SMBC

SMBC Group

SMBC DERIVATIVE PRODUCTS LIMITED

SMBC Derivative Products Limited

Annual report and financial statements
Year ended 31 March 2023

Company number 02988637

Contents

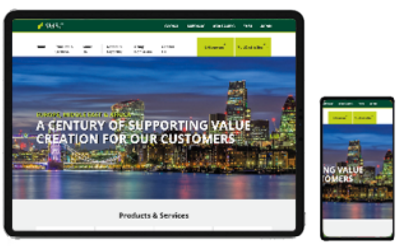
Company registration
Registered as a private limited company in England and Wales under company number 02988637.

Regulatory registration
Authorised and regulated by the Financial Conduct Authority.
Financial Services Register number: 172073

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

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

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL



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+ www.smbcgroup.com/emea

Strategic Report

The Directors present the Strategic Report of SMBC Derivative Products Limited ("the Company", "SMBC DP") for the year ended 31 March 2023 (the Year).

Principal activities

SMBC Derivative Products Limited is an investment firm providing derivatives, securities and business advisory products and services. It is regulated by the Financial Conduct Authority as a full scope investment firm.

SMBC DP is a wholly owned subsidiary of SMBC Nikko Capital Markets Limited (“CM Ltd”) which together with another subsidiary, SMBC Capital Markets (Asia) Limited, and a branch office in Abu Dhabi, form the CM Ltd Group. The CM Ltd Group is part of Sumitomo Mitsui Financial Group (SMFG), a Tokyo-based holding company that is one of Japan’s largest financial institutions. Through its subsidiaries and affiliates, SMFG offers a diverse range of financial services, including commercial banking, leasing, securities, credit card, consumer finance and other services. The corporate group of companies of SMFG is known as SMBC Group.

Business model and strategy

The Company is established as a bankruptcy remote specialised derivative products company (“DPC”) which holds a credit rating of Aa1 from Moody’s Investors Service Inc. (“Moody’s”) and AA- from Standard & Poor’s Ratings Group (“S&P”). It manages its capital in accordance with specific operating requirements to maintain these enhanced credit ratings.

SMBC DP provides interest rate and foreign exchange risk hedging products to customers seeking a counterparty with a credit rating higher than that of SMBC Group. The Company also provides, for a fee, credit performance guarantees to third party customers.

All principal trades booked by the Company with its customers are hedged with mirror transactions with an affiliated entity, SMBC Capital Markets Inc. (“CM Inc.”). The Company earns a credit intermediation fee for each transaction.

The Company provides credit guarantee to clients of its affiliated companies on the performance of those affiliates. A fee is earned for all such credit guarantees written. Additionally, the Company is free to earn a return on its capital. The Company’s objectives, policies and processes for managing capital are set out in Note 17.

The Company does not employ staff and at the year-end had no employees. Staff of affiliated companies perform activities on behalf of the Company, and the quality of the services provided is monitored under an appropriate governance framework.

Principal risks and uncertainties

The Company is subject to a range of risk factors and uncertainties in the course of conducting its principal activities, including credit and counterparty risk, liquidity risk, market risk, cash flow risk, operational risk and other risks, an overview of which is included in Note 17 to the financial statements.

Risk management

Internal processes and controls are subject to regular self-assessment in addition to verification by an independent internal audit function, reporting to the Board, which has full discretion over the particular processes and controls it chooses to review and the timing of any review.

Other closely monitored risks, all of which are reviewed and assessed at least annually, include regulatory risk and conduct risk. Regulatory risk, a significant factor for authorised and regulated investment firms, is the risk of non-compliance to existing regulations and also the risk of changes to applicable regulations or laws having an adverse impact on the business. Conduct risk arises from any activity that the Company or any individuals performing services on the Company’s behalf might engage in which would result in unfair treatment of the Company’s customers, breaches of conduct of business or financial crime rules or damage to market integrity or competition.

The Company operates within the risk appetite framework of its parent group. The key risks reviewed by the Board and management are set out in the annual report of CM Ltd within the Strategic Report and notes to the financial statements.

DPC's such as SMBC DP can be structured as either continuation or termination vehicles. SMBC DP is a continuation DPC. A credit rating downgrade of the intermediate parent, Sumitomo Mitsui Banking Corporation ("SMBC") to Baa3 (long-term) / P-3 short-term or below by Moody's, or BB (long-term) / B (short–term) or below by S&P would constitute a "trigger event" for the Company whereby it is required to terminate all trades with affiliated counterparties so exposing itself to market risk. A continuation DPC is then obliged to make and receive scheduled payments on all trades with non-affiliated counterparties until those trades either mature, are novated, or are terminated.

It is typical for DPC's to have contingent manager agreements. Under these agreements, an unaffiliated derivatives dealer agrees to provide portfolio management and other general services should a trigger event take place. On the occurrence of a trigger event, the responsibility for the Company's portfolio would fall to the contingent manager. The Company's contingent manager is BlackRock Financial Management, Inc.

SMBC Group's own credit rating is inextricably linked to Japan's sovereign risk, thereby exposing the Company to a range of macro-economic, geopolitical and other external business risks, all of which are reviewed and assessed at least annually.

Business environment

The Company operates in a highly regulated business environment with significant requirements in respect of reporting, capital and liquidity management, product design, conduct, customer service and other business aspects from multiple regulators in the countries the Company operates. These regulations constantly change and evolve in response to years of financial instability, new business practices, economic and political developments and become increasingly stringent in order to promote good practice and stability in global financial markets.

Market risk continues to be a dominant factor in the current and next financial year due to a number of reasons.

In March 2023, three banks in the United States collapsed in a quick succession, sending shockwaves throughout global financial markets. Shortly after, Credit Suisse, a major global bank, had to apply for emergency Central Bank facilities and was taken over by UBS. These high-profile failures impacted overall market confidence in the financial sector.

This comes at the time of the ongoing Russia-Ukraine conflict and continued inflationary pressures, impacting the cost of living. Aftermaths of previous significant events, Brexit and the COVID-19 pandemic, continue to affect financial markets. Therefore, at present there is a high degree of uncertainty as to the direction of travel of interest rates, and to the degree to which there may be contagion in financial markets arising from the above. As a consequence, there is likely to be a deterioration in the overall credit worthiness of the market.

The Company follows the CM Ltd Group framework in responding to these challenges. It continues to act as a derivatives specialist and continues to seek opportunities to diversify its customer base and develop its derivatives business working alongside affiliated SMBC Group entities.

Business development and performance

The Company takes into account a range of strategic, business and operational considerations when reviewing the performance of the business. Such considerations include the efficient allocation and use of capital, earnings stability, balance sheet quality, operational robustness and the maintenance of good regulatory compliance.

Effectiveness is measured through the Company's use of financial indicators such as budgeted revenue targets, new deal revenue and return on capital and also non-financial indicators including conduct considerations, compliance with relevant internal and external rules and targets and the setting of measurable goals for all employees performing services on the Company's behalf through a comprehensive assessment process. The Directors pay particular attention to management information relating to earnings, regulatory capital, leverage and liquidity.

Despite the challenges presented by the rates environment and the mix of factors affecting the business environment and global markets in which the business operates, the Company reported a profit before taxation of USD 6,175 thousand for the year ended 31 March 2023, representing a USD 5,273 thousand increase on the previous year ended 31 March 2022 (USD 902 thousand). The income-driven profit increase is attributable to higher guarantee fees, earned on higher balances of guaranteed transactions, and interest income, following the rapid increase of interest rates during the year.

At 31 March 2023, the Company had common equity tier 1 (CET1) and total regulatory capital of USD 242,153 thousand (31 March 2022: USD 235,062 thousand). Further details of regulatory capital and ratios are presented in Note 21.

Energy consumption and efficiency

Information on the CM Ltd Group's energy consumption and reduction measures, which includes the Company, can be found in the Annual Report and Accounts of CM Ltd.

Approved by the Board on 15 June 2023 and signed on its behalf

Antony Yates
Director
Date: 26 July 2023

Corporate Governance

The CM Ltd Group seeks to promote high standards of corporate governance. Guiding principles are in place for the relationship between the CM Ltd Board and the Company's Board. This framework promotes full and effective interaction across all levels to support the delivery of strategy and business objectives within a framework of best corporate governance practice.

The Board of Directors

The Directors who were in office and the composition of the Board Committees as at 31 March 2023 are shown below.

Name	Board of Directors	Audit	Nomination	Risk	Executive
Independent Non-executive Directors					
Thomas Coleman	M	M	M	M	–
Roger McCormick	M	M	C	M	–
Timothy Quinn	M	C	M	M	–
Group Non-executive Director					
Glenn Swanton	M	M	M	C	–
Executive Directors					
Antony Yates	C	–	–	–	M
Yukio Ishii	M	–	–	–	M
Mehul Desai	M	–	–	–	C

("M" – Member; "C" – "Chairperson")

Board Committees

During the year, the Company's governance arrangements were enhanced through the establishment of Audit, Nomination and Risk Committees.

The responsibilities of the Board Committees are as follows:

Audit Committee

The Audit Committee is responsible for assisting the Board in: i) its oversight and monitoring of the integrity of the financial statements and internal financial controls; and ii) monitoring and reviewing the effectiveness of the internal audit function. The members of the Committee comprises non-executive directors and it is chaired by an independent non-executive director.

Nomination Committee

The Nomination Committee is responsible for assisting the Board in the recommendation and approval of Board and senior management positions. The Nomination Committee also has responsibility for overseeing the process for ensuring that non-executive directors receive a tailored induction on appointment and ongoing development programmes. The members of the Committee comprises non-executive directors and it is chaired by an independent non-executive director.

Risk Committee

The Risk Committee is responsible for assisting the Board in its oversight of risk, reviewing the Company's risk appetite and risk profile, reviewing the risk effectiveness of the risk management framework, reviewing the methodology used in determining the Company's capital requirements and stress testing. The members of the Committee comprises non-executive directors and it is chaired by a non-executive director.

Executive Committee

The Executive Committee is attended by members of the senior management team and is responsible for the supervision and management of the Company's business. The Committee meets monthly and reports to the Board. The non-executive Directors receive a copy of the papers and minutes of all Committee meetings.

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires company directors to act in the way they consider in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to the:

a) likely consequences of any decisions in the long term
b) interests of employees
c) need to foster business relationships with suppliers, customers and others
d) impact of the company's operations on the community and the environment
e) desirability of the company maintaining a reputation for high standards of business conduct
f) need to act fairly as between members of the company

This part describes how in the year the Directors have had regard to the above matters (the section 172(1) matters) when performing their duty under section 172(1) and forms the statement required under section 414CZA of the Companies Act 2006.

The Board considers that it has adhered to the requirements of section 172 of the Companies Act 2006 (the "Companies Act") and have, in good faith, acted in a way that they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, have had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172(1)(a-f) of the Companies Act) in its decision making.

As part of the Director induction process, Directors are briefed on their duties, including their duty under s172 of the Companies Act. The Directors are entitled to request from the Company all such information they may reasonably require in order to be able to perform their duties as directors, including professional advice from either the Company Secretary or from an independent advisor at the Company's expense. Ongoing training is provided to the Directors, as required, to ensure that their knowledge remains up to date and they continue to be able to discharge their duties as Directors.

Stakeholders – Overview

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

Stakeholders

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

- **Customers**
- **Environment and Community**
- **Colleagues**
- **Suppliers**
- **Regulators**
- **SMBC Group**

After the year end, the Board confirmed that the Company's identified stakeholder groups remained current and appropriate, subject to minor changes to the description used.

The Board recognises that the Company's success is dependent on its stakeholders and that its activities impact its stakeholders in different ways. When presenting an item for approval to the Board and its Committees, members of management are required to identify in supporting documentation the stakeholder groups relevant to the item, which are then considered by the Directors in their discussion and decision making.

High standards of business conduct

Long term relationships are central to the Company's Purpose, and the Board recognises that to earn the trust of its stakeholders and achieve its objective of sustainable growth, it must exercise high standards of business conduct. The Company has no direct employees and, therefore, conduct matters primarily involve staff within CM Ltd and SMBC Bank International plc ("SMBC BI") who conduct activities on behalf of DP Ltd. Oversight of conduct undertaken by CM Ltd includes DP Ltd in scope. Oversight of conduct of CM Ltd staff is achieved primarily through the CM Ltd Board Risk and Compliance Committee ("BRCC") and two additional CM Ltd committees described below.

The CM Ltd Executive Committee is a committee comprised of CM Ltd senior management, and meets on a monthly basis to discuss matters of note for CM Ltd's business (with consideration of DP Ltd as relevant) and examines management information including Compliance-related metrics. The Control and Conduct Assessment Forum ("CCAF") meets on a monthly basis and considers metrics related to the conduct of CM Ltd's and DP Ltd's business, including RAG indicators and analysis of topics including:

- internal policy breaches in areas including employees' personal account dealing and declaration of outside business interests
- completion rates for mandatory training
- regulatory notifications

The CM Ltd BRCC has also undertaken deep-dive reviews where it has deemed it necessary to consider a matter in further detail.

A long term view

The Company seeks to achieve long-term sustainable growth, ensuring that it remains well funded, well controlled and that there is a sensible balance between risk and reward. During the year, the Board considered future business movements in terms of expected changes to the market environment and business trends seen to date.

Stakeholder engagement

The Board delegates to management the authority to run the business on a day-to-day basis. The Company therefore engages with stakeholders in many ways and at all levels of the business to understand their needs, priorities and concerns. These interactions take place in the context of the strategies and policies set by the Board and its Committees. Significant interactions with stakeholders are reported as necessary to the Board and Committees. Set out below are examples of how engagement has occurred in the year and the result of that engagement.

Customers

'Customer first' is one of the Company's core values and it seeks to build its brand by being a reliable and trusted partner to its customers.

Interaction with customers is primarily through relationship managers and product specialists, but Antony Yates, Yukio Ishii and other relevant members of senior management also frequently meet customers to develop strategic partnerships. Significant interactions and notable transactions are reported to the Board as required, along with consideration of how business strategy will enable the Company to better meet the needs of existing and potential customers.

During the year, the Company's parent continued to implement enhanced processes and organisational structures under the Customer Lifecycle Management Project with the aim of improving the customer experience. Once implemented, the Customer Lifecycle Management Project will also bring benefits to DP Ltd's customers through the increased efficiencies expected. Other key areas of focus by the parent (which include DP Ltd in scope in each case as relevant) include the way in which KYC onboarding information is requested and collated, consideration of ESG ratings and detailed discussions on sustainability and energy transition.

The Board received regular updates on IBOR transition. The Directors remained apprised of the Group's progress on US Dollar LIBOR in terms of the transition of existing transactions and the agreed approach towards new transactions to ensure compliance with the Group's strategy and the regional regulations. The Board continues to approach the ongoing work with careful consideration of potential risks, whilst keeping compliance with regulatory expectations.

Environment and Community

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

The Company's parent has been actively engaged in overseeing and developing its sustainability capabilities. Where applicable, DP Ltd has also been considered within the scope of this work.

Details of the Group's sustainability activities is available to all CM Ltd employees through the intranet, and this includes briefing materials for front office colleagues on how they can best support their customers as well as the steps the Group is carrying out to realise a more sustainable world. This is supported by townhalls and other briefings, such as the Annual Sustainability Week held in November 2022 which included events to increase awareness on topics such as sustainable finance products, ESG threats and opportunities, the energy efficiency of and how waste is managed in the London office building and personal actions to increase sustainability.

Further information on Corporate Social Responsibility can be found in the Annual Report and Accounts of CM Ltd.

Colleagues

The Company regards its people as its key asset and recognises they are central to DP Ltd achieving its sustainable growth objective.

In the absence of direct employees, the Company relies upon the work undertaken by its parent to engage with CM Ltd employees who perform activities on behalf of DP Ltd.

Areas of focus for the CM Ltd Board and the CM Ltd Nomination Committee in the year have included diversity & inclusion, talent management and career progression, which take DP Ltd commitments into account for relevant colleagues.

Other notable engagement by the parent with CM Ltd and other EMEA Group employees in the year included:

- Regular emails from the SMBC Head of EMEA, which also included reference to significant CM Ltd business and achievements.
- Townhall meetings with senior executives provided an update on business matters.
- Mental Health Awareness Week held in May 2022 through which daily briefings were issued and webinars held on different aspects of mental health.
- Annual Inclusion Week held in September 2022 with the objective of enabling employees to identify and embed actions to promote diversity and inclusion in the Company.
- A series of events was held in November and December 2022 to mark the UN International Day of Persons with Disabilities to help raise awareness of and celebrate those employees with mental health challenges, neurodiversity and visible and invisible disabilities.
- The Intranet is used to explain strategic and business initiatives, provide updates on business projects and include employee voice stories on matters important to individuals.

Suppliers

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

Engagement with suppliers is coordinated through a dedicated SMBC Group (EMEA) team and with executives who require supplier services. A procurement process is in place on an EMEA Group-wide basis for all supplier engagements, which includes a rigorous due diligence process. These checks include steps relating to compliance with laws and regulations, such as anti-bribery and corruption and modern slavery and cost efficiency. Ongoing monitoring of suppliers is also undertaken. Particular focus is given to relationships with outsourcing providers and such engagements are subject to the CM Ltd's third party risk management framework.

The CM Ltd Board reviews and approves the CM Ltd Group's Statement of Compliance with the UK Modern Anti-Slavery Act. Anti-Slavery processes included as part of due diligence processes, including the supply chains of vendors and other counterparties, including those of DP Ltd.

Regulators

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

During the year, individual Directors and members of the Executive Committee have met the FCA at annual strategy, continuous assessment and other meetings to discuss the Group's business. The Board has also received regular reports on significant regulatory matters, upcoming meetings with the regulator, and have overseen the Company's response on matters including US Dollar IBOR transition.

The Board and Committees have overseen the Company's response on matters of significance to the Company and its regulators, including matters raised affecting the Group's overseas entities and Head Offices. Significant regulatory communication is reported to the Board on a quarterly basis.

At an executive level, the Group benefits from SMBC BI's public affairs function through which stakeholders identify and engage on regulatory and industry change that may impact the CM Group, including DP Ltd's business. Stakeholders in New York also liaise closely with the Company's management and provide notification of any incoming US regulations which may affect DP Ltd.

SMBC Group

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

As a wholly-owned subsidiary of CM Ltd, the section 172(1) matter related to the need to act fairly as between members of the company is less relevant to the Directors' discussions than the other section 172(1) matters. However, the Company recognises the importance of the role it plays to further the Mission and Vision of SMBC Group, particularly through the expansion of the Group's franchise in EMEA.

The Executive Directors are appointed to the boards of other Group companies in EMEA and the US, including the main affiliates SMBC Bank EU AG and SMBC Capital Markets, Inc (based in New York).

Intra-group Service Level Agreements are in place between DP Ltd and SMBC Group companies who provide services to the Company, namely CM Ltd, SMBC BI, and SMBC Capital Markets, Inc. These SLAs are periodically reviewed to ensure that all expectations for service quality and escalation processes are captured in sufficient detail.

The Executive Directors join monthly EMEA Group management meetings, such as the EMEA Management Committee, to receive updates of other business progress and strategies being conducted by other entities. The Company's executives and other stakeholders engage in active participation in monthly EMEA Group business meetings, including the EMEA Marketing Committee and the EMEA Sales and Trading Committee where business lines from various entities report directly on their achievements, strategy and challenges Additionally, there is regular reporting of SLA KPI performances at the monthly DP Ltd Executive Committee and the CCAF.

Directors' Report

Directors' Report

The Directors submit their Report and the audited financial statements of SMBC Derivative Products Limited for the year ended 31 March 2023. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this Report, can be found as follows: Stakeholder considerations on pages 8-11 and energy consumption and efficiency on page 4.

Results and dividends

The Company's profit for the year, after taxation, amounted to USD 7,263 thousand (2022: USD 830 thousand). No dividends have been declared or paid in the year and the Directors do not recommend the payment of final dividend. (2022: USD nil).

Directors

The Directors who served during the year and at the date of this report were:

T S Coleman
M Desai
Y Ishii (appointed on 6 April 2022)
R S McCormick
T Quinn
G Swanton
A Yates
T Yazawa (resigned on 6 April 2022)

During the financial year, the independent non-executive Directors benefitted from qualifying third party indemnity provisions and these provisions remain place at the date of this Report. The Company has directors' and officers' liability insurance in place in respect of certain losses or liabilities to which the Company's officers maybe exposed in the discharge of their duties.

Political donations

The Company made no political donations or contributions during the year (2022: USD nil).

Risk management

Financial risk management objectives and policies, the Company's risk exposures and principal risks and uncertainties are set out in the Strategic Report and in the notes to the financial statements.

Future developments

The Company does not expect any significant changes in its principal business activities or business strategy.

Events after the reporting date

No significant events occurred after 31 March 2023 that would have a material impact on the financial statements for the year.

Going concern

The Directors recognise uncertainties in respect of the business environment and global economic outlook, which may affect the ability of the Company to continue as a going concern. However, the Company is set up to be more financially stable than the rest of the SMBC Group and therefore more protected against negative circumstances. The Directors place a particular focus on the maintenance of its credit rating, which is crucial to its operations. In order to comply with the rating criteria, the Company maintains very high levels of capital and liquidity, invests funds only in highly-rated securities and fully collateralises its exposures to financial risks. Consequently, the Directors are confident that, taking into account reasonably possible scenarios, the Company will continue to have sufficient funds and be able to operate for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with section 487 of the Companies Act 2006, the Company's auditor, KPMG LLP, is deemed to be reappointed as the Group auditor.

Approved by the Board of Directors on 15 June 2023 and signed on its behalf.

Antony Yates
Director
Date: 26 July 2023

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

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

Company law requires the Directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

We consider the annual report and accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board of Directors on 15 June 2023 and signed on its behalf.

Antony Yates
Director
Date: 26 July 2023

Independent Auditor’s Report
To the members of SMBC Derivative Products Limited

Opinion
We have audited the financial statements of SMBC Derivative Products Limited (“the Company”) for the year ended 31 March 2023 which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in shareholders’ equity, statement of cash flows, and related notes, including the accounting policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

In our evaluation of the directors’ conclusions, we considered the inherent risks to the Company’s business model and analysed how those risks might affect the Company’s financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Company’s high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Review of the Company’s internal audit reports and Board Minutes of the Company.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition due to the systemised nature of trading revenue streams.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation.
- Evaluating the design and implementation and operating effectiveness of relevant internal controls; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

Strategic report and directors' report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

James Voyle (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom
Date: 26 July 2023

Income statement
For the year ended 31 March 2023

	Notes	**Year ended 31/03/2023 USD'000**	Year ended 31/03/2022 USD'000
Net trading gain	2	**54**	145
Fees and commissions income		**4,665**	3,099
Fees and commissions expense		**(296)**	(230)
Net fees and commissions income	3	**4,369**	2,869
Interest income	4	**6,454**	366
Interest expense	5	**(1,805)**	(19)
Net interest		**4,649**	347
Total income		**9,072**	3,361
Personnel expenses	6, 7	**(117)**	(118)
Depreciation and amortisation	14	**(48)**	(48)
Professional fees	8	**(2,079)**	(1,956)
Other operating expenses		**(653)**	(337)
Operating expenses		**(2,897)**	(2,459)
Profit from ordinary activities before taxation		**6,175**	902
Tax credit / (charge) on profit from ordinary activities	9	**1,088**	(72)
Profit for the period		**7,263**	830

Company profit for the financial year is entirely attributable to the equity holders of the Parent. All results are from continuing operations.

The notes on pages 24 to 44 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 March 2023

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Profit for the period	**7,263**	830
Other comprehensive income	**–**	–
Total comprehensive income for the period attributable to equity holders of the Company	**7,263**	830

The notes on pages 24 to 44 form an integral part of these financial statements.

Statement of financial position
As at 31 March 2023

	Notes	31 March 2023 USD'000	31 March 2022 USD'000
Assets			
Cash at banks	10	**262,008**	196,326
Trading securities	11	**49,987**	65,014
Derivative assets	12	**50,870**	22,483
Other debtors	13	**5,217**	1,401
Intangible assets	14	**8**	56
Total assets		**368,090**	285,280
Liabilities			
Derivative liabilities	12	**50,082**	21,949
Other creditors	15	**75,315**	27,901
Total liabilities		**125,397**	49,850
Net assets		**242,693**	235,430
Equity attributable to equity holders of the parent			
Called up share capital	16	**200,000**	200,000
Retained earnings		**42,693**	35,430
Total equity		**242,693**	235,430

The notes on pages 24 to 44 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 June 2023 and signed on its behalf by:

Antony Yates
Director
Date: 26 July 2023

Company number 02988637

Statement of changes in shareholders' equity
For the year ended 31 March 2023

	Note	Share capital USD'000	Retained earnings USD'000	Total equity USD'000
At 1 April 2021	16	200,000	34,600	234,600
Profit for the period		–	830	830
Total comprehensive income for the period		–	830	830
At 31 March 2022			200,000	35,430
At 1 April 2022	16	**200,000**	**35,430**	**235,430**
Profit for the year			**–**	**7,263**
Total comprehensive income for the year		**–**	**7,263**	**7,263**
At 31 March 2023		**200,000**	**42,693**	**242,693**

The notes on pages 24 to 44 form an integral part of these financial statements.

Statement of cash flows
For the year ended 31 March 2023

	Note	**Year ended 31/03/2023 USD'000**	Year ended 31/03/2022 USD'000
Cash flows from operating activities			
Profit for the period		**7,263**	830
Adjustments to reconcile net income to net cash from operating activities:			
Adjustments for non-cash items:			
Depreciation and amortisation		**48**	48
Tax (credit) / charge		**(1,088)**	72
Changes in operating assets and liabilities:			
Change in investment securities		**15,027**	50,262
Change in other debtors		**(2,728)**	1,089
Change in derivative assets		**(28,387)**	(12,411)
Change in derivative liabilities		**28,133**	11,965
Change in other creditors		**47,414**	26,009
Net cash from operating activities		**65,682**	77,864
Net change in cash		**65,682**	77,864
Cash and cash equivalents at beginning of period	10	**196,326**	118,462
Cash and cash equivalents at end of period	10	**262,008**	196,326
Net change in cash		**65,682**	77,864

The notes on pages 24 to 44 form an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 March 2023

1. Accounting policies

Statement of compliance

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS"), in conformity with the requirements of the Companies Act 2006 and applicable law.

Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Company is designed as a highly-rated, bankruptcy-remote entity. Its financial resilience arises from the same factors which ensure its credit rating. In order to maintain the rating, the Company invests mainly cash and highly-rated securities, such as US Treasury or high-quality corporate bonds. The assets are funded almost entirely by its own capital which exceeded USD 242,000 thousand (2022: USD 235,000 thousand) on both accounting and regulatory bases. Its unaudited capital ratios, disclosed in Note 21, are far in excess of the regulatory minimum requirements.

The Company has no external borrowings. Its parent, CM Ltd, has provided it a multi-currency liquidity facility, of which USD 18,335 thousand was drawn at 31 March 2023 (2022: USD 2,636 thousand). The facility size was increased in December 2022 from USD 10 million to USD 50 million, to fund the additional IFPR Core Liquid Asset requirement, which in turn reflects the growing amount of guaranteed transactions (see further information in Notes 22 and 23). Additionally, CM Inc. has provided it a USD 200 million committed revolving credit loan facility, none of which was drawn at 31 March 2023 (2022: USD nil).

SMBC DP's business model offers swaps and interest rate caps for counterparties that need to transact through an entity with a higher rating than that of SMBC Group. At the reporting date, external derivative balances comprised one active swap and about 40 interest rate caps. The swap and caps are fully hedged under a CSA and present no credit or market risks for the Company.

SMBC DP provides guarantees to clients that have bought interest rate caps from CM Inc. in the event of CM Inc.'s non-performance. To protect itself, SMBC DP obtains an indemnity from CM Inc. equivalent to the termination value of the caps. This indemnity is fully collateralised by US Treasury securities. In practice, the collateral called upon is the higher of the termination value or the 15-day adverse market movement, to ensure the capital ratio stipulated by ratings agencies is maintained. As a result, there is no net exposure (2022: USD nil).

The Company has no subsidiaries and is structured and managed on the basis that it can meet all liabilities on a standalone basis.

The Company's ability to fulfil its obligations is further protected by a contingent manager arrangement with BlackRock Financial Management, Inc. which would come in place upon a trigger event.

The SMBC Group's global derivative business continues to support the Company because it recognises the important economic value of having a highly rated DPC in the group in the form of enhanced business opportunities and customer product offering. There is continued global demand for structuring derivative contracts through highly reliable counterparties that the Company represents.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Functional and presentational currency

The Directors consider the functional currency of the Company's activities to be US dollars since the majority of the Company's income is generated in this currency. The directors have chosen to present amounts in thousands.

Preparation of the income statement

The Company has departed from the standard income statement format required by Schedule IV of the Companies Act in order to present interest income within operating profit or loss.

New accounting standards

There were no new or amended accounting standards during the year which would have a material impact on these financial statements.

Foreign currency translation

Foreign currency assets and liabilities are re-measured into US dollar equivalents at rates of exchange ruling at the balance sheet date. Gains and losses resulting from re-measurement into US dollar equivalents are reflected in the Company income statement within net trading gain or loss.

Net trading income

Net trading income includes all gains and losses on the existing portfolio of derivatives and trading securities, including Day 1 profit or loss on newly entered derivative contracts, and foreign exchange differences.

Day 1 profit or loss equals the fair value of new derivative contracts upon initial recognition less transaction price (usually nil or negligible) of entering into such contracts.

Fees charged to related parties

The Company recharges to CM Inc. and CM Ltd professional fees it incurs in its costs. The fees are recognised on accruals basis within fee income.

Intermediation fees

The Company receives an intermediation fee from CM Inc. for each derivative transaction with an unaffiliated counterparty. The fee is equal to the present value of two hundredths of one percent (0.02%) of the notional amount (weighted average for amortising or accreting transactions) times the tenor of the transaction for each primary transaction. For an option transaction, the fee is equal to the prevailing inter-bank broker fee for a transaction of the same type plus a bid-ask spread. Should a trade be terminated prior to maturity there will be a proportionate rebate of the fee earned at inception. The main performance obligation, acceptance of the trade risks by the Company, is satisfied on the trade date and is the point in time when the revenue is recognised within fee income.

Guarantees

The Company provides guarantees to external customers over derivative products sold by CM Inc. These arrangements are treated as financial guarantees.

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment. The guarantee only compensates for losses that are actually incurred as a result of a failure by the debtor to make payment and does not compensate for more than the actual loss incurred. Financial guarantees are measured at the higher of amortised initial fair value and contingent obligations to the holders.

The Company is fully indemnified by CM Inc. in the event of a default and holds collateral in the form of securities to offset mark to market movements for instruments covered by these guarantees.

A guarantee fee is earned based upon the daily average value of the guaranteed transactions. The income is recognised in fee income as accrued.

Interest income

Interest is earned on trading securities and cash at banks. Interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter year, where appropriate, to the net carrying amount of the financial asset.

Professional fees

Professional fees are incurred in respect of contingent manager arrangement, rating verification, audit and audit-related services. The fees are recognised in operating expenses on an accrual basis.

Financial instruments

Financial instruments at the reporting date are accounted for under IFRS 9. Financial instruments are also governed by IFRS 7, IFRS 13 and IAS 32 which define their disclosures, fair value measurement, classification as debt or equity and offsetting.

i) Categories

The following categories of financial instruments held by the Company are within the scope of IFRS 9:

– Cash and cash equivalents;
– Trading securities;
– Derivative instruments, including credit guarantees; and
– Other debtors and creditors.

ii) Classification and measurement

Under IFRS 9, financial assets are classified into three categories, measured at:

a) amortised cost;
b) fair value through other comprehensive income; or
c) fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other assets are classified as measured at fair value through profit or loss.

IFRS 9 permits designation of any financial assets at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch.

Financial liabilities are classified as measured at:

a) fair value through profit or loss (either designated or held for trading); or
b) amortised cost.

At the reporting date, financial instruments measured at amortised cost included:

- cash at banks;
- other debtors; and
- other creditors.

Instruments measured at fair value through profit or loss comprised:

- trading securities; and
- derivatives;

There were no assets measured at fair value through other comprehensive income.

iii) Recognition and derecognition
Under IFRS 9, an entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

The standard permits a choice between trade date and settlement date accounting for recording regular way transactions. When applying settlement date accounting it is still required that any movements in fair value between trade date and settlement date are reflected as they occur. The movement in fair value is taken to profit and loss or to other comprehensive income depending upon the classification of the asset. Settlement date is used for transactions with trading securities. Trade date is used for derivatives.

Assets are derecognised when the entity transfers its contractual rights to receive the cash flows and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation is either discharged or cancelled or expires.

iv) Fair value
Fair value is the price to sell an asset or settle a liability (exit price) in an orderly transaction between market participants at the measurement date under current market conditions which takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Company makes adjustments to the valuation of their derivatives by calculating credit, debit and funding valuation adjustments consistent with IFRS 13.

v) Impairment
The Company recognises an impairment allowance for expected credit losses for financial assets carried at amortised cost and fair value through other comprehensive income.

IFRS 9 establishes three impairment categories:

a) low risk assets ("stage 1");
b) instruments whose credit risk has significantly increased since initial recognition ("stage 2"); and
c) credit-impaired ("stage 3").

Impairment provision of assets in stage 1 is measured for the 12-month future expected credit losses. Impairment provision for assets in stages 2 and 3 is calculated over the lifetime of the asset. IFRS 9 sets criteria for classification as low, significantly increased risk and credit-impaired. They include rebuttable presumptions of a significant increase in credit risk for instruments over 30 days in arrears and credit impairment for instruments over 90 days in arrears.

At the reporting date, the Company had no assets in stages 2 or 3. Where the Company's assets in scope have a life span of less than 12 months, the impairment provision is calculated for the shorter of the asset lifetime and 12 months.

Intangible assets

Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. The carrying values of intangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable.

External expenditure on intangible assets is capitalised as incurred, per supplier invoices including non-recoverable VAT.

Assets under construction are not amortised until ready for use. Completed intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Computer software	5 years

Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, management has exercised judgement and estimates, gauged in accordance with industry best practice, when determining the amounts recognised in the financial statements in relation to the fair value of derivative assets and liabilities.

i) Judgements

Judgments do not usually directly address measurement. The management exercises judgements when accounting standards allow a range of possible measurement methods. A different judgement might lead to a materially different accounting treatment and valuation.

Judgement is exercised in respect of the methodology for valuing the Company's collateralised derivative contracts. The management has chosen to use, in line with market practice, the Overnight Indexed Swap curve ("OIS") in order to more consistently manage the associated interest rate and funding risks.

Judgement is exercised as to whether unobservable inputs constitute a significant part of the total value of derivative instruments and therefore the level at which the instruments should be classified in the fair value hierarchy.

ii) Estimates

Estimates use uncertain information and sometimes subjective assumptions to measure carrying values. As a result, estimates bear a risk of material adjustments to the carrying amounts in subsequent accounting years.

Estimates are used where the fair value of derivative assets and liabilities cannot be derived from active markets and is determined using a variety of valuation techniques that employ mathematical models. The inputs to these models use observable market data where possible but, where observable market data are not available, unobservable inputs are used. The estimates include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

Credit Valuation Adjustments ("CVA") and Debit Valuation Adjustments ("DVA") are incorporated into derivative valuations to reflect the value of counterparty and own credit risk. CVAs, calculated on a counterparty exposure basis across instrument type, are derived from market data and management estimates of exposure at default, probability of default and recovery rates. The DVA is an adjustment to the value of the Company's derivative liabilities that seeks to reflect the Company's own default risk, which involves similar estimates of exposure at default, probability of default and recovery rates.

Judgement was exercised in respect of the methodology for valuing the Company's collateralised derivative contracts. The management has chosen to use, in line with market practice, the Overnight Indexed Swap curve ("OIS") in order to more consistently manage the associated interest rate and funding risks.

The funding fair value adjustment ("FVA") is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are wholly uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the company or the counterparty.

The FVA, CVA and DVA are calculated independently of each other.

Future accounting developments

IFRS 17 Insurance Contracts

IFRS 17 was published in May 2017 and became effective for financial periods beginning on or after 1 January 2023. As such, it will apply to the next annual report. The standard is not expected to have a material effect on the Company's financial statements.

2. Net trading gain / (loss)

This comprises the following items of income and expense:

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Trading loss on derivative instruments	**(150)**	(82)
Trading securities loss	**(10)**	(159)
Derivative reserves	**214**	386
	54	145

3. Net fees and commissions income

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Fees charged to related parties	**1,882**	1,882
Guarantee fee income	**2,783**	1,217
Other net fees	**(296)**	(230)
	4,369	2,869

4. Interest income

Interest income for the year was earned on the following instruments:

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Interest income on:		
– Floating rate notes	**268**	202
– U.S. treasury securities	**2,578**	38
– Short-term deposits	**3,608**	126
	6,454	366

5. Interest expense

Interest expense relates to the following:

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Interest expense on:		
– Collateral received	**1,421**	14
– Funding loans	**384**	5
	1,805	19

6. Operating profit

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
This is stated after charging:		
Directors' emoluments	**117**	118
Auditor's remuneration		
Audit of these financial statements	**120**	134
Audit-related assurance services	**41**	72
Other assurance services	**163**	329
	441	653

Audit fees relate to the audit of the financial statements payable to KPMG LLP. Audit-related assurance services include CASS assurance and quarterly financial reviews payable to KPMG LLP. Other assurance services relate to fees payable to KPMG LLP's US affiliate for agreed-upon procedures relating to credit agency ratings.

7. Information regarding directors and employees

The average monthly number of employees of the Company (excluding directors) during the year was nil (2022: nil).

Three external directors received emoluments during the year for management services to the Company:

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Directors' emoluments	**114**	115
National Insurance	**3**	3
Total	**117**	118
Emolument of highest paid director	**40**	39

No director received pension contributions or any other retirement benefits (2022: USD nil).

Certain directors are also directors of the Parent undertaking. Emoluments received by them for their services to the Company are disclosed in the consolidated financial statements of the Parent. They are not separately disclosed as it was not practical to apportion their time.

8. Professional fees

Professional fees consist of the following:

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Contingent manager fees	**1,230**	1,250
Rating agency fees	**284**	117
Auditor's remuneration (see Note 6)	**324**	535
Other professional fees	**241**	54
	2,079	1,956

9. Tax on profit from ordinary activities

	Year ended 31/03/2023 USD'000	Year ended 31/03/2022 USD'000
Current tax expense		
Current period	**(604)**	146
Adjustments for prior years	**(484)**	(74)
Total tax (credit) / charge in income statement	**(1,088)**	72

The tax (credit) / charge on profit for the year differs from the nominal amount that would arise at the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31/03/2023		Year ended 31/03/2022	
	USD'000	**Effective tax rate**	USD'000	Effective tax rate
Profit before taxation	**6,175**		902	
Tax using the UK corporation tax				
rate of 19% (2021: 19%)	**1,173**	**19.0%**	174	19.3%
Banking surcharge	**(179)**	**(2.9)%**	53	5.9%
Permanent difference	**31**	**0.5%**	10	1.1%
Advance Pricing Agreement adjustment	**(1,629)**	**(26.4)%**	(70)	(7.8)%
Adjustments for prior years	**(484)**	**(7.8)%**	(74)	(8.2)%
Utilisation of loss carry forward	**–**	**–**	(31)	(3.4)%
Other	**–**	**–**	10	1.1%
Total tax (credit) / charge	**(1,088)**	**(17.6)%**	72	8.0%

An Advance Pricing Agreement ("APA") between the CM Ltd Group, its affiliate CM Inc., the UK tax authorities and US tax authorities defines the basis on which UK tax is charged on the profits of the global derivative products group. A new 7th APA is being negotiated with the UK and US tax authorities.

There is an unutilised tax loss of USD 3,959 thousand (2022: USD 3,988 thousand), for which no deferred tax asset is recognised.

Corporation tax rate
The corporation tax rate remained at 19% throughout the year ended 31 March 2023 (2022: 19%).

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

10. Cash at banks

	31 March 2023 USD'000	31 March 2022 USD'000
Cash at bank	**132,244**	69,910
Short-term deposits	**129,764**	126,416
	262,008	196,326

None of these amounts were deposited with group undertakings as of 31 March 2023 (2022: USD nil).

11. Trading securities

Trading security assets represent short-term investments in debt and equity instruments, primarily held to maintain credit rating while also generating income from value fluctuations, interest, dividends and coupons.

	Listed on non-UK exchanges USD'000	**Not listed USD'000**	**Total USD'000**
Fair value as at 31 March 2023			
Floating rate notes	**–**	**–**	**–**
U.S. treasury securities	**49,987**	**–**	**49,987**
Total	**49,987**	**–**	**49,987**

	Listed on non-UK exchanges USD'000	Not listed USD'000	Total USD'000
Fair value as at 31 March 2022			
Floating rate notes	13,011	2,003	15,014
U.S. treasury securities	50,000	–	50,000
Total	63,011	2,003	65,014

12. Derivative assets and liabilities

Derivatives are financial instruments which derive their value from other assets, rates, prices, indices or other variables and which settlement does not usually involve the delivery of the underlying instrument. Derivative assets represent contracts with positive fair values and liabilities represent those with negative fair values.

In line with the requirements of IFRS 13, the Company booked a Debit Valuation Adjustment ("DVA"), Credit Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") when calculating the fair value of its derivatives. Collectively, these are classified as "Derivative reserves".

The tables below provide an analysis of carrying values and principal amounts by type of contract:

	Carrying value		Notional principal	
	31 March 2023 USD'000	31 March 2022 USD'000	**31 March 2023 USD'000**	31 March 2022 USD'000
Interest rate and currency swaps	**5,991**	7,683	**13,859**	14,743
Options	**44,838**	14,754	**2,167,685**	1,982,820
Derivative reserves	**41**	46	**–**	–
Derivative assets	**50,870**	22,483	**2,181,544**	1,997,563
Interest rate and currency swaps	**5,894**	7,576	**18,544**	18,544
Options	**44,719**	14,685	**2,154,885**	1,969,820
Derivative reserves	**(531)**	(312)	**–**	–
Derivative liabilities	**50,082**	21,949	**2,173,429**	1,988,364

The table below analyses the carrying values of derivatives, excluding reserves, by contractual maturities:

Carrying values	31 March 2023 USD'000	31 March 2022 USD'000
Due within 1 year	**26,105**	229
Due within 1 to 5 years	**6,314**	7,535
Due within 5 to 10 years	**18,410**	14,673
Derivative assets	**50,829**	22,437
Due within 1 year	**26,076**	229
Due within 1 to 5 years	**6,299**	7,515
Due within 5 to 10 years	**18,238**	14,517
Derivative liabilities	**50,613**	22,261

Derivatives are usually used by market participants to hedge risks in non-derivative financial or non-financial contracts. When the host contracts expire, the related derivatives are settled as well. Due to that, contractual maturities represent the maximum expected duration of derivative instruments.

The following paragraphs provide additional information on derivative contracts traded by the Company:

Interest rate and currency contracts

The two parties to an interest rate swap agree to exchange, at particular intervals, payment streams calculated on a specified notional amount with at least one stream based on a floating interest rate. Basis swaps involve two floating rates, such as prime and SOFR.

The parties to a currency swap generally exchange at the outset a principal amount in two currencies, agreeing to re-exchange the currencies at a future date and agreed upon exchange rate. These foreign exchange contracts relate to major foreign currencies such as Yen, Sterling and Euros.

Options

Interest rate caps, the primary derivative instrument offered to customers by the Company, and floors require the writer to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The cap or floor writer receives a premium for bearing the risk of unfavourable interest rate changes.

13. Other debtors

	31 March 2023 USD'000	31 March 2022 USD'000
Accrued interest income	**354**	89
Other related party debtors	**2,712**	280
Other external debtors	**98**	–
Prepayments	**44**	23
Corporation tax	**2,009**	1,009
	5,217	1,401

14. Intangible assets

	Computer software USD'000
Cost	
Balance at 1 April 2021	144
Additions	–
Balance at 31 March 2022	**144**
Additions	**–**
Balance at 31 March 2023	**144**
Accumulated amortisation and impairment losses	
Balance at 1 April 2021	40
Charge for the period	48
Balance at 31 March 2022	**88**
Charge for the period	**48**
Balance at 31 March 2023	**136**
Carrying amounts	
Balance at 31 March 2022	56
Balance at 31 March 2023	**8**

15. Other creditors

	31 March 2023 USD'000	31 March 2022 USD'000
Collateral received from related parties	**54,515**	22,900
Funding loans received from related parties	**18,335**	2,636
Amounts due to related parties	**2,352**	1,761
Other creditors and accruals	**113**	604
	75,315	27,901

16. Called up share capital

	31 March 2023 USD'000	31 March 2022 USD'000
200 million ordinary shares of USD 1 each	**200,000**	200,000

17. Risk management

i) Strategy in using financial instruments

The principal activities of the Company are to act as agent and intermediary in a variety of over-the-counter ("OTC") derivative transactions including interest rate caps and interest rate and currency swaps, and the provision of credit guarantees to third party customers conducting hedge transactions with CM Inc. The Company takes no intra-day or overnight derivative trading positions. All exposures are hedged with mirror transactions undertaken with an affiliated company, CM Inc. The Company records trading income from intermediation fees paid by CM Inc. The Company invests its capital in a portfolio of high-quality floating rate notes and treasury bills, seeking to earn an interest margin and when the opportunity arises, realise a profit.

ii) Cash flow and fair value interest rate risk

As the Company operates a primarily balanced derivative portfolio (subject to appropriate credit adjustments) and invests in floating rate assets funded through floating rate liabilities or capital there is no significant exposure in the derivative portfolio to changes in cash flow or fair value due to interest rate risk.

iii) Credit risk

a) Credit quality and collateral

Credit risk represents the potential losses that the Company would incur if a counterparty failed to perform its obligations under contractual terms and collateral held was not sufficient to cover them.

Cash at banks

Credit risk of cash at banks, which corresponds to its maturity profile, is characterised by the short-term ratings of the financial institutions it was held at:

S&P rating	31 March 2023 Fair value USD'000	31 March 2022 Fair value USD'000
A-1+	**117,468**	114,411
A-1	**144,540**	81,915
	262,008	196,326

Moody's rating	31 March 2023 Fair value USD'000	31 March 2022 Fair value USD'000
P–1	**262,008**	196,326
P–2	**–**	–
	262,008	196,326

Trading securities

Credit risk of trading securities is characterised by their long-term ratings:

S&P rating	31 March 2023 Fair value USD'000	31 March 2022 Fair value USD'000
AAA	**–**	–
AA+	**49,987**	50,000
AA-	**–**	15,014
	49,987	65,014

Moody's rating	31 March 2023 Fair value USD'000	31 March 2022 Fair value USD'000
Aaa	**49,987**	50,000
Aa2	**–**	–
Aa3	**–**	15,014
	49,987	65,014

Derivatives

The Company is exposed to the credit risk arising from transactions with CM Inc. and other counterparties. The notional or contractual values of swap agreements do not represent exposure to credit risk which is limited to the current cost of replacing the contracts with a positive market value. Credit risk represents the amount of loss that the Company would incur if counterparty failed to perform its obligations under contractual terms.

The table below analyses the carrying values of derivative assets before reserves by credit ratings:

S&P rating	**31 March 2023 Fair value USD'000**	31 March 2022 Fair value USD'000
Related parties		
A	**50,829**	22,437
	50,829	22,437

Moody's rating	**31 March 2023 Fair value USD'000**	31 March 2022 Fair value USD'000
Related parties		
A1	**50,829**	22,437
	50,829	22,437

There were no exposures rated BBB+ or lower by S&P at the reporting date (2022: USD nil).

The Company's credit exposure arises from the risk of non-performance of its counterparties in fulfilling their contractual obligations pursuant to its derivative transactions. The risk of non-performance can be directly impacted by volatile or illiquid trading markets, which may impair the counterparties' abilities to satisfy their obligations. At the reporting date, the value of the cash collateral pledged by CM Inc. in respect of derivative contracts was USD 54,515 thousand (2022: USD 22,900 thousand). In addition to the cash collateral, the Company held collateral in the form of securities, further explained in Note 23.

b) Credit risk concentration

Management determines concentrations of counterparty credit risk in accordance with the European Banking Authority guidance ("EBA Rules"). Management does not believe that the Company is exposed to significant concentrations of risk identified by currency or product. The notes below analyse concentration of credit risk by geographical areas.

Geographical analysis

Below is a geographical analysis of cash at banks by their countries of operation:

	31 March 2023 USD'000	31 March 2022 USD'000
Japan	**12,297**	12,005
Singapore	**117,467**	114,436
USA	**132,244**	69,885
	262,008	196,326

Geographical analysis of trading securities is based on the countries of the issuers:

	31 March 2023 USD'000	31 March 2022 USD'000
Australia	**–**	15,014
USA	**49,987**	50,000
	49,987	65,014

Derivative assets before reserves are analysed by reference to the countries of the customers:

	31 March 2023 USD'000	31 March 2022 USD'000
Derivative assets		
USA	**50,829**	22,437
	50,829	22,437

c) Impairment

At the reporting date, the Company had no financial assets which were credit-impaired or which credit risk had significantly increased since initial recognition. There were no overdue amounts receivable (2022: USD nil).

iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities, at a reasonable cost. The Company have no unfunded forward commitments in the one-year year.

The tables below show maturities of undiscounted contractual cash flows in respect of financial liabilities of the Company.

As at 31 March 2023	Carrying value USD'000	Less than 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	Total USD'000
Non-derivative financial liabilities					
Other creditors	**75,315**	**75,315**	**–**	**–**	**75,315**
Derivative financial liabilities					
Derivative liabilities (excluding reserves)[1]	**50,613**	**26,076**	**6,299**	**18,238**	**50,613**

As at 31 March 2022	Carrying value USD'000	Less than 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	Total USD'000
Non-derivative financial liabilities					
Other creditors	27,901	27,901	–	–	27,901
Derivative financial liabilities					
Derivative liabilities (excluding reserves)[1]	22,261	229	7,515	14,517	22,261

1 The maturities of derivative liabilities were prepared on the basis of their present values rather than undiscounted cash flows.

v) Market risk

All trading instruments are subject to market risk, the potential that future changes in market conditions may make an instrument less valuable, due to fluctuations in security prices, as well as interest and foreign exchange rates. Market risk is directly affected by the volatility and liquidity in the markets in which the related underlying assets are traded. As the instruments are recognised at fair value, those changes directly affect reported income.

Since all of the Company's transactions with third parties are matched by transactions with CM Inc., the Company has no net exposure to market risk on derivative financial instruments.

The Company invests its capital in cash deposits, treasury bills, and a portfolio of high-quality floating rate notes; through the latter it seeks to earn an interest margin and, when the opportunity arises, to realise a profit. The Company has no borrowings. Interest expense is limited to amounts paid on any collateral received which itself matches the amount this cash earns when deposited.

The Company funds itself from its share capital and retained earnings. As a consequence of this the Company's sensitivity to interest rates is restricted to the direct correlation between interest income and prevailing interest rates.

The weighted average yield on the cash deposits as of 31 March 2023 was 2.83% (2022: 0.10%). The weighted average yields as of 31 March 2023 on floating rate notes and U.S. treasury securities were 2.72% and 2.28% (2022: 1.01% and 0.03% respectively).

vi) Foreign exchange risk

The Company does not have a significant foreign exchange exposure.

18. Offsetting financial assets and financial liabilities

The disclosure set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the company or the counterparties or following other predetermined events. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The tables below disclose the potential effect of netting arrangements on financial assets and liabilities that do not meet the offsetting criteria. The offset amounts have been capped for each counterparty at the lower of assets and liabilities.

	Amounts in the statement of financial position USD'000	Amounts that do not meet the offsetting criteria USD'000	Capped cash collateral USD'000	Net amounts USD'000
At 31 March 2023				
Derivative assets (excluding reserves)	**50,829**	**–**	**(50,829)**	**–**
Derivative liabilities (excluding reserves)	**50,613**	**–**	**–**	**50,613**
At 31 March 2022				
Derivative assets (excluding reserves)	22,437	–	(22,437)	–
Derivative liabilities (excluding reserves)	22,261	–	–	22,261

19. Fair value hierarchy

IFRS 13 establishes a hierarchy of valuation inputs used for the fair value measurement of financial instruments. It also encourages the use of higher levels of inputs where possible. These valuation levels are often perceived as indicators of the quality and liquidity of financial instruments.

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly.
- Level 3: Unobservable inputs.

Where an instrument is measured using a combination of inputs, its classification is determined by the lowest level of inputs which make a significant contribution to the overall value.

When available, the Company uses quoted market prices to determine fair value and classify such items within Level 1.

In some cases where a market price is not available the Company will make use of acceptable practical expedients such as matrix pricing to calculate fair value, in which case the items are classified within Level 2.

If quoted market prices are not available, fair value is based upon internally developed models that use current independently sourced market parameters such as interest rates, exchange rates, option volatilities, etc. The valuation model used generally depends on the specific asset or liability being valued. The determination of fair value considers various key input factors, including interest rate yield curves, time value and volatility factors, underlying options and derivatives and price activity for equivalent synthetic instruments.

The majority of derivative transactions entered into by the Company are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying reference rate. The principal techniques used to value these instruments are discounted cash flows, Black Scholes and Monte Carlo simulation. A given position is categorised as Level 2 or Level 3 depending on the observability of the key inputs to the model. All trades in both years were valued using observable inputs, therefore, there were no balances classified as Level 3.

Fair values of financial instruments measured at amortised cost approximate their carrying values.

The following table presents the fair value hierarchy of financial assets and liabilities, measured at fair value, at 31 March 2023 and 31 March 2022:

	Level 1 USD'000	Level 2 USD'000	Total USD'000
At 31 March 2023			
Assets			
Derivative financial instruments	**–**	**50,870**	**50,870**
Trading securities	**49,987**	**–**	**49,987**
	49,987	**50,870**	**100,857**
Liabilities			
Derivative financial instruments	**–**	**50,082**	**50,082**
	–	**50,082**	**50,082**
At 31 March 2022			
Assets			
Derivative financial instruments	–	22,483	22,483
Trading securities	65,014	–	65,014
	65,014	22,483	87,497
Liabilities			
Derivative financial instruments	–	21,949	21,949
	–	21,949	21,949

The Product Control department is responsible for the valuation policies and procedures. This department is responsible for running daily valuations of the Company's derivatives and securities, and reports into the Chief Financial Officer. The Risk Management department is responsible for managing model risk and its related policies and procedures. It reports into the Chief Risk Officer. As all models are owned by the front office under supervision and reporting lines of the Head Trader, independence in the validation process is maintained. All changes in existing models are reported to the Risk Management department and approved by the Model Validation Group ("MVG"). Model use and changes to models are approved by Global Risk Management Committee ("GRMC"), to which the MVG makes its recommendations. The GRMC broader membership extends to include representatives from the Bank, which also supports independence within the validation process. Pricing models are validated based on assigned tiers. Tier 1 models are validated annually, Tier 2 models are validated every 2 years, and Tier 3 models are validated every 3 years. Stress tests are run on a weekly/monthly basis.

20. IBOR Reform

Following negative publicity around the quality of published London Interbank Offered Rate ('LIBOR'), the reform and replacement of benchmark interest rates has become a priority for global regulators. As a result, the UK's Financial conduct Authority (FCA) and other global regulators instructed market participants to prepare for the cessation of most LIBOR rates after the end of 2022, and to adopt "near Risk-Free Rates" (RFRs). The alternative reference rate for Sterling LIBOR is the Sterling Overnight Index Average (SONIA) and for US Dollar LIBOR is the Secured Overnight Financing Rate (SOFR).

When the reform was announced, the Company had IBOR-linked derivative assets and liabilities, referenced to GBP, USD, EUR and JPY LIBOR. All these instruments were migrated from IBOR to RFRs in advance of the regulatory deadline.

The Company's derivative instruments are governed by International Swaps and Derivatives Association (ISDA) definitions. ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The supplement is effective from 25 January 2021 and from that date, all new derivatives that reference the ISDA definitions also include the fallbacks.

The main risks to which the Company was exposed to as a result of IBOR reform were operational – for example, the renegotiation of derivative contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform. Financial risk was predominantly limited to interest rate risk.

There have been no changes to the risk management strategies as a result the IBOR reform. The transition was aimed at maintaining equivalence and business continuity of its contracts with customers.

In addition to own instruments, the Company guarantees derivative transactions of its affiliate, CM Inc., as described in Note 23, some of which are linked to IBORs. The table below presents the analysis of these derivatives by IBOR type.

	31 March 2023 USD LIBOR USD'000	31 March 2022 USD LIBOR USD'000
Financial guarantees linked to derivative contracts		
Carrying value (excluding reserves)	**938,849**	653,155
Notional principal	**47,799,303**	54,143,208

21. Regulatory capital (unaudited)

The Company is subject to the FCA's Investment Firms Prudential Regime (IFPR). The IFPR is a single prudential regime for all solo regulated investment firms in the UK (FCA investment firms) authorised under the UK Markets in Financial Instruments Directive (MiFID).

The primary objective of the Company's capital management is to ensure compliance with capital requirements imposed by the FCA. Regulatory capital comprises ordinary share capital and retained earnings (including externally verified interim profits) as common equity tier 1 capital ("CET1"). The business must maintain Own Funds ratio, the proportion of relevant capital to the IFPR own funds requirement above the FCA prescribed thresholds.

The table below summarises the Company's capital adequacy position.

	31 March 2023 USD'000	31 March 2022 USD'000
Common equity tier 1 (CET1) capital		
Called up share capital	**200,000**	200,000
Retained earnings	**42,693**	35,430
	242,693	235,430
CET1 regulatory adjustments		
Intangible assets	**(8)**	(56)
Other	**(532)**	(312)
	(540)	(368)
Total CET1 capital	**242,153**	235,062
Total own funds (A)	**242,153**	235,062
IFPR own funds requirement (B)	**928**	987
Own funds ratio*	**261.0**	238.2

* Own funds ratio is defined as Own Funds v IFPR Own Funds Requirement (A / B).

The Company utilises a number of approaches to ensure that it remains compliant with the overall financial adequacy rule under IFPR.

Foremost is the annual assessment of own funds (regulatory capital) and liquidity adequacy conducted during the Internal Capital Adequacy and Risk Assessment ("ICARA") process, which considers the Company's resource requirements under 'business as usual' and a variety of severe yet plausible stressed scenario contexts. In the case of own funds, these requirements are forecast over a three-year time horizon and test a number of the key sensitivities of the Company's business lines and balance sheet. The Company then ensures that its current level of financial resources is adequate to remain a going concern during this period under all scenarios considered.

In addition, the Company monitors both its required and available capital in accordance with the rules and requirements set out in its Operating Policies and Guidelines in order to meet the operational requirements for AAA / Aaa rated derivative products company. The Company is currently rated AA- by S&P (2022: AA-) and Aa1 by Moody's (2022: Aa1).

The management believes that the Company has been in compliance with externally imposed capital requirements throughout the period.

Further details of the Company's own funds, own funds requirements and remuneration information can be found in the Company's IFPR Disclosure Document. This report is published on the SMBC Group's corporate website for the EMEA (www.smbcgroup.com/emea/notices-reporting/corporate-disclosures).

22. Financial guarantees and borrowing facilities

The Sumitomo Mitsui Banking Corporation ("the Bank") acts as guarantor for some of the Company's transactions. For this the Company pays a fee based on the notional amount, maturity and deal type for each transaction, which amounted in 2023 to USD nil (2022: USD nil). The Bank is currently rated A1 long term and P-1 short term by Moody's, and A long-term and A-1 short term by S&P.

Under a loan agreement dated 18 April 2016, CM Inc. has committed to provide the Company with a USD 200 million revolving credit facility for a five-year period. A commitment fee on the amount of the undrawn facility is payable to CM Inc. annually to the maturity date of the agreement. At 31 March 2023, the entire facility was unused (2022: USD nil). The facility was renewed in April 2021 for another five-year period.

As described in Note 23, DP Ltd. guarantees interest rate caps of CM Inc. In return, CM Inc. provides DP Ltd. an indemnity supported by collateral in the form of US Treasury bills.

In December 2021 CM Ltd agreed to provide the DP Ltd with a USD 10 million uncommitted short term multi-currency liquidity facility, renewed annually. In December 2022, the facility was amended to increase its size to USD 50 million to accommodate SMBC DP's liquidity requirements. At 31 March 2023, USD 18,335 thousand (2022: USD 2,636 thousand) of the facility was utilised.

SMBC DP, as an AA-/Aa1 derivative product company, is required by Moody's and S&P to have a Contingent Manager. Under such an agreement, an unaffiliated derivatives dealer would provide portfolio management and other general services to the firm in the event that the long term senior rating of Sumitomo Mitsui Banking Corporation ('the bank') is downgraded to Baa3 or below by Moody's, or the event that the bank's short term rating is downgraded to P-3 or below by Moody's, or the event that the long term senior rating of the bank is downgraded to BB or below by S&P, or the event that the bank's short term rating is downgraded to B or below by S&P. On 7th December 2022, the Contingent Manager Agreement with BlackRock Financial Management, Inc. rolled for twelve months as no notice to terminate was issued by SMBC DP.

23. Related party disclosures

Related parties of the Company comprise subsidiaries and affiliates of the wider SMBC Group and Directors of the Company. The tables below set out related party balances at the reporting date and transactions during the year. Directors' emoluments are disclosed in Note 7.

	31 March 2023 USD'000	31 March 2022 USD'000
CM Inc.		
Derivative assets	**50,870**	22,483
Collateral received	**(54,515)**	(22,900)
Debtor for operating expenses for trading related services	**2,162**	280
Deferred income related to guarantee fees	**(2,352)**	(2,520)
Other accruals	**–**	(4)
Guarantee indemnity securities*	**2,764,260**	1,505,942
Net gain / (loss) on derivative transactions	**27,055**	8,693
Guarantee fee income	**2,783**	1,217
Agency fee income	**1,882**	1,882
Intermediation fee income for transactions terminated prior to maturity	**–**	–
Interest expense	**(1,421)**	(14)
Operating expenses for trading related services	**(242)**	(211)
CM Ltd		
Debtor for operating expenses for trading related services	**550**	760
Funding loans	**(18,335)**	(2,636)
Management fee expense	**(180)**	(180)
Interest expense	**(384)**	(5)
SMBC Bank International		
Creditor for operating expenses for trading related services	**–**	(1)
Operating expenses for trading related services	**(1)**	–

* In the ordinary course of business, the Company guarantees the performance of its affiliate, CM Inc., in relation to interest rate caps sold to third parties. To protect itself against the risk, the Company has obtained an indemnity from CM Inc. To support this indemnity, CM Inc. pledges securities collateral in the form of US Treasury bills. At 31 March 2023 the termination value of guaranteed interest rate cap transactions, against which collateral was held, was USD 1,840,880 thousand (2022: USD 911,339 thousand). As explained in Note 1, the guarantees are accounted for as financial guarantees.

24. Ultimate parent undertaking

The smallest group of which this Company is a member and which has included this Company in its group financial statements is SMBC Nikko Capital Markets Limited, incorporated in England and Wales.

Sumitomo Mitsui Financial Group, Inc. incorporated in Japan, is the Company's ultimate parent entity. It is the largest Group of which this Company is a member and which has included this Company in its Group financial statements. Copies of these financial statements can be obtained from the following address:

1-2 Marunouchi
1-chome
Chiyoda-ku
Tokyo
Japan

SMBC