SMBC

SMBC Group

SMBC BANK INTERNATIONAL

SMBC Bank International plc

Pillar 3 Disclosures

As of 31 March 2022

Contents

Document disclaimer

- The purpose of the Pillar 3 disclosures as contained within this Disclosure Document is to explain how SMBC Bank International plc (SMBC BI or the Bank) complies with certain prudential 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 and financial statements, which can be found on the Bank's website at: EMEA – Corporate Disclosures (smbcgroup.com).
- This Disclosure Document reflects, where appropriate, information that is contained within the Bank's annual report and financial statements. Where reference is made to disclosures within the annual report and financial statements such disclosures are incorporated by cross-reference.
- The information has been subject to internal review but has not been audited by the Bank's external auditor, KPMG.
- Although Pillar 3 disclosures are designed to provide transparent capital and liquidity disclosures 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 Prudential regulatory requirements;
  - 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).

1. Overview

1.1 Background and key changes in the March 2022 Pillar 3

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

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 III, implemented in the European Union (E") under CRD IV, 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 and Enhanced Capital Requirement (quantification of credit risk, market risk and operational risk).
- Pillar 2 is Supervisory Review (involving total capital requirement and assessment by the regulator based on consideration of individual bank risk, and business and control risk factors. This enables capture of other wider general risks not captured sufficiently under Pillar 1).
- Pillar 3 is Market Discipline (requires disclosure to allow market participants to understand the Bank's risk profile).

The relevant Pillar 3 requirements are contained in the CRR and, from 1 January 2022, in the 'Disclosure (CRR)' part of the PRA Rulebook for CRR firms in the UK. 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.

However, some Basel III standards were not implemented in the EU before the end of the transition period under the Withdrawal Agreement between the UK and the EU and so remain to be implemented in the UK.

On 14 October 2021, under the rule making power granted by HM Government's Financial Services Bill, the PRA finalised its implementation of certain outstanding Basel standards through Policy Statement 22/21, effective from 1 January 2022. These rules broadly correspond with the set of issues covered by the EU's Capital Requirements Regulation 2 (EU CRR II), which addresses the same set of outstanding Basel III standards.

Separately, on 8 October 2021, the PRA finalised its implementation of the UK leverage ratio framework through Policy Statement 21/21, effective from 1 January 2022.

SMBC BI's Pillar 3 Disclosure Document as of 31 March 2022 has therefore reflected these changes as relevant to the Bank. In summary, the Bank has implemented:

- revised Basel standards for calculating risk weighted exposures under the standardised approach;
- a new Basel standardised approach to counterparty credit risk (SA-CCR);
- Basel III standards for the net stable funding ratio (NSFR);
- revised Basel disclosure standards; and
- rules under the UK leverage ratio framework, including the relevant disclosure requirements.

1.2 Disclosure overview

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

- Key metrics (section 2)
- Own funds (sections 3 and 4)
- Risk management; both in relation to overall risk management issues and specific risk categories (sections 5, 6, 10, 11,12 and 15)
- Credit risk exposures (sections 7, 8 and 9)
- Interest rate risk in the banking book (IRRBB) (section 13)
- Leverage ratio (section 14)
- Asset encumbrance (section 16)
- Remuneration disclosures (section 17)

In line with Article 431(4) of the ‘Disclosure (CRR)’ part of the PRA Rulebook, prior year comparative figures are provided, together with qualitative narratives (and any other supplementary information where necessary) on significant movements against prior year, except for new disclosures or enhanced disclosures made in the current year. Table name references and row/column numbering in tables follow the Pillar 3 templates as prescribed in the PRA’s ‘Disclosure (CRR)’ part of the Rulebook.

All the quantitative information contained in this Disclosure Document are in US Dollar millions unless otherwise stated.

1.3 Basis and frequency of disclosures

In accordance with the PRA’s Disclosure (CRR) part of the Rulebook, these disclosures are based on 31 March 2022 year-end data. The corporate governance disclosures can be found in the Bank’s annual report and financial statements.

This Disclosure Document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. In addition, effective from 1 January 2022, SMBC BI meets the definition of a ‘large institution’ and is therefore subject to both semi-annual and quarterly disclosure requirements under Article 433a of the ‘Disclosure (CRR)’ part of the PRA Rulebook.

1.4 Consolidation basis

There is no difference in the basis of consolidation for accounting and prudential purposes.

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

1.5 Verification, attestation and approval

Under SMBC BI's Pillar 3 Policy, this Disclosure Document has been reviewed and approved by the Bank's Board of Directors 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, such data has been subject to external audit during the formal review and verification process.

In accordance with Article 431(3), the written attestation from Mr Nobuyuki Takiguchi, Chief Operating Officer, is attached below:

"I attest that SMBC Bank International plc Pillar 3 disclosures, to the best of my knowledge, are in line with the formal policies, internal processes, systems and controls in accordance with Part Eight of the UK CRR."

1.6 Location

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

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

2. Key metrics

The key metrics dashboard provides an overview of the Bank's prudential regulatory situation including its capital, leverage ratio and liquidity ratios. Overall, the Bank's capital and liquidity ratios remained stable as of 31 March 2022 compared with those in 2021. The leverage ratio however has increased by 4.7%. This was primarily due to the exclusion of qualifying claims on central banks from the leverage ratio exposures under the UK leverage ratio framework.

Table 1: KM1 Key metrics

		31 March 2022	31 March 2021
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	4,887	4,788
2	Tier 1 capital	4,887	4,788
3	Total capital	4,887	4,788
	Risk weighted exposure amounts		
4	Total risk weighted exposure amount	29,941	28,662
	Capital ratios (as a percentage of risk weighted exposure amount)		
5	CET1 ratio (%)	16.3	16.7
6	Tier 1 ratio (%)	16.3	16.7
7	Total capital ratio (%)	16.3	16.7
	Additional own funds requirements based on SREP* (as a percentage of risk weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.7	1.0
UK 7b	Additional Tier 1 SREP requirements (%)	0.3	0.3
UK 7c	Additional Tier 2 SREP requirements (%)	0.3	0.4
UK 7d	Total SREP own funds requirements (%)	9.3	9.7
	Combined buffer requirement (as a percentage of risk weighted exposure amount)		
8	Capital conservation buffer (%)	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0	0
9	Institution specific countercyclical capital buffer (%)	0.04	0.04
11	Combined buffer requirement (%)	2.504	2.504
UK 11a	Overall capital requirements (%)	12.0	12.4
12	CET1 available after meeting the total SREP own funds requirements (%)	7.0	7.0
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	39,509	62,531
14	Leverage ratio excluding claims on central banks (%)	12.4	7.7
	Liquidity coverage ratio		
15	Total high quality liquid assets (HQLA) (Weighted value – average)	27,160	25,266
UK 16a	Cash outflows – Total weighted value	23,682	20,487
UK 16b	Cash inflows – Total weighted value	3,646	3,060
16	Total net cash outflows (adjusted value)	20,036	17,426
17	Liquidity coverage ratio (%)	136	145
	Net stable funding ratio		
18	Total available stable funding	23,643	27,000
19	Total required stable funding	17,713	19,923
20	NSFR ratio (%)	133.5	135.5

* Supervisory Review and Evaluation Process.

3. Own funds

Table 2: CC1 Composition of regulatory own funds

The Bank determines its own funds on the basis laid down in the CRR. CET1 capital and risk weighted assets (RWAs) are calculated applying the transitional arrangements under the CRR, including the International Financial Reporting Standard (IFRS) 9 transitional arrangements. The Bank has not applied any restrictions to the calculation of own funds.

		(a)		(b)
		31 March 2022	31 March 2021	Balance sheet source in table CC2
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	3,200.1	3,200.1	a
2	Retained earnings	1,619.9	1,487.6	b
3	Accumulated other comprehensive income (and other reserves)	126.2	100.9	c
6	CET1 capital before regulatory adjustments	4,946.1	4,789	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	(3.7)	(2.9)	h
8	Intangible assets (net of related tax liability)	(46.7)	(39.9)	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(6.6)	(1.1)	e
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0.5	
15	Defined benefit pension fund assets	(43.4)	(26.5)	f
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	41.1	69.7	g
28	Total regulatory adjustments to CET1	(59.3)	(0.7)	
29	CET1 capital	4,886.8	4,787.9	
60	Total risk exposure amount	29,941.4	28,662.1	
Capital ratios and buffers				
61	CET1 (as a percentage of total risk exposure amount)	16.3%	16.7%	
62	Tier 1 (as a percentage of total risk exposure amount)	16.3%	16.7%	
63	Total capital (as a percentage of total risk exposure amount)	16.3%	16.7%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	7.8%	8.0%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical buffer requirement	0.04%	0.04%	
68	CET1 available to meet buffers (as a percentage of risk exposure amount)	8.4%	8.5%	
Amounts below the thresholds for deduction (before risk weighting)				
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	32.0	20.6	

Table 3: CC2 reconciliation of regulatory own funds to balance sheet in the audited financial statements

The Bank's financial statements are prepared in accordance with IFRS, and regulatory own funds are prepared under prudential rules. The financial statement under the regulatory scope of consolidation forms the basis for the calculation of regulatory capital requirements. There is no difference in the regulatory and accounting scope of consolidation.

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to table CC1
		31 March 2022		
Assets – Breakdown by asset class according to the balance sheet in the published financial statements				
1	Cash and balances at central banks	25,255.4		
2	Settlement balances	96.9		
3	Loans and advances to banks	3,988.6		
4	Loans and advances to customers	19,942.6		
	of which subject to capital increase (IFRS 9 transitional arrangements)		41.1	g
5	Reverse repurchase agreements	1,197.9		
6	Investment securities	1,009.2		
7	Derivative assets	1,430.4		
8	Other assets	696.3		
9	Intangible assets and goodwill	46.7		
	of which subject to capital deduction (goodwill)		1.9	d
	of which subject to capital deduction (other intangibles)		44.7	d
10	Property and equipment	254.6		
11	Current tax asset	6.0		
12	Deferred tax asset	32.1		
13	Pensions surplus	60.4		
	of which subject to capital deduction (defined benefit pensions fund)		60.4	f
	Total assets	54,017.1		
Liabilities – Breakdown by liability class according to the balance sheet in the published financial statements				
1	Deposits by banks	26,376.9		
2	Customer accounts	19,754.1		
3	Debts securities in issue	976.0		
4	Derivatives liabilities	1,322.6		
	Of which: subject to capital deduction (prudential valuation adjustment)		3.7	h
5	Other liabilities	583.7		
6	Other provisions	34.7		
7	Deferred tax liability	23.1		
	Of which subject to capital deduction (offsetting the pension surplus)		17	f
	Total liabilities	49,070.9		
Shareholders' equity				
1	Called up share capital	3,200.1		a
2	Retained earnings	1,619.9		b
3	Other reserves	126.2		c
	of which subject to prudential filter (fair value reserves related to gains or losses on cash flow hedges)		6.6	e
	Total shareholders' equity	4,946.2		

Table 4: CCA Main features of regulatory own funds instruments and eligible liabilities instruments

This table provides a description of the main features of regulatory instruments issued and included as Capital in Table 2 as at 31 March 2022.

		A	b	c	d	e	f
1	Issuer	SMBC BI plc					
2	Unique identifier	n/a					
2a	Public or private placement	Private					
3	Governing law(s) of the instrument	English					
3a	Contractual recognition of write-down and conversion powers of resolution authorities	n/a					
	Regulatory treatment						
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1					
5	Post-transitional CRR rules	Common Equity Tier 1					
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated					
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares					
8	Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	USD 800 million	USD 800 million	USD 400 million	USD 1.2 billion	GBP 50 thousand	USD 1 thousand
9	Nominal amount of instrument	800,000	800,000	400,000	1,199,999	50,000	1
UK 9a	Issue price	USD 1,000 each	USD 1,000 each	USD 1,000 each	USD 1,000 each	GBP 1 each	USD 1,000
UK 9b	Redemption price	n/a					
10	Accounting classification	Shareholders' equity					
11	Original date of issuance	28 May 2013	25 May 2012	27 May 2008	5 March 2003	31 July 2020	3 March 2003
12	Perpetual or dated	Perpetual					
13	Original maturity date	n/a					
14	Issuer call subject to prior supervisory approval	n/a					

4. Own funds requirements and risk weighted exposure amounts

Table 5: OV1 Overview of risk weighted exposure amounts

This table provides a breakdown of the risk weighted exposure amounts (RWEAs) and the total own funds requirements, by exposure class and calculation approach, of SMBC BI as at 31 March 2022. Total own funds requirements are calculated as RWEAs multiplied by 8%.

		RWEAs		Total own funds requirements	
		31 March 2022	31 March 2021	31 March 2022	31 March 2021
1	Credit risk (excluding CCR)	26,391	25,576	2,111	2,046
2	Of which the standardised approach	26,391	25,576	2,111	2,046
6	Counterparty credit risk – CCR	1,303	750	104	60
UK 8b	Of which credit valuation adjustment – CVA	243	103	19	8
20	Position, foreign exchange and commodities risks (market risk)	610	723	49	58
21	Of which the standardised approach	610	723	49	58
UK 22a	Large exposures		–		
23	Operational risk	1,637	1,613	131	129
UK 23a	Of which basic indicator approach		–		
UK 23b	Of which standardised approach	1,637	1,613	131	129
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	80	52	6	4
29	Total	29,941	28,662	2,395	2,293

The RWEAs have remained comparable between FY2021 and FY2022. The increase in RWEAs as of 31 March 2022 compared with 2021 primarily resulted from the UK's implementation of CRR2 as mentioned in section 1.1 above.

Table 6: LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

This table provides information about the differences between the Bank's regulatory exposures and carrying amounts presented in the financial statements prepared in accordance with IFRS.

			Carrying values of items			
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Assets						
Cash and balances at central banks	25,255	25,255	25,255			
Settlement balances	97	97	97			
Loans and advances to banks	3,989	3,989	3,989			
Loans and advances to customers	19,943	19,943	19,943			
Reverse repurchase agreements	1,198	1,198	1,198			
Investment securities	1,009	1,009	1,009			
Derivative assets	1,430	1,430		1,430	1,364	
Other assets	696	696	317	379		
Intangible assets and goodwill	47	47				47
Property and equipment	255	255	255			
Current tax asset	6	6				6
Deferred tax asset	32	32	32			
Pensions surplus	60	60				60
Total assets	54,017	54,017	52,095	1,809	1,364	113
Liabilities						
Deposits by banks	26,377	26,377				26,377
Customer accounts	19,754	19,754				19,754
Debts securities in issue	976	976				976
Derivatives liabilities	1,323	1,323		1,323	1,302	
Other liabilities	584	584		182		402
Other provisions	35	35				35
Deferred tax liability	23	23				23
Total liabilities	49,071	49,071		1,505	1,302	47,567

In addition, any assets and liabilities denominated in currencies that are not the Bank's reporting currency (i.e., US Dollar) are subject to foreign exchange market risk capital requirements.

Table 7: LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

This table provides a reconciliation between the assets carrying values under the regulatory consolidation in table 6 and the exposures used for regulatory purposes, split by regulatory risk framework.

		Items subject to		
	Total	Credit risk framework	CCR framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	53,905	52,095	1,809	1,364
Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	1,505		1,505	1,302
Total net amount under the regulatory scope of consolidation	52,399	52,095	304	62
Off-balance sheet amounts	18,608	18,608		
Differences in valuations	(4)	(4)		
Differences due to different netting rules, other than those already included in row 2	1,407	296	1,111	
Differences due to consideration of provisions	32	32		
Differences due to the use of credit risk mitigation techniques (CRMs)	(5,795)	(5,795)		
Differences due to credit conversion factors	(8,395)	(8,395)		
Exposure amounts considered for regulatory purposes	58,253	56,838	1,415	610

Table 8: LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

There are no differences in the scope of consolidation between accounting and regulatory consolidation.

5. Risk management framework

5.1 Risk management strategy

SMBC BI's business model is to provide corporate finance focused on carefully selected sectors and regional customer partnerships, in a way that supports the achievement of its long-term sustainable growth, ensuring that it is well funded and well controlled, and that there is a sensible balance between risk and reward.

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 four 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 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 and 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, 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 the business, the Bank will ensure it does not, through action or inaction, cause an adverse outcome for customers, suppliers, regulators and/or wider stakeholder groups and does not adversely impact the Bank's 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 Bank 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, 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 and resilience

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

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

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

5.2 Risk management objectives

The Bank's risk management objectives are as follows:

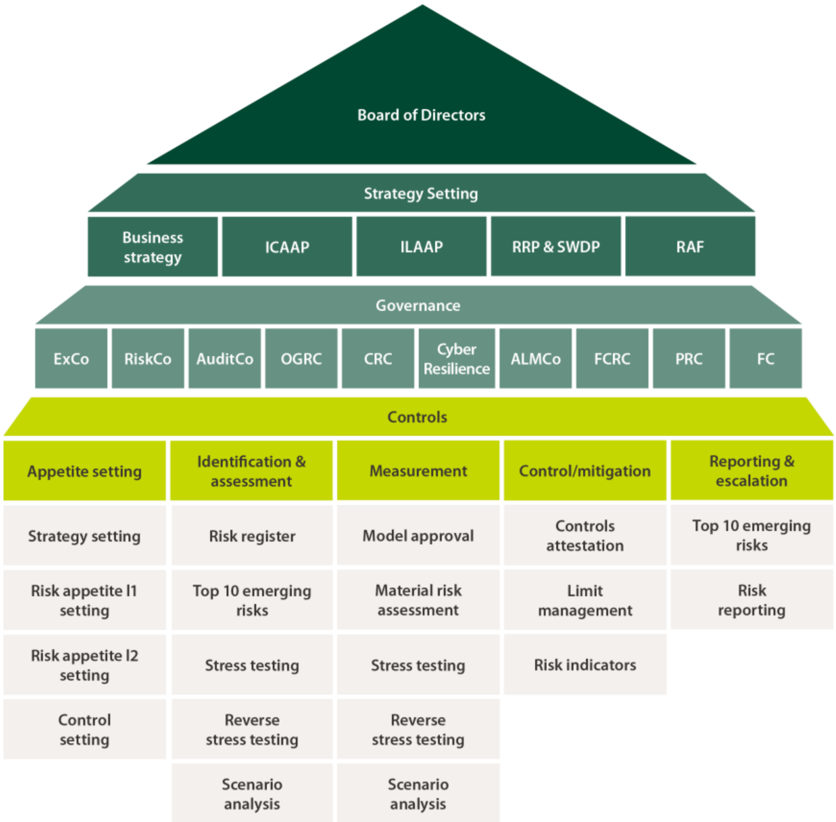
- To ensure the Bank's strategic risk pillars, risk strategy statements and tolerances are observed and maintained in the pursuit of the Bank's strategic objectives.
- To maintain a risk appetite that maximises risk/return whilst ensuring that the Bank maintains adequate capital and liquidity at all times.
- To maintain fair and ethical relationships with all the Bank's customers.
- To manage and mitigate risk that the Bank assumes as a consequence of the business strategy, e.g. operational risk, conduct risk.
- To maintain an adequate and effective control environment.
- To ensure that the Bank adheres to the letter and spirit of laws and regulations governing its 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 second line of defence;
- having a clear corporate strategy and risk appetite framework (RAF) 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 manage risk.

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

SMBC BI Risk Management Framework



ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal liquidity adequacy assessment process
RRP	Recovery & Resolution plan
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

5.2.1 SMBC BI's risk profile

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 borrower's financial standing. The Bank's total maximum exposure to credit risk as at 31 March 2022 was USD 71.5bn (2021: USD 68.3bn) and can be found in note 4 to the financial statements.
- 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 FY2021 the average VaR was USD 3.2m.
- 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. Its CRD IV Delegated Act liquidity coverage ratio (LCR) and NSFR based on the latest Basel III rules can be seen in Table 1: KM1 Key metrics.
- 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 the Bank's actions, inactions or behaviours resulting in poor outcomes for its customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition. 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 tolerance established by the Board. The risk profile versus risk appetite is reported monthly at the Executive Committee and quarterly at the Risk Committee.

5.2.2 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) and is available to regulators on request.

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.

Credit risk: The Bank uses the standardised approach for all credit exposures.

Market risk: The Bank follows the standardised methodology for calculating market risk capital under Pillar 1 for its foreign exchange and interest rate risk positions.

Operational risk: The Bank follows the standardised approach for assessing Pillar 1 capital for operational risk. The capital requirement for each business line is determined by taking the three-year average of the income mapped to each category multiplied by the relevant business line percentage.

Risk category	Pillar 1 approach
Credit risk	
Credit risk weighted assets	Standardised approach under Chapter 2, Title II, Part Three of the UK CRR
Funded credit risk mitigation	Financial collateral comprehensive method under UK CRR Article 223
Counterparty credit risk	Standardised approach for counterparty credit risk in section 3, Chapter 6, Title II, Part Three of the UK CRR
Market risk	
Interest rate general market risk	Maturity-based approach under UK CRR Article 339
Foreign exchange risk	Standardised approach under UK CRR Article 352
Operational risk	Standardised approach under Chapter 3, Title III, Part Three of the UK CRR
Credit valuation adjustment risk	Standardised method under UK CRR Article 384
Settlement risk	UK CRR Article 378

See sections 6, 10 and 11 for further details.

5.2.3 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) and is available to regulators on request.

See section 15 for further details.

5.2.4 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. This is reviewed formally on an annual basis but is monitored and remains under review throughout the year.

5.2.5 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 and its associated documents, the SWDP and Resolution Pack, are approved by the Board annually.

5.3 Governance structure

The annual report and financial statements set out further information on SMBC BI's governance structure which complements the information that can be found in this Pillar 3 Disclosure Document. The annual report and financial statements can be found on SMBC BI's website here:

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

	Annual report references	
Governance disclosure	Page number	Paragraph
Number of directorships held by members of the management body	54-56	Director biographies
	48	Board composition
Recruitment policy for selection of members of the management body and their actual knowledge, skills and expertise	54-56	Director biographies
Policy on diversity with regard to selection of members of the management body, its objectives and relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	48	Board composition
Information on the Risk Committee and the number of times that Committee has met	61	Risk Committee
Information flow on risk to the management body	51	Opportunity and risk

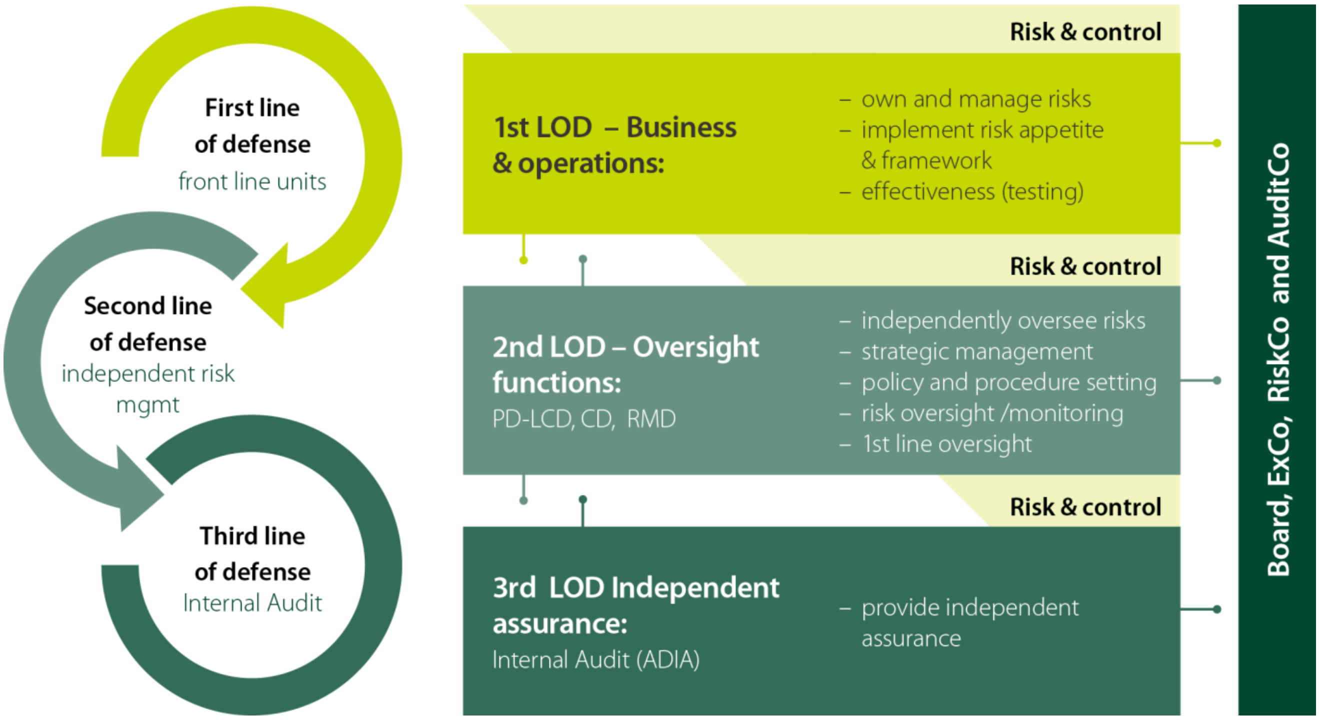
5.4 Enterprise Risk Management Model

The Bank utilises the industry-wide standard three 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 provide 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 (1LOD) comprises business and operational units including information technology.

SMBC BI's key principles for 1LOD are as follows:

- Any risk which results from the Bank's business activities is a risk for which the 1LOD is responsible.
- 1LOD 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 or senior managers, as applicable, 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.

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

Third line of defence – Internal Audit provides 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) ensuring that the arrangements and structures of the first and second lines of defence are appropriate and that those involved are discharging their roles and responsibilities effectively.

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

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

5.5 Risk measurement and monitoring systems (scope and nature of risk reporting)

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

- measure risk exposure by loss modelling, enterprise-level key risk indicators (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 ExCo 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's 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 the status of annual risk management regulatory processes (ICAAP, ILAAP, RRP).

Risk management strategies are embedded in the RAF. Risk strategies are delivered through the implementation of the RAF. Risk appetite is systematically reviewed on a monthly basis and reported to the relevant Risk and Executive Committees. The 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 annual report and financial statements.

5.5.1 Model risk management framework

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

Model governance and control is based on the framework that clearly outlines roles and responsibilities in accordance with the 3 LOD approach. This allows alignment of responsibility and authority as well as identifying potential conflict of interests. The model risk management framework is subject to a self-assessment against the model risk management principles published by the PRA as part of the ICAAP.

Model stakeholders including model users, owners and developers are the first line of defence in the model risk management framework. The Model Validation team 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 framework.

5.5.2 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 risks not only 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 historical periods of stress applied to the current portfolio. Stress testing is performed annually as part of the ICAAP/ILAAP/RRP and 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.

5.5.3 Reverse stress testing

- 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.
- Reverse stress testing is developed in conjunction and alignment with the risk assessment processes (Risk Register and emerging top 10 risks).

6. Credit risk management

6.1.1 The framework

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

The Board is ultimately responsible for ensuring that the level of credit risk the Bank takes is in line with the 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.
- The implementation of the Bank's RAF.
- Ensuring understanding of vulnerabilities through stress testing and reverse stress testing.
- Having strong rating systems to measure the risk on individual transactions.
- Regular reviews conducted by the Audit Department – Credit Review Group to ensure compliance with policies and procedures.
- Market best practice.

6.1.2 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.

The Bank follows the standardised approach for each of the exposure classes.

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 grade* Code	(Benchmark) S&P**	G grade* Code	(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.
** Standard & Poor's

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.

6.1.3 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 notes 2 and 3 to the financial statements.

The description of methods used for determining general and specific credit risk adjustments is contained in note 3 to the financial statements.

6.1.4 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 to the financial statements.

6.1.5 Geographical exposures

Please refer to note 4 to 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.

6.1.6 Maximum exposure to credit risk

Please refer to note 4 to 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.

6.1.7 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. These contain 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 conducts ongoing monitoring of collateral provided by SMBC to mitigate the intra-group exposures.

6.1.8 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 the International Swaps and Derivatives Association (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 to 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.

6.1.9 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 to the financial statements.

6.1.10 Counterparty credit risk

Wrong-way risk (WWR) occurs when exposure to a counterparty increases as its credit quality worsens and is generally divided into the following categories:

- Specific WWR – This is generally driven by factors specific to the counterparty to the derivative transaction. The Bank does not enter trades with its customers that feature specific WWR. The collateral accepted by the Bank only includes cash and Japanese Government bonds (JGB) which gives rise to specific WWR only for intra-group exposures to the SMFG Group. The Group provides cash and JGBs to collateralise the exposures in which it risk participates and to which it provides guarantees. In the event of a downturn in Japan whereby SMBC suffers a downgrade, the value of JGBs which are held as collateral by SMBC BI could also devalue. However, at present SMBC BI's Group exposure has been collateralised using Group cash and this is expected to continue – JGBs are not expected be held by SMBC BI as collateral under normal circumstances, but potentially only in extreme circumstances (i.e., liquidity crunch).
- General WWR – This is driven by macroeconomic factors which increase exposure of the derivative while the probability of the customer defaulting is also increasing. The Bank's derivative portfolio consists of fairly simple interest rate and foreign exchange-based products and it is considered that the Bank's counterparties to these trades have a probability of default which is independent of the macroeconomic variables driving exposures and therefore not subject to general WWR.

The Bank considers its exposure to both specific and general WWR to be limited.

For further information on policy for securing collateral see section 6.1.7.

For further information on counterparty credit risk exposure see section 9.

6.1.11 Qualitative information on external credit ratings

SMBC BI uses ratings from external credit assessment institutions (ECAIs) to derive risk weights under the standardised approach for all exposure. The 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 system. 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 7.

7. Credit risk exposures

Analysis of non-performing and forborne exposures

The following tables on disclosure of non-performing and forborne exposures are presented in accordance with the PRA's Pillar 3 templates and instructions. Several of the template disclosures are not applicable to SMBC BI:

- CQ2 Quality of forbearance
- CQ5 Credit quality of loans and advances by industry
- CQ6 Collateral valuation – loans and advances
- CQ8 Collateral obtained by taking possession and execution processes – vintage breakdown

Detailed qualitative information on credit risk quality can be found in note 4 to the financial statements.

The tables have been prepared in accordance with financial information reporting (FINREP) regulations and, for ease of reading, the tables only include items applicable to SMBC BI, with nil rows/columns omitted.

Table 9: CQ1 Credit quality of forborne exposures

The following table presents the credit quality of the performing and non-performing forborne exposures by portfolio and exposure class.

31 March 2022

	Gross carrying amount/ Nominal amounts of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	65	471	471	471	(2)	(12)	340	326
Other financial corporations	14						14	
Non-financial corporations	51	471	471	471	(2)	(12)	326	326
Total	65	471	471	471	(2)	(12)	340	326

Table 10: CQ3 Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount									
	Performing exposures		Non-performing exposures							
	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Non-financial corporations			5				5			
Total			5				5			

Table 11: CQ4: Quality of non-performing exposures by geography

	Gross carrying/Nominal amount						
		of which: non-performing					
			of which: defaulted	of which: subject to impairment	Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
On-balance sheet exposures	**26,369**	**542**	**542**	**26,369**	**(250)**	**–**	**–**
United Kingdom	7,596	168	168	7,596	(51)	–	–
France	3,648	3	3	3,648	(46)	–	–
Saudi Arabia	2,823	–	–	2,823	(7)	–	–
Japan	1,381	–	–	1,381	(0.1)	–	–
Netherlands	1,041	18	18	1,041	(67)	–	–
United States	963	–	–	963	(1)	–	–
South Africa	849	–	–	849	(0.3)	–	–
Switzerland	1,256	–	–	1,256	(4)	–	–
Turkey	544	–	–	544	(6)	–	–
Russian Federation	439	–	–	439	(42)	–	–
Other countries	5,829	354	354	5,829	(25)	–	–
Off-balance sheet exposures	**18,613**	**89**	**89**	**–**	**–**	**34**	
France	8,558	–	–	–	–	4	
United Kingdom	5,241	29	29	–	–	13	
Saudi Arabia	502	–	–	–	–	4	
Spain	495	–	–	–	–	0.3	
South Africa	385	–	–	–	–	1	
Netherlands	385	–	–	–	–	0.4	
Cayman Islands	329	–	–	–	–	1	
Japan	256	–	–	–	–	0	
Hong Kong	222	–	–	–	–	0	
Jersey	164	–	–	–	–	0.4	
Other countries	2,075	60	60	–	–	12	
Total	**44,982**	**631**	**631**	**26,369**	**-250**	**34**	**–**

Table 12: CR1: Performing and non-performing exposures and related provisions

The table presents the credit quality of the performing and non-performing exposures by portfolio and exposure class showing the impairment stage.

31 March 2022

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				
		Of which Stage 1	Of which Stage 2		Of which Stage 2	Of which Stage 3		Of which Stage 1	Of which Stage 2		Of which Stage 2	Of which Stage 3	On performing exposures	On non-performing exposures
Cash balances at central banks and other demand deposits	25,352	25,352	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	24,837	22,244	2,593	542	–	542	(204)	(67)	(137)	(46)	–	(46)	9,043	342
General governments	1,085	1,084	1	–	–	–	(1)	(0.03)	(1)	–	–	–	–	–
Credit institutions	5,012	4,368	644	–	–	–	(12)	(1)	(12)	–	–	–	3,445	–
Other financial corporations	2,697	2,604	94	–	–	–	(54)	(49)	(5)	–	–	–	730	–
Non-financial corporations	16,043	14,189	1,854	542	–	542	(137)	(17)	(119)	(46)	–	(46)	4,868	342
Debt securities	990	990	–	–	–	–	–	–	–	–	–	–	–	–
General governments	925	925	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	65	65	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance sheet exposures	18,524	17,326	1,198	89	–	89	(32)	(6)	(26)	(3)	–	(3)	–	–
Central banks	88	–	88	–	–	–	(0.1)	–	(0.1)	–	–	–	–	–
General governments	25	1	24	–	–	–	(0.01)	–	(.01)	–	–	–	–	–
Credit institutions	736	626	110	–	–	–	(1)	–	(1)	–	–	–	–	–
Other financial corporations	608	479	129	–	–	–	(3)	(1)	(2)	–	–	–	–	–
Non-financial corporations	17,067	16,219	848	89	–	89	(28)	(5)	(22)	(3)	–	(3)	–	–
Total	69,704	65,913	3,791	631	0	631	(236)	(73)	(163)	(49)	–	(49)	9,043	342

Table 13: CR1-A: Maturity of exposures

The table presents the maturity analysis of SMBC BI's credit quality of the performing and non-performing exposures split by the residual contractual maturity band of the portfolio. Net exposure value represents the gross carry amount less provisions.

31 March 2022

	Net exposure value					
	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Loans and advances	750	10,585	8,862	4,932	–	25,129
Debt securities	–	990	–	–	–	990
Total	750	11,575	8,862	4,932	–	26,119

Table 14: CR2: Changes in the stock of non-performing loans and advances

31 March 2022

	Gross carrying amount
Initial stock of non-performing loans and advances	529
Inflows to non-performing portfolios	133
Outflows from non-performing portfolios	(120)
Outflows due to write-offs	(14)
Outflow due to other situations	(106
Final stock of non-performing loans and advances	542

Table 15: CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries

31 March 2022

	Gross carrying amount	Related net accumulated recoveries
Initial stock of non-performing loans and advances	529	–
Inflows to non-performing portfolios	133	–
Outflows from non-performing portfolios	(120)	–
Outflow to performing portfolio	(17)	–
Outflow due to sale of instruments	(85)	(14)
Outflows due to write-offs	(14)	–
Outflow due to other situations	(3)	–
Final stock of non-performing loans and advances	542	–

Table 16: CCyB1 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

The following table presents information for the calculation of SMBC BI's countercyclical capital buffer.

31 March 2022

Breakdown by country	Exposure value under the standardised approach	Own funds requirement	Risk weighted exposure amounts	Own funds req. weights %	Countercyclical buffer rate (%)
Belgium	124	10	124	0.5%	0.0%
Bermuda	150	10	122	0.5%	0.0%
Cayman Islands	691	51	643	2.5%	0.0%
Czech Republic	56	4	56	0.2%	0.5%
France	6,754	448	5,595	21.7%	0.0%
Germany	135	10	130	0.5%	0.0%
Greece	136	11	136	0.5%	0.0%
Guernsey	54	4	55	0.2%	0.0%
Hong Kong	513	30	378	1.5%	1.0%
Hungary	109	8	105	0.4%	0.0%
Ireland	107	9	107	0.4%	0.0%
Isle of Man	73	6	73	0.3%	0.0%
Israel	62	5	62	0.2%	0.0%
Japan	234	6	79	0.3%	0.0%
Jersey	392	31	392	1.5%	0.0%
Luxembourg	428	38	481	1.9%	0.5%
Morocco	165	11	134	0.5%	0.0%
Netherlands	1,186	97	1,215	4.7%	0.0%
Nigeria	245	20	248	1.0%	0.0%
Norway	281	20	245	1.0%	1.0%
Oman	61	5	61	0.2%	0.0%
Qatar	168	11	132	0.5%	0.0%
Russian Federation	433	52	651	2.5%	0.0%
Saudi Arabia	1,170	70	873	3.4%	0.0%
Singapore	568	42	528	2.0%	0.0%
Slovakia	13	1	13	0.1%	1.0%
South Africa	876	69	864	3.4%	0.0%
Spain	445	36	453	1.8%	0.0%
Sweden	136	11	136	0.5%	0.0%
Switzerland	962	66	826	3.2%	0.0%
United Arab Emirates	142	11	142	0.6%	0.0%
United Kingdom	9,972	771	9,642	37.4%	0.0%
United States	844	43	534	2.1%	0.0%
Other countries	775	41	514	2.0%	0.0%
Total	28,461	2,060	25,748	100%	

Table 17: CCyB2 Amount of institution-specific countercyclical capital buffer

31 March 2022	Total
Total risk weighted assets	29,941
Institution specific countercyclical capital buffer rate	0.04%
Institution specific countercyclical capital buffer requirement	10.5

8. Standardised approach

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.

Table 18: CR4 Credit risk exposure and CRM effects

The following table presents the credit risk standardised exposures by exposure classes on two different bases before and after credit conversion factor (CCF) and CRM.

31 March 2022

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet amount	RWAs	RWAs density (%)
1	Central governments or central banks	27,206	112	28,077	152	225	0.8%
3	Public sector entities	27	–	80	–	16	20.0%
4	Multilateral development banks	231	300	183	120	236	77.8%
6	Institutions	4,567	326	2,035	717	1,303	47.4%
7	Corporates	18,220	17,886	15,654	8,214	22,449	94.1%
8	Retail	–	–	–	–	–	75.0%
9	Secured by mortgages on immovable property	756	–	737	–	737	100.0%
10	Exposures in default	444	85	117	15	181	137.4%
11	Exposures associated with particularly high risk	524	35	411	18	643	150.0%
14	Collective investment undertakings	25	–	25	–	317	1250.0%
16	Other items	283	–	283	–	283	100.0%
17	Total	52,285	18,743	47,602	9,236	26,391	46.4%

Table 19: CR5 standardised approach

The following tables outline the credit risk standardised exposure classes by the prescribed risk weight as at 31 March 2022 and 31 March 2021.

	Risk weight									
Exposure classes	0%	20%	50%	75%	100%	150%	250%	1250%	Total	Of which unrated
Central governments or central banks	27,582	548	51	–	12	12	24	–	28,229	12
Regional government or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	80	–	–	–	–	–	–	80	27
Multilateral development banks	67	–	–	–	236	–	–	–	303	236
International organisations	–	–	–	–	–		–	–	–	–
Institutions	–	1,310	1,494	–	572	–	–	–	3,376	1,168
Corporates	–	307	2,496	1,282	19,803	770	1	–	24,659	17,872
Retail										
Retail exposures	–	–	–	o	–	–	–	–	–	–
Exposures secured by mortgages on immovable property	–	–	–	–	737	–	–		737	737
Exposures in default	–	–	–	–	33	99	–	–	132	132
Exposures associated with particularly high risk	–	–	–	–	–	429	–	–	429	429
Units or shares in collective investment undertakings	–	–	–	–	–	–	–	25	25	25
Equity exposures	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	283	–	–	–	283	283
As at 31 March 2022	27,650	2,245	4,041	1,282	21,677	1,308	25	25	58,253	20,922

	Risk weight									
Exposure classes	0%	20%	50%	75%	100%	150%	250%	1250%	Total	Of which unrated
Central governments or central banks	26,526	599	78		39	–	19		27,260	39
Regional government or local authorities	–	–	–		–	–	–		–	–
Public sector entities	–	86	–		–	–	–		86	30
Multilateral development banks	111	–	–		16	–	–		126	16
International organisations	–	–	–		–	–	–		–	–
Institutions	–	1,187	1,092		705	–	–		2,984	1,113
Corporates	–	398	2,961		19,407	545	1		24,139	15,724
Retail	–	–	–		–	–	–		0	–
Retail exposures	–	–	–		820	–	–		820	820
Exposures secured by mortgages on immovable property	–	–	–		7	200	–		207	188
Exposures in default	–	–	–		–	446	–		446	446
Exposures associated with particularly high risk	–	–	–		–	–	–		–	–
Units or shares in collective investment undertakings	–	–	–		–	–	–		–	–
Equity exposures	–	–	–		–	–	–		–	–
Other items	–	–	–		253	–	–		253	253
As at 31 March 2021	26,637	2,270	4,131	–	21,246	1,191	20		56,322	18,629

Table 20: CR3 CRM techniques overview: Use of CRM techniques

	Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
	a	b	c	d	e
Loans and advances	15,744	9,385	4,946	4,439	
Debt securities	990				
Total	16,734	9,385	4,946	4,439	
Of which non-performing exposures	200	342	12	329	

9. Exposures to counterparty credit risk

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) defaulting before the final settlement of cash flow obligations. The size of the potential loss could be reduced by the application of netting or collateral agreements with the counterparty. As of 31 March 2022, SMBC BI did not have any counterparty credit risk exposures to credit derivatives or central counterparties.

The SA-CCR method for calculating exposure amounts for credit RWAs on derivative contracts came into effect on 1 January 2022. SA-CCR replaced the current exposure method (CEM) for calculating these exposure amounts for the Company's risk-based capital ratios. The calculation of exposure value under the SA-CCR regime is equal to the sum of potential future exposure and replacement cost multiplied by the alpha factor (1.4). The risk mitigation benefits of collateral arrangements (e.g. the Credit Support Annex) and qualifying netting agreements (e.g. the ISDA Master Agreement) are reflected in the exposure value where appropriate.

Table 21: CCR1 Analysis of CCR exposure by approach

The following table presents the SA-CCR method used to calculate counterparty credit risk exposure.

31 March 2022

	Replacement cost	Potential future exposure	Alpha used for computing regulatory exposure value	Exposure value pre CRM	Exposure value post CRM	Exposure value	RWEA
SA-CCR (for derivatives)	313	698	1.4	1,415	1,415	1,415	1,060
Financial collateral comprehensive method (for securities financing transactions)				1,198	43	43	9
Total				2,613	1,458	1,458	1,069

Table 22: CCR2 Transactions subject to own funds requirements for CVA risk

31 March 2022

	Exposure value	RWEA
Transactions subject to the standardised method	791	243
Total transactions subject to own funds requirements for CVA risk	791	243

Table 23: CCR3 Standardised approach – CCR exposures by regulatory exposure class and risk weights

The table presents the SA-CCR method by exposure classes and prescribed risk weight.

31 March 2022

	Risk weight											
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
Institutions					115	509						624
Corporates						18			774			791
Total exposure value					115	527			774			1,415

Table 24: CCR5 Standardised approach – Composition of collateral for CCR exposures

The table presents a breakdown of the types of collateral posted or received relating to derivative transactions or securities financing transactions (SFTs).

31 March 2022

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of collateral posted			
Collateral type	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of collateral posted
Cash		975		324		
Debt					1,181	
Total		975		324	1,181	

Table 25: CCR8 – Exposures to central counterparties (CCPs)

31 March 2022

	Exposure value	RWEA
Exposures to QCCPs (total)		0.2
Prefunded default fund contributions	2.6	0.2

10. 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 its risk appetite and business model. It achieves this through the following main measures:

- The establishment of a clear, consistent 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.
- Regular senior management training.

The Bank uses a variety of matrices to measure and control market risk in the trading book. One such tool is the use of VaR, which 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 programme of stress testing using scenarios relevant to the current portfolio composition. The scenarios involve historical stress events such as Black Monday, the Lehman crisis, the Eurozone crisis and the COVID-19 pandemic 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 (the Bank does 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 Basel Committee on Banking Supervision (BCBS) prescribed scenarios.

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

The Bank's VaR exposures can be found in note 4 to the financial statements. The income sensitivity table in the financial statements reports the worst case of eight possible yield curve shift scenarios, including steepening, flattening and parallel shifts, which comprise the market risk stress test.

The market risk governance structure is described in section 5.1. The ALMCo is the risk committee with primary responsible for considering market risk.

Fair value of derivative assets and liabilities

The tables in note 13 to the financial statements show the Bank's fair value disclosures at 31 March 2022 and 31 March 2021.

Table 26: MR1 Market risk under the standardised approach
31 March 2022

		RWE amounts
	Outright products	
1	Interest rate risk (general and specific)	125
2	Equity risk (general and specific)	–
3	Foreign exchange risk	484
4	Commodity risk	–
	Options	
5	Simplified approach	–
6	Delta-plus method	1
7	Scenario approach	–
8	Securitisation (specific risk)	–
9	**Total**	610

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

- Operational risk appetite definition and calibration
- Operational risk identification
- Assessment and measurement
- Control and mitigation
- Reporting and escalation

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 proactively 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 to 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 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/risk issue management – The first line department heads are expected to identify risk exposure (i.e., problems, observations or states that exposes the Bank to risk/potential future 'losses') or otherwise could worsen the Bank's existing exposure – for example internal control deficiencies. Where mitigation is planned or is practical and the risk exposure is of concern the Bank may raise a risk issue and formally track associated mitigating actions. In scenarios where mitigation is not practical and the risk exposure is of concern the Bank may raise risk acceptance. The Bank reviews these risk exposures in the form of risk issues and risk acceptance on an annual basis and reassesses the adequacy of the framework component tool applied (i.e., whether the risk issue or risk acceptance is still valid).
- 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 and compliance with relevant requirements and standards, while ensuring fair treatment of customers assessed. It is an important component of the conduct risk management agenda.
- Operational risk capital requirement – assessing and quantifying operational risk capital requirements using defined regulatory approaches.
- Risk indicator governance framework – The Bank has identified a number of operational risk 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 – 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.

– IT and cyber risk oversight – The Bank has a dedicated risk team to provide advice, guidance and challenge to the 1LOD on its management of IT and cyber risk. This team follows the general operational risk management framework as mentioned above and will also commence thematic reviews to complement risk identification and controls assurance.

The output from the above processes is analysed in order to give a view of the operational risks that the Bank is exposed to versus its risk appetite, and therefore mitigation 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 The consultation paper (CP) on operational resilience was published in December 2019, and in March 2021 (i) the FCA Policy Statement, (ii) the PRA Policy Statement, Statement of Policy and Supervisory Statement, and (iii) the FCA/PRA/Bank of England Impact tolerances for important business services policy statements were published. The Bank continues to develop its operational resilience framework in line with regulatory expectations.

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

The following are the key components of the existing operational resilience framework which have been developed (but require further/ongoing enhancements).

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 by a firm, or by another person on behalf of the firm, to one or more clients of the firm which, if disrupted, could:

  - cause intolerable levels of harm to any one or more of the firm's clients; or
  - pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.

– The Bank has nine IBS.

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: IBS, the impact tolerances, the scenario tests and results, and actions planned to remain within impact tolerances.

Board and governance

– The Board is expected to oversee the operational resilience compliance and approve IBS, impact tolerances, scenario tests and results, actions planned and the self-assessment itself.

An Operational Resilience Programme (the Programme) is underway (under the first line of defence) and documentation has been produced for approval in time for the 31 March 2022 regulatory deadline.

The RMD will continue to develop the framework subject to the output of the Programme and its definition of first and second line responsibilities and will retain the responsibility for challenge and, where relevant, ongoing development of the framework.

Table 27: OR1 – Operational risk own funds requirements and risk weighted exposure amounts
31 March 2022

	Relevant indicator				
Banking activities	Year 3	Year 2	Last year	Own funds requirements	Risk exposure amount
Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches	843	841	872	131	1,637
Subject to TSA:	843	841	872	–	–

12. Conduct risk management

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

Conduct risk management is integrated with the wider risk management framework. The Bank identifies and assesses current and emerging conduct risks across the Bank's business lines ensuring controls are effectively mitigating these risks for all the 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 management of conflict of interests, inside information, competition, financial crime prevention and personal account dealing.
– Monitoring, reporting and oversight of the Bank's adherence to the above policy and procedure framework and regulatory expectations.
– Providing advice, communications and training so that all employees are familiar with the Bank's policy and procedure framework as well as potential or emerging conduct risks and ensuring that an understanding is embedded in all of the Bank's employees of their individual responsibilities and expected behaviours in relation to conduct risk including the conduct rules.
– Promoting a culture of accountability through senior management communication to all employees of the Bank's Values, Purpose and Culture Statements.

- Stringent product and services approval processes, and customer complaints analysis.
- 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.

13. Interest rate risk in the banking book

13.1 IRRBB risk management objectives and policies

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. Changes in interest rates affect:

- the Bank's economic value due to the changes in the underlying value of the Bank's assets, liabilities and off-balance sheet items; and
- the Bank's net interest income (NII) by changes in its interest rate-sensitive income and expenses.

13.1.1 Risk management and risk assessment purposes

SMBC BI formally defines, measures, mitigates and controls its IRRBB risk through the following measures:

- An RAF for monitoring IRRBB within both the regulatory limit and internal risk appetite.
- Clarity of roles and responsibilities for IRRBB management, including governance oversight.
- Regular management information to demonstrate that the Bank is operating within risk appetite.

13.1.2 Risk management and risk assessment strategies

On a daily basis, the Bank monitors its IRRBB risk based on the basis point value (BPV) measures. BPV positions represent the profit and loss for a 0.01% movement, for each currency based on their future unrealised cash flows for each maturity bucket.

The Market Risk Department compiles a daily Risk Report on BPV positions and monitors them against internal limits. In the event a position exceeds the internal limit, actions are taken to remediate with immediate effect. The daily Risk Report is distributed to senior management.

13.1.3 Risk management frequency and key indicators

To manage IRRBB, the Bank monitors changes in both the economic value of equity (EVE) and NII against the RAF and regulatory limits.

The Market Risk Department performs the IRRBB EVE stress test on a monthly basis. The maximum loss scenario (of the eight scenarios below) as a ratio to the Bank's Tier 1 capital features in the Bank's RAF under two KRIs. Amber (1.5%) and red (2%) thresholds have been calibrated for both KRIs based on the Risk Report limits – linking the exercises to make the thresholds Bank specific. These are well below the regulatory threshold of 15% to reflect the Bank's business model and risk appetite to IRRBB.

In the event a pre amber (1.3%) limit is breached, daily IRRBB EVE monitoring will occur with daily communication to the relevant stakeholders until the KRIs falls below the pre amber threshold.

The Bank has also recently developed the monitoring capability based on NII and conducts two NII-related stress scenarios testing the major currencies of the Bank's non-trading book positions.

13.1.4 Interest rate shocks and stress scenarios

The Bank performs eight stress scenarios in total for the major currencies, each of which has its own prescribed shifts based on historical time series ranging from 2000 to 2015.

Out of the eight scenarios, the Bank performs the following six scenarios on interest rate shocks to estimate changes in its EVE:

i) parallel shock up;
ii) parallel shock down;
iii) steepener shock (short rates down and long rates up);
iv) flattener shock (short rates up and long rates down);
v) short rates shock up; and
vi) short rates shock down.

In addition, the Bank performs the following two scenarios on a sudden parallel shift of the yield curve to assess impact on its EVE;

vii) a sudden parallel shift of the yield curve up by 200 basis points (bps); and
viii) a sudden parallel shift of the yield curve down by 200bps.

To complement the PRA prescribed scenarios, the Market Risk Department also performs five historical stress tests monthly based on past crises, ranging from the Lehman crisis, Black Monday and the recent COVID-19 pandemic. Two losses are produced:

i) the maximum loss in a single day over a three-month stressed period; and
ii) the accumulated maximum loss over a three-month stress period.

On a monthly basis, the outcome of the eight scenarios is presented to the Bank's ALMCo for review and challenge.

13.1.5 Model assumptions deviations

With respect to EVE stress tests the Bank has followed the stress scenarios prescribed by the PRA (formerly by the BCBS/European Banking Authority (EBA) guidance) and has not made any significant assumptions or applied any overlays. These scenarios are deemed appropriate considering the Bank's limited appetite for IRRBB.

The model used for the IRRBB EVE stress test has been independently validated by the Model Validation Group of the SMFG Group and is on a two-year review cycle.

As part of this validation, sensitivity analysis had been performed to get a bearing on the potential loss in the event the shifts were greater than those prescribed.

This does two things: i) It gives insight into the stability of the model; and ii) It gives insight into the potential loss amount outside of these prescribed scenarios.

13.1.6 Hedge strategies and accounting treatment

The Bank's policy is to have minimal interest rate risk in the banking book, and this is managed by using both internal and external hedge transactions.

In general, the Bank uses internal hedges to manage short-term interest rate risk, whilst longer-term rate commitments are hedged using interest rate swaps or cross currency swaps with external counterparties.

The Bank applies fair value and cash flow hedge accounting on derivative instruments used for hedging purposes. Further details on derivative financial instruments and hedge accounting are in note 13 to the annual financial statements.

13.1.7 Other information

The maximum loss scenario has been consistent and well below the KRI pre amber thresholds.

With regard to the annual ICAAP exercise, the Bank had previously reported March-end maximum loss scenario. From the financial year ended 31 March 2022, the Bank has changed to report the average loss during the year instead. This was deemed to better reflect the maximum loss of the bank throughout the year.

Table 28: IRRBB1 – Quantitative information on IRRBB

		a	b	c	d	e	f
	In reporting currency	ΔEVE*		ΔNII**		Tier 1 capital	
	Period	31 March 2022	28 Feb 2022	31 March 2022	28 Feb 2022	31 March 2022	28 Feb 2022
010	Parallel shock up	(7.0)	12.8	182.2	205.1		
020	Parallel shock down	(3.9)	(18.3)	(182.2)	(205.1)		
030	Steepener shock	(2.6)	(8.4)				
040	Flattener shock	(6.4)	12.5				
050	Short rates shock up	(9.1)	15.8				
060	Short rates shock down	(2.2)	(18.1)				
070	**Maximum**	(9.1)	(18.3)	(182.2)	(205.1)		
080	**Tier 1 capital**					4,887	4,786

* Change in economic value of equity

** Change in net interest income

14. 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.

Following the PRA's publication of PS21/21 'The UK leverage ratio framework', as of 1 January 2022, SMBC BI calculates its leverage ratio based on the rules contained within the Policy Statement by excluding central bank claims if they are matched by liabilities of the same currency and with equal or longer maturity. As of 31 March 2022, SMBC BI held USD 25bn of central bank claims which were eligible to be excluded. This has increased the leverage ratio by 4.7%.

The table below presents SMBC BI's leverage ratio calculation and provides 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.

Table 29: LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures
31 March 2022

	Applicable amount
Total assets as per published financial statements	54,017
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	0
Adjustment for exemption of exposures to central banks	(25,065)
Adjustment for derivative financial instruments	783
Adjustment for securities financing transactions (SFTs)	17
Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	9,848
Other adjustments	0
Total exposure measure	39,509

Table 30: LR2 – LRCom: Leverage ratio common disclosure
31 March 2022

		Leverage ratio exposures	
		31 March 2022	31 March 2021
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives and SFTs but including collateral)	51,389	50,673
6	Asset amounts deducted in determining Tier 1 capital (leverage)	(92)	(72)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	51,297	50,602
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)	853	n/a
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	1,361	n/a
13	Total derivatives exposures	2,214	1,330
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	1,198	1,733
16	Counterparty credit risk exposure for SFT assets	17	12
18	Total securities financing transaction exposures	1,215	1,745
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	18,613	14,975
20	Adjustments for conversion to credit equivalent amounts	(8,765)	(6,120)
21	General provisions deducted in determining Tier 1 capital (leverage) and specific provisions associated associated with off-balance sheet exposures)	–	–
22	Off-balance sheet exposures	9,848	8,855
Capital and total exposure measure			
23	Tier 1 capital (leverage)	4,887	4,788
24	Total exposure measure including claims on central banks	64,573	62,531
UK 24a	Claims on central banks excluded	(25,065)	n/a
UK 24b	Total exposure measure excluding claims on central banks	39,509	n/a
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	12.4%	n/a
UK 25a	Fully loaded ECL* accounting model leverage ratio excluding claims on central banks (%)	12.3%	n/a
UK 25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	12.4%	n/a
UK 25c	Leverage ratio including claims on central banks (%)	7.6%	7.7%

* Expected credit loss.

Table 31: LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)
31 March 2022

	Leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	51,389
Trading book exposures	–
Banking book exposures, of which:	51,389
Covered bonds	–
Exposures treated as sovereigns	28,139
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	196
Institutions	5,760
Secured by mortgages of immovable properties	734
Retail exposures	0
Corporates	15,617
Exposures in default	116
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	828

15. Liquidity risk management

Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

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

- The establishment of a clear, consistent RAF, and its underpinning quantitative risk metrics, early warning indicators and KRIs, 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 the Bank is operating within risk appetite, along with other select metrics.
- Regular senior management training.

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

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.
- Accurate and timely risk measurement.

The liquidity risk appetite is monitored against both internal and external regulatory liquidity metrics. The external regulatory liquidity ratios, LCR and NSFR are monitored against the internal risk appetite and regulatory requirement. LCR measures the ability of a bank's liquid asset resources to absorb net outflows over a 30-day stress period. NSFR measures the amount of available stable funding required to fund the Bank's activities. NSFR was introduced as a regulatory requirement in the UK from 1 January 2022.

Stress testing is the key internal monitoring tool used to anticipate liquidity outflows under various stress scenarios and assess the adequacy of the liquid asset buffer to cover these. Idiosyncratic, market-wide and combined stress scenarios are assessed against internal risk appetite limits and results are reported to the ALMCo. The stress tests are reviewed at least annually as part of ILAAP and approved by the Board.

In addition, a number of controls are in place to monitor and escalate any liquidity issues, such as early warning indicators to monitor internal and external market and liquidity risks as well as other internal liquidity metrics.

The Bank maintains a range of management actions for use in a liquidity stress and these are documented in the Recovery Plan. The actions are designed to be flexible in nature and provide a menu of options which can be utilised as required in order to facilitate recovery in a stress.

Analysis of liquidity risk

The tables in note 4 to 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 forms 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. The Bank has chosen not to net derivative assets and liabilities.

Table 32: LIQ1 – Quantitative information of LCR

		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYY)	31 March 2022	31 Dec 2021	30 Sep 2021	30 June 2021	31 March 2022	31 Dec 2021	30 Sep 2021	30 June 2021
UK 1b	Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
High quality liquid assets									
1	Total high quality liquid assets (HQLA)					27,878	31,367	31,798	29,267
Cash outflows									
5	Unsecured wholesale funding	27,704	28,873	30,708	30,395	20,206	21,403	22,912	22,307
7	Non-operational deposits (all counterparties)	27,096	28,361	30,360	29,922	19,599	20,891	22,564	21,834
8	Unsecured debt	607	512	349	473	607	512	349	473
10	Additional requirements	786	986	884	813	786	986	884	813
11	Outflows related to derivative exposures and other collateral requirements	786	986	884	813	786	986	884	813
13	Credit and liquidity facilities	13,442	14,307	13,604	12,327	2,213	2,282	2,101	1,961
14	Other contractual funding obligations	289	311	316	364	13	43	59	10
15	Other contingent funding obligations	3,113	3,289	3,039	3,149	184	193	180	148
16	Total cash outflows	–	–	–	–	23,403	24,907	26,136	25,238
Cash inflows									
17	Secured lending (e.g., reverse repos)	1,242	1,283	1,387	1,627	–	–	–	–
18	Inflows from fully performing exposures	4,024	3,251	3,575	4,182	2,990	2,426	2,683	3,160
19	Other cash inflows	480	564	949	788	268	363	736	660
20	Total cash inflows	5,746	5,098	5,910	6,598	3,259	2,789	3,419	3,820
UK 20c	Inflows subject to 75% cap	5,746	5,098	5,910	6,598	3,259	2,789	3,419	3,820
Total adjusted value									
UK 21	Liquidity buffer					27,878	31,367	31,798	29,267
22	Total net cash outflows					20,144	22,118	22,717	21,418
23	Liquidity coverage ratio					138.39%	141.82%	139.97%	136.65%

Table 33: LIQB on qualitative information on LCR, which complements template UK LIQ1.

15.1.1 Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

The LCR aims to ensure that the Bank holds a sufficient reserve of high quality liquid assets (HQLA) to survive a period of liquidity stress lasting 30 calendar days.

From 1 January 2022, LCR is based on the PRA Rulebook following the UK's exit from the EU. Before this LCR was based on the European Commission Delegated Regulation (EU) 2015/61 as amended by Delegated Regulation (EU)2015/61.

All LCR figures shown are average figures for each quarter.

15.1.2 Explanations on the changes in the LCR over time

The LCR has remained fairly constant over time with HQLA being managed to maintain an LCR ratio well above the regulatory minimum.

15.1.3 Explanations on the actual concentration of funding sources

Wholesale unsecured funding is obtained from financial and non-financial customer deposits, certificate of deposit issuance and funding from the parent entity.

15.1.4 High level description of the composition of the institution`s liquidity buffer

HQLA is primarily level 1 central bank reserves and a small amount of level 1 high quality securities.

15.1.5 Derivative exposures and potential collateral calls

The Bank actively manages its derivative exposures and potential collateral calls under stress are captured within the historical look-back approach, which considers the impact of an adverse market scenario on derivatives.

Potential collateral calls under a three-notch downgrade of the Bank's credit ratings are also captured.

15.1.6 Currency mismatch in the LCR

The LCR is calculated for both consolidated currencies and material currencies, USD, GBP and EUR (having liabilities >5% of total liabilities). The Bank manages currency mismatch for significant currencies according to its internal liquidity adequacy assessment framework.

15.1.7 Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

The commentaries under 15.1.1 and 15.1.6 have captured the material items in the LCR that are relevant for the Bank’s liquidity profile.

Table 34: LIQ2: Net stable funding ratio

The NSFR requires SMBC BI to have sufficient available stable funding to meet its required stable funding over a one-year horizon. Based on current regulatory requirements and guidance which came into effect on 1 January 2022, the minimum level is 100%. SMBC BI's NSFR as at 31 March 2022 is 133.5%.

Table 34 below is based on 31 March 2022 and not the average of the four data sets covering the latest and the three previous quarters. This is because the new NSFR rules came into effect on 1 January 2022 therefore prior quarter data is not available.

		Unweighted value by residual maturity				
	In currency amount	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding Items						
1	Capital items and instruments	4,887	–	–	–	4,887
2	*Own funds*	4,887	–	–	–	4,887
7	Wholesale funding:	–	35,914	706	10,761	18,750
9	*Other wholesale funding*	–	35,914	706	10,761	18,750
11	Other liabilities:	–	151	1	6	7
13	*All other liabilities and capital instruments not included in the above categories*	–	10	1	6	7
14	Total available stable funding	–	–	–	–	23,634
Required stable funding Items						
15	Total high quality liquid assets (HQLA)					–
UK-15a	Assets encumbered for more than 12 months in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	Performing loans and securities:		8,323	2,285	14,455	15,784
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		1,198	–	–	–
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		3,576	488	1,472	2,073
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and public sector entities, of which:*		3,483	1,797	12,967	13,662
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		66	–	16	49
26	Other assets:		1,189	64	764	1,199
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		–	–	3	2
29	*NSFR derivative assets*		307	–	–	307
30	*NSFR derivative liabilities before deduction of variation margin posted*		432	–	–	22
31	*All other assets not included in the above categories*		450	64	761	868
32	*Off-balance sheet items*		15,786	–	–	730
33	**Total required stable funding**		–	–	–	17,713
34	**Net stable funding ratio (%)**					133.5

16. 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.

Table 35: AE1 – Encumbered and unencumbered assets

31 March 2022

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA* and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	289	–			57,290	555		
Equity instruments	–	–	–	–	17	–	17	
Debt securities	–	–	–	–	593	555	599	555
of which: issued by general governments	–	–	–	–	555	555	555	555
of which: issued by financial corporations					38	–	44	–
Other assets	289	–			56,681	–		

* Extremely high-quality liquid assets

Table 36: AE2 – Collateral received and own debt securities issued

31 March 2022

	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	269	–	6,392	–
Loans on demand	142	–	–	–
Debt securities	127	–	1,334	–
of which: issued by general governments	95	–	1,334	–
of which: issued by non-financial corporations	127	–	–	–
Loans and advances other than loans on demand	–	–	5,058	–
Total assets, collateral received and own debt securities issued	600	–		

Table 37: AE3 – Sources of encumbrance

31 March 2022

	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	398	455

* Asset back securities

Table 38: AE4 – Accompanying narrative information

The main sources of funding that contribute to SMBC BI's low levels of encumbrance include derivative margin placed with counterparties and placement of cash ratio deposits with the central banks.

17. Remuneration

Governance

SMBC BI has established a Remuneration Committee (RemCo) comprising three independent non-executive Directors (one of whom is Chair and one shareholder non-executive Director). Non-executive Directors do not receive any form of variable pay.

The RemCo has had seven meetings during this performance year.

The Bank consults with PricewaterhouseCoopers LLP for remuneration advice and Simmons & Simmons for legal advice in respect of the development of remuneration practices.

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

The RemCo will oversee the development and implementation of the Bank's 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 (MRTs).
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments.

The RemCo 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.

Remuneration Policy

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 MRTs 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.

The 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 (HR). The RemCo will approve significant revisions to the Policy. During the FY2021 review, the Policy was updated to reflect the changes introduced under the fifth iteration of the Capital Requirements Directive to the deferral structures applied to SMBC BI MRTs in UK and France.

While HR owns the Remuneration Policy, HR consults with the RMD and CPD regularly concerning the Remuneration Policy. These groups meet on a quarterly basis to discuss any incidents that might impact variable pay at a department, group and/or individual level.

Remuneration Policy objectives

SMBC BI's Remuneration Policy is an expression of the Bank's overall philosophy, aims and objectives with regard to how it pays employees.

It is the Bank's intention that:

- the 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;
- the Remuneration Policy promotes sound and effective risk management and is consistent with the Bank's risk management strategies and objectives;
- the Policy should support a fair and inclusive workplace, with all employees being paid equally for equal work or work of equal value. Through the annual salary review SMBC has established processes and controls to ensure any inequities are reviewed and addressed in a timely way;
- decisions about the Remuneration Policy will be reviewed, considered and approved/ratified by the RemCo;
- 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;
- 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
- 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.

Material Risk Takers

The Bank identifies MRTs in line with the quantitative and qualitative criteria as set out by the EBA. The criteria identify employees as MRTs because of their role, their seniority, their authority to expose the Bank to material credit, market or other identified risks, and also their compensation. The Bank does not apply any shareholding requirements upon any of its employees, including its MRTs.

Management is satisfied that it has 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 MRTs, 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

The management of employees engaged in risk, credit, 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 RemCo 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.

Each department is also assessed against three core considerations, each of equal weighting, that the Bank's management believes are essential for the sustainable growth of the EMEA region. Through independent review these will set a Business Performance Rating (BPR) for each business area. The BPR of each department includes an independent assessment of:

– financial (including, but not limited to, achievement of financial targets such as operating profit growth, expense control, and improvement of return on risk assets);
– non-financial (assessing contribution towards the achievement of the EMEA region key performance indicators); and
– qualitative and quantitative by RMD, CPD, Audit Department, Credit Department, Operations and Administration Department and HR of their contribution to and engagement with risk management and compliance activities respectively which also reference diversity and inclusion as well as response to audit recommendations.

Each of these three factors is equally weighted. This qualitative review considers the Bank's risk appetite, its operational needs and significant factors such as risk, control or compliance events, together with any other factors that the Bank's management may consider significant, including conduct. These assessments will provide a BPR that determines the pool available to that department.

Individuals' performance is also assessed, with each employee given a year-end performance rating, which distinguishes performance based on the following evaluations which are equally weighted:

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

The metrics summarised above are used to assess an individual's overall performance that can range from unsatisfactory performance to exceptional performance.

Once individual year-end performance ratings and departmental performance BPRs have been established, distribution of bonuses is by means of a series of 'distribution grids', based on function and level. The grids for the Bank in the EMEA region provide an indicative percentage of salary as a bonus for each eligible individual.

Risk adjustment

The overall bonus pool is set by reference to the SMBC EMEA net income after risk adjustment (NIARA). The bonus fund percentage applied to the NIARA will be adjusted up or down following a qualitative and quantitative evaluation of SMBC EMEA's performance. 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 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 100bps in the yield curve. These adjustments link to the most important risks identified through the risk register and ICAAP process.

Leverage

The Bank believes that fixed pay should be sufficient for any individual to maintain an acceptable standard of living without reliance on variable pay. Variable pay should continue to be a relatively modest aspect of total remuneration. The Bank seeks an appropriate balance of fixed and variable remuneration. Management is satisfied that its leverage ratios are appropriate for its business, with control function pay predominantly made up of fixed pay.

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

The Bank's philosophy and commitment to a conservative risk appetite extends from its business risk approach to how it remunerates MRTs. The Bank considers its risk profile as conservative, with a low ratio of variable to fixed pay. The Bank considers that deferring the variable pay of the MRTs and higher earning employees provides incentives for both good conduct and prudent risk decisions. MRT deferral awards are subject to malus and clawback, strengthening the link between conduct and reward.

The Bank's deferral policy provides for between 20% and 60% of bonus to be deferred for two to seven years for MRTs and senior employees 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 MRT (including Senior Manager Functions).

For identified MRTs, 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. All other employees receive their bonus awards in cash, which in some instances may be deferred.

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, the Bank applies 'de minimus' to the variable award and pays the bonus in full on the award date.

Performance adjustment – malus and clawback

The Bank's policy provides that any deferred bonus is subject to performance adjustment. Performance adjustment events may occur as a result of a deliberate or malicious act, error, accident or negligence. Incidents can be internal or external to the EMEA Division. There may also be grounds for a performance adjustment due to a responsible person's failure to act either to prevent a risk event or where timely action would have mitigated the effects of a risk event. 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 are considered and decided by management, the RemCo and the Board, as necessary.

The RemCo and the Board have the authority to withhold (or delay) 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 MRTs, 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 10 years should the Bank or a regulator have commenced an enquiry into potential material failures.

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

The Bank follows 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.

FY2021 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.

Table 39: REM1 – Remuneration awarded for the financial year

		Remuneration amount	Senior management	Other Material Risk Takers
1	Fixed remuneration	Number of employees	14	82
2		Total fixed remuneration	5.6	29.3
3	Variable remuneration	Number of employees	89	73
4		Total variable remuneration	2.6	13.4
5	Total remuneration (2 + 4)		8.2	42.8

SMBC