SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS
31 MARCH 2020

Company number 04684034

CONTENTS

COMPANY INFORMATION

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

Registered office
99 Queen Victoria Street, London, EC4V 4EH

Regulated status
Authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

Website
The Bank's website is: https://www.smbcgroup.com/emea/group-companies/sumitomo-mitsui-banking-corporation-europe-limited/

Pillar 3 document
The Bank's Pillar 3 disclosures can be found at: www.smbcgroup.com/emea/about-us/corporate-disclosures

STRATEGIC REPORT

The Directors present the Strategic Report of Sumitomo Mitsui Banking Corporation Europe Limited (the Bank or SMBCE) for the year ended 31 March 2020.

Overview of business and objectives

Our business

The Bank offers a wide range of wholesale banking products, including: bilateral loans, guarantees, syndicated loans, project finance, aircraft finance, shipping finance, other specialised structured finance, trade finance, leveraged finance, cash management, money markets, foreign exchange, deposit taking and derivatives.

The Bank carries out the majority of its activities in Europe, the Middle East and Africa (EMEA). Our customers are typically sovereigns, financial institutions and corporates, either domiciled in the EMEA region, or regional subsidiaries of global multinational corporates, many of which are headquartered in Japan and Asia.

The Bank is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation (SMBC), a Japanese banking institution, and forms part of the SMBC Group. SMBC is a wholly owned subsidiary of Sumitomo Mitsui Financial Group (SMFG), a company that is also incorporated in Japan.

The SMBC Group in EMEA comprises a number of subsidiary companies, branches and representative offices. The Bank has responsibility, as set out in various Service Level Agreements with SMBC and certain of its group companies, for the provision of services to those entities. In providing our services, the Bank will work closely with other companies within the SMBC Group.

Business model and corporate objectives

The Bank's business model is to be a well-funded, well-controlled and risk averse corporate banking institution, which will continuously evolve to proactively respond to environmental changes in order to achieve sustainable growth.

Our corporate objectives are:

- Serving Customers: To provide high-quality value-added services to EMEA customers as the bank of choice.

- Sustainable Growth: To run our business in a way that is appropriately balanced and sustainable; and to develop an efficient and effective infrastructure to support sound business growth and to provide services to SMBC EMEA branches and SMBC EU AG through Service Level Agreements.

- "Edges" as SMBCE: To establish and develop our competitive "Edges". These are areas where the Bank feels it has a particularly strong position in customer relationships; product capabilities; and global reach (with Japanese/Asian origin).

- Team SMBC Group: to share the SMBC Group's Mission and Vision and to contribute to their realisation. The Group's Mission is: "we grow and prosper together with our customers by providing services of greater value to them; we aim to maximise our shareholders' value through the continuous growth of our business; we create a work environment that encourages and rewards diligent and highly-motivated employees; and we contribute to a sustainable society by addressing environmental and social issues". The Group's Vision is to "become a trusted global solution provider committed to the growth of our customers and advancement of society".

STRATEGIC REPORT

Purpose statement

The Bank Purpose Statement is to be "a trusted partner for the long-term". The Board believes that this Statement reflects the relationship-based approach we adopt in carrying out our business for the benefit of our customers and all our stakeholders.

Overview of performance

Key performance indicators

Key Performance Indicators are widely used in the Bank and are reported as appropriate in Board and Committee meetings. The indicators used range from basic net income and cost income ratio targets through to more complex measures covering economic capital measures of risk appetite and Value at Risk. The Bank's financial Key Performance Indicators include:

	31 March 2020	31 March 2019
Return on equity	3.4%	6.4%
Tier 1 capital ratio	15.8%	18.5%
Leverage ratio	6.8%	7.6%
Operating expenses	USD 632.4 million	USD 442.5 million
Net profit	USD 152.9 million	USD 275.3 million
Cost : income ratio	51.2%	51.6%
Non-performing loan ratio	0.4%	0.5%

Return on equity is calculated as profit after tax of USD 152.9 million (2019: USD 275.3 million) divided by the average monthly equity in the year of USD 4,548.4 million (2019: USD 4,301.6 million).

The leverage ratio is calculated as the Regulatory Tier 1 capital of USD 4,585.0 million (2019: USD 4,320.3 million)) divided by the Total Exposure Measure USD 67,859 million (2019: USD 56,691 million).

Performance commentary

- Operating income saw some growth year on year, increasing from USD 830.8 million to USD 843.3 million.
- Net interest income increased in the year, up 9.1% to USD 317.9 million, in line with a higher Balance Sheet through the year.
- Net fee and commission income is up 7.5% year on year to USD 371.3 million, whilst trading income reduced from USD 193.8 million to USD 154.1 million.
- Other non-operating income of USD 8.7 million relates to the profit made on the sale of the Madrid, Prague, Dublin and Amsterdam Branches to SMBC Bank EU AG in April 2019.
- Net operating expenses are up from USD 442.5 million to USD 632.4 million with net impairment losses on financial instruments being the principal reason for this deterioration.
- The net impairment cost reflects increased credit risk, in particular on the Leveraged Buy Out portfolio, arising from disruption from COVID-19.
- The net balance sheet position has increased from USD 48.0 billion at 31 March 2019 to USD 60.4 billion at 31 March 2020.

STRATEGIC REPORT

Results and dividends

Profit before income tax for the year amounted to USD 219.6million (2019: USD 388.3 million) with profit after tax for the year of USD 152.9 million (2019: USD 213.2 million).

The results for the year are set out in the Statement of Comprehensive Income on page 45.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2020.

Response to COVID-19

COVID-19 has impacted all our principal risk types (liquidity, credit, market, operational). However, our strong balance sheet and conservative risk levels have allowed us to navigate the stressed environment while continuing to support the needs of our customers. The Bank's overall control environment remains robust, but certain of our risks have increased, such as credit risk and cyber risk.

In respect of credit risk, we anticipate a significant downturn of the credit cycle as a result of COVID-19 and a consequent increase in our impaired assets. This will also impact the Bank's overall financial performance. The financial impacts from the increased impairment levels are incorporated into our capital stress tests and are considered for our capital requirements, capital availability and capital adequacy calculations. In response to the increased credit risk, we have strengthened those functions of the Bank through which we identify, mitigate and manage credit risk. Further information on our principal risks is on page 17.

Our operational response to the COVID-19 pandemic has been led by our Incident Management Teams, which comprise members of the Bank's senior management and relevant functional specialists. The decisions taken by these Teams have also been reviewed and overseen by the members of the Board. In developing our response, the Bank has sought to follow the advice, guidance and requirements issued by the UK and French Governments (reflecting that our workforce is based in the UK and France) and by the World Health Organisation.

We invoked our Business Continuity Plan (BCP) arrangements in March 2020, having previously undertaken a period of split-site working and the imposition of restrictions on staff travel, both from and into the United Kingdom. At the date of signing this Report, the BCP working arrangements remain in place. The immediate focus of the Bank's activities was to ensure that our remote technology solutions were stable, sustainable and capable of supporting the vast majority of employees working from home, in line with Government guidelines.

With the invocation of the BCP, the Bank's policy is that only individuals designated by the Bank as key workers are permitted to work in Bank premises, with all other employees working remotely. The Bank has defined key workers as those who perform work essential to the running of the business and which can be performed only from a Bank premises. The list of key workers is reviewed weekly. As a result of these measures, typically more than 95 per cent of our employees work remotely each day. Those colleagues who work from Bank premises are permitted, at the Bank's expense, to use private, rather than public, transport to and from the office.

In order to aid our employees with remote working, the Bank has provided an allowance that is to be used towards the cost of equipment deemed essential for them to perform their work. Furthermore, the Bank expects and encourages our employees to adopt agile working practices where this is required, and line managers have been requested to be mindful of our employees' needs to balance their professional and personal lives.

The Bank has used its intranet platform to communicate regular updates on the status of the pandemic and to provide employees with a range of resources to support them with their physical and mental wellbeing. The Bank quickly recognised the potential psychological and emotional stress associated with a prolonged period of isolation and remote working and has therefore published a range of articles, advice, webinars and user guides on a range of topics, all designed to help staff navigate the crisis, stay healthy and to remain connected. These wellbeing and IT resources have often been published with related messages of support from the CEO, COO and other members of the senior management team. The Bank has also used its intranet platform to put in place an IT and Security resource centre as a means of promoting staff efficiency and enhancing awareness of cyber security matters.

The Board believes that the operational and employee focussed measures implemented across the Bank in response to COVID-19 are in the interests of all our stakeholders and have enabled us to continue to meet the expectations placed on us by them. The Board is particularly mindful of the need to promote the safety and wellbeing of all our employees and will therefore keep in place the existing working arrangements at least until such time that the advice of the UK and French Governments changes from that in place at the date of signing this Report. Since the invocation of our BCP arrangements, the Bank has proven its general resilience in undertaking its operations. We have analysed the incremental risks of running the business in the current working environment and many of these are being mitigated. The future impact of COVID-19 has been incorporated into our capital and liquidity adequacy planning documents and into our recovery and resolution planning.

Environment and society

The Bank and the SMBC Group assign a high priority to environmental issues.

Climate change is identified as one of the Bank's top ten emerging risks. The Bank has appointed a Director, Mr Kawafune, to oversee the Bank's response to climate change and has established a Sustainability Programme with the objective of overseeing all climate change related matters, such as the Bank's risk management arrangements and the ways we can support our customers with the transition to a lower carbon economy.

The Bank is part of the SMBC Group and, therefore, strategies and initiatives taking place at the Group level influence the Bank's strategic planning and risk management activity. Key environmental and sustainability initiatives undertaken by the SMBC Group are shown below, further details on which can be found on its website at: https://www.smfg.co.jp/english/sustainability

The SMBC Group has published a Statement on Sustainability in which it states that is it fully committed in its efforts to make sustainability a reality. The Group defines sustainability as creating a society in which today's generation can enjoy economic prosperity and well-being and pass it on to future generations.

SMBC has adopted the Equator Principles, which require the Bank to undertake a social and environmental risk assessment for relevant transactions. For a relevant transaction to proceed, the results of this assessment must be deemed acceptable by the Bank and by SMBC's Environmental Analysis Department.

The SMBC Group has also announced it endorsed the Principles for Responsible Banking proposed by UNEPFI (United Nations Environment Programme Finance Initiative) ahead of its launch in September 2019 and that it supports the Financial Stability Board's Task Force on Climate-related Financial Information Disclosures (TCFD). In addition, the SMBC Group has stated that it supports the spirit of the Paris Agreement and that it aims to realise the Sustainable Development Goals set out by the United Nations for sustainable development and to resolve social issues.

Our workforce

Our employees are our key resource and we are committed to developing a highly skilled, motivated and professional workforce.

Performance, learning and development

The Bank has a continuous performance management system in place to drive employee performance and professional development through regular and meaningful conversations with their manager. These

Performance Snapshot conversations take place every four months with the purpose of setting agile performance and development priorities for the period ahead and providing relevant and timely feedback to help employees improve their performance and achieve business goals.

The Bank encourages its employees to be proactive and to drive their own development using agreed frameworks to identify and work towards their longer-term career goals. Employees are encouraged to have evolving Professional Development Plans and are provided with support to do this through the provision of "How to guides" and workshops.

Once learning and development needs are identified, employees have access to a range of learning and development opportunities, including:

- A broad digital catalogue of training modules, including on financial services, core skills and management development
- Face-to-face workshops delivered by internal and external subject matter experts on topics including sales, resilience and financial modelling
- Support to gain recognised professional qualifications
- Specialist external training
- Development programmes

Charitable activities and donations

The Bank respects its employees, its customers and its local community. The Bank provides up to six paid days per year for employees volunteering for community activities.

To support involvement in community initiatives, the Bank has established a Corporate Giving Fund. Under this scheme, the Bank provides an annual fund from which donations are made to carefully selected community organisations and charities that have long-term volunteering relationships with Bank employees. In addition, from this Fund, subject to certain restrictions, the Bank will match contributions made by employees and funds raised by employees from other charitable fund-raising events. During the year, including the matching of employee donations and fund raising, the Bank made total charitable donations of USD17,818 (2019: USD1,812) to community organisations focused on a variety of social initiatives.

Equal opportunities

The Bank is an equal opportunities employer. Our aim is to ensure that no potential or current employee of the Bank, consultants, contractors, temporary staff or other workers receives less favourable treatment on the grounds of age, race, nationality, colour, disability, ethnic background, gender, sexual orientation, gender reassignment, pregnancy or maternity leave, marital status and religion or belief; equally that they are not disadvantaged by conditions or requirements which have a disproportionately adverse effect on them more than any other group. Selection criteria and procedures are intended to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities. Our Equal Opportunities Policy is set out in an Employee Handbook, which is issued to all employees. As stated in this Policy, it is the Bank's intention that:

- there should be no discrimination on account of age, race, nationality, colour, disability, ethnic background, gender, sexual orientation, gender reassignment, pregnancy or maternity leave, marital status and religion or belief;
- the Bank will appoint, train, develop and promote on the basis of merit and ability;
- all employees have personal responsibility for the practical application of the Bank's equal opportunities policy, which extends to the treatment of employees and customers;
- special responsibility for the practical application of the Bank's equal opportunities policy falls upon managers and supervisors involved in the recruitment, selection, promotion and development of employees;
- the Bank will not tolerate intimidation, victimisation or unfair discrimination against an employee who makes a complaint of harassment or discrimination or who assists in an investigation of alleged harassment or discrimination. Retaliation against an employee who complains of harassment or discrimination can be expected to lead to disciplinary action;

- the Bank's grievance procedure is available to any employee who believes that they may have been unfairly discriminated against;
- the Bank will take disciplinary action against any employee who is found to have committed an act of unlawful discrimination. Discriminating conduct and sexual or racial harassment may be treated as gross misconduct.

Diversity and inclusion

The Bank has established a Diversity and Inclusion Steering Committee, which has responsibility for our diversity and inclusion initiatives.

In the year, the Diversity and Inclusion strategy expanded its focus in order to build new initiatives in support of ethnicity, nationality, disability, sexual orientation, gender identity and gender expression. Signature initiatives included:

- the Bank becoming a member of the Stonewall Global Diversity Champions Programme, to access guidance and resources on LBGT inclusion.
- engaging a specialist vendor and gathering internal feedback to become a more disability confident, with the subsequent offering to all staff of information on how to assist colleagues with disability or ill health, including establishing a positive remote working environment, building resilience and managing isolation.

The Diversity and Inclusion Steering Committee works closely with DRIVE (Diversity, Respect, Inclusion, Value and Equality), which is the umbrella for the Bank's employee-led diversity networks and which aims to promote the sustainable growth of the Bank by fostering a diverse and inclusive workplace. Activities undertaken through DRIVE include employee events and the gathering of information, opinions and perspectives from employees in order to support the direction and oversight of the Bank's overall Diversity and Inclusion initiative. DRIVE comprises various networks, each focused on a key aspect of diversity and inclusion, namely Balance (gender), Niji EMEA (LGBTA) and Collaborate (inclusion).

The Bank is a signatory to the HM Treasury Women in Finance Charter. The SMBC EMEA Region, of which the Bank is a part, had set itself the target to increase senior female representation to 30 per cent by March 2022. Senior female representation in the Bank has increased from 26.2 per cent at 31 March 2019 to 26.8 per cent at 31 March 2020. Subsequent to the year-end and reflecting a change in Bank's corporate title structure on 1 April 2020, the SMBC EMEA Region has restated its target and now aims to achieve 30 per cent senior female representation by April 2023. Using this new basis of calculation, senior female representation in the Bank at 31 March 2020 was 24.4 per cent. The senior executive who chairs the Diversity and Inclusion Steering Committee is responsible for making regular progress updates on these targets to the Executive Committee and, as set out within the Board's Senior Management Appointment and Diversity Policy, to the Nomination Committee and Board. Details on the Board's diversity targets are set out in the Corporate Governance Report on page 20.

SMFG is included in the Bloomberg Gender Equality index for its commitment to transparency and action in support of gender diversity.

Gender pay reporting

The Bank has uploaded its UK Gender Pay Gap Report to the Government's Gender Pay Gap Service portal. For the first time, the Bank has also published Gender Pay Gap Reporting in France in line with legislation. The results of both Reports have been distributed to all employees and are available on the Bank's website at https://www.smbcgroup.com/emea/about-us/diversity-inclusion/

Wellbeing

The Bank is committed to supporting the physical and mental wellbeing of its employees and provides a number of employee benefits in this regard, such as private medical insurance, income protection and occupational health. All employees also have access to an employee assistance programme, which includes access to an independently run helpline through which employees can speak to a trained counsellor on any issues affecting them either at home or work.

Employee communication and consultation

The Bank values its employees and their views and endeavours to ensure they are properly consulted on matters affecting them. The means of communication with employees varies depending on the situation, but includes e-mails, employee meetings, working groups and town hall meetings.

Speak Up

The Bank has an employee 'Speak Up' Policy, which sets out the Bank's approach towards whistleblowing and reporting concerns. The Policy is regularly updated and awareness of the Bank's Speak Up framework is reinforced by staff training and posters. The Bank's Speak Up arrangements are reviewed annually and considered by the Audit Committee.

Remuneration

The Bank's approach to the remuneration of its locally hired employees is set out in a Remuneration Policy, which is approved annually by the Remuneration and Human Resources Committee. This Policy does not apply to employees of SMBC seconded to the Bank, the remuneration of whom is governed by rules established by SMBC in Japan.

Management believes that the overall business model of the Bank is conservative, cautious and prudent. Its principles of shared purpose are reflected in the significant collaborative effort from many departments that are involved in transacting business. No piece of business is the sole result of the actions of any one individual and no one individual can on his or her own initiative transact business that might place the Bank at risk. The Board has a framework for setting, managing and monitoring risk appetite, with the aim of optimising the return to, and protecting the interests of, stakeholders (including shareholders, customers and employees).

It is the Bank's intention that:

(1) Remuneration policy will support the Bank's long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
(2) Decisions about remuneration policy will be reviewed, considered and approved by the Remuneration and Human Resources Committee;
(3) Employees are remunerated by means of the following elements - basic salary, allowances, benefits and variable pay – that may be relevant to their location and function;
(4) The amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and
(5) Employees have the opportunity to share in the success of the Bank in years of good performance and also accept diminished levels of variable pay in times of poor performance or losses.

All employees are eligible to participate in the annual performance related bonus scheme with Bank, Department and personal performance all assessed to form a view on recommended variable pay outcomes. The Bonus Scheme is a team-based bonus scheme, a key objective of which is to emphasise the shared purpose of all colleagues across SMBC in EMEA, including the Bank. The calculation of the bonus fund includes risk adjustments and departmental performance is assessed against financial performance, non-financial performance and management and compliance considerations.

The Bank has identified certain individuals as Material Risk Takers (MRTs) by virtue of them having significant risk-taking or approval authority or the ability to place the Bank at direct risk due to their professional responsibilities. The variable pay of MRTs is subject to deferral and is also subject to malus and clawback adjustment.

The Remuneration and Human Resources Committee has the authority to adjust the bonus pool and individual bonus payments at any stage in the annual pay review process, from the calculation and determination of the fund itself to the final distribution.

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Non-Financial Information Statement

Sections 414CA and 414CB of the Companies Act 2006 set out the disclosures required in the Non-Financial Information Statement. These requirements are addressed by way of reference to the below information, supported by related disclosures in the Corporate Governance Report and Directors' Report:

- Environmental matters – Environment and Society section on page 6 and the climate change and environmental, social and governance factors of the Risk Management and Controls section on pages 17 and 18.
- Employees – Our Workforce section on pages 6 to 9.
- Social and human rights matters – the Stakeholder Engagement and Conduct of Activities sections of the Section 172(1) Statement on pages 10 to 16.
- Anti-corruption and anti-bribery - the Stakeholder Engagement and Conduct of Activities sections of the Section 172(1) Statement on pages 10 to 16.
- Principal risks – Risk Management and Controls section on pages 17 to 19.
- Business model – Business Model and Corporate Objectives section on pages 3 and 4
- Key Performance Indicators - Our Workforce section on pages 6 to 9, supplier payment figures on page 15 and Streamlined Energy and Carbon Reporting on page 25.

Section 172 (1) Statement

The Directors are aware of their duty under s.172 of the Companies Act 2006 to act in the way in which they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its members as a whole and, in so doing, to have regard (amongst other matters) to:

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

These are referred to in this section as the s.172(1) Matters.

This section describes how the Directors have had regard to the s.172(1) Matters when performing their duty under s.172. As the Bank is a wholly owned subsidiary of SMBC, fairness between members is less relevant to the Directors' discussions than the other s.172(1) Matters.

On appointment, new Directors receive induction training on their responsibilities as directors, which includes the s.172(1) Matters.

Stakeholder Engagement Model

The Board understands the importance of ensuring that the Bank's business is undertaken in a way that has regard to our stakeholders' interests. The Board's Stakeholder Engagement Model seeks to align the Bank's stakeholder and business interests. This Model has three elements: our corporate objectives; for whom we strive to achieve them (our stakeholders); and how we strive to achieve them (our culture and values).

1. Stakeholder Engagement Model – our corporate objectives

As an independent UK bank, our main objective is to serve our EMEA corporate customers while sharing the SMBC Group's mission, vision and identity, which emphasises sustainable value creation both for customers and shareholders. Our corporate objectives are set out on page 3.

2. Stakeholder Engagement Model – our stakeholders

The Directors are aware of the s.172(1) Matters, but also consider the views and interests of a wider set of stakeholders. Reflecting the Bank's corporate objectives, the Board has identified its principal stakeholder groups as set out in the below table. As relevant, sub-stakeholders are also identified for each of these stakeholder groups.

All papers put to the Board and its Committees identify the stakeholder groups relevant to the consideration of that matter. In addition, at its quarterly meetings, the Board considers an analysis of the Bank's stakeholder groups, the key methods of engagement with each of those groups and examples of engagement.

Summary of how the Board engages with our stakeholders

The Board delegates to management the authority to run the business on a day-to-day basis. Interactions with stakeholders can therefore take place either by the Board and Directors or by employees in the context of the strategies and policies set by the Board and its Committees. As necessary, significant interactions with our employees and our other stakeholders are reported to the Board and Committees. This table summarises how the Board engages with its stakeholders.

Stakeholder group	How we engage, understand and consider their interests	Why they are important
Customers	• Senior management visit customers regularly and report to the Board as appropriate • Independent customer survey undertaken and results considered by the Board • Key Risk Indicators related to the ways in which we conduct our business are considered by Board, Risk Committee and Executive Committee • Customer Voice Policy established Further information on how we conduct business with our customers is set out on pages 13 and 14.	• "Customer First" is a core value of our Bank • We seek to build our brand by being a reliable and trusted partner to our customers
Workforce	• Employee surveys held and results considered by the Board • Regular updates considered by the Board and Remuneration and Human Resources Committee on matters impacting employees, including the Bank's diversity and inclusion initiatives and significant human resources initiatives • Senior management engagement with employees takes a number of forms, including: employee engagement forums; regular emails sent by the Chief Executive Officer on matters such as our business strategy; and annual employee ideas contest for the promotion of efficiency improvements, support of sustainable business growth and cost reduction • Board attendance at annual presentation from participants on the Bank's leadership programme with the opportunity for subsequent engagement with the Board • Independent whistleblowing helpline established Further information on our workforce is set out on pages 6 to 9.	• We recognise that our colleagues are central to the Bank achieving its sustainable growth objective • Our people are our key resource and we are committed to developing a highly skilled, highly motivated and professional workforce • We seek to provide an excellent service to customers and colleagues through collaboration, teamwork and a sense of shared purpose
Environment and Society	• The Board receives regular updates on the activities of the Bank's Sustainability Programme through which the Bank is coordinating its response to the business impact arising from climate change • Board approval of the Slavery and Human Trafficking Statement	• We recognise the Bank's role in society and the importance of contributing positively to the

Stakeholder group	How we engage, understand and consider their interests	Why they are important
	• Board approval of the UK Tax Strategy Further information is set out on pages 6, 17 and 18.	societies in which we operate
The markets and our regulators	• Members of the Board and senior management engage regularly with the Bank's regulators • The Board and its Committees receive regular updates on developments in financial services regulation Further information on how we conduct are activities is set out on pages 13 – 15.	• Our regulators require the Bank to comply with their rules and to ensure the integrity of the financial markets in which we operate. Failure to comply with these requirements will impact our ability to carry out our business and serve our customers
Suppliers	• Third Party Risk Management Framework, Anti-Bribery and Corruption Policy and Prompt Payment Policy in place • The Board and Executive Committee receive periodic reports on the Bank's supplier payment periods.	• We rely upon external suppliers to provide expertise and services that the Bank does not possess
The SMBC Group (including our shareholder, SMBC)	• Senior representatives of the SMBC Group are members of the Board • Independent non-executive Directors visit SMBC Head Office and meet SMBC board and senior management representatives • Service Level Agreement framework for the provision and receipt of services between the Bank and the SMBC Group is in place	• We share the SMBC Group's Mission and Vision and contribute to their realisation • We seek to assist the SMBC Group to expand and consolidate its global franchise

3. Stakeholder Engagement Model – how we achieve our objectives

Culture and values

Our culture and values provide a framework of expected behaviours for our employees. The Board believes that a strong and positive culture underpins appropriate conduct which, in turn, helps protect the Bank, our customers and other stakeholders and helps preserve the integrity of the financial markets in which we operate. Our Culture Statement has five components:

1. Provide an excellent service to customer and colleagues, through collaboration, teamwork and a sense of shared purpose;
2. Build our brand by being a reliable and trusted partner to our customers and contribute positively to the societies in which we operate;
3. Protect our customers and markets by conducting our business in a transparent, prudent and compliant manner;
4. Treat each other with respect and integrity and embrace diversity in all its forms; and
5. Be focused, creative and proactive in evolving our business to meet new challenges.

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This Statement is aligned with the corporate values established by the SMBC Group globally, which also guide our behaviours. These are:

1. Integrity – as a professional, always act with sincerity and a high ethical standard;
2. Customer first – always look at it from the customer's point of view, and provide value based on their individual needs;
2. Proactive and innovative – embrace new ideas and perspectives, don't be deterred by failure;
3. Speed and Quality – differentiate ourselves through the speed and quality of our decision-making and service delivery; and
5. Team "SMBC Group" – respect and leverage the knowledge and diverse talent of our global organisation, as a team.

The Board considers at our quarterly meetings metrics assessing overall behaviours across the Bank against the five components of the Culture Statement and other metrics relating to staff conduct.

Long-term decision making

Each year, the Board considers the Bank's Corporate Strategy and the accompanying three year financial and capital plans. At the same time, the Board also considers the supporting Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process documents.

In considering and ultimately approving these documents, the Board considers whether they are each in line with our shareholder's expectations and are consistent with the Bank's overall corporate objectives and business model. As part of these deliberations, the Board also considers the results of a risk assessment performed on the Corporate Strategy by the Chief Risk Officer to ascertain whether the strategy is consistent with the Board's overall risk appetite.

Throughout the year, the Board and Risk Committee review the Bank's risks relative to the Board approved risk appetite and how risks are mitigated.

Conduct of Activities

The Board recognises the need for the Bank to exercise high standards of business conduct and believes this is necessary for the Bank to achieve its objective of long-term sustainable growth. The Board has put in place a range of policies, procedures and guidance in order to facilitate high standards of business conduct and this is supported by regular employee training on conduct matters.

Further detail on our conduct and key policies is set out below, together with the stakeholder groups relevant to that area.

Conduct area	Description	Stakeholder groups
Regulatory Conduct Rules	The Bank's employees are subject to the Individual Conduct Rules and, where relevant, to the additional Senior Manager Conduct Rules, of the Prudential Regulation Authority and Financial Conduct Authority. Any employee conduct that management deems breaches the Conduct Rules is reported to our regulators.	Workforce Customers Markets and Regulators
Customer relations	The Bank is committed to putting our customers first by providing quality and innovation through our products and services. We have a number of policies in place setting out how we treat and communicate with our customers. The Bank recognises that errors may occur when dealing with the banking needs of our customers. Where these errors are a consequence of our actions, we will seek to ensure that our customers do not suffer any detriment. Our Customer Voice Policy sets out how the Bank seeks to identify, record, investigate, respond to and escalate expressions of dissatisfaction made by our customers and potential customers in relation to the products and services the Bank provides and/or	Customers Markets and Regulators

Conduct area	Description	Stakeholder groups
	behaviours of our employees. Details of these arrangements can be found at: https://www.smbcgroup.com/emea/about-us/feedback-complaints/ It is the Bank's policy that any new or potentially new product or service is subject to a risk assessment and monitoring process. This process is intended to ensure that the Bank can provide that product or service in a way that complies with all regulatory and legal requirements and meets our customers' expectations. Key metrics regarding customer outcomes, marketing materials and customer expressions of dissatisfaction are reported quarterly to the Risk Committee and Board.	
Compliance, prevention of financial crime, anti-corruption and anti-bribery	The Bank has an overarching Compliance Policy Framework, which comprises a number of individual compliance policies, standards and guidance. The purpose of these documents is to identify, measure, monitor and report the Bank's compliance risks. The Bank seeks to avoid financial crime risk, but recognises that such risk is inherent in our business activities. The Bank has established an Anti-Money Laundering and Combating Terrorist Financing Policy, which sets out our controls and customer due diligence processes through which we seek to meet our legal obligations to mitigate money laundering and terrorist financing risks. The Bank also has specific policies in relation to the prevention of fraud and market abuse and ensuring compliance with financial sanctions. The Bank has zero tolerance towards and is committed to preventing all forms of bribery and corruption. The Bank is also committed to carrying out our business in a fair, open and ethical manner and our Anti-Bribery and Corruption Policy sets out the requirements and principles that the Bank and all employees must adhere to in relation to the prevention of bribery and corruption. During the year, the Bank launched a #goodconduct education and communications campaign for our employees in order to raise awareness and refresh knowledge on important compliance topics. In total, during the year, our employees undertook a total of 13,550 mandatory compliance courses and a further 3,319 compliance training courses.	Workforce Customers Markets and Regulators
Credit Policy	The Bank has established a Credit Policy, which is consistent with that of our parent, SMBC. This Policy sets out the lending guidelines and standards, including legal and regulatory requirements, followed by the Bank in undertaking our credit activities. In undertaking credit business, the Bank seeks to achieve a balance of responsibility to the community and profitability as a private enterprise. The Bank seeks to employ best practice and avoids carrying out business that may breach acceptable social standards, including any laws or regulations. The Bank will not extend any credit that may damage our reputation.	Customers Regulators and Markets Environment
Social and human rights	The Bank has established an Anti-Slavery Policy, which sets out the processes through which the Bank seeks reasonable assurance that none of our customers, business partners, suppliers and other third parties are involved in the commission or facilitation of slavery and/or human trafficking. The Bank's Slavery and Human Trafficking Statement is on our website at: https://www.smbcgroup.com/emea/about-us/corporate-disclosures This Statement is subject to annual Board review and approval. The Bank's Privacy Notice, which is published on our website at: https://www.smbcgroup.com/emea/about-us/customer-information-and-notices/ sets out that our policy is to respect an individual's privacy and to comply with all applicable data laws in jurisdictions in which we provide and receive services.	Environment and Society Suppliers

<table>
<tr><th>Conduct area</th><th>Description</th><th>Stakeholder groups</th></tr>
<tr><td>Suppliers</td><td>The Bank has established a policy setting out how we meet the requirements of the Payment Practices and Performance Regulations 2017.

The Bank’s reported UK supplier payment statistics in the year, with prior year comparatives, are as follows:

<table>
<tr><th></th><th>Average days to pay</th><th>Paid in 30 days</th><th>Paid in 60 days</th><th>Later than 60 days</th></tr>
<tr><td>Apr – Sept 2018</td><td>25</td><td>77%</td><td>16%</td><td>7%</td></tr>
<tr><td>Oct 2018 – Mar 2019</td><td>32</td><td>69%</td><td>20%</td><td>11%</td></tr>
<tr><td>April – Sept 2019</td><td>29</td><td>72%</td><td>17%</td><td>10%</td></tr>
<tr><td>Oct 2019 – Mar 2020</td><td>29</td><td>78%</td><td>15%</td><td>7%</td></tr>
<tr><td>Comparative published numbers (all firms)</td><td>37</td><td>54%</td><td>31%</td><td>14%</td></tr>
</table>

The Bank meets the Living Wage requirement for employees of suppliers who work at the Bank’s offices in the United Kingdom.</td><td>Suppliers</td></tr>
<tr><td>Policy due diligence</td><td>Adherence by employees to the Bank’s policies is assessed through a number of means, including:

• Risk Management Department - through the implementation and monitoring of the risk management framework;

• Compliance Department - the Compliance Monitoring function, which forms part of Compliance Department, is a Second Line of Defence function tasked with assessing the Bank’s controls, processes and conduct against regulatory rules and internal policies on an ongoing basis; and

• Audit Department - through its regular audit activity.

All policies have stated owners and review cycles in order to ensure that the policies remain relevant and current.</td><td>All</td></tr>
</table>

Stakeholder engagement case studies

Response to COVID-19

The Board and its Committees have been actively engaged in considering the Bank’s response to, and potential impact of, COVID-19. Further details on the Bank’s operational response are set out on pages 5 to 6.

After the year-end, the Remuneration and Human Resources Committee reviewed the Bank’s approach to the award of bonus, salary reviews and promotions to employees in light of the impact of COVID-19 on the Bank’s business. With the aim of balancing the expectations of all our stakeholders, the Committee considered a number of factors in its discussions. These included the impact on our employees; the likely impact to the Bank’s business of a significant increase year on year in credit costs and downturn in the business environment impacting performance in the year beginning 1 April 2020; the regulatory requirement for the Bank to consider current and future risks in its business when determining the level of its bonus pool; the societal response of our customers and competitors to the pandemic; and the Bank’s desire to preserve job security for its employees and to avoid taking any form of government support.

The Committee believed that the interests of the Bank’s stakeholders were collectively best met through proceeding with the planned level of employee promotions; reducing the overall bonus pool available for distribution; increasing the deferred portion of the bonus awards for Material Risk Takers; and limiting salary reviews for the majority of employees.

Engaging with employees

A series of employee engagement sessions have been held in the year, all hosted by the Chief Operating Officer. The sessions focused on those aspects of the Bank's culture that are valued by employees, followed by an idea-generation component where the views of our employees were considered and recommendations discussed on how the Bank could enhance operational efficiencies and further evolve our culture.

As a direct consequence of these engagement sessions, a number of actions have been taken by the Board and senior management, such as: the formation of a new Internal Communications function; the delivery of regular CEO engagement (such as 'Town Hall' meetings, staff lunches and regular email messages); and the creation of a new intranet platform.

The Bank plans to undertake a second cultural assessment survey in the year ending 31 March 2021. The Board recognises this survey as an important indicator in assessing our progress since the prior survey and will closely monitor the results. In addition, the Board has agreed that, starting in 2020, and in order to enhance its direct engagement with employees, the independent non-executive Directors will attend two Employee Engagement Forum meetings each year.

Engaging with customers

At the request of the Board, during the year the Bank undertook an independently facilitated survey of its customers. The aim of the survey was to understand how the Bank is perceived by our customers and how we perform against our stated corporate values and culture statement. Feedback, on the whole, was very positive on our strengths and competitive edges, and provided insight into those areas where customers would like us to evolve our service offering. The Board has considered this feedback and the action to be taken by relevant Departmental management to address the findings of the survey.

Conversion to a public limited company

During the year, the Board agreed that it was in the Bank's best interests to convert from a private to a public limited company, and in June 2020 passed the necessary resolutions to effect this change. This conversion will remove the Bank's current inability to issue securities to the public. The conversion is expected to become effective in October 2020, subject to completion of all required processes. In considering this matter, the Directors identified that the stakeholder groups relevant to this decision were the markets and our regulators and our shareholder.

In reaching its decision to convert the company to a public limited company, the Board received confirmation from its shareholder that the conversion was in line with its expectations for the Bank. Another factor considered by the Board included the timing of the conversion, which it decided taking into account the associated costs and other significant activity being undertaken within the Bank, such as preparations for Brexit and for an expected office relocation in 2021. In addition, following the need to prioritise other business critical matters arising as a result of the COVID-19 pandemic and mindful of our customers' own working arrangements, the Board decided to defer its approval of the conversion from its April 2020 to its June 2020 meeting.

Risk management and controls

Risk strategy and risk appetite

The Bank's risk strategy is designed to support the corporate strategy and the achievement of sustainable growth over the long term. The risk strategy comprises four pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives: business model (sustainable growth), maintaining solvency and liquidity, conducting business (in accordance with all regulatory requirements) and maintaining operational resilience.

The Bank uses Risk Appetite to define the broad-based level of risk it is able and willing to take in carrying out its business. The Bank's Risk Appetite is arranged according to the four strategic pillars and ensures formal management identification and consensus about the strategic level risks the Bank is facing and, as such, is a key tool for managing the business.

Risk Management Framework

The Bank adopts a three lines of defence model in order to communicate clear accountabilities and to achieve and assure overall effective risk governance, management and assurance, which reflects and reinforces the Bank's internal control framework. Further details on the Bank's three lines of defence model are set out in the Risk Review starting on page 29 and this information is incorporated by reference into this Report.

Risk profile

At the year-end, the Bank's risk profile was within the overall tolerance established by the Board. The risk profile relative to Risk Appetite is reported monthly at the Executive Committee and quarterly at the Risk Committee. The Bank's Risk Appetite for Market Risk, Conduct Risk, Operational Risk and Other Non-Financial Risks is low. As a consequence, the main risks that the Bank proactively acquires are Credit Risk and Liquidity Risk.

Principal risks and uncertainties

The Bank is exposed to certain risks and uncertainties in conducting its business. The Bank's principal risk categories are classified as below:

Principal Risks		
Type	**Description**	**How risks are managed**
Credit	The risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.	Credit risk is identified, managed and monitored individually and in aggregate. A number of approaches are used such as limits, indicators and stress testing.
Liquidity	The risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.	Liquidity risk is identified, managed and monitored using a number of approaches such as limits, indicators and stress testing.
Market	The risk that movements in interest rates, foreign exchange rates, or stock prices will change the market value of financial products, leading to a loss.	The Bank uses Value at Risk (VaR) to a 99% confidence interval to measure and control market risk alongside other relevant metrics.
Conduct	The risk of our actions, inactions or behaviours resulting in poor outcomes for our customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.	The Bank assesses the Bank's conduct and culture versus the EMEA Culture statements using a suite of targeted metrics. Further detail on how the Bank conducts its business is set out in the Conduct of Activities section on page 6.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks	Operational risk is managed with a view to maximising resilience and continuity whilst maintaining acceptable levels of residual risk.
Model Risk	The potential loss resulting from errors in the development, implementation or use of internal models.	Model risk is managed through the Model Risk Management framework consisting of 4 key components; Model Governance & Control, Model Management, Model Development and Independent Model Validation.
Other non-financial	As a result of its activities the Bank assumes other potential risk impacts such as reputational, climate and	A number of appropriate approaches are used to manage other non-financial risks. Further details are contained in the Risk Review.

Principal Risks		
Type	**Description**	**How risks are managed**
	others which it manages within the overall policy framework	

Climate change and Environmental, Social and Governance factors

Climate change poses risks for the stability of the financial system and these risks may manifest themselves through economic losses caused by severe weather events (physical risks) and/or through the transition to a low carbon economy (transition risks). The Bank is building on its existing overall risk management framework to strategically address climate change through four key components: analysis; education; policy; and strategy and opportunities.

With effect from April 2020, all credit applications prepared by front office staff have reflected their assessment of the climate change and Environmental, Social and Governance factors associated with that application. In addition, also with effect from April 2020, the Bank introduced a tool to measure the distribution of climate change risks within our portfolio. The data from this exercise will inform the Bank's climate change related stress testing and give the Board and management more information on the climate change risks inherent within the portfolio.

With effect from June 2020, the Bank's risk strategy includes the following statement "SMBCE intends to grow its sustainable finance business and help customers to transition to a low-carbon economy. SMBCE will manage the material sustainability and climate change risks within its portfolio and own operations".

Benchmark interest rate reforms

The Bank is preparing for the likely discontinuation of certain reference rates, such as the London Interbank Offered Rate (LIBOR), and the adoption of alternative risk-free reference rates (RFRs). The adoption of RFRs may affect a broad range of transactions that use LIBOR to determine the amount of interest payable, such as in loan, deposit, bond or derivative products. The implementation of RFRs also introduces a number of risks for the Bank, any of which could have an adverse impact on the Bank's business and financial position, including:

- **Conduct risk:** the lack of client engagement and disclosures, if not adequate, could impact existing and new business. There is the risk that the Bank receives a higher than normal number of complaints or disputes from dissatisfied clients as a result of the actions taken by the Bank in preparing for the discontinuation of LIBOR and implementation of RFRs.

- **Regulatory Risk:** there is a risk that our regulator is unsatisfied with the Bank's level of preparedness for a smooth transition to RFRs.

- **Reputational Risk:** the Bank's reputation may be damaged if we fail to adequately prepare and transition from LIBOR to RFRs in an effective, smooth and timely manner.

- **Operational risk:** the Bank is required to update a number of its IT systems in preparation for the implementation of RFRs, some of which are reliant upon development support of external vendors. In addition, the Bank is required to update a number of its operational processes and to ensure that payments are made on the basis of RFRs. Furthermore, the Bank will be required to ensure that all relevant contractual documentation contains relevant provisions to RFRs. If not undertaken correctly, the Bank could be exposed to litigation risk.

- **Financial risk:** there is the risk that RFRs create a change in the value of existing transactions and that the Bank will be required to hold additional capital against those assets. Basis risk (the spread between Libor and RFR) may have a cost impact. An assessment of this impact as at 31 March 2020 is included in the ICAAP document for the current fiscal year.

STRATEGIC REPORT

Implementation of the Standardised Approach for calculation of capital requirements

Following regulatory approval, with effect from 31 December 2019, the Bank implemented the Standardised Approach for the calculation of its risk weighted assets, having previously used a combination of the Standardised Approach and Foundation Internal Ratings-Based Approach.

Approved by the Board of Directors

Keiichiro Nakamura
Chief Executive Officer
8 July 2020

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining a high standard of corporate governance within the Bank.

For the year ended 31 March 2020, the Bank has applied the Wates Corporate Governance Principles for Large Private Companies. In advance of applying these Principles, the Board considered in what ways its governance arrangements already met the Principles and in what ways its governance arrangements needed to be enhanced to do so. Enhancement points included the development of a stakeholder engagement model and the holding of an annual strategy meeting.

Included within this section is a description of the activities of the Board and Board Committees and how, in practice, the Board has applied the Wates Principles. Where reference is made to disclosures made elsewhere in this document, these are incorporated by reference.

Directors

The names of the Directors at the date of signing the annual report and accounts are set out below, together with their Board and Committee responsibilities. Further information on the Board and Committees is included on pages 23 and 24.

Name	Board of Directors	Committees				
		Audit (1)	Nomination	Remune-ration (2)	Risk (1)	Executive
Executive Directors						
Mr Keiichiro Nakamura (3)	M	-	M	-	-	C
Mr Hideo Kawafune	M	-	M	-	-	M
Mr Stanislas Roger	M	-	M	-	-	M
Independent Non-Executive Directors						
Ms Laurel Powers-Freeling	C	M	C	C	M	-
Mr Alan Keir	M	M	M	M	C	-
Ms Charlotte Morgan	M	C	M	M	M	-

Key:
C – indicates Chairman of the Board/Committee; **M** – indicates Member of the Board/Committee

Notes:
(1) At the invitation of the Committee Chairmen, Mr Nakamura, Mr Kawafune and other relevant members of executive management are invited to attend Committee meetings.

(2) The Committee's full name is Remuneration and Human Resources Committee. Mr Nakamura, Mr Kawafune and the Head of Human Resources are invited to attend all meetings of this Committee but have no voting rights.

(3) Mr Nakamura was appointed an executive Director on 1 May 2020, having served as a Non-Executive Director (NED) during the year. In that capacity, his membership of the Board and Committees was:

Name	Board of Directors	Committees				
		Audit	Nomination	Remune-ration	Risk	Executive
Mr Keiichiro Nakamura (as NED)	M	M	-	M	M	-

CORPORATE GOVERNANCE REPORT

The Wates Principles and how we apply them

Principle 1 - Purpose and leadership
"An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose."

How we apply this Principle
The Board is responsible for the leadership, direction and control of the Bank and for ensuring that the Bank complies with its legal and regulatory requirements. Matters reserved for the Board's approval include key appointments, strategy, budgeting, capital adequacy, recovery and resolution planning and the financial statements.

The Board has approved a Corporate Purpose Statement, which is for the Bank to be "a trusted partner for the long-term". The Board believes that this Statement reflects the relationship-based approach we adopt in carrying out our business for the benefit of our customers and all our stakeholders.

The Board approves a corporate strategy annually. The yearly strategy process includes consideration of high-level strategic principles, including those of the SMBC Group, an annual strategy discussion meeting, and the draft and final versions of the strategy document. The Bank's strategy is underpinned by our corporate objectives and culture. Business developments and progress against the strategy are considered by the Board quarterly.

The Bank's corporate strategy and developments in the business are communicated to employees in a variety of ways including regular update emails from the Chief Executive Officer to all staff.

Further information on the Bank's strategy, business model and culture can be found in the Strategic Report.

Principle 2 - Board composition
"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company."

How we apply this Principle
At the date of signing this Report, the Board comprised six Directors, three of whom were executive and three of whom were non-executive. All the non-executive Directors are deemed to be independent.

The Board has appointed a separate (non-executive) Chairman and Chief Executive to ensure there is clear division of responsibilities between the leadership of the Board and the executive leadership of the business.

The Nomination Committee is responsible for nominating candidates to the Board to fill Board, Senior Manager Function and certain other senior level vacancies. The final decision on whether to appoint a candidate to one of these positions lies with the Board of Directors.

The Board has put in place a Senior Management Appointment and Diversity Policy, which sets out the approach for the selection and appointment of individuals to Board Director and senior executive management positions. This Policy also states that the Board will review on a quarterly basis the actions being taken by the Bank to meet its Women in Finance Charter targets (further details of which are set out on page 8).

The Board's target is that at least 25 per cent of the Board will be made up of women, while also ensuring an appropriate mix of skills, experiences and competencies on the Board. Currently, 33 per cent of the Board is made up of women.

Appointments to Board and senior management level are made on the basis of the competencies, skills, experience and values of the candidates. In addition, appointments to the Board seek to ensure that the

Directors possess adequate collective knowledge, skills and experience and that they have a broad range of experiences between them. The Board believes that its current composition is appropriate for the nature, size and complexity of its business. All Directors possess international banking experience and have other individual areas of expertise, including in tax, accounting, strategic development and risk management. The Board will continue to keep its composition under review and expects that in the fiscal year ending 31 March 2021 it will appoint a shareholder representative Non-Executive Director and another executive Director.

Non-Executive Directors are informed in advance of appointment of the expected time commitment required for them to perform their roles.

A bespoke training and induction programme is in place for all new Board members and new senior management. The purpose of this programme is to give those individuals the information they need for them to become as effective as possible in their new role within the shortest practicable time.

The Board and its Committees regularly consider their own effectiveness. This is achieved through a combination of reviews led by the respective Chairmen and, every three years, by an independent external evaluator. The results of the last externally facilitated review were considered by the Board in April 2019. The next externally facilitated review is scheduled to be undertaken in 2022. The results of these reviews and proposals to improve effectiveness are considered, as relevant, by the Board and Committees, which also oversee implementation of the action taken to address those proposals.

Principle 3 - Director responsibilities

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge."

How we apply this Principle

All Directors have in place a role description and have individual regulatory responsibilities in accordance with the Senior Managers Regime of the Financial Conduct Authority and Prudential Regulation Authority. These responsibilities are documented within the individuals' Statement of Responsibilities and within the Bank's Management Responsibilities Map.

The Board meets quarterly and, additionally, when necessary. Between these meetings there is regular contact between the executive and Non-Executive Directors. The Board has delegated to its Committees certain responsibilities and these are set out in terms of reference that are regularly reviewed by the Board and its Committees. The Board and the Audit, Risk, Nomination and Remuneration and Human Resources Committees are Chaired by an independent Non-Executive Director.

The Board has delegated to the Chief Executive Officer responsibility for the management and day-to-day running of the Bank. The Chief Operating Officer assists the Chief Executive in this role by participating in and overseeing all key decision making in the Bank.

All Directors have access to the advice of the Company Secretary and have the right to seek independent professional advice at the Bank's expense in the furtherance of their duties.

All Directors are required annually to complete a questionnaire through which any potential conflicts of interest are identified. In addition, the Non-Executive Directors are required to seek the approval of the Bank and SMBC in advance of them being appointed to the board of any other company in order to ensure that any potential conflicts of interest with the Bank can be identified and, as necessary, managed.

Principle 4 - Opportunity and Risk

"A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks."

How we apply this Principle

Opportunity

Medium- and long-term strategic opportunities are identified through the annual corporate strategy development process. Any expansion of the business into new areas is considered in conjunction with the Bank's risk appetite. Short-term strategic opportunities are considered by the executive management team and reported to the Board on a regular basis. In addition, the Board considers from a strategic perspective any new products and services.

Risk

The Risk Management and Controls section of the Strategic Report on pages 17 to 20 set out the key risks to which the Bank is exposed. The Bank's key risks are considered by the Risk Committee quarterly and by the Executive Committee monthly.

Principle 5 – Remuneration

"A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company."

How we apply this Principle

The Remuneration and Human Resources Committee is responsible for overseeing the development and implementation of the Bank's remuneration policies and practices.

The Bank has put in place a Remuneration Policy that applies to all locally hired employees. This Policy is reviewed annually by the Remuneration and Human Resources Committee and the Board. It is the Bank's intention that the Remuneration Policy will support the Bank's long term aims and that it will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness.

Further information on the approach taken to develop and implement the Bank's remuneration structures is set out in the Remuneration section of the Our Workforce part of the Strategic Report on page 9.

Principle 6 - Stakeholders relationship and engagement

"Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions."

How we apply this Principle

Information on the way in which the Board considers stakeholders' interests is set out in the Section 172(1) statement in the Strategic Report on pages 10 to 16.

Board Committees

The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed and revised as necessary during the course of each year. These Committees are as follows:

Audit Committee

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

Executive Committee

The Executive Committee is responsible for the supervision and management of the Bank's daily operations and for overseeing the work of the executive risk committees (further details on which are shown on pages 32 to 33). The Executive Committee meets monthly and reports to the Board of Directors. The Bank's non-executive Directors receive a copy of the papers and minutes of all Executive Committee meetings.

Nomination Committee

The Nomination Committee is responsible for assessing and recommending candidates to the Board to fill Board, Senior Manager Function and certain other senior executive management level vacancies. The Committee is also responsible for: (i) considering the composition of the Board, which includes matters of diversity and the Board's policy for the selection and appointment of Directors and senior management; (ii) considering senior executive management succession plans; (iii) assessing at least annually the knowledge, skills and experience of the Directors individually and the Board collectively; (iv) assessing annually the size, composition and performance of the Board; and (v) taking into account the need to ensure that the Board's decision-making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the Bank as a whole.

Remuneration and Human Resources Committee

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

Risk Committee

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

Annual review of internal controls

The Directors, through the Risk Committee, consider annually the adequacy and appropriateness of the Bank's risk management framework. Based on the annual review undertaken in respect of the year ended 31 March 2020, the Directors have formed the view that the Bank's Risk Management framework is adequate.

In addition, through the Risk Committee, the Directors undertake an annual review of the effectiveness of the Bank's systems of internal controls. At its June 2020 meeting, the Risk Committee received confirmation from the Bank's Risk Management Department that management has taken or is taking the necessary actions to remedy any weaknesses identified through the operation of the Bank's framework of controls. This review considers the results of an attestation process under which the key risks facing the Bank, along with related key controls, are assessed and recorded by the heads of business units and functions.

In addition to this review, at its June 2020 meeting the Audit Committee received the results of a review undertaken by management of the effectiveness of the internal controls and risk management arrangements in relation to financial reporting.

On the basis of these assessments, the Board considers the Bank's system of internal controls to be appropriate. The Bank's system of internal controls is designed to mitigate and manage, rather than eliminate, the Bank's risks. Key components of the framework that the Bank has in place to provide assurance to the Board on the effectiveness of internal controls are set out in the Risk Review starting on page 30.

REPORT OF THE DIRECTORS

The Directors present their Report and the audited financial statements for the year ended 31 March 2020.

Directors
The Directors who were in office during the year and up to the date of signing the financial statements were:

Independent non-executive Directors
Laurel Powers-Freeling (Chairman) – appointed to the Board on 1 July 2015

Alan Keir – appointed to the Board on 12 October 2016

Charlotte Morgan – appointed to the Board on 1 September 2017

Executive Directors
Keiichiro Nakamura – appointed as an executive Director and Chief Executive Officer on 1 May 2020. Mr Nakamura was appointed a non-executive Director on 25 July 2018, a position that he held until his current appointment. He was previously an executive Director of the Bank from 2 April 2012 to 3 April 2018.

Hideo Kawafune - Chief Operating Officer and General Manager of Planning Department, which has responsibility for corporate planning, human resources, financial reporting, information systems and legal and company secretarial matters. He was appointed an executive Director on 3 April 2018.

Stanislas Roger - is the Deputy Chief Executive Officer and was appointed an executive Director on 29 April 2015.

Changes to the Board in the year

Mr Tetsuro Imaeda served as Chief Executive Officer during the year and resigned from the Board on 1 May 2020. On the same day, Mr Keiichiro Nakamura was appointed Chief Executive Officer.

Mr Masaki Kambayashi served as an executive Director during the year and resigned from the Board on 18 May 2020.

Statement of corporate governance arrangements
The statement of corporate governance arrangements is on pages 20 to 24 and is incorporated into this Report by reference.

Directors' indemnities and insurance
During the financial year, the independent non-executive Directors benefited from qualifying third party indemnity provisions. These provisions remain in place at the date of this Report. In addition, the Bank has directors' and officers' liability insurance in respect of certain losses or liabilities to which officers of the Company may be exposed in the discharge of their duties.

Financial instruments
The Bank uses financial instruments extensively as an integral part of its normal business activity. These instruments expose the Bank to a number of financial risks, including credit, market and liquidity risk. The Bank has in place well defined policies and procedures to mitigate, identify, measure and control these risks in line with the Bank's risk management objectives.

As part of the management of these risks the Bank uses derivatives to hedge interest and foreign exchange exposures on non-trading positions (primarily on fixed rate loans). Further information on this can be found in the accounting policy on derivatives, shown in note 3 (policy k) to the financial statements.

REPORT OF THE DIRECTORS

Dividends
No dividends have been declared or paid in the financial year ended 31 March 2020 and no final dividend is recommended by the Board.

Contracts of significance with controlling shareholder
In addition to the Keep Well Deed with SMBC, in accordance with the normal course of business, the Bank and SMBC have entered into an ISDA Master Agreement and Credit Support Annex whereby SMBC agrees, inter alia, to provide the Bank with collateral of a value that is greater than the Bank's exposure to SMBC. The Bank has also entered into a USD1.5 billion revolving multicurrency revolving liquidity facility agreement with SMBC.

Overseas offices and other operations
At the date of signing this Report, the Bank had one operational Branch which is established in Paris. During the year, the following Branches were closed, having all ceased business on 1 April 2019: Amsterdam: 11 April 2019; Madrid: 8 July 2019; Prague: 15 June 2019; and Dublin: 11 October 2019. The assets and liabilities of these branches were transferred to SMBC Bank EU AG as part of the Bank's and SMBC's preparations for the United Kingdom's (UK's) withdrawal from the European Union (EU) (Brexit).

Charitable and political donations
Details of the Bank's charitable donations and activities are set out in the accompanying Strategic Report, which is incorporated by reference into this Report. The Bank made no political donations or contributions during the year (2019: nil).

Employee matters
Information on the way in which the Directors have engaged with employees, and which is incorporated by reference into this Report, is set out in the Strategic Report in the Our Workforce section starting on page 6 and in the Section 172(1) Statement starting on page 10. Information on the Bank's policies in respect of the employment, training, career development and promotion of disabled persons, and which is incorporated by reference into this Report, is also set out in the Our Workforce section of the Strategic Report.

Engagement with suppliers, customers and other stakeholders
Details of the way in which the Bank has engaged with its suppliers, customers and stakeholders is set out in the Section 172(1) Statement of the Strategic Report and this information is incorporated into this Report by reference.

Streamlined Energy and Carbon Reporting
The UK government's Streamlined Energy and Carbon Reporting (SECR) policy was implemented on 1 April 2019, when the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 came into force. The Bank meets the SECR qualification criteria in the UK.

The Bank has opted to use the Operational Control boundary definition to define its carbon footprint boundary. The reporting period for compliance is 1 April 2019 to 31 March 2020. Included within that boundary are Scope 1 and 2 emissions, as well as Scope 3 emissions from gas, electricity, company fleet and grey fleet in the UK. The GHG Protocol Corporate Accounting & Reporting Standard and the UK Government's GHG Conversion Factors for Company Reporting have been used as part of carbon emissions calculation.

The results show that the Bank's total energy use and total gross Green House Gas (GHG) emissions amounted to 9,799,460 kWh and 2,909 tonnes of CO_2e respectively in the 2019/20 financial year in the UK. The Bank has chosen 'Tonnes of CO_2e per full time employee (FTE)' as an intensity metric as this is an appropriate metric for the business. As a result, the intensity metric for the financial year was 2.31.

The Bank has invested over many years to reduce carbon emissions on our properties. Within the financial year, the Bank completed several projects in several locations as follows:

- Operating times on air conditioning units have been adjusted
- Atrium flood lights have been phased out
- The number of IT servers has been reduced

- Ceiling lights have been replaced with more energy efficient units.

Research and development

In the ordinary course of our business, our marketing departments develop new products and services. Our policy is that any new or potentially new product or service is subject to a risk assessment and monitoring process.

Important events since the year end

The COVID-19 pandemic required the Bank to invoke our Business Continuity Plan and this currently remains in effect, with the result that typically more than 95 per cent of the Bank's staff are now working remotely. COVID-19 has impacted all our principal risk types (liquidity, credit, market, operational), however, our strong balance sheet and conservative risk levels have allowed us to navigate the stressed environment while continuing to support the needs of our customers. Further detail on the impact of COVID-19 and the Bank's response are set out in the Response to COVID-19 section of the Strategic Report on pages 5 and 6 and that is incorporated by reference into this Report.

Future developments

The Bank will continue with our primary objective of providing high quality value-added services to our customers. Consistent with this objective, the Bank will continue to assess market conditions carefully, to identify our core competencies and to enhance our credit and other risk management techniques. The Bank will seek sustainable growth with a well-balanced assessment of risk and reward, this being particularly important given the current uncertainty in the banking sector and the recessionary environment in the economies of Europe, Middle East, Africa and beyond. The economic environment will require the Bank to focus on how to manage and mitigate its credit risk.

The Bank will continue to closely monitor the advice, guidance and requirements issued by the UK and French Governments in response to the COVID-19 pandemic and this will help inform our planning for our staff to return to working from Bank premises. A key priority for the Bank will be to maintain the health and wellbeing of our workforce.

The Bank recognises that there remains uncertainty regarding the nature of the UK's future relationship with the EU on the UK's withdrawal from the EU on 31 December 2020. The possibility of the UK and EU failing to agree a trade deal, or some other form of arrangement, has been incorporated into the Bank's capital stress testing and has been considered for our capital requirements, capital availability and capital adequacy calculations. The Bank and SMBC have taken steps to ensure that together we can continue to offer our clients sustained and reliable banking services in the EU, without disruption, on the UK's withdrawal, irrespective of whether a trade deal is agreed. On the UK's withdrawal, the Bank's Branch in Paris will be converted to a branch of a third country bank, for which regulatory approval has been obtained.

Going concern

The Bank's business activities, together with the factors likely to affect its future performance and position, are set out in the Strategic Report. The financial statements set out the financial position of the Bank at 31 March 2020.

Note 4 to the financial statements describes in further detail the ways in which the Bank manages, and its exposure to, market, liquidity, credit, operational and conduct risk.

The Directors believe that the Bank has adequate financial resources and is well placed to manage its business risks successfully despite the current uncertain outlook for the global economy and the banking sector, especially in light of the uncertainty arising from COVID-19. In addition, the Directors believe the Bank will be able to continue in operation and meet its liabilities, taking into account its current position and the principle risks faced, over a period of at least 12 months.

In making this assessment, the Directors have considered a wide range of detailed information relating to present and future conditions, including projections of profitability, liquidity and capital requirements and resources. They determined that the principle risks the Bank currently faces are those arising from COVID-19 and a 'no deal Brexit', although other risks are also considered.

This belief is based on consideration of a wide range of information including:
(a) The results of the Bank's three-year liquidity planning assessment. This includes consideration of COVID-19 and a 'no deal Brexit' along with other significant risks.
(b) The results of the Bank's three-year capital planning assessment. This includes consideration of COVID-19 and a 'no deal Brexit' along with other significant risks.
(c) The results of the Bank's capital and liquidity stress testing, including consideration of the impact of COVID-19 and a 'no deal Brexit' as key risks. The economic scenario for the capital stress included consideration of a prolonged recession lasting two years alongside a 'no deal Brexit'. Consequently, an economic recession deeper than the financial crisis has been considered, lasting two years followed by a very limited recovery in the third year. A further stress in addition to the economic scenario was applied to customers within industry sectors more affected by the impact of COVID-19. This stress scenario results in a significant increase in credit impairments, but the Bank remains above overall and minimum capital requirements throughout the stress period.
(d) Details of the Bank's three-year business strategy (Profit and Loss and Balance Sheet) forecasts.
(e) Details of the Bank's approach to managing risks.
(f) Consideration of a number of other related factors including consideration of a Keep Well Deed under which the Bank and SMBC agree to certain financial arrangements, including the obligation of SMBC to maintain tangible net worth in the Bank at all times sufficient to cover the Bank's obligations arising through any of its business activities.

Based on the above, the Directors conclude that the Bank has adequate resources to continue operations for a period of at least 12 months from the date of these Financial Statements, and therefore it is appropriate to continue to adopt the going concern basis.

Disclosure of Information to Auditor

Each person who is a Director of the Bank as at the date of approval of this Report confirms that:
(a) so far as the Director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
(b) the Director has taken all the steps that he or she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Auditor

Pursuant to Section 485 of the Companies Act 2006, the Bank appointed its existing auditors, KPMG LLP, as its auditor for its fiscal year beginning 1 April 2019. This appointment was made following the completion of an audit tender process, which was undertaken in line with the requirements of Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR). Pursuant to Section 487 of the Companies Act 2006, the Bank's auditor, KPMG LLP, is deemed to be reappointed and will therefore continue in office for the year ending 31 March 2021.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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.

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

Mark Bradley
Company Secretary

99 Queen Victoria Street
London
EC4V 4EH

8 July 2020

RISK REVIEW

Risk strategy and risk appetite

The Bank's risk strategy has been developed to support the corporate strategy and the achievement of long-term sustainable growth. The risk strategy comprises four pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives. These are Business Model (sustainable growth), Maintaining Solvency and Liquidity, Conducting Business and Maintaining Operational Risk and Resilience.

Pillar 1: Business Model (Sustainable Growth)

- SMBCE generates revenue as a direct result of taking credit risk through its lending portfolio. The Bank has an active appetite for well-controlled credit risk and limited appetite for market risk.
- SMBCE ensures that its pricing for risk is appropriate for maintaining a sustainable business.
- SMBCE seeks to limit the volatility of its earnings to ensure that under a moderate (1 in 10 year) stress, the Bank does not make a loss.
- SMBCE intends to grow its sustainable finance business and help customers to transition to a low-carbon economy. SMBCE will manage the material sustainability and climate change risks within its portfolio and own operations.

Pillar 2: Maintaining Solvency and Liquidity

- SMBCE aims to ensure it is robust from a capital and liquidity perspective, in excess of regulatory minimum and risk appetite levels.
- In addition to controlling earnings volatility, the Bank needs to manage more extreme stresses (1 in 1000 year), to ensure it is capitalised in line with regulatory expectations.
- SMBCE maintains sufficient cash and liquid assets to cover plausible but extreme stresses. The Bank will consider the key liquidity risks and ensure that the balance sheet is robust to cover the resulting stresses.
- Resolvability is demonstrated through the maintenance of a liquidity structure that can plausibly support the Solvent Wind Down Plan (SWDP).

Pillar 3: Conducting Business

- Through the strong management of its business, SMBCE will ensure that it does not, through action or inaction, cause an adverse reputation with regulators, customers, suppliers and/or the wider stakeholder group.
- The Bank seeks to manage its business at all times with the aim of meeting applicable financial crime regulatory requirements of all bodies and countries within which it operates.
- The Bank will seek to emphasise its "customer first" value through fair and transparent dealings with its customers. The Bank aims to minimise regulatory/compliance risk by meeting both the spirit and letter of all applicable regulation.
- The Bank's staff and the culture of the organisation are key strengths in achieving sustainable growth, guided by the organisation's five values.
- The Bank wishes to maintain a balance between the emphasis on team rather than individual, and individual accountability. The Bank wants to maintain a "customer first" focus, whilst ensuring that there is a strong and embedded risk sensitivity and conservatism.

Pillar 4: Maintaining Operational Risk & Resilience

- The Bank's systems, processes and infrastructure should have strong market standard defences and be able to withstand plausible operational risk scenarios such as cyber attacks, supplier failure, natural disasters and terrorist activity.
- This will include actionable recovery plans such as Business Continuity Plans, Disaster Recovery Plans, and Incident Management that minimise recovery times and limit disruption. The Bank should ensure that critical services can be maintained during resolution.

RISK REVIEW

Risk Management Objectives

The Bank's risk management objectives are as follows:

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

Segregation of duties: Roles and responsibilities in the management of risk

Three lines of defence

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

- First Line of Defence – Functions that own and manage risk;
- Second Line of Defence – Functions that oversee risk; and
- Third Line of Defence – Functions that provide independent assurance.

First line

Senior management in the first line of defence are ultimately responsible for the risks and controls that fall within their area of responsibility, and are required to establish their own Risk Tolerances at departmental level. Each department proposes individual Business Unit Risk Tolerance statements and thresholds in the context of its own strategy, taking into account the Bank's overall risk management framework and Corporate Strategy. This approach is designed to ensure that the Bank's risk appetite is cascaded down to those areas of the Bank where risk is taken.

Second line

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

Third line

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

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

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

RISK REVIEW

Executive level risk committees

The risk committees are executive level committees and have been established to consider certain areas of risk for the Bank and report, as relevant, to the Executive Committee and the Risk Committee. The risk committees are as follows:

Asset and Liability Management Committee

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

The Asset and Liability Management Committee has established the following sub-committee:

- Liquidity Management Committee – responsible for considering issues relating to liquidity risk management, including analysis of the funding market, stress testing results, impact of business strategy on assets and deposits and funding strategy.

Credit Risk Committee

This Committee is primarily responsible for discussing a range of credit issues including consideration of credit risk Key Risk Indicators, portfolio analysis, sector analysis, asset allocation as well as the Bank's credit risk appetite and associated risk tolerances. It also reviews matters such as credit policies and rules, credit strategy and provisioning policy. Issues arising from the ongoing credit review by Audit Department - Credit Review Group are also discussed at this Committee.

Cyber Resilience Committee

This Committee is primarily responsible for driving actions to ensure the Bank meets the expectations set out by the Financial Conduct Authority and other regulators in the area of cyber and technical resilience. This Committee, the Security Committee and the IT Steering Committee all contribute to the Bank's cyber and technical resilience.

Financial Crime and Reputational Risk Committee

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

Operational and General Risk Committee

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

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

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

Prudential Regulatory Committee

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

Key elements of risk management framework

Shown below are key elements of the Bank's approach to risk management.

(a) Risk Identification and Assessment

The key principles used in the Bank for risk identification and assessment are:

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

(b) Risk Management and Monitoring

The key principles for risk measurement and monitoring are:

- Measure risk exposure by loss modelling, enterprise level KRIs and scenarios;
- Provide an Operational Risk capital methodology and implementation;
- Facilitate senior management understanding of the severity of the risk;
- Ensure appropriate reporting to Board and ExCo of inherent and post-mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite;
- Maintain a record of accepted risk;
- Measure risk exposure by loss modelling, enterprise level KRIs and scenarios;
- Maintain a record of accepted risks; and
- Ensure appropriate reporting to Board and Executive Committee of inherent and post-mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite.

(c) Model Risk Management Framework

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

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

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

(d) Stress Testing and Scenario Analysis

Stress testing is a key forward-looking tool to calculate the impact of several scenarios over differing timeframes. Stress testing and scenario analysis are used across the principal risks to ensure that the Bank can adequately understand and quantify not only risks as they currently exist, but as they might develop in times of stress.

Reverse Stress Testing

Reverse Stress Testing is used by the Bank to identify and monitor the factors and the stress levels that have the potential to cause the Bank's business model to become unviable. Reverse stress testing is an important part of the overall risk management framework of the Bank and assists management in understanding potential business model vulnerabilities.

(e) Risk Appetite Setting

The Bank's risk appetite defines the broad-based level of risk that the entity is able and willing to undertake in pursuit of its objectives.

The key principles of the Risk Appetite Framework are:

- Appropriate governance at Board and Executive Committee level. The Risk Appetite of the Bank is set by the Board on an annual basis as part of the strategic planning process and monitored throughout the year;
- Risk Appetite is driven by both top-down Board leadership and bottom-up involvement of business units;
- To facilitate embedding of risk appetite into the Bank and its culture;
- To evaluate opportunities for appropriate risk taking and act as a defence against excessive risk-taking;
- To promote robust discussions;
- To be adaptive to changes in business and market conditions;
- To cover all activities at the Bank;
- That Board level appetite changes should drive real changes in risk taking at the business level;
- That risk taking is calibrated to the Bank's long term sustainability; and
- That risk appetite setting is an integral part of the Bank's strategy.

The Risk Appetite Framework comprises: Risk Strategy, Risk Tolerances, Risk Limits and Control Measures. Risk appetite is linked to overall business strategy, including assessment of new business opportunities, liquidity, funding and capital planning.

(f) Risk Control and Mitigation

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

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

- Tangible security;
- Financial collateral;
- Credit default swaps and guarantees;
- Risk governance, policy and procedures;
- Individual and collective controls; and
- Other mitigation and control actions.

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

Acceptance List

Certain risks may not be capable of being fully mitigated or in certain circumstances the cost or practicality may be excessive for the size of the inherent risk; these risks are formally accepted by the Bank. To ensure appropriate monitoring and good governance, all outstanding risk acceptances are recorded on an Acceptance List.

RISK REVIEW

Principal risk management

Credit risk (audited)

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

The Framework

The Bank's Board is ultimately responsible for ensuring that the level of credit risk taken by the Bank is in line with its risk appetite and business model. It achieves this through the following key measures:

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

Market risk (audited)

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

The Board is ultimately responsible for ensuring that the level of market risk run by the Bank is in line with their risk appetite and business model.

The Bank uses a variety of matrices to measure and control market risk. One such tool is the use of Value at Risk (VaR). VaR is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model. However, VaR is not a perfect tool for risk management and cannot provide an indication of the potential losses that may occur. The Bank therefore conducts a program of stress-testing using scenarios relevant to the current portfolio composition.

Interest rate risk on the Banking book is assessed according to regulatory requirements and utilising the SMBCE Banking Group net basis point value position for the major currencies being EUR, GBP and USD (the Bank does not carry any significant positions in other currencies except JPY).

RISK REVIEW

Liquidity risk (audited)

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

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

- The establishment of a clear, consistent Risk Appetite Framework that is understood across the organisation.
- Defining clear roles and responsibilities for the management of liquidity under normal and stressed circumstances.
- The implementation of a robust committee framework to manage liquidity risk issues, with clear terms of reference and standard agendas.
- Regular management information to demonstrate that the Bank is operating within risk appetite, along with other select metrics.
- Regular senior management training.
- Within the governance framework outlined above, the Bank has established a liquidity risk management approach as a core component of the risk management process. The purpose of the framework is to ensure that the Bank successfully follows its strategy while operating within the bounds outlined by the liquidity risk appetite statement.
- The Bank uses a variety of internal and regulatory matrices to measure and control liquidity risk.

Operational and other risks

Operational Risk

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

Operational risk arises due to the Bank's day to day operations and is relevant to every aspect of the business. Operational Risk management is embedded in the Bank through regular engagement with the business, challenge where required, operational risk reporting and training. In addition, this is further supported by the execution of the following processes to ensure the operational risk profile is understood and managed: operational risk appetite definition and calibration; operational risk identification, assessment, measurement; control and mitigation; reporting and escalation.

Operational resilience is a key focus of the regulators and the Bank has developed its framework in line with the July 2018 Discussion Paper published by the Bank of England, PRA and FCA.

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

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

The operational resilience framework is being developed, enhanced and implemented in accordance with the recent Operational Resilience Consultation Papers issued by the PRA and FCA in December 2019. Key components include Key Business Services, operational resilience assessments and important business services. These components complement the operational risk processes, which are largely focused on the prevention of disruption, to introduce the operational resilience concepts of response and recovery to normal operations.

Conduct Risk

The risk of our actions, inactions or behaviours resulting in poor outcomes for our customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.
Conduct risk management is integrated with the Bank's wider risk management framework. The Bank identifies and assesses current and emerging conduct risks across its business lines ensuring controls are effectively mitigating these risks. Conduct risks are mitigated through a robust control framework, including the following:

- The Bank's policy and procedure framework that sets requirements for various conduct related risk areas, such as management of conflict of interests, inside information and personal account dealing;
- Monitoring and oversight of the Bank's adherence to the above policy and procedure framework;
- Training modules so that all employees are familiar with the Bank's policy and procedure framework and that employees aware of their individual responsibilities in relation to conduct risk;
- Comprehensive processes to mitigate anti-competitive behaviour;
- Product design and sales processes, including post-sale review and customer complaints analysis; and
- A remuneration structure that ensures an individual's remuneration is at risk if expected levels of conduct are not met.

The Bank is continually challenging the information it produces in relation to conduct risk so that senior management can make effective decisions regarding conduct risks.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

1. Our opinion is unmodified

We have audited the financial statements of Sumitomo Mitsui Banking Corporation Europe Limited ("the Company") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 10 July 2009 (and reappointed on 31 January 2019). The period of total uninterrupted engagement is for the eleven financial years ended 31 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures.

In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Company's own preparation, the relative significance of this matter on our audit work has reduced. Accordingly, we no longer consider this a key audit matter.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Going Concern Refer to page 27 (Report of the Directors), page 49 (basis of measurement).	**Disclosure quality** The financial statements explain how the Board has formed a judgment that it is appropriate to adopt the going concern basis of preparation for the Bank. That judgment is based on an evaluation of the inherent risks to the Bank's business model that might affect the Bank's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Bank's available financial resources over this period is the impact of the COVID-19 pandemic. The risk for our audit was whether or not the risk of the COVID-19 pandemic is such that it amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had this been the case, then that fact would have been required to be disclosed.	Our procedures included: - **Our COVID-19 knowledge:** We considered the Directors' assessment of COVID-19 related sources of risk for the Bank's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. - **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. - **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure, including those in the report of the Directors, by comparing the overall picture against our understanding of the risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2019 going concern disclosure: acceptable).
Impairment of loans and advances Charge: $200.3m (2019: $13.1m) Provision: $276.4m (2019: $102.8m) *Refer to Note 4(a) (accounting policy and credit risk disclosures).*	**Subjective estimate:** The estimation of expected credit losses ("ECL") on financial instruments involves significant judgement and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's determination of ECL are: - Model estimations – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD"), and Exposures at Default ("EAD"). The UK and EU corporate portfolio PD models and the criteria selected to identify a significant increase in credit risk are the key drivers of the expected credit loss calculation (including staging of assets) and are therefore the most significant judgemental aspects of the Company's ECL modelling approach.	Our procedures included: - **Control testing**: We tested the design and operating effectiveness of the key control relating to the approval of loan credit grading assessments which is used as a key input into the PD models and to identify Stage 3 customer exposures. - **Our financial risk modelling expertise**: We engaged our own credit specialists to critically assess and challenge the appropriateness of the key judgements and assumptions relating to the UK and EU corporate portfolio PD models and methodologies used. This also included an evaluation of whether changes made to models during the year were appropriate and consistent with IFRS 9 ECL methodology. We also independently recalculated the ECL model output using the relevant parameters (including PD, LGD and EAD) and agreed on a sample basis key inputs into the models back to source data.

	The risk	Our response
	- Economic scenarios – IFRS 9 requires the Company to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied, particularly given the increased economic uncertainty as a result of the COVID-19 pandemic. - Lifetime expected credit losses on customer exposures in Stage 3 – These are individually determined based on certain assumptions about the recovery of the asset using various key inputs including the expected future cash flows, discount rates, and expected cash flows arising from guarantees. - Qualitative adjustments ('PMAs') – Adjustments to the model-driven ECL results were raised by the Company to address the COVID-19 pandemic impact. Such adjustments are inherently uncertain given the current economic situation and significant management judgement is involved in estimating these amounts. - Disclosure quality – The disclosures regarding the Company's application of IFRS 9 ECL are key to understanding the key judgements and material inputs to the ECL results. The effect of these matters is that, as part of our risk assessment, we determined that the expected credit loss provisions on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 4) disclose the sensitivity estimated by the Company.	- **Our economic scenario expertise:** We engaged our own economists to assess and challenge the appropriateness of the key judgements and assumptions related to the scenarios for each material macroeconomic variable included in the ECL model and the probability weights assigned to them. We also challenged the overall reasonableness of the economic forecasts by comparing the Company's forecasts to our own modelled forecasts, with a particular focus on UK and EU GDP. We also assessed whether the Company appropriately reflected the economic uncertainty as a result of the COVID-19 pandemic. - **Assessing individual exposures:** For the full population of Stage 3 exposures, we understood the latest developments with each borrower and the basis for classifying and measuring the Stage 3 ECL and considered whether key judgements were appropriate given the borrower's circumstances. This also included consideration of the possible impact of the COVID-19 pandemic on each borrower. We also re-performed the lifetime expected credit loss calculation, testing key inputs including the expected future cash flows, discount rates and expected cash flows arising from guarantees. - **Testing of PMAs due to the COVID-19 pandemic:** With the assistance of both our credit risk modelling specialists and our economists, we challenged the Company's approach to recognising PMAs due to the COVID-19 pandemic. For the adjustments recognised, we assessed whether the key assumptions used were reasonable by comparing them to other reasonable possible alternatives. We also independently recalculated the recognised PMAs and for a sample of data, agreed it back to source data. - **Assessing transparency:** We considered the adequacy of the Company's accounting policies and disclosures in respect of the IFRS 9 ECL, including disclosures regarding the possible effects of the COVID-19 pandemic. **Our results** The results of our testing were satisfactory and we considered the credit impairment charge and provision recognised to be acceptable (2019: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $17 million (2019: $14.5 million), determined with reference to a benchmark of average profit before tax for the current year and the past two years, of which it represents 5.6% (2019: 3.8% of profit before tax). We considered it appropriate to normalise the benchmark in the current year through averaging as a result of the volatility from the COVID-19 pandemic.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $850,000 (2019: $725,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Certain processes and controls operate at the Company's Parent locations in Tokyo and New York. We instructed the participating audit teams in Tokyo and New York to perform specific risk-focused audit procedures as follows:

- Control and test of details over credit impairment model inputs; and
- Certain IT general and application controls on systems hosted by the Parent.

We evaluated the work which the participating audit teams performed in these areas. The audit team had planned to visit Tokyo in June 2020. However, this visit was prevented by movement restrictions relating to the COVID-19 pandemic. Instead, we organised a remote review of the work carried out by the participating audit teams which was in addition to the regular telephone conference meetings held throughout the year.

4. We have nothing to report on 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern and the COVID-19 pandemic, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario including the impact of the COVID-19 pandemic and the uncertainty due to the UK exiting the European Union, and
- impact on regulatory capital in the event of an economic slowdown or recession.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

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

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

- we have not identified material misstatements in those reports;

- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 29, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

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 and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation. 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: regulatory capital and liquidity, conduct, money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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.

Richard Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 July 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 USDm	2019 USDm
Interest income*		878.5	836.6
Interest expense		(560.6)	(545.1)
Net Interest Income		317.9	291.5
Fees and commissions income		443.4	400.3
Fees and commissions expense		(72.1)	(54.8)
Net fee and commission income		371.3	345.5
Net trading income		154.1	193.8
Operating Income		843.3	830.8
Net impairment loss on financial assets	4	(200.3)	(13.1)
Personnel Expenses	6	(270.7)	(279.6)
Depreciation and amortisation	15,16	(33.6)	(19.9)
Bank levy		(7.0)	-
Other Expenses	6	(120.8)	(129.9)
Net Operating Expenses		(632.4)	(442.5)
Other Income		8.7	-
Profit before income tax		219.6	388.3
Income tax charge	10	(66.7)	(113.0)
Profit for the year attributed to equity holders of the parent		152.9	275.3
Other comprehensive income net of tax:			
Items that will never be reclassified to profit and loss			
Actuarial gains/(losses) on defined benefit scheme		13.0	(1.4)
Items that will be reclassifed to profit and loss			
Cash flow hedges		3.9	-
Fair value through other comprehensive income		(0.6)	(2.6)
Other comprehensive income net of income tax		16.3	(4.0)
Total comprehensive income for the year		169.2	271.3

* All interest income was calculated using the effective interest rate method

The notes on pages 49 to 107 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	2020 [1] USDm	2019 USDm
ASSETS			
Cash and balances at central banks		24,726.5	19,670.1
Settlement balances		4,216.8	131.0
Loans and advances to banks	11	3,802.5	2,914.6
Loans and advances to customers	11	22,722.7	21,484.2
Reverse repurchase agreements		1,502.5	1,793.4
Investment securities	12	624.9	426.5
Derivative assets	13	1,776.3	996.0
Other assets	14	836.4	481.0
Intangible assets and goodwill	15	38.3	30.0
Property and equipment	16	45.1	30.4
Current tax asset	10	30.6	-
Deferred tax asset	10	6.5	6.5
Pensions surplus	9	62.2	45.6
Total assets		60,391.3	48,009.3
LIABILITIES			
Deposits by banks		25,681.1	24,212.6
Customer accounts		27,648.9	18,193.0
Debt securities in issue		-	13.1
Derivative liabilities	13	1,625.9	870.8
Other liabilities	17	826.2	232.8
Other provisions		9.6	5.5
Current tax liability		-	54.7
Deferred tax liability	10	22.3	18.7
Total liabilities		55,814.0	43,601.2
SHAREHOLDERS' EQUITY			
Called up share capital	19	3,200.0	3,200.0
Retained earnings		1,274.1	1,108.2
Other reserves		103.2	99.9
Total equity		4,577.3	4,408.1
Total liabilities and equity		60,391.3	48,009.3

Hideo Kawafune, Director

8 July 2020

[1] The risk management policy disclosures on credit, liquidity and market risk described on pages 35 and 36 and marked 'audited' are incorporated into these financial statements by reference.

The notes on pages 49 to 107 are an integral part of these financial statements.

Company registration number 04684034

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Share Capital USDm	Retained Earnings USDm	Capital Redemption USDm	Cash Flow Hedge Reserve USDm	Fair Value Reserve USDm	Total USDm
At 1 April 2019	3,200.0	1,108.2	100.0	-	(0.1)	4,408.1
Total comprehensive income for the year						
Net profit for the period	-	152.9	-	-	-	152.9
Other comprehensive income, net of tax						-
Net gains/(losses) transferred to net profit	-		-	-	-	-
Actuarial gain/(loss) on defined benefits scheme	-	13.0	-	-	-	13.0
Change in fair value of assets classified as FVOCI	-	-	-	3.9	(0.6)	3.3
Net gains/(losses) transferred to net profit on FVOCI assets included within interest & similar income	-	-	-	-	-	-
Total comprehensive income	3,200.0	1,274.1	100.0	3.9	(0.7)	4,577.3
Transactions with owners, recorded directly in equity						
Issue of new shares	-	-	-	-	-	-
At 31 March 2020	3,200.0	1,274.1	100.0	3.9	(0.7)	4,577.3
At 1 April 2018	3,200.0	834.3	100.0	-	2.5	4,136.8
Total comprehensive income for the year						
Net profit for the period	-	275.3	-	-	-	275.3
Other comprehensive income, net of tax						
Net gains/(losses) transferred to net profit	-	-	-	-	-	-
Actuarial gain/(loss) on defined benefits scheme	-	(1.4)	-	-	-	(1.4)
Change in fair value of assets classified as FVOCI	-	-	-	-	-	-
Net gains/(losses) transferred to net profit on FVOCI assets included within interest & similar income	-	-	-	-	(2.6)	(2.6)
Total comprehensive income	3,200.0	1,108.2	100.0	-	(0.1)	4,408.1
Transactions with owners, recorded directly in equity						
Issue of new shares	-	-	-	-	-	-
At 31 March 2019	3,200.0	1,108.2	100.0	-	(0.1)	4,408.1
Effect of changes in accounting policy (IFRS 16) (See note 2)	-	-	-	-	-	-
At 1 April 2019	3,200.0	1,108.2	100.0	-	(0.1)	4,408.1

The notes on pages 49 to 107 are an integral part of these financial statements.

	2020 USDm	2019 USDm
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit for the year before tax	219.6	388.3
Adjustments for non cash items:		
Net impairment loss on financial assets	200.3	13.1
Unrealised exchange movements on non operating assets and liabilities	4.4	(64.2)
Depreciation and amortisation	33.6	19.9
Changes in operating assets and liabilities		
Changes in loans and advances to banks	(891.4)	(428.6)
Changes in Reverse repurchase agreements	290.9	(459.8)
Changes in derivative financial instruments	(25.2)	(178.1)
Changes in loans and advances to customers	(1,404.4)	(1,030.5)
Changes in other assets	(402.6)	269.2
Changes in deposits by banks	1,468.5	(2,723.0)
Changes in customer accounts	9,455.9	(4,995.4)
Changes in other liabilities	601.1	(894.9)
	9,550.7	(10,084.0)
Taxes paid	(150.3)	(92.2)
Net cash from operating activites	9,400.4	(10,176.2)
Purchase of investment securities	(1,136.1)	(1,144.5)
Proceeds from sale or redemption of investment securities	922.1	1,458.1
Net addition of intangible assets	(22.4)	(12.5)
Purchase of property and equipment	(4.1)	(10.8)
Proceeds from sale of property and equipment	6.0	7.2
Net cash from investing activities	(234.5)	297.5
Cash flow from financing activities		
Payment of lease liabilities	(10.6)	-
Proceeds from issue of debt securities	-	13.1
Repayment of debt securities	(13.1)	(4,045.3)
Net cash from financing activities	(23.7)	(4,032.2)
Net (decrease) / increase in cash and cash equivalents	9,142.2	(13,910.9)
Cash and cash equivalents at start of the year	19,801.1	33,712.0
Cash and cash equivalents at 31 March	28,943.3	19,801.1
Cash and cash equivalents comprise:		
Cash and balances at central banks	24,726.5	19,670.1
Settlement balances	4,216.8	131.0
	28,943.3	19,801.1

The notes on pages 49 to 107 are an integral part of these financial statements.

1. REPORTING ENTITY

The Bank is a company domiciled in the United Kingdom. The Bank offers a wide range of wholesale banking products, including: bilateral loans, guarantees, syndicated loans, project finance, aircraft finance, shipping finance, other specialised structured finance, trade finance, leveraged finance, cash management, money markets, foreign exchange, deposit taking and derivatives. Further details of the nature of the Bank's principal activities are set out in the Strategic Report. The registered office is 99 Queen Victoria Street, London, EC4V 4EH.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

(b) Basis of measurement

The Bank's financial statements are prepared on a going concern basis and under the historic cost convention as modified by the revaluation of investments, derivatives and other financial instruments, in accordance with applicable accounting standards and the Companies Act 2006.

The Directors believe that the Bank has adequate financial resources and is well placed to manage its business risks successfully despite the current uncertain outlook for the global economy and the banking sector, especially in light of the uncertainty arising from COVID-19. In addition, the Directors believe the Bank will be able to continue in operation and meet its liabilities, taking into account its current position and the principle risks faced, over a period of at least 12 months.

In making this assessment, the Directors have considered a wide range of detailed information relating to present and future conditions, including projections of profitability, liquidity and capital requirements and resources. They determined that the principle risks the Bank currently faces are those arising from COVID-19 and a 'No Deal' Brexit, although other risks are also considered.

This belief is based on consideration of a wide range of information including:

- The results of the Bank's three-year liquidity planning assessment. This includes consideration of COVID-19 and a 'No Deal Brexit' along with other significant risks.
- The results of the Bank's three-year capital planning assessment. This includes consideration of COVID-19 and a 'No Deal Brexit' along with other significant risks.
- The results of the Bank's capital and liquidity stress testing, including consideration of the impact of COVID-19 and a 'No Deal Brexit' as key risks. The economic scenario for the capital stress included consideration of a prolonged recession lasting 2 years alongside a 'No Deal Brexit'. Consequently an economic recession deeper than the financial crisis has been considered lasting two years followed by a very limited recovery in the third year. A further stress in addition to the economic scenario was applied to customers within industry sectors more affected by the impact of Covid-19. This stress scenario results in a significant increase in credit impairments but the bank remains above overall and minimum capital requirements throughout the stress period.
- Details of the Bank's three-year business strategy (Profit and Loss and Balance Sheet) forecasts.
- Details of the Bank's approach to managing risks.
- Consideration of a number of other related factors including consideration of a Keep Well Deed under which the Bank and SMBC agree to certain financial arrangements, including the obligation of SMBC to maintain tangible net worth in the Bank at all times sufficient to cover the Bank's obligations arising through any of its business activities.

Based on the above, the Directors conclude that the Bank has adequate resources to continue operations for a period of at least 12 months from the date of these Financial Statements, and therefore it is appropriate to continue to adopt the going concern basis.

(c) Functional and presentation currency

These financial statements are presented in US Dollars, which is also the Bank's functional currency. US Dollars is the Bank's functional currency as it is the dominant operating currency of the Bank's business. All financial information has been rounded to the nearest one million US Dollars.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(d) Adoption of IFRS

i) New and amended standards and interpretations

IFRS 16 - Leases

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Lease-Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease").

The Bank has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial recognition is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information presented for 31 March 2019 has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

On adoption of this new Standard, the Bank has not reassessed whether a contract is, or contains a lease, but has applied IFRS 16 to contracts that were previously classified as leases under IAS 17 and IFRIC 4. This has resulted in the Bank recognising a right-of-use asset and related lease liability in respect of office properties leased by the Bank.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Bank's incremental borrowing rate at the date of initial application.

The Bank used a number of practical expedients as permitted by IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- Calculated the right-of-use asset equal to the lease liability;
- Relied on its assessment of whether leases are onerous contracts under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review;
- Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise right-of-use assets and liabilities for leases of low-value assets (e.g. IT equipment)
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term.

IFRS 16 has no significant impact for the Bank's finance leases.

On adoption of IFRS 16, the Bank applied the transition option which permitted the right-of-use asset to equal the lease liability. This approach resulted in the recognition of additional right-of-use assets of USD 31m and additional lease liabilities of USD 31m on 1 April 2019.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 0.86%.

IFRS 9, IAS 39 and IFRS 7 – Amendments relating to Interest Rate Benchmark Reform

IFRS 9, IAS 39 and IFRS 7 were amended in September 2019. The amendments are effective for periods beginning on or after 1 January 2020 with earlier application permitted. The Bank has elected to early adopt the amendments with effect from 1 April 2019. The amendments have been endorsed by the EU.

IFRS 9 allows companies when they first apply IFRS 9, to choose as an accounting policy to continue to apply the hedge accounting requirements of IAS 39. The Bank has elected to continue to apply the IAS 39 hedge accounting requirements, and consequently, the amendments to IAS 39 have been adopted by the Bank.

The amendments confirm that entities applying hedge accounting can continue to assume that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of the uncertainties of the Interest Rate Benchmark Reform. These amendments replace the need for specific judgements to determine whether certain hedge accounting relationships that hedge the variability of cash flows or interest risk exposures for periods after the interest rate benchmark are expected to be reformed or replaced continue to qualify for hedge accounting as at 31 March 2020. Further details are provided in note 13.

ii) Future accounting standards

There are no new standards or amendments to standards which will become applicable in the future that are expected to have a significant impact on the Bank.

(e) Significant accounting judgements and estimates

The preparation of the Bank's financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The most significant areas where judgements and estimates have been used, and the notes where information on these is disclosed, are as follows:

Impairment losses on loans and advances and undrawn loan commitments (note 4)

IFRS 9 impairment involves several areas of judgement as follows:

- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward looking information into the measurement of ECL and selection and approval of models used to estimate ECL.
- determination of inputs into ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward looking information.
- considerations taken into account and calculation of impairment allowances for individually significant assets in Stage 3

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for credit impairment should be recorded in profit and loss. In determining the expected credit loss, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and sensitive to the risk factors. Further information and sensitivity analyses of ECL to different economic scenarios is provided in Note 4.

In addition to specific allowances against individually significant loans and advances (Stage 3), the Bank also makes provisions on performing assets based on 12 months expected credit losses (stage 1) and on assets subject to a significant increase in credit risk based on lifetime expected credit losses (stage 2).

Pensions (note 9)

The cost of the defined benefit pension scheme is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of the scheme, such estimates are subject to significant uncertainty. See note 9 for the assumptions used.

Fair value of financial instruments (note 5)

Where the prices of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from markets where valuations are actively quoted, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible a degree of judgement is required in establishing fair values.

3. SIGNIFICANT ACCOUNTING POLICIES

This section describes the Bank's significant accounting policies that relate to the financial statements and the notes as a whole. If an accounting policy relates to a particular note, the accounting policy is contained within the relevant note.

(a) Basis of Consolidation

Subsidiaries are investees controlled by the Bank. The Bank 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. In the normal course of business the Bank lends to structured entities in a number of different industries. The assessment undertaken by the Bank includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over the investee. The financial statements of any subsidiaries would be included in the consolidated financial statements from the date control commences until the date control ceases. At 31 March 2020 the Bank did not control any investees.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of the group's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

(b) Interest and similar income and expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities at amortised cost using the effective interest method. The effective interest method is a method of calculating the cost of a financial asset or liability and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period if appropriate. The application of the method has the effect of recognising income receivable on the instrument in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of the financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

(c) Fee and commission income and expense

Fee income relating to loans and advances held at amortised cost is recognised in profit and loss as either an adjustment to the effective interest rate or on an accruals basis as the service is provided. Where a fee is considered to be an adjustment to the effective interest rate, it is recognised as such over the original life of the advance or expected life if this is reliably estimated to be shorter. Where loans and advances are purchased in the secondary market and there is observable evidence that the fair value is higher than the purchase price, then the differential is recognised as profit within fees. Fees and commissions receivable in respect of all other services provided are recognised in profit and loss when the related services are performed and when considered receivable.

Fee and commission expense relate mainly to transaction and service fees, which are expensed as the service is received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Financial Instruments – initial recognition and subsequent measurement

Financial Assets

These include loans and advances to banks and customers and investment securities.

i) Classification, initial recognition and subsequent measurement

Financial assets are classified into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income (FVOCI), or through profit or loss (FVTPL))
- those to be measured at amortised cost

The classification depends on the business model for managing financial assets and the contractual terms of the financial assets' cash flows.

Business Model Assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held based on the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Bank's corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. Sales of loans from these portfolios are very rare. The exception to this is the syndications portfolio where the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Investment securities are largely held for collecting contractual cash flows and selling financial assets with the exception of a small number of debt securities which are held only for collecting contractual cash flows and where sales of such assets would be infrequent.

Contractual terms of financial assets' cash flows

For financial assets to be held at amortised cost, the contractual terms of the financial asset must give rise to cash flows on specified dates that represent solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, principal is defined as the fair value of the financial assets on initial recognition and interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued contractual interest (which may include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial instruments are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not at fair value through profit and loss, any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Fair value for financial instruments traded in an active market is based on quoted market prices or dealer price quotations (bid price for long and offer price for short positions). For other financial instruments, the fair value is determined by using appropriate valuation techniques including present-value techniques or comparison to similar instruments.

Financial Liabilities

These include deposits, debt securities issued and subordinated debts which are the Bank's source of debt funding. Financial liabilities are classified as non-trading, held for trading or designated as held at fair value through profit and loss. Subsequent to initial recognition, non-trading liabilities are recorded at amortised cost. Subsequent to initial recognition, liabilities held for trading or liabilities designated as held at fair value through profit and loss are accounted for as indicated in the accounting policy for financial liabilities at fair value through the profit and loss.

ii) De-recognition of financial assets and liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. On de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of i) the consideration received including any new asset obtained less any new liability assumed and ii) any cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit and loss. Any cumulative gain or loss recognised in other comprehensive income in respect of equity investments designated as at fair value through other comprehensive income is not recognised in profit or loss on de-recognition.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iii) Modifications of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of a modified financial asset carried at amortised cost or FVOCI are not substantially different, then the modification does not result in the de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

(f) Foreign currencies

The financial statements are presented in US Dollars, which is the Bank’s functional and reporting currency. Items included in the financial statements of each of the Bank’s operations are measured using their functional currency being the currency of the primary economic environment in which they operate.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in the income statement except for qualifying cash flow hedges.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Translation differences on equities classified as at fair value through the profit or loss are reported as part of the fair value gain or loss in the income statement.

(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalent comprises balances with original maturities of up to three months including cash and cash equivalent with central banks and loans and advances to banks. These comprise highly liquid investments that are readily convertible into cash with an insignificant risk of changes in value.

4. FINANCIAL RISK MANAGEMENT

The risks relating to financial instruments and the way in which the Bank manages these are described below.

(a) Credit Risk

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

Credit Assessment

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

The rating system consists of two indicators namely:

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

The Bank's internal grading, and borrower categories are set out in the table below, and are used for the purposes of determining the Bank's credit quality of obligors.

G grade* Code	J grade* Code	Borrower's Category
G1	J1	Normal Borrowers
G2	J2	
G3	J3	
G4	J4	
G5	J5	
G6	J6	
G7	J7	Borrowers requiring caution
G7R	J7R	Substandard Borrowers
G8	J8	Potentially Bankrupt Borrowers
G9	J9	Virtually Bankrupt Borrowers
G10	J10	Bankrupt Borrowers

*G grade – non Japanese borrowers, J Grade – Japanese borrowers.

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

Credit Monitoring

Credit monitoring is carried out through an ongoing reassessment of obligor grades involving:

- Annual monitoring following financial results disclosures; and
- Ad-hoc monitoring should credit conditions deteriorate.

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'normal borrower' category, the customer is added to the special credit borrower list and reported to management.

To minimise the potential loss that may arise from any model failure and/or inadequate usage of the models and systems, the Bank has appropriate policies in place to manage its models and grading systems. The Bank's Credit Risk Control Unit (CRCU) performs validation of the grading models at least annually to ensure the appropriateness of the grading models.

The Bank regularly monitors the credit risks associated with wider aspects of its business, such as specific country exposure, products, industries etc. on a portfolio basis. The Bank also undertakes regular stress tests on its portfolio to ensure adequate capital is kept at all times to cover potential losses incurred during extreme events such as COVID-19.

Expected Credit Losses

Accounting for Impairment Provisions

Impairment provisions are accounted for in line with IFRS 9 Financial Instruments Classification and Measurement. The Bank applies a three-stage approach to measuring ECL for the following categories of financial instruments that are not measured at fair value through profit and loss:

- Loans and advances to banks and customers measured at amortised cost
- debt instruments measured at amortised cost and fair value through other comprehensive income;
- loan commitments; and
- financial guarantee contracts.

The Bank has grouped its financial instruments into Stage 1, Stage 2 and Stage 3, based on the implied impairment methodology, as described below:

Stage 1: 12-months ECL - For performing financial instruments where there has not been a significant deterioration in their credit quality since initial recognition, the Bank recognises an allowance for the portion of the lifetime expected credit loss associated with the probability of default events occurring within the next 12 months.

Stage 2: Lifetime ECL—For financial instruments where there has been a significant increase in credit risk since initial recognition but are not credit impaired, the Bank recognises an allowance for the lifetime expected credit loss.

Stage 3: Credit Impaired - Financial instrument exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the instrument have occurred. For financial instruments that have been assessed as credit impaired, the Bank recognises an allowance for the lifetime expected credit losses.

Determining the stage for impairment

At each balance sheet date, for loans carried at amortised cost, loan commitments, financial guarantee contracts and debt securities carried at fair value through other comprehensive income, the Bank assesses whether there has been significant increase in credit risk for exposures since initial recognition by comparing the risk of default between the balance sheet date and the date of initial recognition. Credit risk is assessed either individually to financial assets, or collectively to a portfolio of similar, homogenous assets.

Significant increase in credit risk (SICR)

In order to determine whether a significant increase in credit risk of a financial instrument has taken place since its initial recognition, the Bank considers reasonable and verifiable information that is relevant and accessible without excessive cost or effort. The Bank assesses significant increase in credit risk using both quantitative and qualitative information.

Determining whether SICR takes place

The Bank uses the quantitative factor of a change in the probability of default based on grading as well as additional factors such as 30 days past due and whether a customer is on the Watch List in order to determine whether a significant increase in the credit risk of a financial instrument has taken place.

The Bank applies a grading based review of each exposure from origination to current reporting date. The Bank uses relative PD thresholds based on Grading as a quantitative criterion for significant increases in credit risk. Thresholds of relative increase in PD were assessed based on reviews of the historical data.

The Bank uses additional criteria for determining whether a SICR takes place – 30 days past due. The number of days overdue is determined by counting the number of days starting from the first day when the payment was not received in full. Payment dates are determined without taking into account the grace period that can be provided to the borrower. In addition, for customers graded G/J 5 and G/J 6, inclusion in the Credit Alarm System (Watch List) is an indicator of SICR. This is for customers categorised as “Normal” but determined as requiring additional monitoring due to credit deterioration.

Recognition of financial assets as impaired (Stage 3)

A financial asset is recognised as impaired, if default has occurred since initial recognition.

Default definition

The definition of default for the purpose of determining ECL's has been aligned to the Regulatory Capital CRR Article 178 definition of default, to maintain a consistent approach with IFRS 9 and associated regulatory guidance. The following events generally provide objective evidence of a default situation:

- The management bodies of the borrower/group of borrower decide to reorganise or liquidate the borrower and/or any bankruptcy proceedings or involuntary liquidation in respect to the borrower is initiated (either by the borrower itself or by any third parties) and/or external manager, provisional manager, liquidator or commissioner is appointed;
- Delinquency exceeds 3 months. Delinquency is considered to be caused by the deterioration of business conditions or constrained cash flow (and including cases in which only interest is not paid, but there is no delay in repayment of the principal);
- The loan is restructured towards the more favourable conditions for a borrower, in the absence of which the borrower could not fulfil the obligations towards the Bank properly;
- Breach of financial covenants, which, in the reasonable opinion of the Bank, may result in improper fulfillment of obligations by the borrower;
- Any other event happened in relation to borrower/group of borrower that, in the Bank's opinion, can cause improper fulfillment of obligations by the Borrower.

An exposure will migrate through the expected credit loss stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, the impairment provision reverts from lifetime ECL to 12-months ECL.

The Bank recognises write offs only when sales of distressed assets are realised or when the Bank assesses there is no prospect of further recoveries, typically on liquidation of the counterparty. In practice, write offs on liquidation are infrequent.

Improvement of credit quality

If a financial asset classified in Stage 2 shows an improvement in credit quality, then this asset can be classified in Stage 1. No probation period is applied as the latest grading will reflect the customer's current financial credit worthiness with consideration of any near term factors which could impact the customer grade already taken into account. There have been no such movements during the year.

Movement from stage 3 to Stage 2 or 1 is dependent on individual assessment. All relevant factors in relation to the credit worthiness of the customer will be taken into account before a customer is upgraded and moved out of stage 3. The Stage 3 exposures with forbearance measures in place have to go through, in addition to the above requirements, minimum cure period of one year as a normal borrower before they can be moved out of Stage 3. There have been no such movements during the year.

Grades (credit ratings)

The bank assigns appropriate grades to each exposure based on data that is used to predict the risk of default and by applying expert judgement on credit quality. Ratings are determined based on qualitative and quantitative factors, indicators of the risk of default. These factors vary depending on the type of the borrower and exposure itself.

Grades are determined in a way that the risk of default increases significantly as credit quality deteriorates. For example, the difference between 1 and 2 grades is less than the difference between 2 and 3 grades.

Each exposure is assigned with a particular grade at the date of the initial recognition based on the information available. These exposures are subject to continuous monitoring. So, the grade assigned to the exposure could change since the date of the initial recognition.

Monitoring usually includes the analysis of the following data:

- Information obtained as a result of analysis of the borrowers on a periodic basis: audited financial statements, management accounts, budgets, forecasts and plans.
- Credit rating agencies' data, publications, and information on changes in external credit ratings.
- Bond and credit default swap quotes, if such information is available.
- Actual and expected significant changes in political, regulatory and technological environments that could influence the borrower's business.

Creation of Provisions

The calculation of expected credit losses is based on the following metrics:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

The loss given default (LGD) model is a linear model that allows to predict LGD depending on the dynamics of GDP and the type of asset.

Exposure at default (EAD) is defined on the basis of the models that take into account the current and forecasted utilisation of financial assets. The projected utilisation rate for revolving facilities is determined using forecasts of GDP dynamics and change in yield of US corporate bonds. For single facilities the Bank uses an amortization model.

The credit conversion factor (CCF) is used to adjust drawn and undrawn parts (applied only to committed facilities) of facilities.

The value of CCF that applies to undrawn parts of financial instruments is determined annually at SMBC Group level and is calculated as historical average.

CCF for drawn parts is different for on-balance and off-balance sheet items. For on-balance sheet items CCF is 100%. The value of CCF for off-balance sheet items depends on risk type of financial instrument and is determined at SMBC Group level.

In order to calculate expected credit loss for loans, provided to corporate clients and banks, the Bank adjusts the annual value of PD in proportion to the term of the financial instrument.

Probability of default

The probability of default (PD) is modelled using credit ratings transition matrices that were created based on internal and external statistics. The transition matrix shows the expected migration of a customer at a specific grade to alternative grades over a period of time. The bank uses two sets of transition matrices to forecast PD, including transition matrices for borrowers whose parent companies are located in Japan and transition matrices for borrowers whose parent companies are residents of other countries. The value of PD is determined based on the macroeconomic forecasts, including the dynamics of GDP and equity price (2019: GDP and oil price).

Grades are the main inputs that are used for creation of the PD for positions exposed to credit risk. The bank collects information on the debt service quality and default level of exposures, analysed depending on jurisdiction or region, type of product and borrower, and also depending on rating of credit risk.

The Bank uses statistical models to analyse the collected data and to obtain estimates of the probability of default for the remaining period for positions exposed to credit risk and expectations of their changes in the future.

This analysis includes the estimation and calibration of correlation between changes in default levels and changes in key macroeconomic factors. The Bank uses dynamics of GDP of the European Union, UK and Japan, change in yield of US corporate bonds and equity price as key macroeconomic factors to determine PD of positions exposed to credit risk.

The Bank uses these forecasts to adjust PD estimates.

Macroeconomic forecasts

Following a revision to the models in the financial year, the Bank defines EU and UK GDP and Equity prices (2019: EU GDP, yield of US corporate bonds and oil price) as key macroeconomic factors in the models of probability of default, loss given default (LGD) and exposure at default (EAD).

For each key macroeconomic factor the Bank estimates three scenarios, a base, optimistic and pessimistic scenario. The base scenario is based on third party subject matter expert forecasts. Weightings for each scenario are applied based on the 3rd, 50th and 97th percentile (pessimistic, base and optimistic).

Measurement of expected credit losses

ECL's are derived from probability-weighted estimates of expected loss, and are measured as follows:

- *financial assets that are not credit-impaired at the balance sheet date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;

- *financial assets that are credit-impaired at the balance sheet date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate;

- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Movement in expected credit losses is recognised as impairment loss in the income statement and for financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets. In the case of debt securities measured at fair value through other comprehensive income no loss allowance is recognised in the statement of financial position because the carrying amount of the assets is their fair value. However, the Bank recognises the impairment charge in the income statement with the corresponding amount recognised in the fair value reserve in other comprehensive income. For undrawn loan commitments and financial guarantee contracts that are recognised off balance sheet, the Bank recognises the impairment charge in the income statement with the corresponding amount recognised in other provisions on the balance sheet.

Methods of estimation and creation of provision for credit losses

The Bank estimates provisions for credit losses at the transaction level for all financial instruments.

Expected Life

For term loans, the expected life of the transactions are based on contractual maturity

For revolving credit facilities a model linked to the macroeconomic variables is used to predict utilisation rates.

Use of exemptions permitted under IFRS9

The Bank has not applied the low credit risk exemption permitted under IFRS9.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be purchased or originated credit-impaired ("POCI"). This includes the recognition of a new financial asset following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. Any changes in lifetime expected credit losses since initial recognition of POCI assets are recognised in profit or loss until the POCI is derecognised, even if the lifetime expected credit losses are less than the amount of expected credit losses included in the estimated cash flows on initial recognition.

As at 31 March 2020, the Bank does not hold any financial assets that are purchased or originated credit-impaired (2019: None).

Governance

The ECL models are all subject to the Bank's model governance framework.

The macroeconomic factors for the Base and Pessimistic scenarios are sourced from external subject matter experts whilst the optimistic is derived internally. These are reviewed and challenged by internal subject matter experts. The macroeconomic factors are presented for review and approval to the Prudential Regulatory Committee which reports into Risk Committee. These are subsequently presented for review and final approval to Audit Committee. The Audit Committee also reviews and considers the weightings applied to each scenario.

COVID-19

The Bank's year end has coincided with one of the most globally far reaching, severe and one off events experienced in living memory. In this respect the Bank has take action, both before the year end and since, to effectively manage its credit risk.

In addition the Bank has considered the impact on COVID-19 on its portfolio as of 31 March 2020 and ensured its best estimate of impairments provisions adequately captures the increase in credit risk.

There were no material changes in risk appetite or risk management strategy in the year, although the Bank implemented a number of changes in internal procedures and policies towards the end of the financial year in light of the challenges and increased credit risk arising from COVID-19.

A number of steps have been taken in response to COVID-19. The purpose of these steps has been to ensure the inputs into the models are up to date reflecting COVID-19 as well as consideration of areas of the portfolio where the impairment provisions as produced by the ECL models do not in Management's view adequately reflect the likely future impact from COVID-19.

Grading Review

A grading review has been undertaken to compensate for time lags which can arise in the credit monitoring process and to ensure grades appropriately reflected the impact from COVID-19. This involved a number of detailed grading reviews undertaken across business lines and portfolio to update grades reflecting the most up to date view . These re-gradings included consideration of qualitative and quantitative factors as well as judgemental assessment by the Credit Officer using in depth knowledge of the customer and the factors affecting the relevant borrower. This also included updating grades where a credit review had taken place within April. These reviews effectively brought gradings up to date based on information available to 31 March 2020.

This led to a number of customers being downgraded resulting in an increase in stage 2 exposures and an increase in ECL of USD 59.1m.

Post Model Adjustments

In addition to the steps described above, a review has been undertaken of high risk portfolios and customers with particular focus on the Bank's Leveraged Buy Out Loan portfolio which holds a significant number of the Bank's lower credit quality customers. The Leverage Buy Out portfolio is by its nature higher risk and more sensitive to changes in macro-economic factors.

This review involved detailed customer by customer assessment with particular focus on negative impact and business disruption from COVID-19. This review highlighted that for a number of customers reviewed (all stage 2), the ECL derived from the models do not fully reflect the increased credit risk.

This assessment identified 17 customers deemed higher risk. These had a total exposure of USD 592.8m with ECL per the models of USD 37.1m. Considering historical losses on similar assets and a range of possible outcomes, the ECL on these customers was increased to USD 107.7m, a post model adjustment of USD 73.6m.

The result is that a post model adjustment of USD 73.6m has been included in the ECL as of 31 March 2020 (2019: USD 1.9m).

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross and does not take into account collateral or other credit enhancements.

	2020 USDm	2019 USDm
Cash and balances at central banks	24,726.5	19,670.1
Settlement balances	4,216.8	131.0
Loans and advances to banks	3,802.5	2,914.6
Loans and advances to customers	22,722.7	21,484.2
Reverse repurchase agreements	1,502.5	1,793.4
Investment securities	624.9	426.5
Derivative assets	1,776.3	996.0
	59,372.2	47,415.8
Guarantees and Letters of Credit	2,945.3	2,673.0
Commitments	11,217.5	13,384.9
	14,162.8	16,057.9
Total	73,535.0	63,473.7

Cash and balances with central banks comprise current and short term deposits with the Bank of England USD 14,683.5m (2019: USD 9,213.1m) and the Banque de France USD 10,043.0m (2019: USD 10,457.0m).

Collateral Held

Whilst the Bank's corporate lending is at times secured by fixed and floating charges on the assets of borrowers, the only collateral which is valued on a continuous basis is collateral in the form of cash and bonds. The value of this collateral held by the Bank, including collateral held against Reverse Repurchase Agreements and against inter-group positions for large exposure purposes, was USD 7,739.0m (2019: USD 5,698.5m). This collateral is held against loans and advances to banks and customers, and reverse repurchase agreements USD 6,947.4m (2019: 5,318.2m) and derivative assets USD 791.6m (2019: 380.3m). There are no restrictions on re-pledging the collateral held against Reverse Repurchase Agreements.

Estimates of the fair value of the collateral held are made when a loan is individually assessed for impairment. Collateral takes various forms and the value of this security will vary over time and is dependant on the types of asset and the jurisdiction of the borrowers as well as the ability to dispose of the collateral.

The Bank's estimate of the fair value of different types of collateral held as security against loans to customers that are individually impaired is USD 30.6m (2019: USD 36.5m).

Credit quality and stage per class of financial asset

The following tables show the Gross Exposure and related Impairments Allowance by stage and grading as of 31 March 2020 and 31 March 2019

		Gross Exposure				ECL				
As at 31 March 2020	Internal grading	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm	Net Exposure USDm
Cash and balances at central banks at amortised cost	1-6	24,726.5	-	-	24,726.5	-	-	-	-	24,726.5
Settlement balances	1-6	4,216.8	-	-	4,216.8	-	-	-	-	4,216.8
Loans and advances to banks at amortised cost										
Normal borrowers	1-6	3,795.3	11.3	-	3,806.6	4.5	0.1	-	4.6	3,802.0
Borrowers requiring caution	7A, 7B*	-	-	-	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		3,795.3	11.3	-	3,806.6	4.5	0.1	-	4.6	3,802.0
Loans and advances to customers at amortised cost										
Normal borrowers	1-6	20,731.7	1,724.5	-	22,456.2	41.5	83.4	-	124.9	22,331.3
Borrowers requiring caution	7A, 7B*	-	398.6	-	398.6	-	81.2	-	81.2	317.4
Substandard borrowers and below	7R, 8-10	-	-	124.6	124.6	-	-	56.1	56.1	68.5
Total		20,731.7	2,123.1	124.6	22,979.4	41.5	164.6	56.1	262.2	22,717.2
Investment securities at amortised cost										
Normal borrowers	1-6	186.2	-	-	186.2	-	-	-	-	186.2
Borrowers requiring caution	7A, 7B*	-	-	-	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		186.2	-	-	186.2	-	-	-	-	186.2
Investment securities at FVOCI										
Normal borrowers	1-6	430.7	1.2	0.3	432.2	-	-	-	-	432.2
Borrowers requiring caution	7A, 7B*	-	-	-	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		430.7	1.2	0.3	432.2	-	-	-	-	432.2
Off balance sheet loans and commitments and financial guarantee contracts										
Normal borrowers	1-6	13,818.9	290.3	-	14,109.2	6.4	2.5	-	8.9	14,100.3
Borrowers requiring caution	7A, 7B*	-	53.6	-	53.6	-	0.7	-	0.7	52.9
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		13,818.9	343.9	-	14,162.8	6.4	3.2	-	9.6	14,153.2

In addition to the ECL disclosed above, there is USD 0.8m of ECL in relation to other financial assets.

As at 31 March 2019	Internal grading	Gross Exposure Stage 1 USDm	Gross Exposure Stage 2 USDm	Gross Exposure Stage 3 USDm	Gross Exposure Total USDm	ECL Stage 1 USDm	ECL Stage 2 USDm	ECL Stage 3 USDm	ECL Total USDm	Net Exposure USDm
Cash and balances at central banks at amortised cost	1-6	19,670.1	-	-	19,670.1	-	-	-	-	19,670.1
Settlement balances	1-6	131.0	-	-	131.0	-	-	-	-	131.0
Loans and advances to banks at amortised cost										
Normal borrowers	1-6	2,915.7	-	-	2,915.7	1.1	-	-	1.1	2,914.6
Borrowers requiring caution	7A, 7B*	-	-	-	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		2,915.7	-	-	2,915.7	1.1	-	-	1.1	2,914.6
Loans and advances to customers at amortised cost										
Normal borrowers	1-6	20,467.0	677.4	-	21,144.4	20.4	11.9	-	32.3	21,112.1
Borrowers requiring caution	7A, 7B*	-	300.1	-	300.1	-	12.1	-	12.1	288.0
Substandard borrowers and below	7R, 8-10	-	-	132.2	132.2	-	-	51.8	51.8	80.4
Total		20,467.0	977.5	132.2	21,576.7	20.4	24.0	51.8	96.2	21,480.5
Investment securities at amortised cost										
Normal borrowers	1-6	60.7	-	-	60.7	-	-	-	-	60.7
Borrowers requiring caution	7A, 7B*	-	-	-	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		60.7	-	-	60.7	-	-	-	-	60.7
Investment securities at FVOCI										
Normal borrowers	1-6	364.9	-	-	364.9	-	-	-	-	364.9
Borrowers requiring caution	7A, 7B*	-	-	-	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		364.9	-	-	364.9	-	-	-	-	364.9
Off balance sheet loans and commitments and financial guarantee contracts										
Normal borrowers	1-6	15,673.7	233.6	-	15,907.3	3.2	0.6	-	3.8	15,903.5
Borrowers requiring caution	7A, 7B*	-	149.7	-	149.7	-	1.7	-	1.7	148.0
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-	-	-	-
Total		15,673.7	383.3	-	16,057.0	3.2	2.3	-	5.5	16,051.5

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

Movement in impairment provisions

The following tables present a reconciliation of the opening to closing balance of the exposure and impairment allowance for financial assets at amortised cost. Transfers between stages in the tables have been reflected as if they had taken place at the beginning of the year. The movements are measured over a 12 month period.

	Gross Exposure			
At 31 March 2020	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	45,343.9	1,037.4	135.5	46,516.8
Transfers from Stage 1 to 2	(1,412.2)	1,412.2	-	-
Transfers from Stage 2 to 1	306.9	(306.9)	-	-
Transfers to Stage 3	-	(47.6)	47.6	-
Transfers from Stage 3	-	-	-	-
Net drawdowns, repayments and movements due to exposure and risk parameter changes	15,294.4	68.0	(6.8)	15,355.6
Financial assets derecognised	(5,432.9)	(40.3)	(47.0)	(5,520.2)
Write-offs	-	-	(4.5)	(4.5)
Balance at end of year	54,100.1	2,122.8	124.8	56,347.7

	Impairment Allowance			
	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	21.3	18.9	57.4	97.6
Transfers from Stage 1 to 2	(3.5)	3.5	-	-
Transfers from Stage 2 to 1	5.7	(5.7)	-	-
Transfers to Stage 3	-	(3.1)	3.1	-
Transfers from Stage 3	-	-	-	-
Net drawdowns, repayments and movements due to exposure and risk parameter changes	26.8	152.7	1.8	181.3
Financial assets derecognised	(4.2)	(1.3)	(1.3)	(6.8)
Write-offs	-	-	(4.5)	(4.5)
Balance at end of year	46.1	165.0	56.5	267.6

The above provisions and movements thereon mainly relate to loans and advances to banks and customers. Out of USD 267.6m (2019: USD 97.6m) year-end balance, USD 266.8m (2019: USD 97.3m) relates to loans and advances to banks and customers.

The movement in gross exposure between the beginning and the end of the period relates to origination and derecognition in the normal course of business with no major movements arising as a result of modification.

	Gross Exposure			
At 31 March 2019	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	57,100.6	1,478.3	253.8	58,832.7
Net transfers between stages	(46.1)	34.9	11.2	-
New financial assets originated or purchased	8,600.8	49.3	-	8,650.1
Financial assets that have been derecognised	(20,311.4)	(525.1)	(129.0)	(20,965.5)
Write-offs	-	-	(0.5)	(0.5)
Balance at end of year	45,343.9	1,037.4	135.5	46,516.8

	Impairment Allowance			
	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	14.9	16.3	110.6	141.8
Net transfers between stages	(0.1)	(0.5)	0.6	-
Net remeasurement of loss allowance	1.4	9.9	6.6	17.9
New financial assets originated or purchased	7.4	2.2	-	9.6
Financial assets that have been derecognised	(2.3)	(9.0)	(52.7)	(64.0)
Write-offs	-	-	(0.5)	(0.5)
Foreign exchange and other movements	-	-	(7.2)	(7.2)
Balance at end of year	21.3	18.9	57.4	97.6

The following tables present a reconciliation of the opening to closing balance of the exposure and impairment allowance for loan commitments and financial guarantees.

	Gross Exposure			
At 31 March 2020	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	15,673.8	383.2	-	16,057.0
Transfers from Stage 1 to Stage 2	(131.8)	131.8	-	-
Transfers from Stage 2 to Stage 1	72.4	(72.4)	-	-
Transfers to Stage 3	-	-	-	-
Transfers from Stage 3	-	-	-	-
New drawdowns, repayments, net remeasurement and movements due to exposure and risk parameter changes	(1,795.5)	(98.7)	-	(1,894.2)
Balance at end of year	13,818.9	343.9	-	14,162.8

	Impairment Allowance			
	Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	3.2	2.3	-	5.5
Transfers from Stage 1 to Stage 2	(0.1)	0.1	-	-
Transfers from Stage 2 to Stage 1	-	-	-	-
Transfers to Stage 3	-	-	-	-
Transfers from Stage 3	-	-	-	-
New drawdowns, repayments, net remeasurement and movements due to exposure and risk parameter changes	3.3	0.8	-	4.1
Balance at end of year	6.4	3.2	-	9.6

At 31 March 2019	Gross Exposure Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	17,308.4	520.2	-	17,828.6
Net transfers between stages	1.0	(1.0)	-	-
New financial assets originated or	6,450.1	139.8	-	6,589.9
Financial assets that have been	(8,085.7)	(275.8)	-	(8,361.5)
Balance at end of year	15,673.8	383.2	-	16,057.0

	Impairment Allowance Stage 1 USDm	Stage 2 USDm	Stage 3 USDm	Total USDm
Balance at beginning of year	2.7	2.0	-	4.7
Net transfers between stages	-	-	-	-
New financial assets originated or	1.3	0.4	-	1.7
Financial assets that have been	(0.8)	(0.1)	-	(0.9)
Balance at end of year	3.2	2.3	-	5.5

Reconciliation of ECL movement to impairment charge for the period	2020 USDm	2019 USDm
ECL movements since beginning of the period	174.1	(43.4)
Effect of disposals and write-offs	5.8	54.6
(Gain)/loss on disposal of impaired assets	19.3	(5.5)
Recovery of amounts previously written off	-	(0.8)
Foreign exchange and other movements	1.1	8.2
Impairment charge for the period	200.3	13.1

Coverage Ratios

The tables below shows the coverage ratio as of 31 March 2020 and 31 March 2019

	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 March 2020				
Loans and advances to banks at amortised cost	0.12%	0.88%	-	0.12%
Loans and advances to customers at amortised cost	0.20%	7.75%	45.06%	1.14%
Off balance sheet loan commitments and financial guarantee contracts	0.05%	0.93%	-	0.07%
Total	0.14%	6.77%	45.06%	0.67%

The coverage ratio has increased in the year largely as a result of the steps taken at the year end to adequately reflect the increased risk arising as a result of COVID-19.

	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 March 2019				
Loans and advances to banks at amortised cost	0.04%	-	-	0.04%
Loans and advances to customers at amortised cost	0.10%	2.46%	39.18%	0.45%
Off balance sheet loan commitments and financial guarantee contracts	0.02%	0.60%	-	0.03%
Total	0.06%	1.93%	39.18%	0.25%

Macroeconomic variables and scenario weightings

Revision to Models

During the year the bank updated its ECL models. In particular oil price was removed as a macro-economic input and replaced with UK GDP and Equity prices as these were found to be better indicators. The revised models were developed and implemented in line with the Bank's model governance framework.

Macro economic scenarios

An overview of the three scenarios used at the year end is as follows:

Optimistic scenario —produced internally using in an in-house scenario generator. Assumes the COVID-19 impact is short lived and economic activity starts to recover in Q3 followed by a strong rebound in 2021.

Base scenario —sourced externally. Forecasts a v shaped rebound for UK, EMU and Japan.

Pessimistic scenario —sourced externally. Follows a similar basis as the Base scenario but with a much slower rebound than the base case.

Weighting review

The Bank's ECL scenario weighting methodology is based on statistical modelling. However in light of COVID-19, as a further step the Bank reconsidered whether the standard weightings adequately reflected the risk and uncertainty caused by COVID -19. Considering the unique nature of the current stressed environment, management reached a view that alternative weightings are more appropriate. Details on the standard scenario weightings as well as the revised scenario weightings in response to COVID-19 can be found in table below.

The impact of the revised weightings was to increase ECL by USD 6.3m.

Macro-economics review

The unique nature of COVID-19 has led to increased economic uncertainty with progressively more pessimistic views of the future. The Bank also reviewed the macro-economic inputs derived from its standard process. The conclusion from this review was that on balance to reflect this increased uncertainty and the clearly negative outlook, the macro economics inputs were revised downwards in respect of EU and UK GDP. The standard scenario inputs and revised inputs in response to Covid-19 can be seen in the table on the next page.

The impact of the revised macro-economic inputs was to increase ECLs by USD 7.0m.

	Scenario probability weighting		
	Pessimistic %	Base %	Optimistic %
Revised scenario probabilty weightings after taking into account COVID-19 as at 31 March 2020	20	60	20
Original scenario probability weightings as at 31 March 2020	*7.6*	*84.8*	*7.6*
Scenario probability weighting as at 31 March 2019	7.6	84.8	7.6

		Key macroeconomic variables		
		Pessimistic	Base	Optimistic
As at 31 March 2020				
Revised scenario inputs after taking into account COVID-19				
EU GDP growth	Year 1	-10.0%	-9.3%	-4.5%
	Year 2	3.0%	6.7%	3.7%
	Year 3	0.0%	1.5%	2.4%
UK GDP growth	Year 1	-14.3%	-13.3%	-4.3%
	Year 2	7.0%	10.3%	3.4%
	Year 3	0.1%	1.4%	2.5%
UK Equity price change	Year 1	-25.0%	-9.7%	-1.6%
	Year 2	-31.1%	8.4%	15.6%
	Year 3	-4.8%	16.0%	30.0%
Original scenario inputs				
EU GDP growth	*Year 1*	*-6.0%*	*-5.3%*	*-4.5%*
	Year 2	*-1.0%*	*2.7%*	*3.7%*
	Year 3	*0.0%*	*1.5%*	*2.4%*
UK GDP growth	*Year 1*	*-6.3%*	*-5.3%*	*-4.3%*
	Year 2	*-1.0%*	*2.3%*	*3.4%*
	Year 3	*0.1%*	*1.4%*	*2.5%*
UK Equity price change	*Year 1*	*-25.0%*	*-9.7%*	*-1.6%*
	Year 2	*-31.1%*	*8.4%*	*15.6%*
	Year 3	*-4.8%*	*16.0%*	*30.0%*
As at 31 March 2019				
EU GDP growth	Year 1	-2.4%	1.0%	4.5%
	Year 2	-2.4%	1.2%	4.7%
	Year 3	-2.4%	1.2%	4.9%
Oil Price growth	Year 1	67.0	67.0	67.0
	Year 2	64.5	64.5	64.5
	Year 3	68.1	68.1	68.1
JP GDP growth	Year 1	0.7%	2.1%	3.3%
	Year 2	0.7%	2.0%	3.0%
	Year 3	0.2%	1.0%	2.2%
US Yield	Year 1	0.2%	0.0%	-0.2%
	Year 2	0.1%	0.0%	-0.2%
	Year 3	0.3%	0.1%	0.0%

ECL Sensitivity Analysis

The measurement of ECL involves increased complexity and judgement, including estimation of probabilities of default (PD), loss given default (LGD), range of unbiased future economic scenarios, estimation of expected lives, estimation of exposure at default (EAD) and assessing significant increases in credit risk.

The table below shows the ECL assuming each scenario has been 100% weighted to show the impact of alternative scenarios.

	Pessimistic	Base	Optimistic
At 31 March 2020	USD 195.7m	USD 129.4m	USD 116.6m
At 31 March 2019	USD 133.9	USD 104.6	USD 85.8

The above results do not include the impact of the post model adjustments. With regards to the post model adjustment, a loss rate of 31% was used on higher risk assets. Changing this up by 5% would increase the post model adjustment by USD 17.7m, whilst reducing this by 5% would decrease the post model adjustment by USD 12.0m

Credit risk by sector

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

31 March 2020 USDm	Finance and insurance	Government and local authorities	Manu-facturing	Wholesale and services	Other corporate exposures	Transport	Energy and infrastructure	Total
Cash and balances at central banks	24,726.5	-	-	-	-	-	-	24,726.5
Settlement balances	4,216.8	-	-	-	-	-	-	4,216.8
Loans and advances to banks	3,802.5	-	-	-	-	-	-	3,802.5
Loans and advances to customers	3,505.1	1,168.1	2,897.3	1,039.8	10,456.2	1,139.0	2,517.2	22,722.7
Reverse repurchase agreements	1,502.5	-	-	-	-	-	-	1,502.5
Investment securities	192.5	432.0	-	-	0.4	-	-	624.9
Derivative assets	1,237.7	8.1	201.7	8.2	317.8	2.8	-	1,776.3
Total on balance-sheet	39,183.6	1,608.2	3,099.0	1,048.0	10,774.4	1,141.8	2,517.2	59,372.2
Commitments and guarantees	997.1	316.2	2,714.2	909.3	9,226.0	-	-	14,162.8
Total	40,180.7	1,924.4	5,813.2	1,957.3	20,000.4	1,141.8	2,517.2	73,535.0

31 March 2019 USDm	Finance and insurance	Government and local authorities	Manu-facturing	Wholesale and services	Other corporate exposures	Transport	Energy and infrastructure	Total
Cash and balances at central banks	19,670.1	-	-	-	-	-	-	19,670.1
Settlement balances	131.0	-	-	-	-	-	-	131.0
Loans and advances to banks	2,906.8	-	-	-	-	-	7.8	2,914.6
Loans and advances to customers	2,577.5	1,269.2	3,047.5	904.9	10,382.1	972.5	2,330.5	21,484.2
Reverse repurchase agreements	1,793.4	-	-	-	-	-	-	1,793.4
Investment securities	62.1	362.8	-	-	1.6	-	-	426.5
Derivative assets	713.7	-	126.9	4.6	150.3	0.5	-	996.0
Total	27,854.6	1,632.0	3,174.4	909.5	10,534.0	973.0	2,338.3	47,415.8
Commitments and guarantees	1,296.5	317.9	2,929.2	793.7	10,668.9	-	51.7	16,057.9
Total	29,151.1	1,949.9	6,103.6	1,703.2	21,202.9	973.0	2,390.0	63,473.7

The industry exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. Finance and insurance exposure includes USD 14,683.5m to the Bank of England (2019: USD 9,213.1m) and USD 10,043.0m to the Banque de France (2019 USD 10,457.0m).

Credit risk by location

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

31 March 2020 USDm	United Kingdom	France	Italy	Other Europe	Eastern Europe	Japan	Middle East & Africa	Other countries	Total
Cash and balances at central banks	14,683.5	10,043.0	-	-	-	-	-	-	24,726.5
Settlement balances	4,169.5	6.2	-	15.0	3.9	7.9	1.1	13.2	4,216.8
Loans and advances to banks	310.7	-	308.3	626.6	153.3	1,140.5	1,179.3	83.8	3,802.5
Loans and advances to customers	5,443.8	4,099.3	1,157.0	4,995.0	877.8	17.5	5,814.5	317.8	22,722.7
Reverse repurchase agreements	984.6	-	-	-	-	517.9	-	-	1,502.5
Investment securities	3.2	-	-	615.3	1.2	-	-	5.2	624.9
Derivative assets	933.1	21.0	-	780.5	-	4.6	-	37.1	1,776.3
Total on balance-sheet	26,528.4	14,169.5	1,465.3	7,032.4	1,036.2	1,688.4	6,994.9	457.1	59,372.2
Commitments and guarantees	3,826.3	6,718.8	97.4	1,383.8	207.1	307.9	913.2	708.3	14,162.8
Total	30,354.7	20,888.3	1,562.7	8,416.2	1,243.3	1,996.3	7,908.1	1,165.4	73,535.0

31 March 2019 USDm	United Kingdom	France	Italy	Other Europe	Eastern Europe	Japan	Middle East & Africa	Other countries	Total
Cash and balances at central banks	9,213.1	10,457.0	-	-	-	-	-	-	19,670.1
Settlement balances	24.6	2.2	-	74.6	10.6	7.2	1.7	10.1	131.0
Loans and advances to banks	163.0	-	-	316.1	189.8	1,175.8	1,021.2	48.7	2,914.6
Loans and advances to customers	4,816.7	3,232.9	292.8	5,609.2	901.9	18.5	4,799.8	1,812.4	21,484.2
Reverse repurchase agreements	866.0	-	-	-	-	927.4	-	-	1,793.4
Investment securities	4.1	-	-	421.0	1.4	-	-	-	426.5
Derivative assets	506.1	63.4	-	408.6	-	7.2	-	10.7	996.0
Total	15,593.6	13,755.5	292.8	6,829.5	1,103.7	2,136.1	5,822.7	1,881.9	47,415.8
Commitments and guarantees	4,681.9	6,193.8	106.2	2,730.0	550.0	235.2	785.5	775.3	16,057.9
Total	20,275.5	19,949.3	399.0	9,559.5	1,653.7	2,371.3	6,608.2	2,657.2	63,473.7

The geographical exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. The above disclosures are based on country of residence, whilst the Bank's Pillar 3 disclosures use country of risk. The figures reported include balances with the Bank of England and Banque de France as disclosed above.

(b) Market Risk

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

The Bank's Board is ultimately responsible for ensuring that the level of market risk run by the Bank is in line with their risk appetite and business model.

The Bank uses a variety of matrices to measure and control market risk. One such tool is the use of Value at Risk (VaR). VaR is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. The Bank uses a 99% confidence interval and a one-day time horizon. The Bank currently uses a historical simulation which is updated monthly to generate the VaR result using data from a four year observation period. The Bank uses VaR to control market risk both on the Trading and Banking accounts on both a standalone and consolidated basis. The Bank has in place an ongoing programme of back-testing and analysis for the VaR model. However, VaR is not a perfect tool for risk management and cannot provide an indication of the potential losses that may occur. The Bank therefore conducts a program of stress-testing using scenarios relevant to the current portfolio composition.

Interest rate risk on the Banking book is stressed by taking the Basis Point Value (BPV) positions and stressing them by an average of 100 basis points (bp). In addition to this a further 200 bp parallel shift stress test is carried out (as per BIPRU2.3.8) as part of the ICAAP submission. Stress tests are also carried out on FX positions (assuming 17% appreciation and depreciation of each currency vs. USD).

Risk management for each category is augmented by employing suitable sensitivity limits such as BPV limits which measure the potential change in portfolio fair value for an instantaneous 0.01% shift in interest rates. Using the BPV, the Bank can examine the effects to income of movements in yields applied to the Banking and Trading portfolios.

The Bank's VaR exposures during the year were:

	To 31 March 2020				To 31 March 2019			
	Maximum USDm	Minimum USDm	Average USDm	31 March USDm	Maximum USDm	Minimum USDm	Average USDm	31 March USDm
Trading	0.2	-	0.1	-	0.3	-	0.1	0.1
Banking	2.5	1.7	2.1	2.1	2.6	1.5	2.2	2.2
Total	2.5	1.7	2.2	2.1	2.7	1.5	2.2	2.1

The income sensitivity table below reports the worst case of six possible yield curve shift scenarios averaging 100bp, including "Steepening", "Flattening" and "Parallel" shifts, which comprises of the Market Risk Stress Test.

Income sensitivity with respect to changes in interest rates:

	Banking Book		Trading Book	
	31 March 2020 USDm	31 March 2019 USDm	31 March 2020 USDm	31 March 2019 USDm
Profit and loss impact	1.9	(24.3)	4.2	(0.7)

(c) Liquidity Risk

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

Analysis of liquidity risk

Contractual maturity of financial assets and liabilities form an important source of information used by management for the management of liquidity risk.

The table below provides details on the contractual maturity of financial assets and financial liabilities. Impairment provisions on loans and advances to banks and customers are included in the up to 3 months column.

At 31 March 2020 USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
ASSETS					
Cash and balances at central banks	24,726.5	-	-	-	24,726.5
Settlement balances	4,216.8	-	-	-	4,216.8
Loans and advances to banks	2,457.7	531.3	741.3	72.2	3,802.5
Reverse repurchase agreements	1,502.5	-	-	-	1,502.5
Derivative assets	714.8	452.3	591.4	17.8	1,776.3
Loans and advances to customers	5,318.1	2,494.2	9,026.4	5,884.0	22,722.7
Investment securities	497.4	127.5	-	-	624.9
Total financial assets	39,433.8	3,605.3	10,359.1	5,974.0	59,372.2
LIABILITIES					
Deposits by banks	14,677.8	1,485.6	8,049.7	1,468.0	25,681.1
Customer accounts	26,630.6	922.3	96.0	-	27,648.9
Derivative liabilities	720.5	409.8	481.4	14.2	1,625.9
Debt securities in issue	-	-	-	-	-
Total financial liabilities	42,028.9	2,817.7	8,627.1	1,482.2	54,955.9
Cumulative gap financial assets less financial liabilities	(2,595.1)	(1,807.5)	(75.5)	4,416.3	4,416.3

At 31 March 2019 USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
ASSETS					
Cash and balances at central banks	19,670.1	-	-	-	19,670.1
Settlement balances	131.0	-	-	-	131.0
Loans and advances to banks	1,952.0	393.7	501.2	67.7	2,914.6
Reverse repurchase agreements	1,793.4	-	-	-	1,793.4
Derivative assets	386.0	297.9	301.0	11.1	996.0
Loans and advances to customers	4,863.8	1,233.6	9,241.9	6,144.9	21,484.2
Investment securities	319.1	107.4	-	-	426.5
Total financial assets	29,115.4	2,032.6	10,044.1	6,223.7	47,415.8
LIABILITIES					
Deposits by banks	13,001.1	1,332.2	9,179.3	700.0	24,212.6
Customer accounts	17,061.9	1,032.7	98.4	-	18,193.0
Derivative liabilities	336.4	259.1	267.5	7.8	870.8
Debt securities in issue	13.1	-	-	-	13.1
Total financial liabilities	30,412.5	2,624.0	9,545.2	707.8	43,289.5
Cumulative gap financial assets less financial liabilities	(1,297.1)	(1,888.5)	(1,389.6)	4,126.3	4,126.3

The table below shows the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and un-recognised loan commitments.

Maturity of liabilities as at 31 March 2020	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	14,723.3	1,576.8	8,309.6	1,503.9	26,113.6
Customer accounts	26,648.5	930.4	97.1	-	27,676.0
Debt securities in issue	-	-	-	-	-
Issued financial guarantee contracts	777.7	1,137.3	1,026.1	4.2	2,945.3
Unrecognised loan commitments	235.3	829.0	8,252.1	1,367.3	10,683.7
	42,384.8	4,473.5	17,684.9	2,875.4	67,418.6
Derivative liabilities	724.1	409.2	451.8	40.8	1,625.9
Total liabilities, issued guarantees and commitments	43,108.9	4,882.7	18,136.7	2,916.2	69,044.5

Maturity of liabilities as at 31 March 2019	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	13,074.6	1,464.6	9,598.7	770.3	24,908.2
Customer accounts	17,040.2	1,035.3	100.6	-	18,176.1
Debt securities in issue	13.1	-	-	-	13.1
Issued financial guarantee contracts	303.1	797.0	1,566.3	6.6	2,673.0
Unrecognised loan commitments	492.6	1,078.2	11,420.4	1,206.3	14,197.5
	30,923.6	4,375.1	22,686.0	1,983.2	59,967.9
Derivative liabilities	368.1	239.4	245.0	17.3	869.8
Total liabilities, issued guarantees and commitments	31,291.7	4,614.5	22,931.0	2,000.5	60,837.7

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank's accounting policy on fair value measurements is disclosed in accounting policy 3(e) Financial Instruments – initial recognition and subsequent measurement.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an individual instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted value models, comparison to similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and binomial valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. All observable data is taken directly from Bloomberg or Reuters screens. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognised models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For some financial instruments at fair value through other comprehensive income the Bank uses discounted cash-flow models created internally and discounted cash-flow models provided by external independent parties which are assessed internally to be acceptable for the purpose of valuation. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value of financial instruments carried at fair value

The following table shows the Bank's financial assets and liabilities that are held at fair value by the level in the fair value hierarchy into which the fair value measurement is categorized:

At 31 March 2020 USDm	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS				
Loans and advances to banks	-	0.5	-	0.5
Loans and advances to customers	-	5.5	-	5.5
Derivative assets	-	1,776.3	-	1,776.3
Investment securities	-	432.2	6.5	438.7
Total assets	-	2,214.5	6.5	2,221.0
FINANCIAL LIABILITIES				
Derivative liabilities	-	1,625.9	-	1,625.9
				-
Total liabilities	-	1,625.9	-	1,625.9

At 31 March 2019 USDm	Level 1	Level 2	Level 3	Total Fair Value
Loans and advances to customers	-	3.7	-	3.7
Investment securities	282.1	80.5	3.3	365.9
Derivative assets	-	996.0	-	996.0
Total assets	282.1	1,080.2	3.3	1,361.9
FINANCIAL LIABILITIES				
Derivative liabilities	-	870.8	-	870.8
Total liabilities	-	870.8	-	870.8

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

Of the total movement in Level 3 assets during the year of USD 3.2m (2019: USD (4.6m)), USD 1.3m (2019: USD (0.7m)) relate to losses through other comprehensive income and USD 4.5m (2019: nil) relate to purchases .

For assets and liabilities which are accounted at fair value under Level 3, the valuations are primarily based on Fund Manager valuations and are base on reasonable estimates. Applying reasonable alternative valuations would not lead to a significantly different valuation.

Fair value of financial instruments carried at amortised cost

The following table summarises the fair value of financial assets and liabilities measured at amortised cost, by the level in the fair value hierarchy into which the fair value measurement is categorized:

31 March 2020 USDm	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
ASSETS					
Cash and balances at central banks	-	24,726.5	-	24,726.5	24,726.5
Settlement balances	-	4,216.8	-	4,216.8	4,216.8
Loans and advances to banks	-	3,802.7	-	3,802.7	3,802.0
Loans and advances to customers	-	22,717.3	-	22,717.3	22,717.2
Reverse repurchase agreements	-	1,502.5	-	1,502.5	1,502.5
Investment securities	-	186.2	-	186.2	186.2
LIABILITIES					
Deposits by banks	-	25,668.8	-	25,668.8	25,681.1
Customer accounts	-	27,649.8	-	27,649.8	27,647.0
Debt securities in issue	-	-	-	-	-

31 March 2019 USDm	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
ASSETS					
Cash and balances at central banks	-	19,670.1	-	19,670.1	19,670.1
Settlement balances	-	131.0	-	131.0	131.0
Loans and advances to banks	-	2,915.4	-	2,915.4	2,914.6
Loans and advances to customers	-	21,485.1	-	21,485.1	21,480.5
Reverse repurchase agreements	-	1,793.4	-	1,793.4	1,793.4
Investment securities	-	60.7	-	60.7	60.7
LIABILITIES					
Deposits by banks	-	24,191.3	-	24,191.3	24,212.6
Customer accounts	-	18,196.5	-	18,196.5	18,193.0
Debt securities in issue	-	13.1	-	13.1	13.1

There were no positions classified on inception as designated at fair value through the profit and loss during the year.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less then three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost not hedged through fair value hedges are estimated by comparing market interest rates on initial recognition with current market rates offered for similar financial instruments including any effect of changes in market credit spreads, where material. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. The fair values of quoted debt instruments issued are calculated based on quoted market prices.

6. PERSONNEL AND OTHER EXPENSES

	2020 USDm	2019 USDm
Salaries and bonuses	183.9	193.4
Compulsory social security obligations	49.3	48.4
Pension costs - contribution plans	14.5	13.7
Pension costs - defined benefit plans	2.6	3.1
Other staff costs	20.3	21.0
Total Personnel Costs	270.7	279.6
Operating lease payments	5.8	12.3
Other operating expenses	115.0	117.6
Total Personnel and Other Costs	391.5	409.5
Average number of front office department employees	464	496
Average number of support department employees	672	610
Average number of employees	1,136	1,106

Deferred shares bonus plan

The Bank has in place a deferred bonus scheme for certain employees. Such employees receive part of their annual bonus as a deferred award comprising 50% in cash and 50% in a scheme pegged to the SMFG share price. Any deferred awards are dependent on future service and are awarded over periods up to eight years. As at the year end total deferred bonuses were USD 13.7m (2019: USD 13.6m).

7. AUDITOR'S REMUNERATION

	2020 USDm	2019 USDm
Fees payable to the Bank's auditor for the audit of Bank's annual accounts	1.0	0.8
Audit related assurance services	0.4	0.4
Other assurance services	-	0.2
	1.4	1.4

Audit related assurance services includes worked performed in relation to the group audit and interim review work of SMFG and various regulatory assurance services. Fees amounting to USD 0.5m (2019: USD 0.4m) were paid by SMBC and SMFG.

8. DIRECTORS' EMOLUMENTS

	2020 USDm	2019 USDm
Directors' fees	0.5	0.6
Directors' emoluments (excluding fees)	2.0	3.0
Post-employment benefits	0.1	0.1
	2.7	3.7

The highest paid Director received emoluments of USD 881,487 (2019: USD 901,959).

One Director belonged to the Bank's defined contribution pension scheme with the Bank paying contributions of USD 90,745.46 (2019: one Directors with contributions of USD 87,955) in the year. These amounts are included within the

Directors emoluments figures above. One Director received a bonus (2019: Two Directors) and part of this was subject to a deferral period.

Three employees of the parent company were Directors during the year and received remuneration from the Bank as they were subject of secondment agreements.

9. PENSION COSTS

Accounting for Pension and Other Post Retirement Benefits

The Bank operates, for the majority of staff, a defined-contribution scheme. Contributions are charged to profit and loss as they become payable in accordance with the rules of the scheme.

A defined-benefit scheme, the Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme is provided to a small number of staff. The assets of the scheme are held separately from the assets of the Bank and are administered by trustees. This scheme is closed to new members.

The cost of providing benefits under the defined-benefit scheme is determined using the projected-unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined-benefit obligations) and is based on actuarial advice. Past service costs are recognised in profit or loss as operating expenses.

The interest element of the defined-benefit cost represents the change in present value of scheme obligations arising from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment, made at the beginning of the year, of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The differences between the expected return on plan assets and the interest costs are recognised in profit and loss as other finance income or expense.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the statement of financial position comprises the total for the plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of any net pension asset recognised is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

A triennial funding valuation of the defined benefit scheme was undertaken with an effective date of 31 December 2017 and was completed in March 2019. An update of the funding position has been prepared to 31 March 2020 by a qualified independent Actuary. The scheme is funded and per the triennial valuation, there was no deficit in the pension plan.

The principal actuarial assumptions as at 31 March (expressed as weighted averages) were as follows:

	2020	2019
Discount rate	2.3%	2.4%
Future salary increase (weighted average)	3.8%	4.4%
Future pension increase	2.8%	3.3%
Inflation assumption	1.8%	2.4%

The underlying mortality assumption is based upon the standard table known as S3PA Light on year of birth usage with CMI 2018 future improvement factors with a long term annual rate of future improvement of 1.0% (31 March 2019: same except S3PA Light on year of birth usage and CMI 2018). This results in the following life expectancies:

- Male age 65 now has a life expectancy of 22.9 years from retirement (previously 22.9 years).
- Female age 65 now has a life expectancy of 24.4 years from retirement (previously 24.3 years).

Cashflow data is used to estimate the amount which the scheme needs to reimburse the Bank at the end of the year. This reimbursement is in respect of benefit payments which the Bank has paid on behalf of the scheme since 31st December 2018 (the scheme has refunded the Bank for benefits payments up until 31 December 2018). The weighted average duration of the defined benefit obligation is about 20 years.

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability (asset) and its components:

	Defined Benefit Obligations		Fair Value of Plan assets		Net defined benefit (liability) asset	
	2020 USDm	2019 USDm	2020 USDm	2019 USDm	2020 USDm	2019 USDm
Balance at beginning of year	196.2	200.0	241.8	250.6	45.6	50.6
Included in profit or loss						
Current service cost	1.7	1.7	-	-	(1.7)	(1.7)
Interest expense	4.4	4.7	-	-	(4.4)	(4.7)
Interest income	-	-	5.5	5.9	5.5	5.9
Effect of movements in exchange rates	(9.9)	(13.4)	(12.3)	(17.9)	(2.6)	(4.5)
	(3.8)	(7.0)	(6.8)	(12.0)	(3.2)	(5.0)
Included in other comprehensive income						
Actuarial gain (loss) arising from:						
financials	(4.5)	8.0	-	-	4.5	(8.0)
demographic	-	(0.2)	-	-	-	0.2
experience	0.3	5.6	-	-	(0.3)	(5.6)
return on plan assets excluding interest income	-	-	13.6	11.5	13.6	11.5
	(4.2)	13.4	13.6	11.5	17.8	(1.9)
Other						
Contributions paid by employer	-	-	2.0	1.9	2.0	1.9
Benefits paid by fund	(6.2)	(10.2)	(6.2)	(10.2)	-	-
	(6.2)	(10.2)	(4.2)	(8.3)	2.0	1.9
Balance at end of year	182.0	196.2	244.4	241.8	62.2	45.6

The agreed contributions of Pensionable Salaries in respect of the future service accrual to be paid by the Bank for the year ending 31 March 2020 were 63.3% of Pensionable Earnings. In addition, the Bank is currently paying contributions to cover the cost of pension payments, cash lump sums on retirement, trivial commutation payments and transfer values.

The scheme is run by the Trustees of the Scheme who ensure compliance with the Trust Deed and Rules of the Scheme. The Trustees are required by law to fund the Scheme on prudent funding assumptions under the Trust Deed and Rules of the Scheme. The contributions payable by the Bank to fund the scheme are set by the Trustees after consultation with the Bank.

The Trustees use the attained age funding method which is suitable for funding a scheme open for future accruals but is closed to new entrants.

IFRIC14 is an interpretation of existing paragraph IAS19.65, which deals with the level of net pension asset recognisable on a company's balance sheet. IFRIC14 also requires consideration of minimum funding requirements a company has made to its pension scheme and whether this gives rise to an additional balance sheet liability. Under the Scheme's Trust Deed, the Bank has an unconditional right to a refund of surplus from the scheme in the context of IFRIC14 paragraphs 11(b) and 12. As at 31 March 2020, there is no additional balance sheet liability arising in respect of any funding commitment the Bank has to the Scheme.

The employer pays all the costs of administering the scheme and any levies required by the Pensions Protection Fund and the Pensions Regulator. The expected employer contribution to the Scheme for the year ending 31 March 2020 in respect of future accrual contributions and benefit payments is USD 2.0m.

The following list is not exhaustive but covers the main funding risks for the Scheme:

- Investment Return Risk: If the assets underperform the returns assumed in setting the funding target, additional contributions may be required

- Investment Matching Risk: The scheme remains partially invested in equity type assets, whereas the solvency target is closely related to return on bonds. If equity assets fall in value relative to the matching assets of bonds, additional funding may be required.

- Legislative Risk: The Government may introduce over riding legislation leading to an increase in the value of Scheme benefits.

- Solvency Risk: As the funding target is not a solvency target, Scheme assets may not be sufficient to provide all members with the full value of their benefits on a Scheme wind-up. The Bank would then be required to pay the funding shortfall.

The Bank expects to pay USD 5.0 m in contributions to defined benefit plans in the coming financial year to 31 March 2021.

Scheme assets were made up of the following:

	2020 USDm	2019 USDm
Equity Securities	19.1	24.6
Government bonds	225.3	216.3
Cash	-	0.9
	244.4	241.8

A divestment of USD 10.6m was made from scheme assets to reimburse benefit payments which the Bank paid on behalf of the scheme. This is recognised as cash in transit as the funds were not received by the Bank until after 31 March 2020.

Equity securities and government bonds are quoted but not traded.

Sensitivity Analysis

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

Assumption Varied	2020 % Change in Defined Benefit Obligation	2019 % Change in Defined Benefit Obligation
Discount rate 0.5% p.a. lower	10%	10%
Salary increase rate 1% p.a. lower	(2%)	(2%)
Pension increase (in payment and in deferment) rate 0.5% p.a. lower	(4%)	(4%)
Minimum rate of improvement of mortality 0.5% p.a. lower	(2%)	(2%)

The figures assume that each assumption is changed independently of others. Therefore, the disclosures are only a guide because the effect of changing more than one assumption is not cumulative. The sensitivity analysis was calculated by re-running the figures as at the last formal valuation as at 31 December 2017 adjusted approximately for changes in the membership up to 31 March 2020.

10. INCOME TAXES

Accounting for Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit and loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Income Tax Expense

Recognised in the income statement	2020 USDm	2019 USDm
Current tax charge		
Current year	54.8	87.6
Overseas tax	12.2	21.1
Adjustment for prior years	2.2	3.6
	69.2	112.3
Deferred tax charge		
Origination and reversal of temporary differences	(1.2)	0.8
Adjustment for prior years	(1.8)	(0.1)
Deferred tax change in rate	0.5	-
	(2.5)	0.7
Total income tax expense	66.7	113.0

Reconciliation of effective rate of tax	USDm	USDm
Profit before income tax	219.6	388.3
Income tax using the domestic corporation tax rate of 27% (2019 - 27%)	59.3	104.8
Adjustment for prior years	0.6	3.4
Deferred tax change in rate	0.5	0.0
Expenses not deductible for tax purposes	3.2	0.4
Banking surcharge allowance	(1.7)	(1.7)
Overseas tax	4.8	6.2
Other	-	(0.1)
	66.7	113.0

In April 2020 the UK Government announced that the corporation tax rate of 19% will remain the same for the forseeable future (effective from 1 April 2020). In addition, the Finance (No.2) Act 2015 introduced a bank surcharge of 8% on the profits of banking companies, with effect from 1 January 2016. The deferred tax liability has been calculated at 27% at 31 March 2020.

Income tax recognised in other comprehensive income

	Before tax 2020 USDm	Tax (expense) /benefit 2020 USDm	Tax rate change 2020 USDm	Net of tax 2020 USDm	Before tax 2019 USDm	Tax (expense) /benefit 2019 USDm	Net of tax 2019 USDm
Actuarial (losses)/gains on defined benefit scheme	17.8	(4.8)	-	13.0	(1.9)	0.5	(1.4)
FVOCI / AFS financial investments	(0.5)	0.1	-	(0.4)	(3.5)	0.9	(2.6)
Cash flow hedges	5.3	(1.4)	0.1	4.0	-	-	-
IFRS 9 transitional adjustments	(0.1)	-	0.4	0.3	(2.1)	0.5	(1.6)
	22.5	(6.1)	0.5	16.9	(7.5)	1.9	(5.6)

Deferred Tax

The components of deferred taxes disclosed on the balance sheet are as follows:

	USDm 2020	USDm 2019
Deferred tax liability	(22.3)	(18.7)
Deferred tax asset	6.5	6.5
Net deferred tax asset/(liability)	(15.8)	(12.2)

Movements on deferred tax assets and liabilities were as follows:

	Fixed asset temporary differences USDm	Bonus accrual USDm	Pensions and other retirement benefits USDm	Cash flow hedge / FVOCI/ AFS USDm	IFRS 9 transitional adj USDm	Total USDm
Asset/(liability) at 1 April 2019	4.2	2.3	(13.9)	(0.1)	(4.7)	(12.2)
Adjustments relating to prior years	(0.3)	(0.5)	2.5	-	-	1.7
Movement through the P&L Account	0.6	0.2	(0.6)	-	0.6	0.8
Movement through other comprehensive income	-	-	(4.8)	(1.2)	(0.3) -	6.3
Exchange rate changes	-	-	0.2	-	-	0.2
At 31 March 2020	4.5	2.0	(16.6)	(1.3)	(4.4)	(15.8)
Asset/(liability) at 1 April 2018	3.4	1.9	(12.5)	(1.0)	-	(8.2)
IFRS 9 transitional adjustment	-				(5.2)	(5.2)
Adjustments relating to prior years	0.8	(0.2)	(0.5)	-	-	0.1
Movement through the P&L Account	-	0.6	(1.4)	-	-	(0.8)
Movement through other comprehensive income	-	-	0.5	0.9	0.5	1.9
Exchange rate changes	-	-	-	-	-	-
At 31 March 2019	4.2	2.3	(13.9)	(0.1)	(4.7)	(12.2)

The amount of deferred tax asset expected to be recovered after more than 12 months is USD5.9m (2019: USD5.5m).

The deferred tax asset at 31 March 2020 has been calculated based on the rate of 27%.

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Accounting for loans and advances to banks and customers

Loans and advances at amortised cost

Loans and advances at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude those that are classified as held for trading and those that are designated as at fair value through profit and loss. Subsequent to initial recognition, loans and advances are measured at amortised cost less impairment losses where:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding.

Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only (note 13).

Loans and advances at fair value through other comprehensive income

Loans and advances are classified as at fair value through other comprehensive income where:

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

Loans and advances at fair value through other comprehensive income are measured at fair value on the statement of financial position. Unrealised gains and losses are recognised in other comprehensive income and only when disposed of is the cumulative gain or loss, previously recognised in other comprehensive income, recognised in profit and loss.

The Bank does not hold any loans and advances at fair value through other comprehensive income.

Loans and advances at fair value through the profit and loss

Loans and advances held at fair value through the profit and loss include all loans and advances classified as held for trading, those irrevocably designated as held at fair value through profit and loss on initial recognition and those with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding.

Loans and advances classified at fair value through profit and loss are recorded at fair value on the statement of financial position with changes in fair value recognised in profit and loss. Financial instruments are classified as held for trading when they are held with the intention of generating short-term profits.

Finance Leases

Leases in terms of which the Bank assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition the lease asset receivable is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease income is recognised in interest income over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

	2020 USDm			2019 USDm		
	Loans to Banks	Loans to Customers	Total	Loans to Banks	Loans to Customers	Total
Gross loans and advances at amortised cost	3,806.6	22,979.4	26,786.0	2,915.7	21,576.7	24,492.4
Less: impairment provisions (Note 4)	(4.6)	(262.2)	(266.8)	(1.1)	(96.2)	(97.3)
Loans and advances at amortised cost	3,802.0	22,717.2	26,519.2	2,914.6	21,480.5	24,395.1
Loans and advances at fair value through profit and loss	0.5	5.5	6.0	-	3.7	3.7
Total loans and advances	3,802.5	22,722.7	26,525.2	2,914.6	21,484.2	24,398.8

	2020 USDm	2019 USDm
Amount included within loans and advances to customers expected to be recovered more than 12 months after the reporting date	14,913.0	15,386.8
Included in loans and advances to customers are the following amounts relating to leases:		
Gross investment in finance leases		
- Less than one year	4.8	29.4
- One to two years	112.9	89.2
- Two to three years	-	115.5
- Three to four years	-	-
- Four to five years	-	-
	117.6	234.2
Less: Unearned finance income	(2.5)	(6.1)
	115.2	228.1
Net investment in finance leases		
- Less than one year	3.5	25.9
- One to two years	111.6	88.0
- Two to three years	-	114.3
- Three to four years	-	-
- Four to five years	-	-
	115.2	228.1

The ECL on the lease receivables is immaterial.

Finance lease income is included within net interest income. The amount recognised in the income statement during the year all related to finance income from net investment in leases and was USD 3.0m (2019: USD 4.6m). There have been no finance leases entered into during the period and no leases have ended.

12. INVESTMENT SECURITIES

Accounting for investment securities

Debt securities at amortised cost

Debt securities at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude those that are classified as held for trading and those that are designated as at fair value through profit and loss. Subsequent to initial recognition, debt securities are measured at amortised cost less impairment losses where:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding.

Investment securities at fair value through other comprehensive income

Debt instruments

Investments in debt instruments that are classified as at fair value through other comprehensive income are those where:

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

Debt instruments at fair value through other comprehensive income generally comprise securities. The assets are measured at fair value on the statement of financial position. Unrealised gains and losses are recognised in other comprehensive income and only when disposed of is the cumulative gain or loss, previously recognised in other comprehensive income, recognised in profit and loss.

Equity instruments

Investments in equity instruments that are not held for trading are measured at fair value through other comprehensive income where an irrevocable election has been made on initial recognition by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Investment securities at fair value through the profit and loss

Investment securities held at fair value through the profit and loss include all instruments classified as held for trading, those instruments irrevocably designated as held at fair value through profit and loss on initial recognition and debt instruments with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding.

Investment securities classified at fair value through profit and loss are recorded at fair value on the statement of financial position with changes in fair value recognised in profit and loss. Financial instruments are classified as held for trading when they are held with the intention of generating short-term profits.

	2020 USDm	2019 USDm
Investment securities held at amortised cost	186.2	60.6
Investment securities at fair value through other comprehensive income	433.4	365.1
Investment securities at fair value through profit and loss	5.3	0.8
Total Investment securities	624.9	426.5

	USDm	USDm
Debt Securities held at amortised cost	186.2	60.6
Debt Securities held at fair value through other comprehensive income	432.2	363.7
Equities held at fair value through other comprehensive income	1.2	1.4
Equities held at fair value through profit and loss	5.3	0.8
	624.9	426.5

At start of year	426.5	751.1
Exchange rate adjustments	(15.9)	(12.2)
Acquisitions & transfers	1,136.4	1,144.5
Fair value movement recognised in other comprehensive income	(0.3)	(0.1)
Disposals and maturities	(922.1)	(1,458.1)
Amortisation of discounts and premiums	0.3	1.3
At end of year	624.9	426.5

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Accounting for derivatives

Derivatives include interest rate swaps and futures, cross currency swaps, credit default swaps, forward foreign exchange contracts and options on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative instruments that do not meet the criteria to be designated as a hedge are deemed to be held for trading and are measured at fair value with the resultant profits and losses included in Net Trading Income.

The fair value of exchange-traded derivatives is determined by reference to the quoted market price.

The fair value of OTC derivatives is determined by calculating the expected cash flows under the terms of each specific contract, and then discounting these to their net present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices, or through modelling cash flows using appropriate pricing models. The effect of discounting expected cash flows back to present value is achieved by constructing discount curves derived from the market price of the most appropriate observable interest rate products such as deposits, interest rate futures and swaps.

The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments or CVA) is considered when measuring the fair value of derivative assets and the impact of changes in the Group's own credit spreads (known as debit valuation adjustments or DVA) is considered when measuring the fair value of its derivative liabilities.

Hedge accounting

The Bank continues to apply the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* for hedge accounting purposes and consequently there have been no changes to the hedge accounting policies and practises following the adoption of IFRS 9.

Derivative financial instruments are used to hedge interest rate risk on fixed rate assets and liabilities and foreign exchange movement risk on highly probable forecast transactions. Instruments used for hedging purposes include interest-rate derivatives, cross currency interest rate derivatives and foreign exchange forwards.

The criteria required for a derivative instrument to be classified as a hedge are:

- At inception of the hedge the Bank formally documents the hedge relationship between hedged item and the hedging instrument. This will also include the aim and objective of the risk management and the method that will be used to assess the effectiveness of the hedging relationship;
- The hedge is expected to be highly effective;
- For cash flow hedges, any forecast transactions included must be highly probable and must present an exposure to variations in cash flows that could affect the profit and loss;
- The effectiveness of the hedge (hedged item and hedging instrument) can be reliably measured;
- The hedge effectiveness is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge is designated.

The Bank applies either fair value or cash flow hedge accounting when the transaction meets the above criteria. Hedge accounting is discontinued when it is determined that the derivative ceases to be highly effective as a hedge. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. A hedge will also cease to be effective if the derivative or asset is sold, terminated, expires or matures, or when a forecast transaction is no longer deemed probable.

The Bank has elected to early adopt the ‘Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform” issued in September 2019. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR (Interbank Offered Rates) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate.

Under these amendments, for the purposes of:

- determining whether a forecast transaction is highly probable;
- determining whether the hedged future cash flows are expected to occur;
- determining whether a hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk; and
- determining whether an accounting hedging relationship should be discontinued because of a failure of the retrospective effectiveness test

the Bank has assumed that the interest rate benchmark on which the hedged risk or the cash flows of the hedged item or hedging instrument are based is not altered by uncertainties resulting from the proposed interest rate benchmark reform

Fair value hedge accounting

For qualifying fair value hedges, the changes in fair value in respect of the hedged risk of both the hedged item and hedging derivative are recognised in profit and loss. Any ineffective portion of the hedge is immediately recognised in profit and loss under Interest Income.

If hedge relationships no longer meet the criteria for hedge accounting or the hedging derivative is sold, terminated, expires or matures, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised over the remaining period to maturity of the previously designated hedge relationship using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedge accounting

For qualifying cash flow hedges in respect of financial assets and liabilities, the effective portion of the change in the fair value of the hedging derivative is initially recognised in other comprehensive income and is released to profit and loss in the same periods during which the hedged item affects profit and loss. Any ineffective portion of the hedge is immediately recognised in profit and loss under Net Trading Income.

Analysis of derivatives

The following tables show the notional amounts and fair values of the Bank's derivatives at 31 March 2020 and 31 March 2019.

	2020 USDm Notional Contract Amount	2020 USDm Fair Value Derivative assets	2020 USDm Fair Value Derivative liabilities	2019 USDm Notional Contract Amount	2019 USDm Fair Value Derivative assets	2019 USDm Fair Value Derivative liabilities
Trading derivatives						
Foreign exchange derivatives						
Forward foreign exchange	178,180.6	1,600.3	(1,561.5)	102,721.9	933.3	(826.5)
Currency swaps	2,080.0	13.3	(13.8)	2,325.6	7.5	(7.4)
Total trading derivatives	180,260.6	1,613.6	(1,575.3)	105,047.5	940.8	(833.9)
Derivatives held for risk management						
Foreign exchange derivatives						
Currency swaps - Fair value hedges	1,613.6	162.6	-	859.8	53.2	(9.8)
Total foreign exchange derivatives	1,613.6	162.6	-	859.8	53.2	(9.8)
Interest rate derivatives						
Interest rate swaps - Fair value hedges	1,491.7	0.1	(50.6)	1,305.6	2.0	(27.1)
Total interest rate derivatives	1,491.7	0.1	(50.6)	1,305.6	2.0	(27.1)
Total derivatives held for risk management	3,105.3	162.7	(50.6)	2,165.4	55.2	(36.9)
Total derivatives	183,365.9	1,776.3	(1,625.9)	107,212.9	996.0	(870.8)

Offsetting of financial assets and financial liabilities

In accordance with IAS 32 "Financial Instruments: Presentation" the bank does not offset any financial assets and liabilities. It does however receive or give collateral against certain derivative transactions and reverse repurchase agreements with such collateral subject to standard industry terms including ISDA Credit Support Annex.

In addition, the Bank also enters into ISDA and similar master netting agreements which only allow offsetting on certain events, such as following an event of default. These do not meet the criteria for offsetting in the statement of financial position.

The disclosures set out below include derivative assets, derivative liabilities and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements.

	Gross amounts recognised in the statement of financial position USDm	Related amounts not offset: Financial instruments USDm	Related amounts not offset: Cash collateral USDm	Net Amount USDm	Amounts not subject to enforceable netting arrangement USDm	Total USDm
At 31 March 2020						
Derivative Assets	1,362.2	(781.4)	(183.5)	397.3	414.1	1,776.3
Reverse Repurchase Agreements	1,502.5	(1,502.5)	-	-	-	1,502.5
	2,864.7	(2,283.9)	(183.5)	397.3	414.1	3,278.8
Derivatives Liabilities	1,301.2	(781.4)	(386.5)	133.3	324.9	1,626.1
At 31 March 2019						
Derivative Assets	846.9	(526.1)	(92.2)	228.6	149.1	996.0
Reverse Repurchase Agreements	1,793.4	(1,793.4)	-	-	-	1,793.4
	2,640.3	(2,319.5)	(92.2)	228.6	149.1	2,789.4
Derivatives Liabilities	743.1	(526.1)	(81.2)	135.8	127.7	870.8

Hedge Accounting

As part of its asset and liability management, the Bank uses derivatives as fair value hedges to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest. Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. These instruments frequently involve a high degree of leverage and can be volatile. Due to this, the Bank maintains very tight control over their use and whenever a derivative hedge is used it is imperative that the critical terms of the hedging instrument and the hedged item are closely aligned.

The Bank applies hedge accounting to manage interest rate and foreign exchange risk. Further details of how these risks arise and how they are managed by the Bank are discussed in Note 4(b).

In order to hedge the risks to which the Bank is exposed, the hedging instruments employed are interest rate and cross currency interest rate swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in specified underlying indexes such as an interest rate or foreign currency rate.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed or alternative floating rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a cross currency interest rate swap, the Bank pays the principal amount in one currency and receives the principal amount in the other currency at the start of the deal with the reverse at the maturity of the deal. Interim cash flows of interest are then exchanged on the same basis as an interest rate swap in that the Bank either receives or pays a floating rate of interest in one currency, in return for paying or receiving, respectively, a fixed rate of interest in the other currency.

The hedging instruments share the same risk exposure as the hedged items, being interest rate and currency risk. Before fair value hedge accounting is applied, the Bank determines whether an economic relationship exists between the hedged item and the hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk and considers whether the critical terms of the hedged item and hedging instrument are closely aligned.

Hedge effectiveness is determined with reference to changes in the fair value of the hedged item compared to the fair value of the hedge on a cumulative basis. The hedge is considered effective if the results are in the range of 80% - 125%.

Sources of hedge ineffectiveness may arise from the following:

- Mismatches between the contractual terms of the hedged item and hedging instrument, including differences in maturities or basis differences between the hedged item and the hedging instrument

- Changes in credit risk of the hedging instrument

Interest Rate Benchmark Reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as IBOR has become a priority for global regulators. Since the changes are market driven, there is currently some uncertainty around the timing and precise nature of these changes.

The Bank's risk exposure is directly affected by interest rate benchmark reform, across its fair value hedge accounting activities where IBOR-linked derivatives are designated as a fair value hedge of fixed interest rate assets.

The Bank's risk exposure is predominantly to GBP, USD, EUR and JPY LIBOR.

Fair Value Hedges

The financial instruments hedged for interest rate risk include fixed rate loans and bonds. The Bank uses interest rate swaps to hedge interest rate risk (including currency swaps) and to hedge against specifically identified currency risks. Interest rate risk arises as the Bank holds a portfolio of medium and long-term fixed rate customer loans whose fair value fluctuates due to movements in market interest rates. In such cases changes in the fair values in respect of the hedged risk of both the hedging instrument and the hedged item are recognised in profit and loss.

The Bank hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of fixed-rate loans or bonds are significantly influenced by changes in the benchmark interest rate.

The following table shows the hedging instruments which are carried on the Bank's balance sheet within derivative assets and liabilities:

Hedge Type	Risk Category	Notional Amount USDm	Carrying amount Derivative Assets USDm	Carrying amount Derivative Liabilities USDm	Change in fair value used as a basis to determine ineffectiveness USDm	Notional amount directly impacted by IBOR Reform USDm
As at 31 March 2020						
Fair value	Interest rate risk	1,491.7	0.1	50.6	56.0	847.3
		1,491.7	0.1	50.6	56.0	847.3
As at 31 March 2019						
Fair value	Interest rate risk	1,305.6	2.0	27.1	23.2	n/a
		1,305.6	2.0	27.1	23.2	n/a

The following table summarises the significant hedge accounting exposures impacted by the IBOR reform as at 31 March 2020:

Current benchmark rate	Expected convergence to RFR	Notional amount of hedged items directly impacted by IBOR reform USDm	Notional amount of hedging instruments directly impacted by IBOR reform USDm
GBP London Interbank Offered Rate (LIBOR)	Reformed Sterling Overnight Index Average (SONIA)	782.6	782.6
USD LIBOR	Secured Overnight Financing Rate (SOFR)	801.3	801.3
JPY LIBOR	Tokyo Overnight Average (TONA)	110.7	110.7

The Bank's exposure risk management also includes the use of the Euro Interbank Offered Rate (EURIBOR). In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to EURIBOR under the European Union Benchmarks Regulation. This allows market participants to continue to use EURIBOR after 1 January 2020 for both existing and new contracts. The Bank expects that EURIBOR will continue to exist as a benchmark rate for the foreseeable future. The Bank does not anticipate changing the hedged risk to a different benchmark. For these reasons, the Bank does not consider its fair value or cash flow hedges of the EURIBOR benchmark interest rate to be directly affected by interest rate benchmark reform at 31 March 2020.

The following table profiles the expected notional values of current hedging instruments:

	Maturity 31 March 2020			Maturity 31 March 2019		
	Less than 1 year	1- 5 years	More than 5 years	Less than 1 year	1- 5 years	More than 5 years
Interest Rate Risk						
Hedge of loans and advances to customers						
Notional amount (USDm)	204.4	994.1	293.2	79.6	926.5	468.1
Average fixed interest rate	1.1%	0.9%	2.6%	2.7%	0.8%	2.1%

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

At 31 March 2020 Hedged Risk	Hedged item statement of financial position classification	Carrying Amount USDm	Accumulated fair value hedge adjustments included in carrying amount USDm	Change in fair value used as a basis to determine ineffectiveness USDm	Hedge ineffectiveness recognised in the income statement USDm
Interest rate risk	Loans and advances to customers	2,250.7	54.2	54.2	-
		2,250.7	54.2	54.2	-

At 31 March 2019 Hedged Risk	Hedged item statement of financial position classification	Carrying Amount USDm	Accumulated fair value hedge adjustments included in carrying amount USDm	Change in fair value used as a basis to determine ineffectiveness USDm	Hedge ineffectiveness recognised in the income statement USDm
Interest rate risk	Loans and advances to customers	2,132.0	33.2	33.2	-
		2,132.0	33.2	33.2	-

Cash Flow Hedges

The Bank does not, in its normal customer business, transact cash flow hedges. The main use of cash flow hedges is to reduce the foreign exchange risk on the cash flows arising from the Bank's forecast sterling expenses for each financial year. The Bank enters into US Dollar/Sterling foreign exchange forward contracts to manage variability in the Bank's forecast sterling expenses for each month of the financial year.

The following table shows the hedged items in cash flow hedge accounting relationships:

Hedge Type	**Risk Category**	Change in fair value used as a basis to determine ineffectiveness USDm	Balance in cash flow hedging reserve for Assets USDm	Hedging gains or losses recognised in other comprehensive income USDm	Hedge ineffectiveness recognised in income statement USDm
As at 31 March 2020					
Cash flow hedge	Foreign exchange risk	5.3	5.3	5.3	-

The amount recycled from other comprehensive income due to hedged item affecting the income statement for cash flow hedges of foreign exchange rate was nil (2019: nil).

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

	Cash flow hedging reserve USDm
At 1 April 2019	-
Hedging gains/(losses) for the year	5.3
Amounts reclassified in relation to cash flows affecting profit or loss	-
Tax	(1.4)
At 31 March 2020	3.9

	Cash flow hedging reserve USDm
At 1 April 2018	-
Hedging gains/(losses) for the year	-
Amounts reclassified in relation to cash flows affecting profit or loss	-
Tax	-
At 1 April 2019	-

As at 31 March 2019 there were no such foreign exchange forward contracts outstanding and all amounts relating to transactions entered into during the financial year have been fully recognised in the statement of comprehensive income.

14. OTHER ASSETS

	2020 USDm	2019 USDm
Accrued income	291.3	280.7
Prepayments and other receivables	40.7	38.8
Cash collateral received under CSA	504.4	161.5
	836.4	481.0

15. INTANGIBLE ASSETS AND GOODWILL

Accounting for Intangible Assets

Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. The carrying values of intangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner which will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Computer software	3 years

Accounting for Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 "Business Combinations " and IAS 36 "Impairments of Assets".

Goodwill arising on the acquisition of subsidiaries represents the excess of the fair value of the purchase consideration over the fair value of the Bank's share of the asset acquired and the liabilities and contingent liabilities assumed on the date of acquisition.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have incurred. The test involves comparing the carrying value of the cash generating unit (CGU) including goodwill with the present value of the pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates, or the CGU's fair value if this is higher.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit (CGU) that is expected to benefit from that business combination. The carrying amount of goodwill, which is immaterial, is USD 1.9m (2019: USD 1.9m).

Software

The carrying amount of software is as follows:

	Internally generated software USDm	Other software USDm	Total USDm
At 1 April 2019	9.7	74.3	84.0
Additions	3.0	20.9	23.9
Disposals	(0.3)	(1.1)	(1.4)
At 31 March 2020	12.4	94.1	106.5
Accumulated amortisation			
At 1 April 2019	4.3	51.6	55.9
Charge for the year	2.8	12.7	15.6
Disposals	(0.3)	(1.1)	(1.4)
At 31 March 2020	6.8	63.2	70.1
Net book value at 31 March 2020	5.5	30.9	36.4
At 1 April 2018	11.8	59.7	71.5
Additions	4.0	15.2	19.2
Disposals	(6.1)	(0.6)	(6.7)
At 31 March 2019	9.7	74.3	84.0
Accumulated amortisation			
At 1 April 2018	8.2	43.2	51.4
Charge for the year	2.2	9.0	11.2
Disposals	(6.1)	(0.6)	(6.7)
At 31 March 2019	4.3	51.6	55.9

The gross carrying amount of fully depreciated software still in use is USD 48.3m (2019: USD 38.8m).

16. PROPERTY AND EQUIPMENT

Accounting for Property and Equipment

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

Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	10 years or over the remaining life of the lease, whichever is the shorter
Computer hardware	3 years
Motor vehicles	5 years
Equipment, Fixtures and fittings	5 years

Accounting for Leases

Policy applicable before 1 April 2019

Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases. The leased assets are not recognised in the statement of financial position.

Policy applicable from 1 April 2019

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;

- Variable lease payments that depend on an index or a rate, initially measured using the index rate as at the commencement date;

- Amounts expected to be payable under a residual value guarantee; and

- The exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in "property and equipment" and lease liabilities in "other liabilities" in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term (note 6). The total recognised in the income statement for the year ended 31 March 2020 was USD 5.8m.

	ROU Assets Land and Buildings USDm	Leasehold Improvements USDm	Equipment USDm	Total USDm
Cost				
At 1 April 2019	-	55.4	49.0	104.4
Recognition of right-of-use asset on initial application of IFRS 16	30.5	-	-	30.5
Adjusted balance at 1 April 2019	30.5	55.4	49.0	134.9
Additions	-	2.6	1.5	4.1
Disposals	-	(2.9)	(3.1)	(6.0)
At 31 March 2020	30.5	55.1	47.4	133.0
Accumulated depreciation				
At 1 April 2019	-	39.7	34.4	74.1
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-
Adjusted balance at 1 April 2019	-	39.7	34.4	74.1
Charge for the year	8.7	2.7	6.6	18.0
Disposals	-	(1.7)	(2.5)	(4.2)
At 31 March 2020	8.7	40.7	38.5	87.9
Net book value at 31 March 2020	21.8	14.4	8.9	45.1
Cost				
At 1 April 2018		49.3	51.5	100.8
Additions		6.3	4.5	10.8
Disposals		(0.2)	(7.0)	(7.2)
At 31 March 2019		55.4	49.0	104.4
Accumulated depreciation				
At 1 April 2018		37.5	35.1	72.6
Charge for the year		2.4	6.3	8.7
Disposals		(0.2)	(7.0)	(7.2)
At 31 March 2019		39.7	34.4	74.1

The gross carrying amount of fully depreciated property plant and equipment still in use is USD 56.6m (2019: USD 59.3m).

17. OTHER LIABILITIES

	2020 USDm	2019 USDm
Lease liabilites	20.9	-
Accruals and deferred income	127.9	159.4
Accounts payable to parent	16.8	20.3
Cash collateral received under CSA	205.8	42.5
Other liabilities	454.8	10.6

Lease liabilities

The Bank leases various offices under non-cancellable lease arrangements to meet its operational business requirements. The Bank does not have any material subleasing arrangements. Right-of-use assets relate to property leases only, refer to Note 16 for a breakdown of the carrying amount of right-of-use assets.

The total expenses recognised during the year for short term and low value leases were USD 5.6m and USD 0.2m respectively. The portfolio of short term and low value leases to which the Bank is exposed at the end of the year is not dissimilar to the expenses recognised during the year.

	2019 USDm
As at 31 March 2019	
Effects of changes in acconting policy	31.3
	31.3
As at 1 April 2019	
Interest expense	0.2
New leases	-
Disposals	-
Cash payments	(10.6)
As at 31 March 2020	20.9

The undiscounted maturity analysis of lease liabilities at 31 March 2020 is as follows:

	Up to 3 months USDm	3 to 12 months USDm	1 to 2 years USDm	2 to 3 years USDm	3 to 4 years USDm	4 to 5 years USDm	Over 5 years USDm	Total USDm
31 March 2020								
Lease payments	2.3	6.6	3.9	2.6	2.3	0.9	2.6	21.2
Finance charges	-	(0.1)	(0.1)	(0.1)	-	-	-	(0.3)
Net present values	2.3	6.5	3.8	2.5	2.3	0.9	2.6	20.9

The Bank is not exposed to any additional cash flows in respect of variable lease payments or extension and termination options. Additionally, the Bank does not have any significant sale and lease back transactions and does not have any restrictions or covenants imposed by the lessor on it property leases which restrict its business.

In January 2018 the Bank entered into an agreement to sign the lease to occupy 184,000 square feet of the property known as 100 Liverpool Street. The signing of the lease is dependent on the completion of the building construction known as Practical Completion ("PC"). The PC was originally expected in April 2020 but has been delayed due to COVID-19 pandemic. Upon completion of PC and consequent signing of the lease agreement, lease payments of USD 240.3m will be due in 20 years.

18. CONTINGENT LIABILITIES

Accounting for Contingent Liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

The Bank is a defendant in a consolidated LIBOR related class action alleging certain of our practices and actions were improper. On 26 March 2020 this action was dismissed however the plaintiffs have appealed. Management believes that the Bank will be successful in resolving this lawsuit to the extent that we are able to assess it. At the reporting date the amount at risk is not reasonably estimable. This is an area of significant judgement and the potential liability could be material to the results at the point they are recognised in future periods.

19. CALLED UP SHARE CAPITAL

	USDm
Issued, alloted and fully paid share capital (Ordinary shares of USD 1,000)	
At 31 March 2019	3,200.0
Additions	-
At 31 March 2020	3,200.0

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Prudential Regulation Authority in supervising banks.

The Bank's capital is managed to ensure the Bank complies with external requirements and, in order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital or issue capital securities. There were no changes to the objectives, policies or process for the management of capital in the year. During the year there were no breaches of the Bank's capital adequacy requirement which required reporting to the Prudential Regulation Authority.

The Bank's available regulatory capital as at year-end was USD 4,585.0m (2019: USD 4,320.3m) calculated as total equity per financial statements less regulatory adjustments as per the requirements laid down in the Capital Requirements Regulation (CRR).

The following table provides a reconciliation of the Bank's balance sheet position to the Bank's regulatory capital position.

	2020 USDm	2019 USDm
Shareholders equity per financial statements	4,577.3	4,408.1
Reserves not included in Tier 1 capital	(3.9)	0.0
Cash flow hedge	(3.9)	0.0
Available for sale reserve	0.0	0.0
IFRS 9 adjustment	96.9	0.0
Total deductions	(85.3)	(87.8)
Tier 1 capital after deductions	4,585.0	4,320.3

20. GUARANTEES AND COMMITMENTS

Accounting for guarantees

In the course of its business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium or the provision in line with the policy in Note 4. The premium receivable is recognised in profit and loss in fees and commissions income on a straight-line basis over the life of the guarantee. Any increase in the liability relating to financial guarantees is taken to profit and loss.

	2020 Contract amount USDm	2019 Contract amount USDm
Guarantees and Letters of Credit	2,945.3	2,673.0
Undrawn formal standby facilities, credit lines and other commitments to lend	11,217.5	13,384.9

Guarantees and letters of credit commit the Bank to make payments on behalf of customers upon the occurrence of an event, generally related to the import or export of goods.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Guarantees, letters of credit and commitments carry the same credit risk as loans and are subject to the expected credit loss requirements of IFRS 9, for further details please refer to Note 4.

21. ASSETS PLEDGED

Assets are pledged as collateral to secure liabilities or as security deposits on derivatives. The following table summaries the nature and carrying amount of assets pledged against liabilities held.

	2020 USDm	2019 USDm
Loans and advances to customers	441.6	520.2
Other assets	504.4	161.5
	946.0	681.7

The loan and advance to customers were pledged to the Banque de France. These assets allow the bank to draw additional liquidity as of the year end of USD 434.4m (2019: USD 76.8m). The other assets have been pledged as security deposits on derivatives.

22. RELATED PARTIES

Two or more parties are considered to be related when one party has direct or indirect control over the other party; or the parties are subject to common control from the same source; or one party has influence over the financial and operating policies of the other party to the extent that that other party might be inhibited from pursuing at all times its own separate interests.

Key management personnel are the directors of the Company. There were no loans or deposits with or to key management personnel (and their connected persons) of the Bank. Key management personnel compensation:

	2020 USDm	2019 USDm
Short term employee benefits	2.0	3.0
Post-employment benefits	0.1	0.1
Other long term employee benefits	-	-
Termination benefits	-	-
	2.1	3.1

The Bank has entered into a Keep Well Deed under which the Bank and SMBC agree to certain financial arrangements, including the obligation of the parent to maintain tangible net worth in the Bank at all times sufficient to cover the Bank's obligations arising through any of its business activities.

Amounts receivable from related parties of the Bank are as follows:

	2020		2019	
	Loans and advances USDm	Other assets USDm	Loans and advances USDm	Other assets USDm
Amounts due from parent company	1,989.6	756.2	2,394.0	981.2
Amounts due from other related parties	313.5	230.9	393.7	73.2
Total	2,303.1	987.1	2,787.7	1,054.4

Loans and advances are made in the ordinary course of business and on the same terms as comparable transactions with third parties. Other assets predominantly include derivative assets and other receivables.

Amounts payable to related parties of the Bank are as follows:

	2020		2019	
	Deposits USDm	Other liabilities USDm	Deposits USDm	Other liabilities USDm
Amounts due to parent company	22,798.9	212.6	16,791.2	161.4
Amounts due to other related parties	756.8	68.6	565.8	42.1
Total	23,555.7	281.2	17,357.0	203.5

The Bank receives collateral consisting of cash (part of Amounts due to parent company) of USD 6,002.4m (2019: USD 4,396.2m), from SMBC, to mitigate large exposures on intra-group positions. Deposits are taken in the ordinary course of business and on the same terms as comparable transactions with third parties.

Guarantees received from related parties of the Bank are as follows:

	2020 USDm	2019 USDm
Guarantees received on customer accounts	3,764.8	2,494.8
Guarantees received on the Bank's liabilities	2,467.8	1,634.6

Other transactions as at 31 March 2020 with related parties of the Bank are as follows:

- During the year, the Bank sold the businesses of the Netherlands, Ireland, Spain and Czech Republic branches to Sumitomo Mitsui Banking Corporation EU AG. This resulted in a profit on disposal of USD 8.7m.

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

2020	Parent Companies USDm	Other related parties USDm	Total USDm
Interest income	3.7	24.0	27.7
Interest payable	(197.2)	(82.5)	(279.7)
Fees and commissions receivables	367.7	8.9	376.6
Fees and commissions payable	(2.2)	(1.1)	(3.3)
Net Trading	-	(0.3)	(0.3)
Other expenses	(21.2)	(5.4)	(26.6)
Total	150.8	(56.4)	94.4

2019	Parent Companies USDm	Other related parties USDm	Total USDm
Interest income	6.8	37.3	44.1
Interest payable	(156.0)	(79.7)	(235.7)
Fees and commissions receivables	309.2	8.9	318.1
Fees and commissions payable	(0.3)	(1.4)	(1.7)
Net Trading	-	(0.2)	(0.2)
Other expenses	(28.1)	(1.6)	(29.7)
Total	131.6	(36.7)	94.9

23. COUNTRY BY COUNTRY REPORT

The Capital Requirements (Country by Country Reporting) Regulations 2013 came into effect on 1 January 2014. The requirements impose certain reporting obligations on credit institutions and investments firms within the United Kingdom and within the Scope of EU Capital Requirements Directive IV. The Banks's country by country report is presented below.

Country by Country Disclosure (USDm)

2020

Type	Activity	Geographical location	Turnover	Profit or loss before income tax	Cash tax	Average headcount
Branch	Corporate Banking	UK	770.3	175.6	132.9	1,059
Branch	Corporate Banking	France	80.4	35.8	17.4	77
Branch	Corporate Banking	Italy[1]	-	-	2.1	n/a
Branch	Marketing activities	Netherlands[2]	-	2.7	0.7	n/a
Branch	Marketing activities	Ireland[2]	-	2.3	-	n/a
Branch	Marketing activities	Spain[2]	-	0.9	-	n/a
Branch	Marketing activities	Czechia[2]	-	2.3	0.2	n/a
Intra-group adjustments			(7.4)	-	-	-
Total			843.3	219.6	153.3	1,136

2019

Type	Activity	Geographical location	Turnover	Profit or loss before income tax	Cash tax	Average headcount
Branch	Corporate Banking	UK	741.9	333.2	76.6	1,004
Branch	Corporate Banking	France	83.6	41.6	10.6	65
Branch	Corporate Banking	Italy[1]	16.8	13.0	4.3	10
Branch	Marketing activities	Netherlands[2]	3.1	0.4	0.3	8
Branch	Marketing activities	Ireland[2]	1.4	(0.5)	0.1	7
Branch	Marketing activities	Spain[2]	1.2	0.2	0.2	3
Branch	Marketing activities	Czechia[2]	2.8	0.4	0.1	9
Intra-group adjustments			(20.0)	-	-	-
Total			830.8	388.3	92.2	1,106

[1] On 18 March 2019, the assets and liabilities of Milan Branch were transferred to SMBC Bank EU AG and the Branch ceased its operations as part of the Bank on that date.

[2] On 1 April 2019 the assets and liabilities of the Amsterdam, Ireland, Madrid and Prague Branches were transferred to SMBC Bank EU AG and the Branches ceased their operations as part of the Bank on that date. The profit for each of the branches above relates to the profit arising on sale.

Basis of preparation

1. Activities:

   Corporate banking – refers to the activities mentioned on page 3.

   Marketing activities – refers to customer facing activities undertaken on behalf of other Bank branches.

2. Geographical location - the country where the branch is established.

3. Turnover includes interest income, interest expense, fees and commissions income, fees and commissions expense, net trading (loss)/income. This is in line with the financial statements.

4. Cash tax – refers to cash amount of all corporation tax paid in each location during the period 1 April to 31 March each year including group relief.

5. Public subsidies – refers to direct support by the government. The Bank does not receive any public subsidies.

24. PARENT COMPANIES

The Bank's immediate parent is Sumitomo Mitsui Banking Corporation, a company incorporated in Japan. It has included the Bank in its group financial statements, copies of which are available from its registered office 1-1-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

The Bank's ultimate parent company is Sumitomo Mitsui Financial Group Inc. which is incorporated in Japan. SMFG's consolidated financial statements can be obtained from its registered office at 1-1-2, Marunouchi , Chiyoda-ku, Tokyo 100-0005, Japan.

25. SUBSEQUENT EVENTS

Post year-end, the Bank has continued to assess the impact of the ongoing Covid-19 pandemic and is adapting it's policies and processes to manage the increased risk that it presents, for further information relating to credit risk refer to Note 4.

Post year-end the Board approved the re-registration of the Bank from an English private limited company to an English public limited company and change its name to SMBC Bank International plc under the relevant provisions of the Companies Act 2006. Subject to completion of the required regulatory and corporate procedures, both are expected to be effective on or around 5th October 2020.