line of Defence
LOD 3	Third Line of Defence
MRM	Model Risk Management
MRT	Material Risk Takers
NACE	Statistical Classification of Economic Activities in the European Community
NIARA	Net Income After Risk Adjustment
NPS	New Product and Services
NSFR	Net Stable Funding Ratio
OGRC	Operational and General Risk Committee
ORMG	Operational Risk Management Group, Risk Management Department
PD	Probability of Default
PFE	Potential Future Exposure
PPR	Personal Performance Rating
PRA	Prudential Regulation Authority
PRC	Prudential Regulatory Committee
RAF	Risk Appetite Framework
RemCo	Remuneration and Human Resource Committee
RiskCo	Risk Committee
RMD	Risk Management Department
RRP	Recovery and Resolution Planning
RST	Reverse Stress Testing
RW	Risk Weight
RWA	Risk-Weighted Assets
S&P	Standard & Poor's Rating Services
SA	The Standardised Approach
SCMG	Strategic and Credit Risk Management Group
SFT	Securities Financing Transaction
SMBC	Sumitomo Mitsui Banking Corporation
SMBC BI	Sumitomo Mitsui Banking Corporation Bank International plc
SMFG	Sumitomo Mitsui Financial Group, Inc.
STPD	Strategic Planning Department, which includes PG, HR, F&C, Legal Group and Company Secretarial and Central Support Group
SWDP	Solvent Wind Down Plan
TCR	Total Capital Requirement
TPRM	Third Party Risk Management/Outsourcing
UK	United Kingdom
US	United States of America
USD	United States Dollar (Currency)
VaR	Value at Risk
WWR	Wrong-Way Risk

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Sumitomo Mitsui Banking Corporation
Bank International plc

Head Office

99 Queen Victoria Street
London EC4V 4EH
United Kingdom

Tel +44 (0)20 7786 1000