SMBC Bank International plc

Pillar 3 Disclosures
as of 31 March 2023

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 (www.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 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

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 framework of the PRA requirements 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 (which requires disclosure to allow market participants to understand the Bank's risk profile).

The relevant Pillar 3 requirements are contained in the Capital Requirements Regulation (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 have been implemented in the UK, effective from 1 January 2022. The Bank has implemented those standards that are relevant, which include:

- 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.

From 1 January 2023, the Bank is subject to the PRA's 'Leverage Ratio – Capital Requirements and Buffers' part of the PRA Rulebook, which requires the Bank to hold sufficient capital to maintain a minimum leverage ratio of 3.25% and hold a Countercyclical Leverage Ratio Buffer.

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, 12, 13, 14 and 16)
- **Credit risk exposures** (sections 7, 8 and 9)
- **Interest rate risk in the banking book** (section 11)
- **Leverage ratio** (section 15)
- **Asset encumbrance** (section 17)
- **Remuneration disclosures** (section 18)

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, if any. 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 is in US Dollar millions unless otherwise stated.

1.3 Basis and frequency of disclosures

In accordance with the 'Disclosure (CRR)' part of the PRA Rulebook, these disclosures are based on 31 March 2023 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 is 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 ratios have remained robust over the year. The increase in capital ratio was driven by a decrease in credit risk weighted exposure amount (RWEA).

Table 1: KM1 – Key metrics

		31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**5,083**	4,878	4,871	4,864	4,887
2	Tier 1 capital	**5,083**	4,878	4,871	4,864	4,887
3	Total capital	**5,083**	4,878	4,871	4,864	4,887
	Risk weighted exposure amounts					
4	Total risk weighted exposure amount	**28,579**	28,657	27,759	28,233	29,941
	Capital ratios (as a percentage of risk weighted exposure amount)					
5	CET1 ratio (%)	**17.8**	17.0	17.5	17.2	16.3
6	Tier 1 ratio (%)	**17.8**	17.0	17.5	17.2	16.3
7	Total capital ratio (%)	**17.8**	17.0	17.5	17.2	16.3
	Additional own funds requirements based on SREP* (as a percentage of risk weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	**0.7**	0.7	0.7	0.7	0.7
UK 7b	Additional Tier 1 SREP requirements (%)	**0.2**	0.3	0.3	0.3	0.3
UK 7c	Additional Tier 2 SREP requirements (%)	**0.3**	0.3	0.3	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.3**	9.3	9.3	9.3	9.3
	Combined buffer requirement (as a percentage of risk weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**0.4**	0.4	0.04	0.04	0.04
11	Combined buffer requirement (%)	**2.9**	2.9	2.5	2.5	2.5
UK11a	Overall capital requirements (%)	**12.3**	12.2	11.8	11.8	11.8
12	CET1 available after meeting the total SREP own funds requirements (%)	**8.5**	7.7	8.2	7.9	7.0
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	**36,713**	38,261	42,903	38,634	39,509
14	Leverage ratio excluding claims on central banks (%)	**13.8**	12.7	11.4	12.6	12.4
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**13.8**	n/a			
14b	Leverage ratio including claims on central banks (%)	**8.2**				
14c	Average leverage ratio excluding claims on central banks (%)	**13.4**				
14d	Average leverage ratio including claims on central banks (%)	**8.1**				
14e	Countercyclical leverage ratio buffer (%)	**0.2**				
	Liquidity coverage ratio					
15	Total high quality liquid assets (HQLA) (Weighted value – average)	**27,770**	28,599	26,812	27,846	27,878
UK16a	Cash outflows – Total weighted value	**22,064**	22,090	20,311	23,455	23,403
UK16b	Cash inflows – Total weighted value	**2,970**	2,915	3,377	3,725	3,259
16	Total net cash outflows (adjusted value)	**19,094**	19,175	16,934	19,730	20,144
17	Liquidity coverage ratio (%)	**145.4**	149.1	158.3	141.1	138.4
	Net stable funding ratio					

		31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
18	Total available stable funding	**23,984**	24,228	24,965	22,865	23,643
19	Total required stable funding	**16,839**	17,256	16,274	17,191	17,713
20	NSFR ratio (%)	**142.4**	140.4	153.4	133.0	133.5

* 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 2023	31 March 2022	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	**1,878.8**	1,639.4	b
3	Accumulated other comprehensive income (and other reserves)	**110.5**	106.7	c
6	**CET1 capital before regulatory adjustments**	**5,189.4**	4,946.2	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	**(5.0)**	(3.7)	h
8	Intangible assets (net of related tax liability)	**(56.4)**	(46.7)	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(10.2)**	(6.6)	e
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**0**	0	
15	Defined benefit pension fund assets	**(30.1)**	(43.4)	f
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**(4.7)**	41.1	g
28	**Total regulatory adjustments to CET1**	**(106.3)**	(59.3)	
29	**CET1 capital**	**5,083**	4,886.8	
60	**Total risk exposure amount**	**28,579.2**	29,941.4	
Capital ratios and buffers				
61	CET1 (as a percentage of total risk exposure amount)	**17.8%**	16.3%	
62	Tier 1 (as a percentage of total risk exposure amount)	**17.8%**	16.3%	
63	Total capital (as a percentage of total risk exposure amount)	**17.8%**	16.3%	
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)	**8.2%**	7.8%	
65	of which capital conservation buffer requirement	**2.5%**	2.5%	
66	of which: countercyclical buffer requirement	**0.44%**	0.04%	
68	**CET1 available to meet buffers (as a percentage of risk exposure amount)**	**8.5%**	8.4%	
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)	**26.0**	32.0	

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 2023		
Assets – Breakdown by asset class according to the balance sheet in the published financial statements				
1	Cash and balances at central banks	**25,880.0**		
2	Settlement balances	**115.5**		
3	Loans and advances to banks	**3,223.6**		
4	Loans and advances to customers	**17,712.7**		
	of which subject to capital decrease (other regulatory adjustments)	**3.0**		g
5	Reverse repurchase agreements	**1,266.9**		
6	Investment securities	**1,045.1**		
7	Derivative assets	**2,085.6**		
8	Other assets	**928.9**		
9	Intangible assets and goodwill	**56.4**		
	of which subject to capital deduction (Goodwill)	**1.9**		d
	of which subject to capital deduction (other intangibles)	**54.4**		d
10	Property and equipment	**254.4**		
11	Current tax asset	**24.2**		
12	Deferred tax asset	**26.0**		
13	Pensions surplus	**41.8**		
	of which subject to capital deduction (Defined benefit pensions fund)	**41.8**		f
	Total assets	**52,661.1**		
Liabilities – Breakdown by liability class according to the balance sheet in the published financial statements				
1	Deposits by banks	**24,989.5**		
2	Customer accounts	**18,669.0**		
3	Debts securities in issue	**1,048.7**		
4	Derivatives liabilities	**1,877.3**		
	Of which: subject to capital deduction (Prudential valuation adjustment)	**5.0**		h
	Of which: subject to capital decrease (Fair value gains from the institution's own credit risk)	**1.7**		g
5	Other liabilities	**847.3**		
6	Other provisions	**12.0**		
7	Deferred tax liability	**27.9**		
	Of which offsetting the pension surplus	**11.7**		f
	Total liabilities	**47,471.7**		
Shareholders' equity				
1	Called up share capital	**3,200.1**		a
2	Retained earnings	**1,878.8**		b
3	Other reserves	**110.5**		c
	of which subject to capital deduction (fair value reserves related to gains or losses on cash flow hedges)	**10.2**		e
	Total shareholders' equity	**5,198.4**		

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 2023.

		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 RWEAs and the total own funds requirements, by exposure class and calculation approach, of SMBC BI as at 31 March 2023. Total own funds requirements are calculated as RWEAs multiplied by 8%.

		RWEAs		Total own funds requirements	
		31 March 2023	31 March 2022	**31 March 2023**	31 March 2022
1	Credit risk (excluding CCR)	**24,625**	26,391	**1,970**	2,111
2	Of which the standardised approach	**24,625**	26,391	**1,970**	2,111
6	Counterparty credit risk – CCR	**1,742**	1,303	**139**	104
UK 8b	Of which credit valuation adjustment – CVA	**255**	243	**20**	19
20	Position, foreign exchange and commodities risks (market risk)	**466**	610	**37**	49
21	Of which the standardised approach	**466**	610	**37**	49
UK 22a	Large exposures				
23	Operational risk	**1,745**	1,637	**140**	131
UK 23a	Of which basic indicator approach				
UK 23b	Of which standardised approach	**1,745**	1,637	**140**	131
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	**65**	80	**5**	6
29	**Total**	**28,579**	29,941	**2,285**	2,395

The RWEAs have remained stable between FY2022 and FY2023. The decrease in credit RWEA was primarily driven by a reduction in customer lending.

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	25,880	25,880	25,880			
Settlement balances	116	116	116			
Loans and advances to banks	3,224	3,224	3,224			
Loans and advances to customers	17,713	17,713	17,713			
Reverse repurchase agreements	1,267	1,267	1,267			
Investment securities	1,045	1,045	1,045			
Derivative assets	2,086	2,086		2,086	1,902	
Other assets	929	929	592	337		
Intangible assets and goodwill	56	56				56
Property and equipment	254	254	254			
Current tax asset	25	25				25
Deferred tax asset	26	26	26			
Pensions surplus	42	42				42
Total assets	**52,662**	**52,662**	**50,116**	**2,423**	**1,902**	**123**
Liabilities						
Deposits by banks	24,990	24,990				24,990
Customer accounts	18,669	18,669				18,669
Debts securities in issue	1,049	1,049				1,049
Derivatives liabilities	1,877	1,877		1,877	1,874	
Other liabilities	847	847		293		555
Other provisions	12	12	12			
Deferred tax liability	28	28				28
Total liabilities	**47,472**	**47,472**	**12**	**2,170**	**1,874**	**45,291**

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)	52,539	50,116	2,423	1,902
Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	2,170	12	2,170	1,874
Total net amount under the regulatory scope of consolidation	50,369	50,104	253	28
Off-balance sheet amounts	16,191	16,191		
Differences in valuations	(5)	(5)		
Differences due to different netting rules, other than those already included in row 2	1,696	0	1,696	
Differences due to consideration of provisions	11	11		
Differences due to the use of credit risk mitigation techniques (CRMs)	(4,368)	(4,368)		
Differences due to credit conversion factors	(7,642)	(7,642)		
Other differences	283	283		
Exposure amounts considered for regulatory purposes	56,523	54,574	1,949	466

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

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

Business model

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

Solvency and liquidity

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

Conducting business

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

Operational resilience

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

5.2 Risk management objectives

The Bank's risk management objectives are to:

- ensure the Bank's strategic risk pillars, risk strategy statements and risk appetite measures are observed and maintained in the pursuit of the Bank's strategic objectives;
- maintain a risk appetite that maximises risk/return whilst ensuring that the Bank always maintains adequate capital;
- ensure that prudent levels of liquidity are in place to fund the Bank even under stressed conditions;
- maintain fair and ethical relationships with all the Bank's customers;
- manage and mitigate risk that the Bank assumes because of its business strategy;
- maintain an adequate and effective control environment; and
- ensure that the Bank adheres to the letter and spirit of laws and regulations governing its business.

5.3 Risk management framework components

The Bank's risk management framework provides the fundamental structure for the management of the risks that it faces i.e., the governance arrangements, roles and responsibilities, appetites and limits, processes and reporting.

The Bank understands the importance of establishing and embedding a robust risk management culture across the firm. Therefore, the framework is designed to ensure effective risk governance and management is in place across all business activities.

The framework can be described through the following components:

Risk governance

SMBC BI has in place a governance structure that ensures sound overall management and oversight of risk management. The SMBC BI Board retains all decision-making powers except those which it has delegated to either a committee or an individual. The Bank is subject to Senior Managers and Certification Regime (SMCR) and has appointed senior managers for all relevant Senior Manager Functions (SMF) to ensure clear management accountability.

The Bank's risk management governance arrangements comprise the following:

- A committee structure to oversee and manage the risks of the firm.
- An organisational structure that utilises a three lines of defence (3 LOD) model for the management of risks, and clearly establishes the responsibilities for the various lines of defence.
- A policy framework that defines the mandatory minimum requirements for the management of risks.

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
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Recruitment policy for selection of members of the management body and their actual knowledge, skills and expertise	45–46 41–43	Board composition and diversity 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	45–46	Board composition and diversity

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Three lines of defence

The Bank has adopted the 3 LOD model. This approach separates the ownership and management of risk from the functions that oversee risk and the function that provides independent assurance:

- First line of defence – functions that own and manage risk.
- Second line of defence – functions that oversee risk.
- Third line of defence – functions that provide independent assurance.

First line

Senior management in the first line of defence is ultimately responsible for the risks and controls that fall within its area of responsibility. Each department operates within the risk appetite threshold in the context of its own strategy, taking into account the Bank's overall risk management framework and Corporate Strategy. This approach is designed to ensure that risk appetite is cascaded down to those areas where risk is taken.

Second line

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

Third line

The Audit Department is the third line of defence and 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 Bank's assets, reputation and sustainability. To achieve this objective, the Internal Audit Group conducts audits and provides related services using a risk-based approach and through meeting the Chartered Institute of Internal Auditors (CIIA) Standards and following the Guidance on Effective Internal Audit in the Financial Services Sector issued by the CIIA.

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

Risk identification and assessment

The key principles used for risk identification and assessment are:

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

The Bank has several key processes to ensure its risks are identified and assessed, including for enterprise risks the Top 10 risks and emerging risks, and the Risk Register processes. Information on risk category level identification and assessment processes can be found in the sections on credit risk, market risk, liquidity risk, operational and other risks, and conduct risk.

Risk measurement and monitoring

The key principles for risk measurement and monitoring are to:

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

Risk management (control and mitigation)

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

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

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

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

Risk reporting and escalation

SMBC BI key principles for risk reporting and escalation are as follows:

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

Risk appetite setting

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

SMBC BI's key principles for its risk appetite framework are:

- that the risk appetite of the Bank is set by the Board (this is undertaken on an annual basis as part of the strategic planning process);
- that the risk appetite is driven by both top-down Board leadership and bottom-up involvement of business units and second line teams;
- to facilitate embedding of risk appetite into the Bank and its culture;
- to evaluate opportunities for appropriate risk taking and act as a defence against excessive risk taking;
- to promote robust discussions about the risk profile of the Bank because of its activities;
- to be adaptive, where appropriate, to changes in business and market conditions;
- to cover all the Bank's activities;
- that Board-level appetite changes should drive real changes in risk taking at the business level;
- that risk taking is calibrated to the Bank's long-term sustainability; and
- that risk appetite setting is an integral part of the Bank's strategy.

Stress testing and scenario analysis

Stress testing and scenario analysis are used across the principal risks to ensure that the Bank can adequately understand and quantify risks not only as they currently exist, but also as they might develop in times of stress.

Reverse stress testing

Reverse stress testing (RST) 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 an important part of the overall risk management framework and assists management in understanding key vulnerabilities and identifying potential control enhancements.

The Bank's RST is developed in conjunction and alignment with the risk assessment processes (Risk Register and Top 10 risks and emerging risks) and is included in the Internal Capital Adequacy Assessment Process (ICAAP).

Model risk management framework

All internal models used to conduct stress testing are subject to the Model Risk Management Policy. This Policy is the governing document on all stress testing-related models, covering credit, market, liquidity and operational risks. All stress testing models are subject to a self-assessment against the model risk management principles published by the PRA as and the findings of this are reported in the ICAAP document.

Risk management training

The key principles for risk management training are:

- to facilitate senior management understanding and engagement with key risk management topics and processes;
- to ensure an appropriate and up to date framework is in place so that the required skill sets are updated and refreshed regularly, thereby reinforcing the 3 LOD; and
- to communicate the Bank's risk culture and framework throughout the organisation on a quarterly basis.

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

5.4 Risk profile

The Bank's principal risk categories are summarised below:

Type	Description	How risks are managed
Credit	The risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.	Credit risk is identified, managed and monitored individually and in aggregate. Several approaches are used, such as limits, indicators, and stress testing. Example key indicators include earnings volatility, obligor, sector and country concentration limits and credit quality metrics.
Liquidity	The risk that the Bank cannot meet its liabilities, unwind, or settle its positions as they become due.	Liquidity risk is identified, managed and monitored using several approaches, such as limits, indicators and stress testing. Example key indicators include liquidity coverage ratio, net stable funding ratio and survivability period metrics under stress scenarios.
Market	The risk that movements in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.	The Bank uses Value at Risk (VaR) to a 99% confidence interval to measure and control market risk alongside other relevant metrics.
Conduct	The risk of the Bank's actions, inactions or behaviours resulting in poor outcomes for its customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.	The Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank assesses conduct using a suite of targeted metrics.
Operational and Other non-financial	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. There is also an increasing regulatory and bank focus on operational resilience. As a result of the Bank's activities, it assumes other potential risk impacts such as reputational, conduct and others which it manages within the overall policy framework.	Operational risk is managed with a view to maximising resilience and continuity whilst maintaining acceptable levels of residual risk. Example key indicators used to monitor, measure and report operational risk include operational risk losses and an operational risk profile score underpinned by diverse operational risk indicators. Several appropriate approaches are used to manage other non-financial risks.
Model	The potential loss resulting from errors in the development, implementation or use of internal models.	Model risk is managed through the model risk management framework, which comprises four key components: model governance and control, model management, model development and independent model validation.
Sustainability, including climate change	Sustainability risk results from Environmental, Social and Governance (ESG) issues, events or conditions that have the potential to substantially impact (financially, reputationally or physically) the Bank, SMBC Group, its clients, the environment and/or society. This risk can manifest itself across all risk types.	This is managed under the Sustainability Risk Framework, which is embedded in the broader risk framework and business.

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

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

5.5 Strategic Planning

5.5.1 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 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 under Pillar 1.

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.

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.

5.5.2 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 16 for further details.

5.5.3 Recovery and Resolution Planning

The Board also considers, on an annual basis, the Bank's crisis preparedness: the Bank assesses extreme but plausible stress scenarios which can be systemic or idiosyncratic in nature and would result in the Bank invoking its Recovery Plan, which documents the crisis monitoring and escalation procedure, stress testing, and credible recovery options that could be taken to weather a crisis situation. The overall Recovery and Resolution Planning Framework comprising the Recovery Plan, the Solvent Wind Down Plan, and the Resolution Pack, is approved by the Board annually.

6. Credit risk management

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.

6.1.1 The framework

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

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

6.1.2 Credit assessment

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

The rating system consists of two indicators, namely:

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

J grade* Code	(Benchmark) S&P**	G grade* Code	(Benchmark) S&P	Borrower's category
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 kept at all times 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.

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 consider collateral or other credit enhancements.

6.1.7 Use of credit risk mitigation techniques

Depending on the situation, the Bank's corporate lending is secured by fixed and floating charges on the assets of borrowers. Frequency of the revaluation varies depending on the types of collateral and the collateral is valued on a continuous basis. Collateral takes various forms, and the value of this security will vary over time and is dependent on the types of assets 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 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

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction in cases where there is a bilateral risk of loss (e.g., derivatives, repo, stock borrow/lending and long settlement transactions).

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 2023

	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	103	375	375	375	(3)	(8)	320	290
Other financial corporations	6						6	
Non-financial corporations	97	375	375	375	(3)	(8)	315	290
Total	103	375	375	375	(3)	(8)	320	290

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

31 March 2023

	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	**23,587**	**426**	**426**	**23,587**	**(253)**	**–**	**–**
United Kingdom	7,547	100	100	7,547	(32)	–	–
France	3,798	0	0	3,798	(21)	–	–
Saudi Arabia	1,184	0	0	1,184	(6)	–	–
Japan	1,391	0	0	1,391	0	–	–
Netherlands	882	0	0	882	(5)	–	–
United States	436	0	0	436	(1)	–	–
South Africa	800	0	0	800	(1)	–	–
Switzerland	794	0	0	794	(11)	–	–
Turkey	296	0	0	296	(7)	–	–
Russian Federation	403	0	0	403	(148)	–	–
Other countries	6,055	327	327	6,055	(20)	–	–
Off-balance sheet exposures	**14,191**	**28**	**28**	**0**	**–**	**12**	
France	6,865	0	0	0	–	3	
United Kingdom	4,173	10	10	0	–	5	
Saudi Arabia	13	0	0	0	–	1	
Spain	410	0	0	0	–	0	
South Africa	313	0	0	0	–	0	
Netherlands	364	0	0	0	–	0	
Cayman Islands	192	0	0	0	–	0	
Japan	198	0	0	0	–	0	
Hong Kong	226	0	0	0	–	0	
Jersey	51	0	0	0	–	0	
Other countries	1,385	18	18	0	–	2	
Total	**37,778**	**454**	**454**	**23,587**	**(253)**	**12**	**–**

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

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

31 March 2023

	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	26,014	26,014	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	22,135	17,429	4,706	426	–	426	(231)	(19)	(212)	(23)	–	(23)	7,435	317
Central banks	12	12					(0)	(0)						
General governments	124	58	66	–	–	–	(0)	(0)	(0)	–	–	–	–	–
Credit institutions	3,697	3,396	301	–	–	–	(36)	(2)	(34)	–	–	–	3.005	–
Other financial corporations	2,815	2,439	3764	–	–	–	(6)	(1)	(5)	–	–	–	–	–
Non-financial corporations	15,486	11,523	3,963	426	–	426	(188)	(16)	(172)	(23)	–	(23)	4,430	317
Debt securities	1,026	1,026	–	–	–	–	–	–	–	–	–	–	–	–
General governments	996	996	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	29	29	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance sheet exposures	14,163	7,454	6,709	28	–	28	(11)	(7)	(4)	(1)	–	(1)	–	–
Central banks	0	0	–	–	–	–	(0)	–	(0)	–	–	–	–	–
General governments	1	–	1	–	–	–	(0)	–	(0)	–	–	–	–	–
Credit institutions	437	317	120	–	–	–	(2)	(1)	(1)	–	–	–	–	–
Other financial corporations	187	120	67	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	13,538	7,016	6,522	28	–	28	(9)	(6)	(4)	(1)	–	(1)	–	–
Total	**63,338**	**51,923**	**11,415**	**454**	–	**454**	**(242)**	**(26)**	**(216)**	**(24)**	–	**(24)**	**7,435**	**317**

Table 13: CR1-A – Maturity of exposures

The following 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 2023

	Net exposure value					
	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Loans and advances	–	8,956	8,622	4,607	–	22,185
Debt securities	–	1,026	–	–	–	1,026
Total	–	9,982	8,622	4,607	–	23,211

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

31 March 2023

	Gross carrying amount
Initial stock of non-performing loans and advances	542
Inflows to non-performing portfolios	–
Outflows from non-performing portfolios	(116)
Outflows due to write-offs	–
Outflow due to other situations	(116)
Final stock of non-performing loans and advances	426

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

31 March 2023

	Gross carrying amount	Related net accumulated recoveries
Initial stock of non-performing loans and advances	542	–
Inflows to non-performing portfolios	–	–
Outflows from non-performing portfolios	(116)	23
Outflow to performing portfolio	(23)	7
Outflow due to sale of instruments	(37)	21
Outflows due to write-offs	–	–
Outflow due to other situations	(56)	(5)
Final stock of non-performing loans and advances	426	–

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 2023

Breakdown by country	Exposure value under the standardised approach	Own funds requirement	Risk weighted exposure amounts	Own funds req. weights %	Countercyclical buffer rate (%)
Australia	64	5	64	0.3%	1.0%
Belgium	42	3	42	0.2%	0.0%
Bermuda	115	11	142	0.6%	0.0%
Cayman Islands	637	63	787	3.2%	0.0%
Czech Republic	64	5	64	0.3%	2.0%
France	5,930	435	5,434	22.4%	0.0%
Germany	70	6	70	0.3%	0.8%
Guernsey	65	5	65	0.3%	0.0%
Hong Kong	206	16	206	0.8%	1.0%
Hungary	91	7	88	0.4%	0.0%
Ireland	172	14	172	0.7%	0.0%
Isle of Man	60	5	60	0.2%	0.0%
Italy	0	0	0	0.0%	0.0%
Japan	126	9	114	0.5%	0.0%
Jersey	527	42	527	2.2%	0.0%
Luxembourg	539	43	539	2.2%	0.5%
Morocco	71	6	71	0.3%	0.0%
Netherlands	1,041	82	1,029	4.2%	0.0%
Nigeria	383	31	391	1.6%	0.0%
Norway	170	14	170	0.7%	2.5%
Oman	49	4	49	0.2%	0.0%
Qatar	80	3	40	0.2%	0.0%
Russian Federation	269	32	403	1.7%	0.0%
Saudi Arabia	1,087	69	865	3.6%	0.0%
Singapore	319	25	319	1.3%	0.0%
Slovakia	12	1	12	0.0%	1.0%
South Africa	842	67	840	3.5%	0.0%
Spain	445	36	445	1.8%	0.0%
Sweden	96	8	96	0.4%	1.0%
Switzerland	378	30	379	1.6%	0.0%
United Arab Emirates	179	15	194	0.8%	0.0%
United Kingdom	9,728	762	9,525	39.2%	1.0%
United States	402	32	402	1.7%	0.0%
Other countries	876	55	693	2.9%	0.0%
Total	25,134	1,944	24,295	100%	

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

31 March 2023	Total
Total risk weighted assets	28,579
Institution specific countercyclical capital buffer rate	0.44%
Institution specific countercyclical capital buffer requirement	127

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 2023

		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 exposures	RWAs	RWAs density (%)
1	Central governments or central banks	26,982	–	28,036	132	97	0.3%
3	Public sector entities	26	–	85	7	18	20.0%
4	Multilateral development banks	650	–	526	2	497	94.2%
6	Institutions	2,253	277	1,135	471	656	40.9%
7	Corporates	17,007	15,999	15,024	7,469	21,262	94.5%
8	Retail	–	–	–	–	–	75.0%
9	Secured by mortgages on immovable property	1,034	–	1,015	–	1,015	100.0%
10	Exposures in default	379	27	75	5	108	134.5%
11	Exposures associated with particularly high risk	330	31	240	4	365	150.0%
14	Collective investment undertakings	19	6	19	6	307	1250.0%
16	Other items	299	–	299	–	299	100.0%
17	Total	48,978	16,340	46,454	8,096	24,625	45.1%

Table 19: CR5 – Standardised approach

The following tables outline the credit risk standardised exposure classes by the prescribed risk weight.

	Risk weight									
Exposure classes	0%	20%	50%	75%	100%	150%	250%	1250%	Total	Of which unrated
Central governments or central banks	28,030	78	33	–	–	–	26	–	28,168	–
Regional government or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	91	–	–	–	–	–	–	91	26
Multilateral development banks	31	–	–	–	497	–	–	–	528	497
International organisations	–	–	–	–	–		–	–	–	–
Institutions	–	807	610	–	190	–	–	–	1,606	18
Corporates	–	281	1,803	–	20,068[1]	341	–	–	22,493	16,658
Retail	–	–	–	0	–	–	–	–	–	–
Exposures secured by mortgages on immovable property	–	–	–	–	1,015	–	–		1,015	1,015
Exposures in default	–	–	–	–	25	55	–	–	80	80
Exposures associated with particularly high risk	–	–	–	–	–	243	–	–	243	243
Units or shares in collective investment undertakings	–	–	–	–	–	–	–	25	25	25
Equity	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	299	–	–	–	299	299
As at 31 March 2023	**28,061**	**1,258**	**2,446**	**–**	**22,095**	**640**	**26**	**25**	**54,550**	**19,423**

	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	–	21,085[2]	770	1	–	25,941	17,872
Retail	–	–	–	0	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	283	–	–	–	283	283
As at 31 March 2022	27,650	2,245	4,041	–	22,959	1,308	25	25	58,253	20,922

[1] Note that the corporates 100% RW category contains USD 1,105 million in exposures that benefit from Infrastructure Supporting Factor, where the final RWA are multiplied by a factor of 75%.

[2] Note that the corporates 100% RW category contains USD 1,282 million in exposures that benefit from Infrastructure Supporting Factor, where the final RWA are multiplied by a factor of 75%.

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	40,823	7,752	4,660	3,092	
Debt securities	1,026	–	–	–	
Total	41,849	7,752	4,660	3,092	
Of which non-performing exposures	109	317	–	317	

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 2023, 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 2023

	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)	459	999	1.4	1,949	1,949	1,949	1,482
Financial collateral comprehensive method (for securities financing transactions)				1,267	25	25	5
Total				3,216	1,974	1,974	1,487

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 2023

	Exposure value	RWEA
Transactions subject to the standardised method	726	255
Total transactions subject to own funds requirements for CVA risk	726	255

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 following table presents the counterparty credit risk position subject to the standardised risk-weight method by exposure classes and prescribed risk weight.

31 March 2023

	Risk weight											
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
Institutions					102	785						887
Corporates						25			1,061			1,086
Total exposure value					102	810			1,061			1,974

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

31 March 2023

	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		817		390		
Debt					1,279	
Total		**817**		**390**	**1,279**	

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 2023

	Exposure value	RWEA
Exposures to QCCPs[3] (total)		0.1
Prefunded default fund contributions	2.5	0.1

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

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

- VaR is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model.
- Interest rate risk in the banking book refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book position.

This is assessed using:

- the scenarios as prescribed by the Basel Committee on Banking Supervision (BCBS) (parallel/non-parallel) which are assessed monthly and then daily in the event Pre Amber limits are breached;
- historical scenarios, for example, Lehman, Black Monday and the more recent COVID-19 period, assessed monthly, which considers the Bank's current positions against past crises;
- daily market risk reporting of net basis point value (BPV) limits for the overall portfolio and by major currency (GBP, USD, EUR and JPY) respective maturity ladder;
- monitoring and assessing the daily profit and loss to ensure it is in line with the Bank's expectation; and
- managing, monitoring and reporting the Bank's early warning and key risk indicators.

Fair value of derivative assets and liabilities

The tables in note 13 to the financial statements show the Bank's fair value disclosures on 31 March 2023.

[3] Qualifying central counterparty

Table 26: MR1 – Market risk under the standardised approach
31 March 2023

		RWEAs	
		31 March 2023	31 March 2022
	Outright products		
1	Interest rate risk (general and specific)	**96**	125
2	Equity risk (general and specific)	–	–
3	Foreign exchange risk	**356**	484
4	Commodity risk	–	–
	Options		
5	Simplified approach	–	–
6	Delta-plus method	**15**	1
7	Scenario approach	–	–
8	Securitisation (specific risk)	–	–
9	**Total**	**466**	610

11. Interest rate risk in the banking book

11.1 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 Equity (EVE) due to changes in the underlying value of the Bank's assets, liabilities and off-balance sheet items; and
- the Bank's Net Interest Income (NII) due to changes in its interest rate-sensitive income and expenses.

11.1.1 Risk management and risk assessment purposes

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

- A risk appetite framework (RAF) for monitoring IRRBB within both the regulatory limits and internal risk appetite.
- Establishment of roles and responsibilities for IRRBB management, including governance and oversight.
- Regular management information to monitor and ensure that the Bank is operating within risk appetite.

11.1.2 Risk management and risk assessment strategies

On a daily basis, the Bank monitors its IRRBB risk based on the BPV measures. BPV positions represent the change in market value due to one basis point (e.g., 0.01%) parallel movement in yield curve, for each currency based on their future cash flows in 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 among the Risk Management Department, Finance and Control, and Treasury.

11.1.3 Risk management frequency and key indicators

To manage IRRBB, the Bank measures and monitors its exposure in EVE through stress testing on monthly basis. The results for EVE are monitored against the RAF and regulatory limits. For NII, the Bank will monitor the results against threshold expected to be introduced by the EBA in the near future.

For EVE stress testing, the maximum loss scenario (of the eight scenarios listed in section 13.1.4 below) as a ratio to the Bank's Tier 1 capital features in the Bank's RAF under two KRIs:

- 6 Standardised Scenarios, with Amber (1.5%) and Red (2%) thresholds
- 2 Standardised Scenario +-200 basis points (bps), with Amber (1.1%) and Red (1.5%) thresholds

These have been calibrated for both KRIs based on the Risk Report limits – linking the frameworks to make the thresholds. Note the above internal thresholds are well below the regulatory threshold of 15% as a conservative measure, to reflect the Bank's business model and risk appetite in IRRBB.

In the event a Pre Amber for the 6 Scenarios (1.3%) or the 2 Scenarios (0.9%) 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.

In addition, the Bank also conducts two NII-related stress scenarios (+-200bps) testing on the Bank's non-trading book positions in the major currencies. The Bank is currently recalibrating NII stress testing under the new EBA guidelines effective from June 2023.

On a monthly basis, the outcome of the eight scenarios is presented to the Bank's Asset and Liability Management Committee (ALMCo) for review and challenge.

11.1.4 Interest rate shocks and stress scenarios

The Bank performs IRRBB EVE stress testing comprising eight scenarios (listed below) for positions in the major currencies, each of which has its own prescribed shifts based on historical time series ranging from 2000 to 2015. This period captures multiple crises including the Financial Crisis (2007–9) which would have been a severe shock.

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

vi) Short rates shock down

vii) A sudden parallel shift of the yield curve up by 200bps

viii) A sudden parallel shift of the yield curve down by 200bps

To complement the PRA prescribed scenarios, market risk also performs five historical stress tests monthly based on real-life crises, including Lehman crisis, Black Monday and the recent COVID-19 pandemic. Losses in two metrics are measured:

i) The maximum loss in a single day over a three-month stressed period

ii) The accumulated maximum loss over a three-month stress period

11.1.5 Model assumptions deviations

With respect to IRRBB EVE stress tests, the Bank has applied scenarios prescribed by the PRA Supervisory Review Evaluation Process SS31/15. The Bank has not applied any significant assumptions or overlays, as these scenarios are deemed comprehensive/appropriate considering the Bank's limited appetite for IRRBB.

The model used for the IRRBB EVE stress test had 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 additional analysis has two advantages: i) It provides insight into the stability of the model. ii) It provides insight into the potential loss amount outside of these prescribed scenarios.

11.1.6 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.

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

11.1.7 Other information

The maximum loss of the worst scenarios over the past period has been consistent and well below the KRI Pre Amber thresholds.

With regard to the annual ICAAP exercise, the Bank had previously reported the average maximum loss during the financial year because March 2022 was considered a low point. For FY2023 ICAAP, the Bank will report the maximum loss of the financial year (USD 45.7 million), as this is considered more conservative.

Table 27: IRRBB1 – Quantitative information on IRRBB

		a	b	c	d	e	f
	In reporting currency	**ΔEVE***		**ΔNII****		**Tier 1 capital**	
	Period	**31 March 2023**	31 March 2022	31 March 2023	31 March 2022	**31 March 2023**	31 March 2022
010	Parallel shock up	6	(7.0)	185.2	182.2		
020	Parallel shock down	(24.3)	(3.9)	(185.2)	(182.2)		
030	Steepener shock	(15.6)	(2.6)				
040	Flattener shock	1.1	(6.4)				
050	Short rates shock up	2.3	(9.1)				
060	Short rates shock down	(25.6)	(2.2)				
070	**Maximum**	(25.6)	(9.1)	(185.2)	(182.2)		
080	**Tier 1 capital**					5,083	4,887

* Change in economic value of equity
** Change in net interest income

12. Operational and other risks

Operational risk

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

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

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

The ongoing management of operational risk is supported by diverse processes and tools, which include: operational risk event/material incident reporting, scenario analysis, Risk Register, risk issue/acceptance identification, product approval framework, operational risk capital approach, risk indicator governance framework, third party risk management/outsourcing, IT and cyber risk oversight, and project monitoring.

Operational resilience

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

The Bank supports a number of Important Business Services and must ensure that, over time, these are as resilient as possible so that, in the event of an operational disruption, it avoids causing intolerable harm to our customers and, where relevant, to the wider market.

The Bank has established and embedded a number of key Operational Resilience components in its business, including:

- Important Business Services
- Impact tolerances
- Mapping
- Scenario Testing
- Lessons Learned
- Self-assessment
- Governance & oversight

By March 2025, SMBC BI is required to have developed key components and operational capabilities which improve its operational resilience and address its Lessons Learned so it can consistently remain within its impact tolerances in the event of an operational disruption.

SMBC BI has an active Operational Resilience Programme which is scoping, designing and then implementing the changes required in order to iteratively improve its resilience to the required standard during the transition period. This includes enhancements to business continuity, incident management, technology and cyber resilience, and the establishment of a formal business service management capability.

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

There are currently two time-based impact tolerances for each IBS (aligned to both FCA and PRA expectations).

Mapping

Mapping is operational and captures the business process from the point the Bank's commitment to our customer is unequivocal, until our obligation is discharged. At each step, the Bank verifies the capabilities consumed by that step, e.g., the Premises, the Technology, the People, the Third Parties, and the Data. The mapping is conducted and maintained with each IBS.

Scenario Testing

Scenario Testing aims to ensure our firm can remain within its impact tolerance by the generation and testing of plausible but severe scenarios. A library of scenarios has been developed with a range of tests executed across our IBS to identify Lessons Learned. This will continue to be further developed through the transition period.

Self-assessment

The Bank has produced a second iteration of its a self-assessment to demonstrate its approach and current state of operational resilience. It also outlines the programme of work ongoing during the transition period to mature its capabilities for compliance with March 2025 expectations.

Board and governance

An interim governance structure has been introduced with an Operational Resilience Council (ORC) chaired by the SMF24 (or equivalent). The council includes IBS Owners and Capability Leads who together can review the status of each IBS.

The Operational Resilience Programme developing the maturity of a number of core capabilities during the transition period is governed by a dedicated Steering Committee chaired by SMF24 (or equivalent).

As the Operational Resilience framework evolves and matures, the second line will continue to challenge the first line, where relevant, to support appropriate outcomes.

Table 28: OR1 – Operational risk own funds requirements and risk weighted exposure amounts

31 March 2023

	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	841	871	1,014	140	1,745
Subject to TSA:	841	871	1,014	–	–

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	–	–

13. Conduct risk management

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

The Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank has a policy framework to help all colleagues in understanding good conduct, positive behaviours, and raising and addressing concerns. These policies set out the Bank's approach to the identification, understanding and management of conduct risk at individual, departmental and organisational levels. They also explain that conduct applies to both financial and non-financial behaviours and that conduct is recognised as being closely linked to the Bank's values, culture, and an environment of psychological safety.

To support the policy framework, the Bank provides training, advice and guidance to help colleagues in meeting the regulatory and legal requirements and the rules and standards of conduct to which all staff must adhere.

Conduct KRIs, which seek to provide effective risk identification, are regularly reviewed, including by the Executive and Risk Committees, to ensure proportionality and relevance to encourage organisational learning, constructive challenge and inclusion, as well as improved engagement and accountability.

There is a strong overlap between operational risk and conduct risk. To that end, when executing the key processes of the operational risk management framework, conduct risk is considered. Specifically, the following processes include a conduct risk flag to support the assessment of the conduct risk profile:

- KRIs
- Operational Risk Events
- Risk Register
- New Product and Services process

14. Sustainability risk management

SMBC Group defines sustainability as the creation of "a society in which today's generation can enjoy economic prosperity and wellbeing and pass it on to future generations". The Bank shares SMBC Group's objective of working with customers and stakeholders towards building and sustaining a better world.

The Bank's sustainability arrangements extend to the three aspects of ESG and, while there is significant focus on the risks and opportunities arising from climate change, the Bank recognises that this forms part of a broader range of sustainability factors.

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

Sustainability remains an important element of the Directors' ongoing education plan. During the year, the Directors received briefings from internal and external specialists on climate litigation, greenhouse gas (GHG) emissions regulations and economic security, facilitated emissions and understanding transition plans. In addition, certain individual members of the Board have engaged with Chapter Zero, the UK Chapter of the Climate Governance Initiative, and received briefings from professional advisors on climate matters.

15. Leverage ratio

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

The 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 2023

	Applicable amount
Total assets as per published financial statements	52,635
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	(24,997)
Adjustment for derivative financial instruments	724
Adjustment for securities financing transactions (SFTs)	4
Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	8,413
Other adjustments	(66)
Total exposure measure	36,713

Table 30: LR2 – LRCom: Leverage ratio common disclosure

		Leverage ratio exposures	
		31 March 2023	31 March 2022
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives and SFTs but including collateral)	**49,314**	51,389
6	Asset amounts deducted in determining Tier 1 capital (leverage)	**(97)**	(92)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**49,217**	51,297
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)	**1,067**	853
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**1,742**	1,361
13	**Total derivatives exposures**	**2,809**	2,214
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**1,267**	1,198
16	Counterparty credit risk exposure for SFT assets	**4**	17
18	**Total securities financing transaction exposures**	**1,271**	1,215
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**16,036**	18,613
20	Adjustments for conversion to credit equivalent amounts	**(7,623)**	(8,765)
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**	**8,413**	9,848
Capital and total exposure measure			
23	Tier 1 capital (leverage)	**5,083**	4,887

		Leverage ratio exposures	
		31 March 2023	31 March 2022
24	Total exposure measure including claims on central banks	**61,710**	64,573
UK 24a	Claims on central banks excluded	**(24,997)**	(25,065)
UK 24b	**Total exposure measure excluding claims on central banks**	**36,713**	39,509
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	**13.8%**	12.4%
UK 25a	Fully loaded ECL* accounting model leverage ratio excluding claims on central banks (%)	**13.8%**	12.3%
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 (%)	**13.8%**	12.4%
UK 25c	Leverage ratio including claims on central banks (%)	**8.2%**	7.6%
26	Regulatory minimum leverage ratio requirement (%)	**3.25%**	n/a
Additional leverage ratio disclosure requirements - leverage ratio buffers			
27	Leverage ratio buffer (%)	**0.2%**	n/a
UK-27b	Of which: countercyclical leverage ratio buffer (%)	**0.2%**	n/a
Additional leverage ratio disclosure requirements – disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	**1,251**	n/a
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**1,267**	n/a
UK-31	Average total exposure measure including claims on central banks	**62,928**	n/a
UK-32	Average total exposure measure excluding claims on central banks	**38,067**	n/a
UK-33	Average leverage ratio including claims on central banks	**8.1%**	n/a
UK-34	Average leverage ratio excluding claims on central banks	**13.4%**	n/a

* Expected credit loss.

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

31 March 2023

	Leverage ratio exposures	
	31 March 2023	31 March 2022
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**49,314**	51,389
Trading book exposures	–	–
Banking book exposures, of which:	**49,314**	51,389
Covered bonds	–	–
Exposures treated as sovereigns	**28,058**	28,139
Exposures to regional governments, MDB[4], international organisations and PSE[5] not treated as sovereigns	**579**	196
Institutions	**3,993**	5,760
Secured by mortgages of immovable properties	**1,012**	734
Retail exposures	**0**	0
Corporates	**14,920**	15,617
Exposures in default	**75**	116
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**677**	828

[4] Multilateral development bank
[5] Public sector entity

LRA – Disclosure of LR qualitative information

Description of the processes used to manage the risk of excessive leverage

The risk of excess leverage is actively managed through the relevant Board-approved risk appetite framework. The framework monitors the leverage ratio on a monthly basis and the results are presented to senior management committee.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The leverage ratio has increased by 1.4% year on year to 13.8%, primarily driven by a USD 2.8 billion reduction in the leverage exposures. The decrease in exposures reflects the overall reduction seen in the size of the balance sheet.

16. 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 ILAAP is the key procedure for assessing the liquidity and funding needs of the Bank. It is used to ensure liquidity and funding risks are identified, measured, managed and monitored across different time horizons and scenarios. The ILAAP is updated at least annually and approved by the Board.

At least annually, the Bank's RAF is approved by the Board, which includes qualitative statements and quantitative measures to aggregate and define the level of liquidity and funding risks the Bank is willing to accept.

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 its 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, liquidity coverage ratio (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 YYYY)	**31 March 2023**	31 Dec 2022	30 Sep 2022	30 June 2022	31 March 2023	31 Dec 2022	30 Sep 2022	30 June 2022
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)					27,770	28,599	26,812	27,846
Cash outflows									
5	Unsecured wholesale funding	**24,606**	25,717	23,479	27,319	18,453	18,324	16,893	20,100
7	Non-operational deposits (all counterparties)	**24,166**	25,361	23,003	26,802	18,013	17,968	16,417	19,583
8	Unsecured debt	**440**	356	476	516	440	356	476	516
10	Additional requirements	**1,093**	1,151	867	722	1,093	1,151	867	722
11	Outflows related to derivative exposures and other collateral requirements	**1,093**	1,151	867	722	1,093	1,151	867	722
13	Credit and liquidity facilities	**12,582**	12,467	12,832	13,633	2,159	2,203	2,256	2,396
14	Other contractual funding obligations	**457**	346	314	403	141	85	60	55
15	Other contingent funding obligations	**23,666**	25,166	11,208	3,078	217	326	235	181
16	Total cash outflows	**–**	–	–	–	22,064	22,090	20,311	23,455
Cash inflows									
17	Secured lending (e.g., reverse repos)	**1,266**	1,116	1,014	1,183	–	–	–	–
18	Inflows from fully performing exposures	**3,548**	2,983	3,047	4,108	2,691	2,340	2,318	3,132
19	Other cash inflows	**427**	723	1,178	773	279	575	1,059	593
20	Total cash inflows	**5,240**	4,822	5,240	6,063	2,970	2,915	3,377	3,725
UK 20c	Inflows subject to 75% cap	**5,240**	4,822	5,240	6,063	2,970	2,915	3,377	3,725
Total adjusted value									
UK 21	Liquidity buffer					27,770	28,599	26,812	27,846
22	Total net cash outflows					19,094	19,175	16,934	19,730
23	Liquidity coverage ratio					145.4%	149.1%	158.3%	141.1%

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

16.1.1 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 HQLA to survive a period of liquidity stress lasting 30 calendar days.

All LCR figures shown are average figures for each quarter.

16.1.2 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.

16.1.3 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.

16.1.4 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.

16.1.5 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.

16.1.6 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.

16.1.7 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 16.1.1 and 16.1.6 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 2023 is 142.4%.

31 March 2023

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding Items						
1	Capital items and instruments	5,046	–	–	–	5,046
2	*Own funds*	5,046	–	–	–	5,046
7	Wholesale funding:	–	34,102	1,297	10,254	18,921
9	*Other wholesale funding*	–	34,102	1,297	10,254	18,921
11	Other liabilities:	–	304	2	16	17
13	*All other liabilities and capital instruments not included in the above categories*	–	304	2	16	17
14	Total available stable funding	–	–	–	–	23,984
Required stable funding Items						
15	Total high quality liquid assets (HQLA)					–
UK-15a	Assets encumbered for more than 12 months in cover pool		–	–	–	–

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	Performing loans and securities:		7,513	1,900	13,745	14,857
18	*Performing securities financing transactions with financial customers collateralised by level 1 HQLA subject to 0% haircut*		1,173	–	–	–
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		3,013	306	1,706	2,161
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:*		3,304	1,591	12,019	12,664
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*		23	3	20	33
26	Other assets:		1,757	17	646	1,278
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		–	–	2	2
29	*NSFR derivative assets*		410	–	–	410
30	*NSFR derivative liabilities before deduction of variation margin posted*		673	–	–	34
31	*All other assets not included in the above categories*		674	17	643	833
32	*Off-balance sheet items*		15,427	–	–	703
33	**Total required stable funding**		–	–	–	16,839
34	**Net stable funding ratio (%)**					142.4

The main available stable funding (ASF) sources are capital and long-term borrowing from SMBC Group which supports almost all required stable funding (RSF) driven by loans to customers. ASF provided by deposits from corporate customers supports the remaining RSF.

The Bank's ASF mainly consists of its own funds, deposits from corporate customers (both financial institutions and non-financial institutions and central banks, certificate of deposit (CD) and derivatives payables.

The Bank's RSF mainly consists of loans to both financial and non-financial customers, and undrawn committed credit facilities.

17. 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 2023

	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	703	–			53,439	26,462		
Equity instruments	–	–	–	–	20	–	17	-
Debt securities	–	–	–	–	891	863	599	555
of which issued by general governments	–	–	–	–	863	863	555	555
of which issued by financial corporations					23	–	44	–
Other assets	703	–			52,528	25,598		

* Extremely high quality liquid 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	30,683		
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	29,758		

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

31 March 2023

			Unencumbered	
	Fair value of encumbered collateral received or own debt securities issued		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	236	232	6,752	1,136
Loans on demand	45	–	–	–
Debt securities	192	232	1,136	1,136
of which: issued by general governments	232	232	1,136	1,136
of which: issued by non-financial corporations	–	–	–	–
Loans and advances other than loans on demand	–	–	5,616	–
Total assets, collateral received and own debt securities issued	941	232		

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	1,334
Loans on demand	142	–	–	–
Debt securities	127	–	1,334	1,334
of which: issued by general governments	95	–	1,334	1,334
of which: issued by non-financial corporations		–	–	–
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 2023

	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	381	579

* Asset-backed securities

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

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, securities borrowed and subsequently lent out and placement of cash ratio deposits with the central banks.

18. Remuneration

Governance

SMBC BI has a Remuneration Committee (RemCo) comprising four 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 four meetings during the performance financial year ended 31 March 2023.

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;
– ensure the Policy provides for equality of opportunity, and supports an inclusive and diverse culture; and
– ensure the Policy adheres to the Remuneration Code and any other applicable remuneration regulations.

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

– 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; and
– reviewing and approving performance adjustments, including malus and clawback, for MRTs.

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 BI. 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, the 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, the Risk Management and Compliance departments are actively involved in the formulation of Remuneration Policy, and the review of individual and business compensation arrangements and levels (including adjustments due to performance or other issues). Risk and Compliance also provide important feedback and debate in both regular management meetings on remuneration matters, and in RemCo meetings where appropriate.

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 Strategy 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 Remuneration Committee;
- 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 European Banking Authority. The criteria identify employees as MRTs because of their role, their seniority, their authority to expose the institution 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 is independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front-line business units in the process. The Remuneration Committee reviews and approves Risk, Audit and Compliance function pay for MRTs. Control function pay is predominantly made up of fixed pay.

Discretionary Bonus Scheme (variable compensation)

All employees are eligible to participate in an annual discretionary bonus plan.

Overall bonus pool funding is calculated using a bonus pool cap calculation, reviewed annually with the Strategic Planning and Finance Department, and approved annually by the RemCo. The bonus pool funding cap is calculated as a percentage of risk-adjusted net income. Risk adjustments include 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 100bp in the yield curve.

This bonus pool cap number is then compared with total target bonus awards based on target bonus grids (based on level, location and role). These grids define an on-target bonus as a percentage of base salary. This number is reviewed against the bonus cap, and appropriate external compensation benchmarks, to determine whether to reduce the bonus pool funding from the cap level (this was the case for financial year 2022/23). The total funding is subsequently divided among businesses and functions based on department performance, which is assessed as follows:

– For front office departments, an independent assessment is done on financial, non-financial, and management and compliance metrics (equally weighted at 33.3% each).
– For control & support functions, an independent assessment is done of non-financial, and management and compliance metrics (equally weighted at 50% each).

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 and assign one of five ratings that cover a range of performance outcomes from 'Unsatisfactory' to 'Exceptional +'.

During the annual compensation review, each individual is allocated a calculated bonus based on their on-target bonus, scaled for business and department performance, and then adjusted based on individual performance. Line managers are able to adjust this recommended bonus number based on individual circumstances. All recommendations are reviewed and challenged by the relevant HR teams.

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 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 the ratio of variable to fixed pay as low. Deferring the variable pay of the MRTs and higher earning employees provides incentives for both good conduct and prudent risk decisions in the longer term. MRT deferral awards are subject to malus and clawback, strengthening the link between conduct and reward.

For employees who are not MRTs, there is a deferral plan for employees at the title of Director and above whose bonus is over £100,000. A percentage of the bonus over £100,000 is deferred for three years. This deferral plan was implemented for the UK, Belgium and the Middle East for the 2022/23 financial year and will be rolled out to all other locations for the 2023/24 financial year.

For employees who are MRTs and have bonus awards above the 'de minimis' level, between 40% and 60% of bonus is deferred for 3 to 7 years, depending on MRT category and/or the remuneration of the individual. Deferrals are split between cash and cash linked to the SMBC share price. Amounts deferred and linked to the SMBC share price are subject to a holding period after the vesting date of either 6 or 12 months depending on the category of the MRT (including Senior Manager Functions).

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.
b) There is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the Bank.
c) There is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety.
d) The firm or the relevant business unit suffers a material failure of risk management.
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 7 years after the award date in the event that the participant is involved in or responsible for any of the circumstances detailed in a) to e) 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.

All of SMBC BI front office employees are categorised as 'Investment banking' for the purposes of this reporting.

Table 39: REM1 – Remuneration awarded for the financial year

			MB[6] Supervisory function	MB management function	Other senior management	Other Identified staff
1	Fixed remuneration	Number of identified staff	6	10	31	46
2		Total fixed remuneration	0.6	4.4	9.1	14.3
3		Of which: cash-based	0.6	4.4	9.1	14.3
9	Variable remuneration	Number of identified staff	–	9	25	45
10		Total variable remuneration	–	2.3	4.4	7.4
11		Of which: cash-based	–	1.2	2.4	3.9
12		Of which: deferred	–	0.5	0.8	1.4
UK-13a		Of which: shares or equivalent ownership interests	–	1.1	2.0	3.5
UK-14a		Of which: deferred	–	0.5	0.8	1.4
17	Total remuneration (2 + 10)		0.6	6.7	13.5	21.7

Table 40: REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		Other senior management
Severance payments awarded during the financial year		
6	Severance payments awarded during the financial year – Number of identified staff	1
7	Severance payments awarded during the financial year – Total amount	0.8
8	Of which paid during the financial year	0.8
11	Of which highest payment that has been awarded to a single person	0.8

Table 41: REM3 – Deferred remuneration

		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
7	MB Management function					
8	Cash-based	1.6	0.3	1.3	0.3	–
9	Shares or equivalent ownership interests	1.6	0.3	1.3	0.3	0.1
13	Other senior management					
14	Cash-based	1.5	0.3	1.2	0.3	–
15	Shares or equivalent ownership interests	1.4	0.3	1.1	0.3	0.2
19	Other identified staff					
20	Cash-based	2.5	0.6	2.0	0.6	–
21	Shares or equivalent ownership interests	2.1	0.4	1.7	0.4	0.3
25	Total amount	10.7	2.2	8.5	2.2	0.6

[6] Management body

Table 42: REM4 – Remuneration of 1 million EUR or more per year

		Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	2
2	1 500 000 to below 2 000 000	1

Table 43: REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		Management body remuneration			Business areas			
		MB Supervisory function	MB Management function	Total MB	Investment banking	Corporate functions	Independent internal control functions	Total
1	Total number of identified staff							93
2	Of which: members of the MB	6	10	16				
3	Of which: other senior management				15	10	6	
4	Of which: other identified staff				26	3	17	
5	Total remuneration of identified staff	0.6	6.7	7.4	22.5	4.9	7.8	
6	Of which: variable remuneration	–	2.3	2.3	8.3	1.5	2.0	
7	Of which: fixed remuneration	0.6	4.4	5.0	14.1	3.4	5.8	

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