SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS
31 MARCH 2018

Company number 4684034

STRATEGIC REPORT

The Directors present the Strategic Report of Sumitomo Mitsui Banking Corporation Europe Limited (the Bank) for the year ended 31 March 2018.

Overview of Business and Objectives

Overview

The Bank is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. The Bank is registered in England and Wales under company number 4684034 and its registered office is located at 99 Queen Victoria Street, London, EC4V 4EH.

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, derivatives and other capital markets instruments.

The Bank's treasury department is focused on customer dealing business, servicing the banking book, supporting credit business by offering treasury products, managing liquidity and conducting limited trading activities.

The Bank carries out the majority of its activities in Europe, the Middle East and Africa (EMEA).

The Bank is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation (SMBC), a Japanese banking institution, and forms part of the SMBC Group of companies. 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 subsidiary companies, branches and representative offices.

At the date of signing this Report, the Bank was structured around ten main business units, as follows:

- two client management departments;
- an international and structured finance department;
- a global trade finance department;
- a transportation department;
- a loan capital markets department;
- a global financial institutions department;
- a specialised products department;
- a global transaction banking department; and
- a treasury department.

Each of the above business units work in conjunction with each other as well as with other entities within the SMBC Group, including SMBC, SMBC Nikko Capital Markets Limited, SMBC Leasing and Finance Inc and SMBC Aviation Capital Limited.

Objectives

As an independent UK bank, the Bank's main objective is to serve its EMEA corporate customers, while sharing the SMBC Group's mission, vision and identity, which emphasises sustainable value creation both for customers and shareholders.

- Serving Customers

  To provide high quality value added services to EMEA customers as their bank of choice.

- Sustainable Growth

  To run our business in a way that is appropriately balanced and sustainable.

  To develop an efficient and effective infrastructure to support sound business growth and to provide services to SMBC EMEA branches 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:

  - Client Relationships;
  - Product Capabilities; and
  - Japanese/Asian Origin

- Team SMFG

  To share the SMBC Group's Mission and Vision and to contribute to their realisation.

Strategic review

Results and dividends

Profit before income tax for the year amounted to USD 297.2 million (2017: USD 230.7 million) with profit after tax for the year of USD 213.2 million (2017: USD 157.8 million).

The results for the year are set out in the Statement of Comprehensive Income on page 22.

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2018.

Key Performance and Risk Indicators

Key Performance and Risk 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. However, being a private company, the Bank has no publicly announced targets.

The Bank's return on equity for the year to 31 March 2018 was 5.8% (2017: 4.1%). Return on equity is calculated as profit after tax (USD 213.2 million (2017: USD 157.8 million)) divided by the average equity in the year (USD 4,022.4 million (2017: USD 3,829.1 million)).

The Board continues to support the strategy of prudent use of capital resources for the continued profitability and development of the Bank. At the Balance Sheet date the Bank's tier 1 capital ratio was 16.3% (2017: 20.9%). At the Balance Sheet date the Bank's leverage ratio was 5.6% (2017: 8.4%). The leverage ratio is calculated as the Regulatory Tier 1 capital (USD 3,928.1 million (2017: USD 3,817.2 million)) divided by the Total Exposure Measure (USD 69,967.3 million (2017 USD: 45,662.0 million)).

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

The Bank's long-term Standard & Poor's rating is A. The Bank is also rated A by Fitch and A1 by Moody's.

Overview of business during the year

Euro area growth has been broad-based across industries and countries, with growth among the Central and Eastern European countries continuing to outperform the rest of the continent. In the Bank's main markets in Europe, the year saw a continuing recovery with an improving labour market backdrop and consumer confidence, however political uncertainty remains high.

Despite an improving backdrop the loan market saw relatively tough trading conditions in the year. The corporate loan market remained liquid and characterised by an imbalance of supply to demand with limited suitable transactions, resulting in tight margins.

Despite a tough market environment, the Bank once again saw a significant improvement in profit after tax. Principal factors of note were:

- Net interest income was USD 222.5 million which is down on the previous year (2017: USD 278.6 million). However, the Bank undertook high levels of arbitrage during the year placing cash received from deposits into the foreign exchange markets fixing the return via spot and offsetting forward trades. The interest expense from these activities are booked within interest expense whilst the revenues from the foreign exchange market trades are in net trading income. This activity was the principal cause of the increase year on year in net trading income of USD 178.0 million (2017: USD 56.9 million).

- Net fees and commissions income increased in the year to USD 338.6 million (2017: USD 307.1 million). This increase was largely due to increased loan booking activities, predominantly in loans and advances to customers.

- Net operating expenses excluding impairments increased in the year from USD 447.5 million to USD 478.8 million. This was due to two main drivers: GBP and EUR rates strengthened against USD rates increasing the Bank's cost base which is heavily weighted towards these two currencies, and an increase in the underlying expense base.

- Credit costs were static compared to the previous year at USD 36.9 million (2017: 35.6 million). This was largely caused by increased provisions on the Bank's impaired Spanish Renewables portfolio. Apart from this, only one new customer was subject to a new specific provision, which was in line with the relatively benign credit environment seen during the financial year. In addition, the collective provision increased by USD 8.7 million (2017: 24.3 million decrease), reflecting the Bank's increased portfolio.

- The tax charge for the year amounted to USD 84.0 million (2017: USD 72.9 million). This equates to a tax charge for the year of 28.3%, down on the previous year (31.6%).

- Total asset balances increased by USD 22.2 billion on the previous year to USD 61.0 billion (2017: USD 38.8 billion). The growth in assets has been driven by deposit growth both from banks which increased by USD 14.9 billion and customer accounts which increased by USD 6.3 billion. As in prior years, surplus cash after funding the loan book continues to be placed with the Bank of England and the Banque de France to reduce risk.

- Off balance sheet guarantees and commitments increased compared to the prior year to USD 14.7 billion (2017: USD 12.3 billion) in line with the Bank's strategy to increase credit risk based business.

- The Bank continues to play a significant role in SMBC's overall structured finance and trade finance businesses. SMBC continues to receive awards within these sectors, which together with a high ranking in various league tables, reflects the Bank's and SMBC's continuing strong reputation in these markets.

Going concern

The Bank's business activities, together with the factors likely to affect its future performance and position, are set out in this Strategic Report. The financial statements set out the financial position of the Bank at 31 March 2018.

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. Details of financial instruments and hedging activities can be found in notes 4 and 6 respectively.

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. This belief is based on the following factors: (i) the Bank and its parent company, SMBC, have entered into 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; and (ii) a number of measures have been adopted by the Bank to reduce liquidity and funding risk, including ongoing steps to improve the deposit base.

The Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future and for this reason the Directors have adopted the going concern basis in preparing the financial statements.

Overview of activities

This section sets out the key activities undertaken by the Bank in pursuit of its objectives.

Overview of Risk Management and Controls

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.

Principal risks and uncertainties

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

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

- **Liquidity Risk –** the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.

- **Market Risk –** 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 market risk alongside other relevant metrics. During the year the average VaR was USD 1.1 million (2017: 0.9 million).

- **Conduct Risk –** is the risk of the Bank's behaviour resulting in poor customer outcomes and/or damage to the integrity of the financial markets. Any significant failure in this area could lead to regulatory censure and/or reputational damage. Further detail on how the Bank conducts its business is provided below.

- **Operational Risk –** the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Historically, losses in this risk category have been low.

- **Other non-financial risks –** as a result of its activities the Bank assumes other potential risk impacts such as reputational and others which it manages within the overall policy framework. Historically, losses in this risk category have been low.

Further information on the way the Bank manages its risk is set out in note 4 to the financial statements.

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.

Credit Risk - the Bank's total maximum credit exposure as at 31 March 2018 was USD 78.5 billion (2017: USD 50.8 billion) net of total provisions of USD 173.7 million (2017: USD 141.0 million).

Liquidity Risk - as at 31 March 2018, the Bank's CRD IV Delegated Act Liquidity Coverage Ratio (LCR) was 136.67% (2017: 125.5%) and the Net Stable Funding Ratio (NSFR) based on the latest Basel 3 rules was 103.1% (2017: 96.1%).

Risk Management Arrangements

The Directors, through the Risk Committee, consider annually the adequacy and appropriateness of the Bank's risk management systems. Based on the annual review undertaken in respect of the year ended 31 March 2018, the Directors have formed the view that the Bank's Risk Management framework is adequate. Set out below are further details on the Bank's Risk Management framework.

The Bank adopts a three lines of defence (3 LOD) model as a means to communicate clear accountabilities to achieve and assure overall effective risk governance, management and assurance, reflecting and reinforcing the Bank's internal control framework.

The 3 LOD approach separates the ownership 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 independently oversee risk; and

Third Line of Defence – Functions that provide independent assurance.

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.

Risk Management Department, Compliance Department and Credit Department are collectively the Bank's Second Line of Defence. Such 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. The second line of defence employs the following key risk management tools to ensure the provision of independent oversight of the first line of defence:

- Risk governance
- Risk strategy and appetite setting
- Risk Register
- Risk Control Assessment
- Stress testing/reverse stress testing
- Active Credit Portfolio Quality Management
- Senior management training
- Risk indicators
- Model governance

The third line of defence, Audit Department, provides independent assurance by ensuring that the first and second line arrangements and structures are appropriate and that those involved are discharging their roles and responsibilities effectively.

The Bank has established an independent Audit Department, which comprises an Internal Audit Group and a Credit Review Group. The objective of the Audit Department is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established and maintained within the Bank. In order to achieve this objective, the Internal Audit Group conducts audits and related services using a risk-based approach. The Credit Review Group, which is responsible for reviewing the credit grading process, selects a sample of obligors and facilities for review using predetermined risk criteria. 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.

Annual review of internal controls

The Directors, through the Risk Committee, undertake an annual review of the effectiveness of the Bank's systems of internal controls. At its July 2018 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 procedure, 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 July 2018 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. As such, this system can only provide reasonable and not absolute assurance against material misstatement or loss.

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 note 4.

Conduct of Activities

In this section, principal factors related to the conduct of the Bank's activities are highlighted.

Credit Policy

- The Bank has established a Credit Policy, which is consistent with that of its parent, SMBC. This Policy sets out the lending guidelines and standards, including legal and regulatory requirements, followed by the Bank in undertaking its credit activities. The Policy is owned by Risk Management Department, and significant revisions to the Policy require the approval of the Risk Committee.

- In undertaking its 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. In recognising that it has these responsibilities, the Bank will not extend any credit that may damage its reputation.

Environmental and Social Considerations

- The Bank and the SMBC Group assign a high priority to environmental issues. The SMBC Group seeks to reduce the environmental impact of its business activities and to contribute to global environmental protection from an economic standpoint by leveraging its financial functions. In particular, SMFG issued its first USD500 million Green Bond in October 2017. The funds raised from this bond issue financed projects that promote renewable energy, energy efficiency and resource productivity. Further details on the SMBC Group's environmental position is available on the website at http://www.smfg.co.jp/english/responsibility/environment/

- SMBC has also adopted the "Equator Principles", which is a set of guidelines developed by private financial institutions for managing environmental and social risks related to project financing based on the social and environmental standards and guidelines of the International Finance Corporation (http://equator-principles.com/). In order to meet these Principles, SMBC has established a document called "Procedures for Social and Environmental Risk Assessment". These Procedures also apply to the Bank and require the Bank to undertake, for relevant transactions, a social and environmental risk assessment. 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 scope of the assessment, as set out in the Procedures, also extends to loans other than project finance loans where the purpose is to fund a specific development project or capital investment.

- The Bank had previously been selected for participation in a UK Environment Agency audit called The Energy Savings Opportunity Scheme (ESOS) through which the Bank's total energy consumption and significant areas of energy consumption were assessed. In April 2018, the Bank received confirmation from the UK Environment Agency that it was compliant with the requirements of ESOS.

- The Bank has established an Anti-Slavery Policy, which sets out the processes through which it seeks reasonable assurance that none of its customers, business partners, suppliers and other third parties are involved in the commission or facilitation of slavery and/or human trafficking. This Policy is owned by Compliance Department and significant changes to the Policy require the approval of the Chief Executive Officer. The Bank publishes its Slavery and Human Trafficking Statement on its website https://www.smbcgroup.com/emea/about-us/corporate-disclosures. This Statement is subject to annual Board review and approval.

Customer relations

- The Bank is committed to putting its customers first by providing quality and innovation through its products and services. The Bank has established a Customer Voice Policy, which sets out how the Bank seeks to identify, record, investigate, respond and escalate expressions of dissatisfaction made by its customers and potential customers in relation to the products and services the Bank provides and/or behaviours of its employees. The Bank also has a number of other policies in place which set out how the Bank will treat and communicate with its customers, such as its Pre-Sales, Conflicts of Interest, Market Abuse and Competition policies. Adherence to these policies is monitored by Compliance Department and Risk Management Department, and key metrics around customer outcomes, marketing materials and customer expressions of dissatisfaction are reported quarterly to the Board.

Compliance and Prevention of Financial Crime

- 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 policies included in the framework are approved by the Chief Executive Officer and, as necessary, by the Board and Risk Committee.

- The Bank's business is cross-border in nature, and its customers and suppliers come from many different jurisdictions and business sectors. The Bank recognises the risk arising from, among other things, the jurisdictions of its customers and suppliers, their legal form, the nature of their business activities, its own employees and the nature of its own products. The Bank seeks to avoid financial crime risk, but recognises that such risk is inherent in its business activities.

- The Bank has established an Anti-Money Laundering/Combating Terrorist Financing Policy, which sets out the Bank's controls and customer due diligence processes through which it seeks to meet its legal obligations to mitigate money laundering and terrorist financing risks. This Policy is owned by Compliance Department and significant changes to the Policy require the approval of the Chief Executive Officer.

- 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 its business in a fair, open and ethical manner. The Bank has established an Anti-Bribery and Corruption Policy, which sets out the requirements and principles that the Bank and all employees must adhere to in relation to the prevention of bribery and corruption. This Policy is owned by Compliance Department and significant changes to the Policy require the approval of the Chief Executive Officer.

Policy Due Diligence

- Adherence by employees to the Bank's policies is assessed through a number of means, including:

  - Audit Department - through its regular audit activity;

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

  - 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 on an ongoing basis. Compliance Monitoring is responsible for the regular monitoring and assessment of the adequacy and effectiveness of the Bank's measures and procedures put in place to meet its regulatory obligations, overseeing the implementation of remediation actions to address risks identified through monitoring activity and reporting issues identified to the Bank's management.

Employees and Equal Opportunities

- The Bank is committed to equal opportunities and to providing a fair working environment. The Bank is an equal opportunities employer and the Bank's Equal Opportunities Policy is set out in the Employee Handbook, which is issued to all employees. As stated in this Policy, it is the Bank's intention that:

  - no potential or current employee is subject to discrimination on account of age, race, nationality, colour, disability, ethnic background, gender, sexual orientation, gender reassignment, pregnancy or maternity leave, marital status, religion or belief;

  - employees are not disadvantaged by conditions or requirements that have a disproportionately adverse effect on them more than any other group;

  - criteria and procedures are in place to ensure that the Bank will select, 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, customers and suppliers;

  - 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's grievance procedure is available to any employee who believes that he or she may have been unfairly discriminated against; and

  - 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.

- The Bank's equal opportunities philosophy is articulated through its Working With Respect Programme, on which all employees and workers receive regular training.

- Other key employee developments and initiatives are set out below:

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

  - the Bank is a signatory to the HM Treasury Women in Finance Charter. The SMBC EMEA Region, of which the Bank is a part, has set itself the target to increase senior female representation to 30 per cent by 2022. Senior female representation in the Bank has increased from 22.2 per cent at 31 March 2017 to 25.3 per cent at 31 March 2018. 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, Nomination Committee and Board.

  - in 2016, the Bank established DRIVE (which stands for Diversity, Respect, Inclusion, Value and Equality). DRIVE is the Bank's employee-led diversity initiative, which aims is 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. Under the umbrella of DRIVE, the Bank has also established two specific network groups: a Women's Inclusion Network and an LGBTA Network.

  - in 2017, the Bank piloted a new leadership development programme called Elevate. Elevate was designed in response to the Bank's new Diversity and Inclusion strategy and has been established in order to enhance diverse leadership in the Bank.

  - 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. In March 2018, the Bank launched a new independent employee helpline. A number of mental wellbeing initiatives are also planned for 2018, such as stress awareness workshops, resilience and mental toughness training, and enhancements to manager and new joiner training on mental health.

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

  - to ensure management are aware of key issues related to the Bank's workforce, a number of non-financial key risk indicators are collated by the Bank's Planning Department - Human Resources Group. The KRIs include data such as employee turnover on a 12 month rolling basis; number of disciplinaries on a monthly basis; number of grievances in the last six months and number of ongoing litigations. These are reported to Risk Management Department and Operational and General Risk Committee on a monthly basis. The KRIs are also presented to the Executive Committee on a quarterly basis.

  - the Board receives a quarterly report on culture and conduct metrics. In 2017, the Bank's employees were invited to participate in a cultural assessment survey. The objectives of the survey were to enable an assessment of the Bank's cultural features; identify action points to manage the Bank's culture and strengthen corporate identity. The Board and management are actively engaged in leading the Bank's culture agenda.

  - the Bank has an employee 'Speak Up' Policy which sets out the Bank's approach towards whistle-blowing and reporting concerns. During the year, the Bank issued a survey to all employees to gauge awareness of, and attitudes towards, the Bank's whistle-blowing arrangements. The results of the survey demonstrated that there was a good awareness of the Speak Up policy, however, some enhancements were identified and have been acted upon, such as making this more visible on the Bank's employee intranet. The Chairman of the Audit Committee has been appointed the Bank's Whistleblowers' Champion and makes an annual report to the Audit Committee on the effectiveness of the Bank's whistleblowing systems and controls.

  - the Bank has a well-established work placement programme and in FY2017 69 students undertook short-term placements in the Bank. In 2017, the Bank undertook a strategic review of work placements in order to establish a talent pipeline and prospective future members of staff. The main source for this is the sandwich placement scheme, which is offered to students in their third year at university. The Bank has previously offered sandwich placements to students for roles in Planning Department - Finance & Control Group, Compliance Department and Risk Management Department. In 2017 the Bank targeted a wider range of universities than previously, including many Russell Group and top 10 universities, and the number of roles increased from 9 to 14.

- the Bank plans to recruit a number of interns in 2018, who will be appointed to positions in the front office departments, Operations and Administration Department, Planning Department - Finance & Control Group, Compliance Department and Risk Management Department.

- in 2017 the government introduced the apprenticeship levy as a means to support employers in funding apprentice training. The Bank is committed to investing in emerging talent, and in 2018 two apprentices joined the Bank. The apprentices will complete a structured development programme, the aim of which is to develop their technical skills and to help them achieve industry recognised qualifications. The Bank anticipates that over time it will introduce further apprenticeships.

Charitable and political donations

The Bank respects its employees, its clients and its local community. The Bank provides up to six paid days per year for employees volunteering for community activities and the Bank is confident that the interaction of our employees with charities and other voluntary organisations helps the Bank keep up to date and ensures that diversity is respected in all areas of the Bank’s business. Many employees have actively supported the Bank’s community volunteering scheme and, during the year, 221 hours (2017: 175 hours) of employee work time were given to community volunteering, with many more hours volunteered in employees’ personal time.

To support its involvement in community initiatives, the Bank 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 relationships (via volunteering) 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 USD 24,990 (2017: USD 11,606) to community organisations focused on a variety of social initiatives.

SMFG’s Corporate Social Responsibility Department also collates social data across the Group. Data is collected on total expenditure in social contribution activities, the allocation of such contributions and volunteer activities. The Bank contributes to this data as appropriate.

The Bank made no political contributions during the year (2017: nil).

Relationship with Suppliers

The Bank has established a policy, owned by Planning Department - Finance and Control Group, which sets out the way in which it will meet the new Payment Practices Regulations. The purpose of the policy is to summarise the disclosure and reporting requirements under the Regulations and to provide details of the reporting process through which the Bank ensures it is in compliance with the legislation.

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.

Brexit

The Brexit referendum in June 2016 resulted in a vote for the United Kingdom to leave the European Union. In March 2017 the United Kingdom triggered Article 50, which provides for a two year window over which the terms of the United Kingdom's exit will be negotiated with the remaining 27 member states. It is anticipated that, following this process, the United Kingdom will leave the European Union in March 2019, albeit there remains a significant amount of political uncertainty around this process.

In addition to increased levels of market volatility, in particular in the foreign exchange markets, the two main areas of potential impact for the Bank are: the loss of financial services passporting rights and a restriction in the free movement staff who are

European Union nationals. In relation to the former, the Bank is actively exploring a number of options through which it will be able to continue to provide services to our customers, either directly or through Group affiliates. The impact on the Bank's earnings will depend to a large extent on the market access arrangements finally negotiated between the United Kingdom and the European Union, but at this stage we do not anticipate any significant near term deterioration in the Bank's earnings as a result of Brexit.

The Bank and Directors will continue to monitor developments closely.

Approved by the Board of Directors

Hideo Kawafune

Director

9 July 2018

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of Sumitomo Mitsui Banking Corporation Europe Limited.

Directors

The Directors who held office at 31 March 2018 were as follows:

Ms Laurel Powers-Freeling	Independent non-executive Director, Chairman
Mr Tetsuro Imaeda	Executive Director, Chief Executive Officer
Mr Kenichi Hosomi	Non-executive Director
Ms Charlotte Morgan	Independent non-executive Director
Mr Masaki Kambayashi	Executive Director
Mr Alan Keir	Independent non-executive Director
Mr Keiichiro Nakamura	Executive Director
Mr Stanislas Roger	Executive Director

The following changes to the Directorate occurred in the year:

- Mr Takayuki Inoue resigned as an executive Director on 1 April 2017;
- Mr Derek Ross, independent non-executive Director, died on 11 April 2017;
- Mr Masaki Kambayashi was appointed as an executive Director on 17 July 2017; and
- Ms Charlotte Morgan was appointed as an independent non-executive Director on 1 September 2017.

Since the year-end, the following changes to the Directorate occurred:

- Mr Keiichiro Nakamura resigned as an executive Director on 3 April 2018; and
- Mr Hideo Kawafune was appointed as an executive Director on 3 April 2018.

The Directors who held office at the date of signing the annual report and accounts were as follows:

Ms Laurel Powers-Freeling	Independent non-executive Director, Chairman
Mr Tetsuro Imaeda	Executive Director, Chief Executive Officer
Mr Masaki Kambayashi	Executive Director
Mr Hideo Kawafune	Executive Director
Mr Alan Keir	Independent non-executive Director
Ms Charlotte Morgan	Independent non-executive Director
Mr Kenichi Hosomi	Non-executive Director
Mr Stanislas Roger	Executive Director

Directors' indemnities

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.

Corporate Governance

The Directors are committed to maintaining a high standard of corporate governance within the Bank. While it is not mandatory to do so, the Directors have regard to the provisions of The UK Corporate Governance Code to the extent those provisions are suitable and relevant for a wholly owned subsidiary of a multinational company.

Board of Directors

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

Board structure

At the date of signing this Report, the Board consisted of eight Directors, four of whom were executive and four of whom were non-executive.

Executive Directors

The executive Directors, under the leadership of the CEO, Mr Imaeda, are responsible for running the business of the Bank, implementing the strategy and policies approved by the Board and for ensuring the Board's decisions are implemented appropriately. They also have executive responsibility for certain areas of the Bank's business.

Further information on the Directors who held office at the date of this report is shown below:

- Mr Tetsuro Imaeda, appointed as a Director on 27 September 2016, is the Chief Executive Officer

- Mr Masaki Kambayashi, appointed as a Director on 17 July 2017, is a Deputy Chief Operating Officer.

- Mr Hideo Kawafune, appointed as a Director on 3 April 2018, is the Chief Operating Officer and General Manager of Planning Department, which has responsibility for the following activities: corporate planning, human resources, financial reporting, legal and company secretarial and information systems.

- Mr Stanislas Roger, appointed as a Director on 29 April 2015, is a Deputy Chief Executive Officer.

Non-Executive Directors

The Board has appointed four non-executive Directors.

Independent Non-Executive Directors

- Ms Laurel Powers-Freeling is the Chairman of the Board, the Nomination Committee and the Remuneration and Human Resources Committee. She was appointed a Director of the Bank on 1 July 2015.

- Mr Alan Keir was appointed to the Board on 12 October 2016 and is Chairman of the Risk Committee.

- Ms Charlotte Morgan was appointed to the Board on 1 September 2017 and is Chairman of the Audit Committee.

Group Non-Executive Director

- Mr Kenichi Hosomi is a Managing Executive Officer and is the Deputy Head of International Banking Unit of Sumitomo Mitsui Banking Corporation. He is also a Managing Executive Officer and is the Deputy Head of International Business Unit of Sumitomo Mitsui Financial Group. He was appointed a non-executive Director of the Bank on 23 June 2015, having previously been appointed an executive Director from 13 April 2012 to that date.

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 a formal schedule of matters reserved for its consideration. 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.

The Board conducts an annual review of its own effectiveness. The results of these reviews, and proposals to improve the Board's effectiveness, are considered by the Nomination Committee and Board.

Board Composition

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 Diversity Policy. This Policy and the Bank's policy on the selection and appointment of senior management and Directors reflect the Bank's status as a wholly-owned subsidiary of SMBC. The Board's target is that at least 20 per cent of the Board would be made up of women by the end of 2018, while keeping in mind the need to ensure that there is an appropriate mix of skills and experience on the Board. Currently, 25 per cent of the Board is made up of women.

As a wholly-owned subsidiary of SMBC, the Bank typically receives candidates from SMBC to fill senior management (General Manager and Director) vacancies. In cases where no suitable SMBC or internal Bank candidates are available to fill senior management positions and management determines that it needs to recruit in the local market, the Bank will typically engage recruitment consultants to identify suitable candidates for appointment.

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 to understand the Bank's activities and that it reflects an adequately broad range of experiences. Directors are also expected to commit sufficient time to perform their functions and to act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of senior management and to effectively oversee and monitor management decision-making.

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

Board Committees

The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed periodically. These Committees are as follows:

- **Audit Committee:** The members of the Audit Committee are the non-executive Directors, with Ms Morgan acting as Chairman. At the invitation of the Committee Chairman, Mr Imaeda and Mr Kawafune also attend Committee meetings. The relevant members of executive management are also invited to attend Committee meetings as necessary and include: Co -General Managers of Audit Department, General Manager of Compliance Department and Money Laundering Reporting Officer, General Counsel and Chief Legal Officer (EMEA) and Head of Planning Department – Finance and Control Group.

  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 whistle blowing arrangements. The Audit Committee meets quarterly and reports to the Board of Directors.

- **Executive Committee:** Mr Imaeda is the Chairman of this Committee, which is attended by all executive Directors and the Bank's other General Managers and Co-General Managers. The Co-General Managers of Audit Department attend Committee meetings as non-members. The Executive Committee is responsible for the supervision and management of the Bank's daily operations and for overseeing the work of the risk committees (further details on which are shown on pages 14 and 15). 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:** Ms Powers-Freeling is the Chairman of this Committee, with the other members being Mr Keir, Ms Morgan, Mr Imaeda, Mr Kawafune and Mr Roger.

  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) assessing at least annually the knowledge, skills and experience of the Directors individually and the Board collectively; (iii) assessing annually the size, composition and performance of the Board; and (iv) 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 members of the Remuneration and Human Resources Committee are the non-executive Directors with Ms Powers-Freeling acting as Chairman. In addition, Mr Imaeda, Mr Kawafune and the Head of Human Resources Group attend meetings but have no voting rights.

  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 aslo considers other Board level remuneration and human resource matters, such as approval of remuneration for Material Risk Takers and of the bonus fund cap calculation.

- **Risk Committee:** The members of the Risk Committee are the non-executive Directors, with Mr Keir acting as Chairman. At the invitation of the Committee Chairman, Mr Imaeda and Mr Kawafune also attend Committee meetings. The relevant members of executive management are also invited to attend Committee meetings as necessary and include: Co-General Managers of Risk Management Department, Co-General Managers of Audit Department, General Manager of Compliance Department and MLRO and General Counsel and Chief Legal Officer (EMEA).

  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 and regulatory engagement and compliance. The Risk Committee meets quarterly and reports to the Board of Directors.

SMBCE risk committees

The risk committees 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** - primarily responsible for reporting and 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** - responsible for driving actions to ensure the Bank meets the expectations set out by the Financial Conduct Authority (FCA) 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 Committee -** responsible for overseeing the embedding of the Bank's Financial Crime Risk Preferences as detailed in the Risk Appetite Framework. 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 -** 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.
  - New Products and Services 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 -** 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).

Financial instruments

The Bank's use of Financial Instruments is set out in the accompanying Strategic Report and in note 3 (policy k) of the financial statements.

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

The Bank has Branches in Amsterdam, Dublin, Madrid, Milan, Paris and Prague.

Future developments

The Bank will continue with its primary objective of providing high quality value-added services to its corporate customers. Consistent with this objective, the Bank will continue to assess market conditions carefully, to identify its core competencies and to enhance its 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 some of the wider economies of Europe, Middle East, Africa and beyond.

Charitable and political donations

Details of the Bank's charitable donations and activities are set out in the accompany Strategic Report.

The Bank made no political contributions during the year (2017: nil).

Equal opportunities

Details of the Bank's equal opportunities activities are set out in the accompanying Strategic Report.

Disclosure of Information to Auditor

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

Auditor

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 2019.

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

Hideo Kawafune

Director

99 Queen Victoria Street

London

EC4V 4EH

9 July 2018

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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.

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

1. Our opinion is unmodified

We have audited the financial statements of Sumitomo Mitsui Banking Corporation Europe Limited ("the Bank") for the year ended 31 March 2018 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 Bank's affairs as at 31 March 2018 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 appointed as auditor by the shareholders on 10 July 2009. The period of total uninterrupted engagement is for the nine financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank 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: 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 (unchanged from 2017) in arriving at our audit opinion above, together with our key audit procedures to address the matter and, as required for public interest entities, our results from those procedures. This matter was 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 this matter.

	The risk	Our response
Impairment of loans and advances to customers Charge: USD 36.9m (2017: USD 35.6 m) Provision: USD 156.5 m (2017: USD127.1 m) Note 3(l) (accounting policy) and Note 18 (impairment provisions).	**Subjective estimate:** The calculation of certain credit provisions for the Bank is inherently judgemental. Individual and collective impairment provisions (identified and unidentified) may not reflect recent developments in credit quality, arrears experience, or emerging macro-economic risks. The most significant areas are: – Identification of impairment: Borrowers are individually assessed for impairment based on the borrower's financial performance, solvency and liquidity. The judgemental nature of this assessment means there is an inherent risk that loss impairment triggers may not be identified on a timely basis.	Our procedures included: **Control design and re-performance:** – We tested the design and operating effectiveness of the credit review control in place to identify impaired accounts on a timely basis. – We tested the design and operating effectiveness of controls over the preparation of discounted cash flow calculations including the Bank's consideration of the quality and timeliness of supporting evidence used in formulating assumptions over forecasted cash flows. – We tested the design and operating effectiveness of the validation control over the key assumptions used to derive the probability of default and loss given default of portfolios.

	The risk	Our response
	– Calculation of impairment: A discounted cash flow model is utilised that requires cash flows to be forecast. Forecasting cash flows is an inherently subjective activity and requires significant judgement. – Management overlay: The recording of an overlay over model calculation outputs involves significant judgement that is subjective and may be more difficult to substantiate.	**Our sector experience:** – For a sample of loans where we considered there to be an increased risk of impairment, we formed our own assessment, using relevant facts and circumstances to the particular loan, as to whether any indicators of impairment were present, and thus an impairment provision potentially required. **Historical comparison:** – For loans that were identified as impaired, we challenged the current year key assumptions to derive the forecasted cash flows by comparing them to relevant source data taking into account the specific facts and circumstances of the borrower. **Tests of detail:** – We agreed the inputs to the provision by reference to relevant supporting information to challenge the accuracy of the Bank's specific impairment provision estimate. – We challenged the rationale and the quantum of the management overlay by assessing the inputs used in the numerical analysis and also comparing them to historical financial information. **Our results** – The results of our testing were satisfactory and we considered the credit impairment charge and provision recognised to be acceptable (2017: 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 USD 13.5 million (2017: USD 14 million), determined with reference to a benchmark of profit before tax, of which it represents 4.6% (2017: 6.2%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding USD 670,000 (2017: USD 700,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality level specified above and was performed at the Bank's head office in London. We also visited the Bank's most significant branch in Paris, France.

Certain processes and controls are undertaken at the Bank'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 over:

– Control and test of details over credit impairment model inputs and design; 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. We communicated with participating audit teams throughout the audit by holding regular telephone conference meetings and we visited Tokyo in June 2018.

4. We have nothing to report on going concern

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 twelve months 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 Bank, 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 17, 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 Bank'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 Bank 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

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified these areas through discussion with the directors and other management (as required by auditing standards), from our sector experience, and from inspection of the Bank's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition, we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Bank's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiries of directors and other management, and inspection of regulatory correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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.

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

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Smith

Richard Smith (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

9 July 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 USDm	2017 USDm
Interest income	7	517.1	461.8
Interest expense	7	(294.6)	(183.2)
Net Interest Income		222.5	278.6
Fees and commissions income	7	372.2	351.6
Fees and commissions expense	7	(33.6)	(44.5)
Net fee and commission income		338.6	307.1
Net trading income	7	178.0	56.9
Operating Income		739.1	642.6
Net impairment loss on financial assets	18,26	(36.9)	(35.6)
Personnel Expenses	8	(267.2)	(250.5)
Depreciation and amortisation	20,21	(16.8)	(15.9)
Other Expenses	9	(121.0)	(109.9)
Net Operating Expenses		(441.9)	(411.9)
Profit before income tax		297.2	230.7
Income tax charge	13	(84.0)	(72.9)
Profit for the year attributed to equity holders of the parent		213.2	157.8
Other comprehensive income net of tax:			
Items that will never be reclassified to profit and loss			
Actuarial gains/(losses) on defined benefit scheme		2.2	(3.8)
Items that will be reclassifed to profit and loss			
Cash flow hedges		(0.7)	(0.3)
Available-for-sale investments		1.8	(0.3)
Other comprehensive income net of income tax		3.3	(4.4)
Total comprehensive income for the year		216.5	153.4

The notes on pages 26 to 75 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Notes	2018 USDm	2017 USDm
ASSETS			
Cash and balances at central banks	15	33,655.0	16,559.5
Loans and advances to banks - included in cash and cash equivalents	16	3,538.5	4,150.6
Derivative assets	4	1,568.2	1,093.6
Loans and advances to banks - other	16	829.9	1,318.6
Loans and advances to customers	17	20,394.1	14,962.0
Investment securities	19	751.1	455.3
Intangible assets and goodwill	20	22.0	16.4
Property and equipment	21	28.2	16.8
Other assets	22	254.8	217.2
Deferred tax asset	23	5.3	6.9
Pensions surplus	12	50.8	41.1
Total assets		61,097.9	38,838.0
LIABILITIES			
Derivative liabilities	4	1,621.1	1,036.8
Deposits by banks		27,898.2	13,007.2
Customer accounts		23,188.4	16,918.0
Debt securities in issue	24	4,045.3	3,730.0
Other liabilities	25	165.0	204.1
Other provisions	26	10.8	8.4
Current tax liability		34.4	18.6
Deferred tax liability	23	13.5	10.2
Total liabilities		56,976.7	34,933.3
SHAREHOLDERS' EQUITY			
Called up share capital	27	3,200.0	3,200.0
Retained earnings		818.7	603.3
Other reserves		102.5	101.4
Total equity		4,121.2	3,904.7
Total liabilities and equity		61,097.9	38,838.0

These financial statements were approved by the Board of Directors and signed on its behalf by:

H. Kawafune

Hideo Kawafune, Director

9 July 2018

The notes on pages 26 to 75 are an integral part of these financial statements.

Company registration number 4684034

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	Share Capital USDm	Retained Earnings USDm	Capital Redemption USDm	Cash Flow Hedge Reserve USDm	Available-for Sale Reserve USDm	Total USDm
At 1 April 2016	3,200.0	449.3	100.0	1.0	1.0	3,751.3
Total comprehensive income for the year						
Net profit for the period	-	157.8	-	-	-	157.8
Other comprehensive income, net of tax						
Effective portion of changes in fair value of cashflow hedges	-	-	-	0.7	-	0.7
Net gains/(losses) transferred to net profit	-	-	-	(1.0)	-	(1.0)
Actuarial loss on defined benefits scheme	-	(3.8)	-	-	-	(3.8)
Change in fair value of assets classified as available-for-sale assets	-	-	-	-	(0.3)	(0.3)
Net gains/(losses) transferred to net profit on available-for--sale assets	-	-	-	-	-	0.0
Total comprehensive income	3,200.0	603.3	100.0	0.7	0.7	3,904.7
Transactions with owners, recorded directly in equity						
Issue of new shares	-	-	-	-	-	-
At 31 March 2017	3,200.0	603.3	100.0	0.7	0.7	3,904.7
At 1 April 2017	3,200.0	603.3	100.0	0.7	0.7	3,904.7
Total comprehensive income for the year						
Net profit for the period	-	213.2	-	-	-	213.2
Other comprehensive income, net of tax						
Effective portion of changes in fair value of cashflow hedges	-	-	-	-	-	-
Net gains/(losses) transferred to net profit	-	-	-	(0.7)	-	(0.7)
Actuarial gain/(loss) on defined benefits scheme	-	2.2	-	-	-	2.2
Change in fair value of assets classified as available-for-sale assets	-	-	-	-	1.2	1.2
Net gains/(losses) transferred to net profit on available-for--sale assets	-	-	-	-	0.6	0.6
Total comprehensive income	3,200.0	818.7	100.0	-	2.5	4,121.2
Transactions with owners, recorded directly in equity						
Issue of new shares	-	-	-	-	-	-
At 31 March 2018	3,200.0	818.7	100.0	-	2.5	4,121.2

The notes on pages 26 to 75 are an integral part of these financial statements.

	2018 USDm	2017 USDm
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit for the year before tax	297.2	230.7
Adjustments for non cash items:		
Net impairment loss on financial assets	36.9	35.6
Unrealised exchange movements on non operating assets and liabilities	(19.2)	29.1
Depreciation and amortisation	16.8	16.0
Changes in operating assets and liabilities		
Changes in loans and advances to banks - others	489.2	(12.1)
Changes in derivative financial instruments	109.7	26.9
Changes in loans and advances to customers	(5,462.0)	565.6
Changes in other assets	(45.7)	2.3
Changes in deposits by banks	14,891.0	(10,941.9)
Changes in customer accounts	6,270.4	8,908.0
Changes in other liabilities	(33.4)	92.1
	16,550.9	(1,047.7)
Taxes paid	(69.7)	(54.4)
Net cash from operating activites	16,481.2	(1,102.1)
Purchase of investment securities	(821.4)	(878.0)
Proceeds from sale or redemption of investment securities	542.1	1,178.4
Net addition of intangible assets	(15.9)	(9.6)
Purchase of property and equipment	(17.9)	(5.7)
Net cash from investing activities	(313.1)	285.1
Cash flow from financing activities		
Proceeds from issue of debt securities	4,045.3	3,519.1
Repayment of debt securities	(3,730.0)	(3,887.6)
Net cash from financing activities	315.3	(368.5)
Net (decrease) / increase in cash and cash equivalents	16,483.4	(1,185.5)
Cash and cash equivalents at start of the year	20,710.1	21,895.6
Cash and cash equivalents at 31 March	37,193.5	20,710.1
Cash and cash equivalents comprise:		
Cash and balances at central banks	33,655.0	16,559.5
Loans and advances to banks with original maturities of up to three months	3,538.5	4,150.6
	37,193.5	20,710.1

Please refer to note 30 for amounts of cash and cash equivalent held by the entity that are not available for use by the Bank.

The notes on pages 26 to 75 are an integral part of these financial statements.

1. REPORTING ENTITY

The Bank is a company domiciled in the United Kingdom. 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 Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Further information regarding this assessment is given in the strategic report. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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

(c) Adoption of IFRS

i) During the year, no new standards or amendments to standards have been adopted.

ii) New standards or amendments to standards which will become applicable in the future and may have an impact on the Bank are outlined below. However, the Bank has not applied them in these financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

In October 2017, the IASB published an amendment to IFRS 9, *Prepayment Features with Negative Compensation (Amendments to IFRS 9)* which has an effective date of 1 January 2019, with earlier application permitted.

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 April 2018 but will not early adopt the amendments to IFRS 9. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at date of initial application and any changes in measurement arising will be incorporated through an adjustment to the opening reserves and retained earnings position at 1 April 2018. As permitted by the transitional requirements of IFRS 9, comparatives will not be restated.

Classification and measurement of financial instruments

Under IFRS 9, financial assets must be classified in one of three categories according to the measurement methods applied: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL). The existing IAS 39 financial asset categories of held to maturity; loans and receivables and available for sale are removed.

Classification of financial assets into these categories will depend on the business model within which they are held, and their contractual cash flows. The business model reflects how groups of financial assets are managed to achieve a particular business objective. To be measured at amortised cost or FVOCI, contractual cash flows should represent solely payments of principal and interest ("SPPI"). Principal represents the fair value of the instrument at the time of initial recognition. Interest in this context represents compensation for the time value of money and associated credit risks together with compensation of other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows that is inconsistent with the SPPI criteria.

Debt instruments will be measured at amortised cost only if the contractual cash flows consist solely of payments of principal and interest on the principal amount outstanding (SPPI), and they are held within a business model whose objective is to collect the contractual cash flows ("hold to collect").

Debt instruments will be measured at FVOCI (with cumulative gains or losses reclassified in profit or loss when the instruments are derecognised) if the contractual cash flows consist solely of payments of principal and interest on the principal amount outstanding, and they are held within a business model whose objective is to collect contractual cash flows and sell financial assets ("hold to collect and sell").

Assets may be sold out of "hold to collect" portfolios where there is an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value to OCI. This election is made on an investment-by-investment basis but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the income statement.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Accounting for financial liabilities is largely unchanged and is not expected to have an impact on the Bank. As the Bank does not have any liabilities designated at FVTPL no changes in presentation of changes in fair value due to own credit risk are required.

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and liabilities.

However, it contains specific guidance for the accounting when the modification of a financial asset not measured at FVTPL does not result in derecognition. Under IFRS 9 the gross carrying amount of the financial asset is recalculated by discounting the modified cash flows at the original effective interest rate and any resulting modification gain or loss is recognised in the income statement.

Transition impact

The Bank has assessed the business models that it operates. In its assessment the Bank considered the objectives of the business model; how performance is measured; the risks that affect the performance of the business and how those risks are managed; how managers are remunerated; and the frequency, volume of sales in prior periods, the reasons for such sales and expectations about future sales activity.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank has considered the contractual terms of the instrument. This included 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 the assessment the Bank has considered contingent events that would change the amount and timing of cash flows; leverage features; prepayment and extension terms; non recourse arrangements; and features that modify consideration for the time value of money.

Based on existing business models and the assessment of the SPPI criteria, the Bank will classify its financial assets under IFRS 9 on the following principles:

Loans and advances

The Bank's loans and advances to banks and customers are held within a "hold to collect" model and meet the SPPI criteria. As such, they will continue to be classified as amortised cost under IFRS 9.

Investment securities

Investment debt securities are held by the Treasury department to manage the day to day liquidity of the Bank, to achieve such an objective the Bank will both collect cash flows and when required sell financial assets. As the portfolio is held within a "hold to collect and sell" model and meets the SPPI criteria it will be classified as FVOCI under IFRS 9.

Equity investments will be classified as FVTPL. Currently these equity investments are classified as available-for sale.

Derivatives

Derivative assets and liabilities will continue to be classified as FVTPL.

Based on these changes, no significant impact on opening retained earnings and reserves as a result of classification and measurement of financial assets from adoption of IFRS 9 will arise.

Impairment

IFRS 9 changes the credit risk impairment model from one in which provisions are made for incurred credit losses to a forward looking expected credit loss (ECL) model. The new impairment requirements apply to financial assets measured at amortised cost and FVOCI; lease receivables; and certain loan commitments and financial guarantee contracts.

At initial recognition, an impairment allowance is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial asset ("lifetime ECL"). Financial assets where 12-month ECL is recognised are in "Stage 1"; financial assets that are considered to have experienced a significant increase in credit risk are in "Stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in "Stage 3".

Stage 3 financial assets, that are credit impaired, are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39. The definition of default is aligned to the Regulatory Capital CRR Article 178 definition and is considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest and is considered unlikely to pay without realisation of any collateral held.

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has been increased significantly since origination, IFRS 9 requires a comparison of the risk of default occurring over the expected life of the instrument at the reporting date to the corresponding risk of default at origination. This assessment will be based on a number of factors including downgrade to the Bank's internal credit grade since original inception and movement to Watchlist. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant. As a backstop, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Measurement

The measurement of ECL will be based on the product of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD, discounted to the reporting date. ECL is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible scenarios about past events, current conditions, and reasonable and supportable forecasts of future economic conditions at the reporting date. PD and LGD inputs are modelled on the macroeconomic variables that are most closely correlated to the Bank's lending portfolio. Forecasts for these macroeconomic variables are used to produce base, upside and downside scenarios, and the impacts of these scenarios are then probability weighted. The estimation and application of this forward-looking information will require significant judgement.

Where the contractual terms of a financial asset have been modified due to financial difficulties (for example forbearance) and the asset has not been derecognised, a modification loss is recognised as part of impairment in the income statement. The loss represents the difference between the present value of the cash flows before and after the modification, discounted at the original effective interest rate. Unlike IAS 39, however, no loss allowance is recorded in the balance sheet, as the modification loss is offset against the gross carrying value of the asset.

For assets measured at amortised cost, the balance sheet value reflects the gross asset less the allowance for ECL. For most financial instruments, the expected life is limited to the remaining maturity.

For debt instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income, with changes in expected credit losses for FVOCI debt instruments recognised in profit or loss.

Transition Impact

The ECL impact is based on assumptions, judgements and estimation techniques that the Bank will continue to refine during 2018. The systems and associated controls that are in place to comply with the new requirements have not been operational for a full reporting period and therefore judgements and estimates may be subject to change. The transition impact is still under consideration.

Hedge Accounting

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The standard does not address macro hedge accounting, which is being considered in a separate IASB project. There is an option to retain the existing IAS 39 hedge accounting requirements on initial adoption of IFRS

9 until the IASB completes its project on macro hedging. The Bank expects to continue applying IAS 39 hedge accounting in accordance with this policy choice.

Capital Impact

The Bank will apply the transitional arrangements included in the Capital Requirements Regulation in relation to the adoption of the ECL approach introduced by IFRS 9 for measuring impairment on financial instruments. These provide for a five year transition period during which specified percentages of new ECL provisions arising due to adoption of IFRS 9 are added back to tier 1 capital.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. It is effective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. It has been adopted by EU on 29 October 2016. IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. The Bank's assessment is that IFRS15 will have no significant impact.

IFRS 16 - Leases

IFRS 16 was issued in January 2016 and replaces IAS 17. It is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied). IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The impact on the Bank from its current leased assets will be limited with the main impact from its leased offices.

Other amendments to IFRS are dealt with on a standard-by-standard basis. No amendments, which result in accounting changes for presentation, recognition or measurement purposes, are anticipated to come into effect prior to 1 January 2018.

(d) 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:

Pensions (note 12)

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 12 for the assumptions used.

Fair value of financial instruments (note 4 and 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.

Impairment losses on loans and advances (note 18)

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in profit and loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance for impairment losses incurred but not yet individually identified. This takes into consideration factors such as any deterioration in country risk and industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Provisions on guarantees and other commitments (note 26)

Provisions are made for guarantees when it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation. Provisions are also made for undrawn commitments where it is probable the facility will be drawn resulting in the recognition of an asset at an amount less than the amount advanced.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

(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 group 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 2018 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 is recognised in the income statement for all financial instruments classified as held to maturity, available for sale, loans and receivables, 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) Leases and rental agreements

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.

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.

(f) 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

(g) 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

(h) Goodwill

Goodwill is not amortised, but instead tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses. The goodwill impairment test is performed at the level of a cash-generating unit. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit that is expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit to which the goodwill is allocated, exceeds its recoverable amount, an impairment loss on goodwill allocated to this cash-generating unit is recognized. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. If either of these amounts exceed the carrying amount, it is not always necessary to determine both amounts. These values are generally determined based on discounted cash flow calculations. Impairment losses on goodwill are not reversed in future periods if the recoverable amount exceeds the carrying amount of the cash-generating unit or the group of cash-generating units to which the goodwill is allocated.

(i) Income tax expense

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.

(j) Pensions 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 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.

(k) Financial Instruments – initial recognition and subsequent measurement

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.

Regular way purchases and sales of financial assets are accounted for at trade date.

Financial assets and liabilities at fair value through the profit and loss

Financial instruments held at fair value through the profit and loss include all instruments classified as held for trading and those instruments designated as held at fair value through the profit and loss.

Financial instruments classified at fair value through the 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.

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.

Loans and receivables

Loans and receivables 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 receivables are measured at amortised cost less impairment losses.

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.

Held-to-maturity assets

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and maturity dates. Financial assets classified as held to maturity are measured at amortised cost, less impairment losses.

Available-for-sale assets

Available-for-sale assets are those which are designated as such or do not qualify to be classified as held at fair value through profit and loss, or classified as either held-to-maturity investments or loans and receivables. They generally comprise securities.

Financial assets classified as available-for-sale 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. If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in impairment losses in profit and loss in the period in which the impairment is identified.

Financial Liabilities

These include deposits, debt securities issued and subordinate 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 the 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 the profit and loss are accounted for as indicated in the accounting policy for financial liabilities at fair value through the profit and loss.

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 derecognition 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.

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.

Derivatives used for asset and liability management purposes – hedge accounting

Derivative financial instruments are used to hedge interest rate risk on fixed rate assets and liabilities and foreign exchange movement risk on 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.

For qualifying fair value hedges, the changes in fair value of both the hedged item and hedging derivative are recognised in profit and loss. If the hedging derivative is sold, terminated, expires or matures, or the hedge is no longer highly effective, the hedge relationship is terminated. For the hedged item the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge from the date of termination. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the profit and loss.

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 the profit and loss.

(l) Impairment of financial assets

Financial assets carried at amortised cost are impaired if there is objective evidence that the Bank may not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at a minimum on each statement of financial position reporting date. The test for impairment is applied either individually to financial assets, or collectively to a portfolio of similar, homogeneous assets.

Individual provisions are raised when the Bank considers that the credit-worthiness of a borrower has deteriorated such that the recovery of the whole or part of an outstanding advance is in serious doubt. When establishing individual provisions, management considers past losses, business and economic conditions, their knowledge of the borrower and any other relevant factors in determining the expected future cash flows.

Impairment is calculated in two principal ways;

i. Impairment is calculated as the difference between the carrying value of the asset and the expected cash flows from the asset discounted at the original effective interest rate. Where a secondary market exists for the asset, this calculation is checked for reasonableness by comparing it to the difference between the current market price (which reflects the market's perception of the discounted value of the future cash flows from the asset) and the carrying value. A provision for impairment is reversed only when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement. Assets individually identified as impaired are removed from the portfolio assessment.

ii. For the purpose of a collective (portfolio) evaluation of impairment, financial assets are grouped on the basis of the Bank's internal grading system that considers credit risk characteristics such as asset type, tenor, industry, geographical location, collateral type, past due status and other relevant factors.

Impairment on a portfolio of assets is calculated as the difference between the carrying value of the portfolio of assets and the expected cash flows from the portfolio of assets discounted at the original effective rate. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, together with specific portfolio factors which indicate impairment of the portfolio of assets at the statement of financial position date.

Historical loss experience is adjusted where appropriate on the basis of current observable data to reflect the effects of current conditions that do not affect the years on which the historical loss experience is based. The methodology and assumptions used are reviewed regularly to ensure that estimates remain appropriate.

The aggregate of individual and specific provisions, which are made during the period, less amounts released and recoveries of bad debts previously written off, is charged to profit and loss.

The bank recognises write offs only when sales of distressed assets are realised.

Available-for-sale debt assets are considered to be impaired when there is objective evidence of impairment. Available-for-sale equity assets are considered to be impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

Where a decline in the fair value of an available-for-sale asset has been recognised through other comprehensive income and there is objective evidence that the asset has been impaired, the cumulative loss that has been recognised through other comprehensive income is removed and recognised in profit and loss. If, in a subsequent period, the fair value of an available-for-sale debt asset increases and the increase can be objectively related to events after the impairment loss was recognised in profit and loss, the impairment loss is reversed through profit and loss. Impairment losses on available-for-sale equity assets are not reversed through profit and loss; increases in the fair value after impairments are recognised through other comprehensive income.

(m) 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. Translation differences on equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(n) Financial 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 policy (p). 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.

(o) 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.

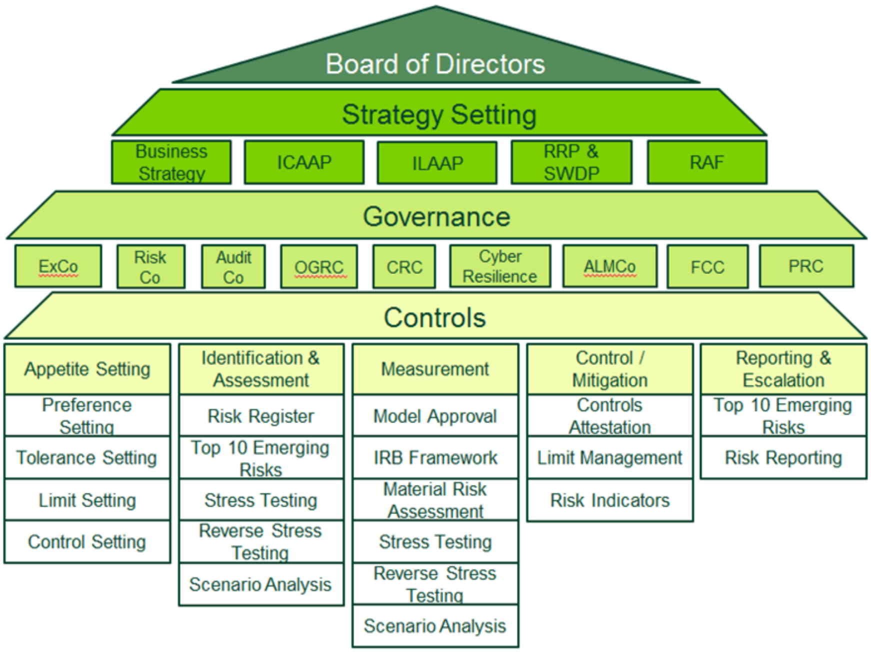
(p) Provisions

Provisions are recognised for present obligations arising as a consequence of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated. Provisions are made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced. 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.

4. RISK MANAGEMENT

(a) Strategic Risk and Risk Governance

The Bank's risk framework is represented below illustrating the key management and governance processes employed in managing risk.



Key:
ALMCo: Asset and Liability Management Committee
Audit Co: Audit, Committee
CRC: Credit Risk Committee
ExCo: Executive Committee
FCC: Financial Crime Committee
ICAAP: Internal Capital Adequacy Assessment Process
ILAAP: Internal Liquidity Adequacy Assessment Process
IRB: Internal Ratings Based
OGRC: Operational and General Risk Committee
PRC: Prudential Regulatory Committee
RAF: Risk Appetite Framework
Risk Co: Risk Committee
RRP & SWDP : Recovery and Resolution Planning, Solvent Wind Down Plan

Please also refer to Governance structure detailed in the strategic report.

Corporate Culture

Management believes that key to ensuring the long term sustainability of the Bank is maintaining a culture that is conducive to effective risk management. The tone set by senior management includes:

- Maintaining valued customer relationships upon which the Bank's business model is based;
- Achieving sustainable growth over the long term;
- Ensuring business is run in a appropriately balanced way where all possible risks are correctly identified and managed;
- Ensuring the maintenance of a sufficiently robust risk management and governance framework that is supportive of current and future strategic objectives;
- Ensuring the Bank is appropriately rewarded for the risks it incurs in undertaking its business;
- Ensuring that management and staff are appropriately trained;

- Ensuring the appropriateness of remuneration; and

- Setting objectives to ensure there is no conflict between the strategic and risk management objectives of the Bank.

Risk strategies and objectives

The Bank's business model is designed to ensure that the Bank remains a well-funded, well-controlled, risk averse corporate banking institution focusing resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced growth. SMBCE's risk strategy has been developed to support the corporate strategy and the achievement of long-term

sustainable growth. The risk strategy comprises of 4 pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives :

Business Model (Sustainable Growth)

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

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.

Maintaining Solvency & 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.

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

Conducting Business

Through the strong management of 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 Banks aims to minimise regulatory/compliance risk by meeting both the spirit and letter of all applicable regulation.

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

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

Maintaining Operational Risk & Resilience

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

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

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

The Bank's risk management objectives are as follows:

- To ensure the Bank's risk appetite, as articulated in preference 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;
- To manage and minimise risk that we assume as a consequence of our business strategy e.g. Operational Risk, Conduct Risk;
- To maintain an adequate and effective control environment; and
- To ensure adherence to the rule and spirit of laws and regulations governing our business.

(b) Enterprise Risk Management

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

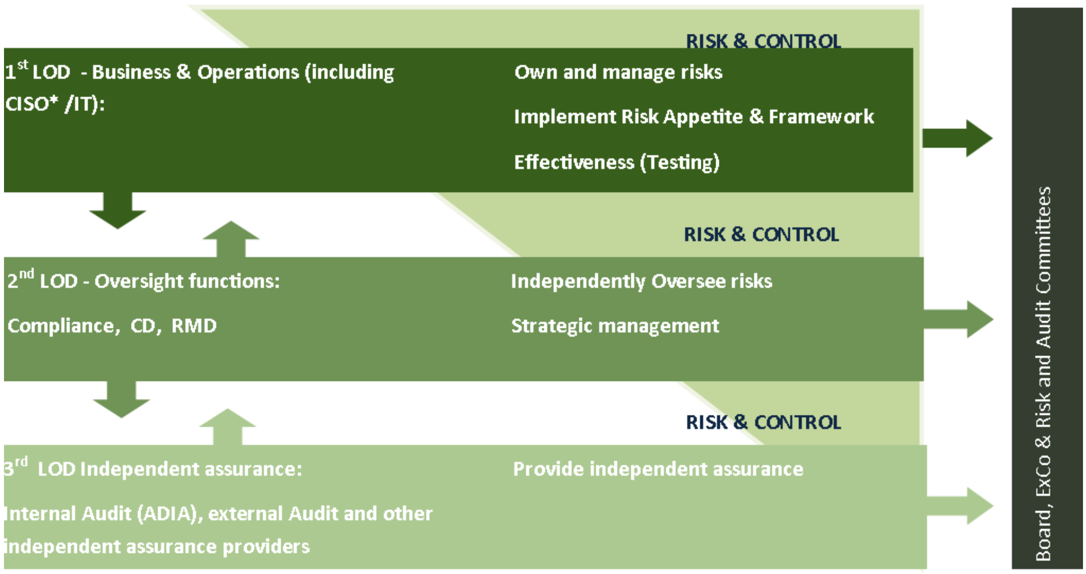
The Bank's 3 LOD approach separates the ownership/management of risk from the functions that oversee risks and the functions that provide independent assurance:

First line of Defence – Functions that own and manage risk;

Second line of Defence – Functions that independently oversee risk; and

Third line of Defence – Functions that provide independent assurance.

The model is illustrated in the diagram on the following page:



Key:

Compliance: Compliance Department

CD : Credit Department

RMD: Risk Management Department

(c) 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.

(d) Risk Management and Monitoring

The key principles used for risk measurement and monitoring are:

- Measure risk exposure by loss modelling, enterprise level KRIs and scenarios;
- Maintain a record of accepted risks; and
- 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.

Internal Ratings Based (IRB) Framework and Credit Risk Attestation

All internal credit risk assessment models utilised to assess obligor and product credit risk are subject to the IRB Credit Risk Model Policy and Standards.

This ARCCo approved policy is the governing document on credit risk assessment models and parameter estimation.

Grading models and systems are subject to an annual assessment to ensure continued compliance with the Capital Requirements Regulation (CRR).

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

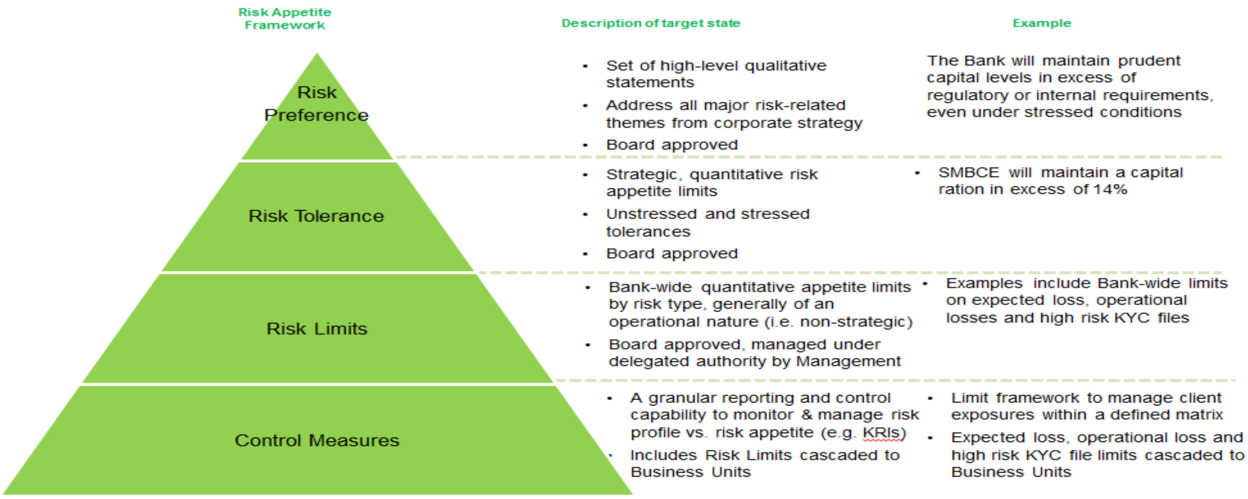
The Bank's risk appetite defines the broad-based level of risk that the entity is able and willing to undertake in pursuit of its objectives.

The key principles of the Risk Appetite Framework are:

- Appropriate governance at Board and ExCo 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 consists of : Risk Preferences, 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 is 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 the Acceptance List.

(g) 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.

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 Co-Chief Risk Officer's (Co-CRO's). The Co-CRO's have 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.

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.

G grade*	J grade*	Borrower's Category
Code	Code	
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

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 – non Japanese borrowers, J Grade – Japanese borrowers.

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

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

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

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 and conservatism of the grading models.

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

Industry Exposures

The exposure by major industrial sectors of cash and balances at central banks, advances and loans to banks and customers and debt securities can be analysed as follows:

	2018 USDm	2017 USDm
Finance and insurance	39,631.8	22,393.7
Government and local authorities	1,943.0	817.1
Manufacturing	2,206.0	1,853.9
Wholesale and services	995.0	532.4
Other corporate exposures	11,110.7	8,790.9
Transport	849.5	910.7
Energy and infrastucture	2,432.6	2,147.3
	59,168.6	37,446.0

The industry exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. Finance and insurance includes USD 14,169.6m to the Bank of England (2017: USD 8,421.2m) and USD 19,485.4m to the Banque de France (2017 8,138.3m).

Geographical Exposures

The table below analyses the geographical spread of cash and balances at central banks, advances and loans to banks and customers, and debt securities. This is based on country of residence of the counterparty.

	2018 USDm	2017 USDm
United Kingdom	19,862.5	12,777.1
France	23,029.6	11,212.7
Italy	536.6	528.9
Other Europe	6,163.2	4,428.2
Eastern Europe	1,237.7	995.1
Japan	2,135.1	2,737.9
Middle East and Africa	4,519.2	3,384.9
Other Countries	1,684.7	1,381.2
	59,168.6	37,446.0

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 on the previous page.

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.

	2018 USDm	2017 USDm
Cash and balances at central banks	33,655.0	16,559.5
Loans and advances to banks	4,368.4	5,469.2
Loans and advances to customers	20,394.1	14,962.0
Derivative Assets	1,568.2	1,093.6
Investment Securities	751.1	455.3
	60,736.8	38,539.6
Guarantees and Letters of Credit	4,349.4	2,756.5
Commitments	13,479.2	9,530.7
	17,828.6	12,287.2
Total	78,565.4	50,826.8

Collateral Held

Whilst the Bank's corporate lending is at times secured by fixed and floating charges on the assets of borrowers unless the asset is impaired, the only collateral which is valued on a continuous basis are 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 5833.0m (2017: USD 5,733.6m). This collateral is held against loans and advances to banks and customers (USD: 5,649.1m (2017: 5,656.5m) and derivative assets (USD 183.9m (2017: 77.1m). 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 table below gives the Bank's estimate of the fair value of different types of collateral held as security against loans to customers past due but not impaired and to customers that are individually impaired.

	Past due but not impaired 2018 USDm	Individually impaired 2018 USDm	Past due but not impaired 2017 USDm	Individually impaired 2017 USDm
Guarantees	-	31.0	-	31.0
Ships	-	-	-	3.8
Other assets	-	4.3	-	-
Total	-	35.3	-	34.8
Amounts of loans collateralised	-	36.9	-	40.8

There were no loans classified as past due but not impaired (2017: nil).

Offsetting of financial assets and financial liabilities

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 Financial instruments which are not offset (including non cash collateral) USDm	Cash Collateral USDm	Net Amount USDm
At 31 March 2018				
Derivative Assets	1,568.2	(438.3)	(965.9)	164.0
Derivatives Liabilities	1,621.1	(438.3)	(606.2)	576.6
	(52.9)	-	(359.7)	(412.6)
Reverse Repurchase Agreements (included within loans and advances to banks)	1,333.6	(1,333.6)	-	-
At 31 March 2017				
Derivative Assets	1,093.6	(314.6)	(87.0)	692.0
Derivatives Liabilities	1,036.8	(314.6)	(300.3)	421.9
	56.8	-	213.3	270.1
Reverse Repurchase Agreements (included within loans and advances to banks)	1,451.5	(1,451.5)	-	-

Credit quality of counterparty per class of financial assets

USDm	Internal grading	2018 Loans and receivables	2018 Available-for- sale	2018 Total**	2017 Loans and receivables	2017 Available-for- sale	2017 Total**
Cash and balances at central banks	1-6	33,655.0	-	33,655.0	16,559.5	-	16,559.5
Loans and advances to banks							
Normal borrowers	1-6	4,368.4	-	4,368.4	5,469.2	-	5,469.2
Borrowers requiring caution	7A	-	-	-	-	-	-
Borrowers requiring caution	7B*	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-
Total		4,368.4	-	4,368.4	5,469.2	-	5,469.2
Loans and advances to customers							
Normal borrowers	1-6	19,952.1	-	19,952.1	14,468.8	-	14,468.8
Borrowers requiring caution	7A	187.2	-	187.2	304.7	-	304.7
Borrowers requiring caution	7B*	-	-	-	19.5	-	19.5
Substandard borrowers and below	7R, 8-10	142.5	-	142.5	169.0	-	169.0
Total		20,281.8	-	20,281.8	14,962.0	-	14,962.0
Investment securities							
Normal borrowers	1-6	30.8	718.8	749.6	-	450.3	450.3
Borrowers requiring caution	7A	-	-	-	-	-	-
Borrowers requiring caution	7B*	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	1.5	1.5	5.0		5.0
Total		30.8	720.3	751.1	5.0	450.3	455.3

*There were no customer balances which were past due but not impaired (2017: USD nil).

Derivative assets, whilst not shown in the table above, are with customers graded normal other than USD 0.5m (2017: USD 1.9m) which were with customers graded 7A.

There were no customers who would have been classified as past due or impaired if they had not renegotiated terms in the year (2017: USD nil).

Two customers subject to specific provisions were granted waivers in the year. The loan balances to these customers subject to forbearance was USD 36.7m against which specific provisions of USD 0.3m have been made (0.3% impairment coverage ratio) (2017: no customers subject to specific provisions were granted repayment waivers).

(h) 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 2018				To 31 March 2017			
	Maximum USDm	Minimum USDm	Average USDm	31 March USDm	Maximum USDm	Minimum USDm	Average USDm	31 March USDm
Trading	0.3	-	0.1	0.1	0.8	-	0.1	0.1
Banking	1.6	1.0	1.2	1.5	1.2	0.2	0.9	1.1
Consolidated	1.6	1.0	1.2	1.5	2.1	0.5	1.1	1.1

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 2018 USDm	31 March 2017 USDm	31 March 2018 USDm	31 March 2017 USDm
Profit and loss impact	(48.0)	(22.2)	(2.5)	(3.0)

Fair value of derivative assets and liabilities

The following tables show the Bank's fair value disclosures at 31 March 2018 and 31 March 2017.

	2018 USDm Derivative assets	2018 USDm Derivative liabilities	2017 USDm Derivative assets	2017 USDm Derivative liabilities
Trading derivatives				
Foreign exchange derivatives				
Forward foreign exchange	1,524.4	(1,467.7)	996.9	(948.6)
Currency swaps	22.9	(23.0)	-	-
OTC options bought and sold	-	-	21.0	(21.0)
Total	1,547.3	(1,490.7)	1,017.9	(969.6)
Interest rate derivatives				
Interest rate swaps	-	-	-	-
Total	-	-	-	-
Total derivatives	1,547.3	(1,490.7)	1,017.9	(969.6)
Total fair value	1,547.3	(1,490.7)	1,017.9	(969.6)
Derivatives held for risk management				
Foreign exchange derivatives				
Forward foreign exchange - Cash flow hedges	-	-	-	(1.0)
Currency swaps - Fair value hedges	14.7	(111.1)	73.1	(40.2)
Total	14.7	(111.1)	73.1	(41.2)
Interest rate derivatives				
Interest rate swaps - Fair value hedges	6.2	(19.3)	2.6	(26.0)
Total	6.2	(19.3)	2.6	(26.0)
Total derivatives	20.9	(130.4)	75.7	(67.2)
Effect of netting			-	-
Total fair value	20.9	(130.4)	75.7	(67.2)
Total fair value of derivatives	1,568.2	(1,621.1)	1,093.6	(1,036.8)

Exchange traded futures are valued based by reference to published price quotations in an active market. All other derivatives are valued using a valuation technique with market observable inputs.

(i) Liquidity Risk

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

The Bank's 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 enterprise risk management process. The purpose of the framework is to ensure that the Bank successfully follows its strategy while operating within the bounds outlined by the liquidity risk appetite statement.

In developing the framework, the Bank considered the following factors:

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

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including government gilts and bonds and cash held at Bank of England and European Central Bank reserve accounts. The quantity of this buffer of liquid assets is purposefully maintained such that the Bank meets its Liquidity Coverage ratio regulatory requirement at internally set limits and internally set Net Stable Funding Requirement.

Analysis of liquidity risk

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 assets and liabilities. Impairment provisions on loans and advances to banks and customers are included in the up to 3 months column.

At 31 March 2018 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	33,655.0	-	-	-	33,655.0
Loans and advances to banks	3,537.8	396.5	393.3	40.8	4,368.4
Derivative assets	310.4	276.7	967.5	13.6	1,568.2
Loans and advances to customers	4,563.4	772.0	8,070.4	6,988.3	20,394.1
Investment securities	582.9	102.6	65.6	-	751.1
Total financial assets	42,649.5	1,547.8	9,496.8	7,042.7	60,736.8
Other assets					361.1
Total assets					61,097.9
LIABILITIES					
Deposits by banks	16,442.1	1,928.6	7,627.5	1,900.0	27,898.2
Customer accounts	21,509.1	1,477.8	201.5	-	23,188.4
Derivative liabilities	289.5	275.1	1,045.9	10.6	1,621.1
Debt securities in issue	3,946.8	98.5	-	-	4,045.3
Total financial liabilities	42,187.5	3,780.0	8,874.9	1,910.6	56,753.0
Other liabilities					223.7
Total liabilities					56,976.7
Cumulative gap financial assets less financial liabilities	462.0	(1,770.2)	(1,148.3)	3,983.8	3,983.8

At 31 March 2017 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	16,559.5	-	-	-	16,559.5
Loans and advances to banks	4,149.4	854.0	408.6	57.2	5,469.2
Derivative assets	237.9	297.3	542.5	15.9	1,093.6
Loans and advances to customers	3,423.4	891.2	4,954.6	5,692.8	14,962.0
Investment securities	229.2	226.1	-	-	455.3
Total financial assets	24,599.4	2,268.6	5,905.7	5,765.9	38,539.6
Other assets					298.4
Total assets					38,838.0
LIABILITIES					
Deposits by banks	7,339.4	932.2	4,035.6	700.0	13,007.2
Customer accounts	15,669.2	1,065.6	183.2	-	16,918.0
Derivative liabilities	260.5	245.4	518.5	12.4	1,036.8
Debt securities in issue	2,735.1	994.9	-	-	3,730.0
Total financial liabilities	26,004.2	3,238.1	4,737.3	712.4	34,692.0
Other liabilities					241.3
Total liabilities					34,933.3
Cumulative gap financial assets less financial liabilities	(1,404.8)	(2,374.3)	(1,205.9)	3,847.6	3,847.6

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 2018	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	17,456.8	2,038.4	8,029.8	1,991.0	29,516.0
Customer accounts	21,518.4	1,486.3	205.7	-	23,210.4
Debt securities in issue	3,950.8	98.8	-	-	4,049.6
Issued financial guarantee contracts	373.7	1,560.0	2,327.6	88.1	4,349.4
Unrecognised loan commitments	210.1	1,011.7	10,866.7	1,390.7	13,479.2
	43,509.8	6,195.2	21,429.8	3,469.8	74,604.6
Derivative liabilities	329.6	274.1	1,003.3	14.1	1,621.1
Total liabilities, issued guarantees and commitments	43,839.4	6,469.3	22,433.1	3,483.9	76,225.7

Maturity of liabilities as at 31 March 2017	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	7,442.9	912.3	4,232.5	763.6	13,351.3
Customer accounts	15,673.8	1,065.4	192.0	-	16,931.2
Debt securities in issue	2,737.2	996.2	-	-	3,733.4
Issued financial guarantee contracts	401.6	1,112.7	1,098.8	143.4	2,756.5
Unrecognised loan commitments	19.4	919.0	7,503.1	1,089.2	9,530.7
	26,274.9	5,005.6	13,026.4	1,996.2	46,303.1
Derivative liabilities	270.2	246.2	501.7	18.7	1,036.8
Total liabilities, issued guarantees and commitments	26,545.1	5,251.8	13,528.1	2,014.9	47,339.9

(j) 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. The Operational Risk Management Framework (ORMF) uses a standard event type categorisation for operational risk, as per external regulations (Basel 2) and common industry practice. It is consistent with the categorisation also used across SMBC group. 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. SMBCE formally indentifies, assesses and manages its operational risk through the following processes and tools:

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

- Risk register (Risk and Control Self Assessment) – this process is used to assess the Banks' existing key or expected risks. It assesses the inherent risks, control effectiveness and resultant residual risks of the key risks that the Bank is exposed to and which could negatively impact the achievement of strategic objectives;

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

- Risk Acceptance - The first line and department heads are expected to identify risks, risk issues or control failings that need to be mitigated. In certain circumstances, risk mitigation may not be possible or may require a longer period for remediation. In those situations, the risk must be accepted;

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

- New product and services process – this describes the governance of the "New Product Committee" and the process for new product and services approval, monitoring and post approvals. It ensures adequate risk assessment, compliance with relevant requirements and standards of the regulatory system; while ensuring customer fair treatment is addressed; and

- Third Party Risk Management/ Outsourcing (TPRM) – this involves ensuring that the outsourcing business assesses the criticality of the service and performs a risk assessment of the supplier. In addition ongoing monitoring of the performance of the supplier and cyclical reviews of the relationship and a review of the criticality and supplier assessments are required.

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

The operational risk management framework is being enhanced on a continuous improvement basis.

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

Conduct Risk

Conduct risk is the risk of the Bank's behaviour resulting in poor customer outcomes and/or damage to the integrity of the financial markets.

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, price sensitive 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 remuneration is at risk when things go wrong.

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.

5. USE OF ESTIMATES AND JUDGEMENTS

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is disclosed in accounting policy 3(k) 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 available-for-sale financial instruments 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.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

31 March 2018 USDm	Note	Level 1	Level 2	Level 3
Investment securities	19	712.4	-	7.9
Derivative trading assets	4	-	1,547.2	-
Derivatives held for risk management	4	-	20.9	-
		712.4	1,568.1	7.9
Derivative trading liabilities	4	-	1,490.7	-
Derivatives held for risk management	4	-	130.4	-
		-	1,621.1	-

31 March 2017 USDm	Note	Level 1	Level 2	Level 3
Investment securities	19	443.4	-	11.6
Derivative trading assets	4	-	1,017.9	-
Derivatives held for risk management	4	-	75.7	-
		443.4	1,093.6	11.6
Derivative trading liabilities	4	-	969.6	-
Derivatives held for risk management	4	-	67.2	-
		-	1,036.8	-

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

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2018 USDm Investment securities	2017 USDm Investment securities
Opening Balance	11.6	20.3
Total gains or losses:		
- in profit or loss	1.5	(0.9)
- in other comprehensive income	3.4	0.4
Purchases	-	-
Settlements	(7.8)	(6.5)
Impairments	(0.8)	(1.7)
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Closing Balance	7.9	11.6

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For assets and liabilities which are accounted at fair value under Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

31 March 2018 USDm	Positive effect on other comprehensive income	Negative effect on other comprehensive income
Investment securities	-	-
Total	-	-

31 March 2017 USDm	Positive effect on other comprehensive income	Negative effect on other comprehensive income
Investment securities	0.1	(0.1)
Total	0.1	(0.1)

The effects of using reasonably possible alternative assumptions have been calculated by recalibrating the models used to generate the fair values. The key significant inputs have been stressed by 100 basis points (2017: 100 basis points) to show the possible impact on the valuation.

The table below analyses financial instruments not measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which their fair value measurement is categorised.

31 March 2018 USDm	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
ASSETS					
Cash and balances at central banks	-	33,655.0	-	33,655.0	33,655.0
Loans and advances to banks	-	4,370.5	-	4,370.5	4,368.4
Loans and advances to customers	-	20,395.8	-	20,395.8	20,394.1
Investment securities	-	30.8	-	30.8	30.8
LIABILITIES					
Deposits by banks	-	27,886.3	-	27,886.3	27,898.2
Customer accounts	-	23,194.7	-	23,194.7	23,188.4
Debt securities in issue	-	4,045.2	-	4,045.2	4,045.3

31 March 2017 USDm	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
ASSETS					
Cash and balances at central banks	-	16,559.6	-	16,559.6	16,559.6
Loans and advances to banks	-	5,474.9	-	5,474.9	5,469.2
Loans and advances to customers	-	15,101.8	-	15,101.8	14,962.0
Investment securities	-	0.3	-	0.3	0.3
LIABILITIES					
Deposits by banks	-	13,009.0	-	13,009.0	13,007.2
Customer accounts	-	16,928.7	-	16,928.7	16,918.0
Debt securities in issue	-	3,731.4	-	3,731.4	3,730.0

6. HEDGING INSTRUMENTS

Gains and losses on derivative hedges

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 rates. 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 match.

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.

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 Bank's forecast sterling expenses for each financial year.

Set out below are the amounts for cash flow hedges recognised in the statement of comprehensive income.

	USDm
At 1 April 2016	1.0
Reclassifed to the profit and loss account (net trading income/loss)	0.7
Unrealised loss on cash flow hedges	(1.0)
At 31 March 2017	0.7
At 1 April 2017	0.7
Reclassifed to the profit and loss account (net trading income/loss)	(0.7)
Unrealised gains on cash flow hedges	-
At 31 March 2018	-

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) to hedge against specifically identified currency risks. In such cases changes in the fair values of both the hedging instrument and the hedged item are recognised in profit and loss.

At 31 March 2018 Hedged Item	Description of financial instruments designated as hedging instrument	Fair value of hedging instrument USDm	Gains or losses on hedging instrument USDm	Gains or losses on hedged item USDm
Assets	Single & cross currency interest rate swaps	(109.4)	50.9	(50.9)
Liabilities	Single & cross currency interest rate swaps	-	-	-
		(109.4)	50.9	(50.9)

At 31 March 2017 Hedged Item	Description of financial instruments designated as hedging instrument	Fair value of hedging instrument USDm	Gains or losses on hedging instrument USDm	Gains or losses on hedged item USDm
Assets	Single & cross currency interest rate swaps	9.5	(56.4)	56.4
Liabilities	Single & cross currency interest rate swaps	-	-	-
		9.5	(56.4)	56.4

7. ANALYSIS OF THE INCOME STATEMENTBY CLASSIFICATION BASIS

At 31 March 2018 USDm	Trading	Loans and Receivables	Available-for- sale	Financial Liabilities at Amortised Cost	Total
Interest income	-	520.7	(3.6)	-	517.1
Interest expense	-	-	-	(294.6)	(294.6)
Net interest income/(expense)	-	520.7	(3.6)	(294.6)	222.5
Fee and commissions income	-	372.2	-	-	372.2
Fee and commissions expense	(0.7)	(32.6)	(0.3)	-	(33.6)
Net fee and commissions income/(expense)	(0.7)	339.6	(0.3)	-	338.6
Net trading income	178.0	-	-	-	178.0
Operating Income/(expense)	177.3	860.3	(3.9)	(294.6)	739.1
Net impairment loss on financial assets	-	(36.9)	-	-	(36.9)
Included within interest income is interest on impaired assets of	-	3.9	-	-	3.9

At 31 March 2017 USDm	Trading	Loans and Receivables	Available-for- sale	Financial Liabilities at Amortised Cost	Total
Interest income	-	465.3	(3.5)	-	461.8
Interest expense	-	-	-	(183.2)	(183.2)
Net interest income/(expense)	-	465.3	(3.5)	(183.2)	278.6
Fee and commissions income	-	351.6	-	-	351.6
Fee and commissions expense	(0.5)	(43.9)	(0.1)	-	(44.5)
Net fee and commissions income/(expense)	(0.5)	307.7	(0.1)	-	307.1
Net trading income	56.9	-	-	-	56.9
Operating Income/(expense)	56.4	773.0	(3.6)	(183.2)	642.6
Net impairment loss on financial assets	-	(33.9)	(1.7)	-	(35.6)
Included within interest income is interest on impaired assets of	-	5.8	-	-	5.8

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

8. PERSONNEL EXPENSES

	2018 USDm	2017 USDm
Salaries and bonuses	183.2	175.2
Compulsory social security obligations	48.6	42.2
Pension costs - contribution plans	12.4	11.7
Pension costs - defined benefit plans	2.5	2.0
Other staff costs	20.5	19.4
	267.2	250.5
Average number of front office department employees	437	433
Average number of support department employees	613	586
Average number of employees	1,050	1,019

9. OTHER EXPENSES

	2018 USDm	2017 USDm
Operating lease payments	12.2	11.1
Other operating expenses	108.8	98.8
	121.0	109.9

10. AUDITOR'S REMUNERATION

	2018 USDm	2017 USDm
Fees payable to the Bank's auditor for the audit of Bank's annual accounts	1.0	0.4
Fees payable to the Bank's auditor and its associates for other services:		
Audit related assurance services	0.3	0.4
Tax compliance services	-	0.1
Other assurance services	-	0.1
Other services	-	-
	1.3	1.0

Audit related assurance services includes worked performed in relation to the group audit and interim review work of SMFG and various regulatory assurance services. Amounts in audit-related assurances services amounting to USD 0.1m (2017: USD 0.2m) were paid by SMBC and SMFG.

11. DIRECTORS' EMOLUMENTS

	2018 USDm	2017 USDm
Directors' fees	0.5	0.4
Directors' emoluments (excluding fees)	2.4	2.8
Post-employment benefits	-	0.1
	2.9	3.3

The highest paid Director received emoluments of USD 1,146,648 (2017: USD 1,148,075).

Two Directors belonged to the Bank's defined contribution pension scheme with the Bank paying contributions of USD 46,693 (2017: two Directors with contributions of USD 90,081) in the year. These amounts are included within the Directors emoluments figures above. Two Directors received a bonus (2017: Two Directors) and part of this was subject to a deferral period.

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

12. PENSION COSTS

The Bank operates a defined benefit scheme, the Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme. A full valuation was undertaken as at 31 December 2014 and updated to 31 March 2018 by a qualified independent Actuary. The triennial funding valuation of the defined benefit scheme is currently underway with an effective date of 31 December 2017. Contribution requirements, including any deficit recovery plans, must be agreed by 31 March 2019.

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

	2018	2017
Discount rate at closing	2.6%	2.5%
Future salary increase (weighted average)	4.3%	4.4%
Future pension increase	3.2%	3.3%
Inflation assumption	2.3%	2.4%

The mortality assumption was reviewed at the date of the last full valuation. On a best estimate basis appropriate to IAS 19 the actuary recommended S2PA Light tables with CMI_2017 improvements and a long term rate of improvement of 1% per annum. (2017: S2PA Light tables with CMI_2016 improvements, with a minimum rate of 1% per annum):

- Male age 65 now has a life expectancy of 22.9 years from retirement (previously 23.1 years).
- Female age 65 now has a life expectancy of 23.9 years from retirement (previously 24.1 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 2016 (the scheme has refunded the Bank for benefits payments up until 31 December 2016). The weighted average duration of the defined benefit obligation is about 22 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	
	2018 USDm	2017 USDm	2018 USDm	2017 USDm	2018 USDm	2017 USDm
Balance at beginning of year	189.5	179.0	230.6	225.0	41.1	46.0
Included in profit or loss						
Current service cost	2.0	1.5	-	-	(2.0)	(1.5)
Interest expense	5.2	5.4	-	-	(5.2)	(5.4)
Interest income	-	-	6.4	6.8	6.4	6.8
Effect of movements in exchange rates	24.2	(24.1)	29.5	(29.9)	5.5	(5.8)
	31.4	(17.2)	35.9	(23.1)	4.7	(5.9)
Included in other comprehensive income						
Actuarial gain (loss) arising from:						
financials	(6.3)	35.1	-	-	6.3	(35.1)
demographic	(1.2)	(2.1)	-	-	1.2	2.1
experience	0.1	-	-	-	(0.1)	-
return on plan assets excluding interest income	-	-	(4.5)	27.9	(4.5)	27.9
	(7.4)	33.0	(4.5)	27.9	2.9	(5.1)
Other						
Contributions paid by employer	-	-	2.1	6.1	2.1	6.1
Benefits paid by fund	(13.5)	(5.3)	(13.5)	(5.3)	-	-
	(13.5)	(5.3)	(11.4)	0.8	2.1	6.1
Balance at end of year	200.0	189.5	250.6	230.6	50.8	41.1

	2018 USDm	2017 USDm
Represented by:		
Net defined benefit asset (liability)	50.8	41.1

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 2018 were 55.8% 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 accrual 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 Marcg 2018, 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 contributions to the Scheme for the year ending 31 March 2018 in respect of future accrual contributions and benefit payments is USD 2.1m.

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 5.0m in contributions to defined benefit plans in the coming financial year to 31 March 2019.

Scheme assets were made up of the following:

	2018 USDm	2017 USDm
Equity Securities	35.0	34.3
Government bonds	214.8	196.3
Cash	0.8	-
	250.6	230.6
Market Value of Scheme Assets:		
Quoted	250.6	230.6
Unquoted	-	-
Cash	-	-
	250.6	230.6

The investment strategy of the Scheme is now aimed at self sufficiency with 15% of the assets still invested in equities and 85% in bonds and gilts, of which 55% is invested in over 15 year gilts and 45% is invested in over 5 year index linked gilts.

Sensitivity Analysis

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

Assumption Varied	2018 % Change in Defined Benefit Obligation	2017 % Change in Defined Benefit Obligation
Discount rate 1% p.a. lower	22%	22%
Salary increase rate 1% p.a. lower	(3%)	(3%)
Pension increase (in payment and in deferment) rate 1% p.a. lower	(10%)	(10%)
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 the assumption is not cumulative. The sensitivity analysis was carried out by rerunning the figures at the last formal actuarial valuation adjusted approximately for changes in the membership movements. Therefore, the analysis is only approximate as at the year end.

13. INCOME TAX EXPENSE

Recognised in the income statement

	2018 USDm	2017 USDm
Current tax charge		
Current year	59.1	48.3
Overseas tax	20.8	18.7
Adjustment for prior years	1.0	3.0
	80.9	70.0
Deferred tax charge		
Origination and reversal of temporary differences	3.2	0.4
Adjustment for prior years	(0.1)	2.5
	3.1	2.9
Total income tax expense	84.0	72.9

Reconciliation of effective rate of tax	USDm	USDm
Profit before income tax	297.2	230.7
Income tax using the domestic corporation tax rate of 27% (2017 - 28%)	80.2	64.6
Adjustment for prior years	0.9	5.4
Expenses not deductible for tax purposes	1.0	0.8
Banking surcharge allowance	(1.6)	(1.6)
Overseas tax	3.7	4.0
Other	(0.2)	(0.3)
	84.0	72.9

UK corporation tax rate of 20% was reduced to 19% (effective from 1 April 2017) and will be further reduced to 17% (effective 1 April 2020) as substantively enacted on 26 October 2015 and 6 September 2016 respectively. 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 25% at 31 March 2018.

Income tax recognised in other comprehensive income

	Before tax 2018 USDm	Tax (expense) /benefit 2018 USDm	Net of tax 2018 USDm	Before tax 2017 USDm	Tax (expense) /benefit 2017 USDm	Net of tax 2017 USDm
Actuarial (losses)/gains on defined benefit scheme	2.9	(0.7)	2.2	(5.1)	1.4	(3.7)
Available-for-sale financial investments	2.3	(0.6)	1.7	(0.4)	0.1	(0.3)
Cash flow hedges	(0.9)	0.2	(0.7)	(0.4)	0.1	(0.3)
	4.3	(1.1)	3.2	(5.9)	1.6	(4.3)

14. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION AND FAIR VALUES

At 31 March 2018 USDm	Trading	Loans and Receivables	Available-for-sale	Financial Liabilities at Amortised Cost	Carrying Value	Fair Value
ASSETS						
Cash and balances at central banks	-	33,655.0	-	-	33,655.0	33,655.0
Loans and advances to banks	-	4,368.4	-	-	4,368.4	4,370.5
Derivative assets	1,547.2	20.9	-	-	1,568.1	1,568.1
Loans and advances to customers	-	20,394.1	-	-	20,394.1	20,395.8
Investment securities	-	30.8	720.3	-	751.1	751.1
Total assets	1,547.2	58,469.2	720.3	-	60,736.7	60,740.5
LIABILITIES						
Deposits by banks	-	-	-	27,898.2	27,898.2	27,886.3
Customer accounts	-	-	-	23,188.4	23,188.4	23,194.7
Derivative liabilities	1,490.7	130.4	-	-	1,621.1	1,621.1
Debt securities in issue	-	-	-	4,045.3	4,045.3	4,045.2
Total liabilities	1,490.7	130.4	-	55,131.9	56,753.0	56,747.3

At 31 March 2017 USDm	Trading	Loans and Receivables	Available-for-sale	Financial Liabilities at Amortised Cost	Carrying Value	Fair Value
ASSETS						
Cash and balances at central banks	-	16,559.5	-	-	16,559.5	16,559.5
Loans and advances to banks	-	5,469.2	-	-	5,469.2	5,474.9
Derivative assets	1,017.9	75.7	-	-	1,093.6	1,093.6
Loans and advances to customers	4.3	14,957.7	-	-	14,962.0	15,101.8
Investment securities	-	0.3	455.0	-	455.3	455.3
Total assets	1,022.2	37,062.4	455.0	-	38,539.6	38,685.1
LIABILITIES						
Deposits by banks	-	-	-	13,007.2	13,007.2	13,009.0
Customer accounts	-	-	-	16,918.0	16,918.0	16,928.7
Derivative liabilities	1,036.8	-	-	-	1,036.8	1,036.8
Debt securities in issue	-	-	-	3,730.0	3,730.0	3,731.4
Total liabilities	1,036.8	-	-	33,655.2	34,692.0	34,705.9

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.

15. CASH AND BALANCES AT CENTRAL BANKS

	2018 USDm	2017 USDm
Current account and short term deposits with the Bank of England	14,169.6	8,421.2
Current account and short term deposits with Banque de France	19,485.4	8,138.3
Cash and balances at central banks after impairment provisions	33,655.0	16,559.5

16. LOANS AND ADVANCES TO BANKS

	2018 USDm	2017 USDm
Loans and advances to banks before impairment provisions	4,369.1	5,470.4
Impairment provisions (Note 18)	(0.7)	(1.2)
Loans and advances to banks after impairment provisions	4,368.4	5,469.2

Included above are reverse repurchase agreements of USD 1,333.6m (2017: USD 1,451.5m) against which the Bank held collateral with a fair value of USD 1,338.0m (2017: USD 1,458.7m). These transactions are conducted under terms that are usual and customary for secured lending activities.

17. LOANS AND ADVANCES TO CUSTOMERS

	2018 USDm	2017 USDm
Loans and advances to customers before impairment provisions	20,549.9	15,087.9
Impairment provisions (Note 18)	(155.8)	(125.9)
Loans and advances to customers after impairment provisions	20,394.1	14,962.0
Amount expected to be recovered more than 12 months after the reporting date	15,149.9	10,718.3
Included in loans and advances to customers are the following amounts relating to leases:		
Gross investment in finance leases		
- Less than one year	14.8	12.9
- Between one year and five years	257.0	235.6
- More than five years	-	-
	271.8	248.5
Less: Unearned finance income	(11.6)	(14.4)
Less: Accumulated allowance for uncollectible minimum lease payments receivable	-	-
Net investment in finance leases		
- Less than one year	10.0	8.5
- Between one year and five years	250.2	225.6
- More than five years	-	-
	260.2	234.1

18. IMPAIRMENT PROVISIONS

	2018		
	Specific USDm	Collective USDm	Total USDm
Balance at beginning of year	87.4	39.7	127.1
Recoveries in the year	-	-	-
Charge to Statement of Comprehensive Income	28.2	6.3	34.5
Released on assets sold	(15.6)	-	(15.6)
Exchange adjustments	10.5	-	10.5
Balance at end of year	110.5	46.0	156.5

	2017		
	Specific USDm	Collective USDm	Total USDm
Balance at beginning of year	108.3	58.0	166.3
Recoveries in the year	(3.2)	-	(3.2)
Charge/(credit) to Statement of Comprehensive Income	24.9	(18.3)	6.6
Released on assets sold	(37.0)	-	(37.0)
Exchange adjustments	(5.6)	-	(5.6)
Balance at end of year	87.4	39.7	127.1

In addition to the charge to the Statement of Comprehensive Income of USD 34.5m (2017: USD 3.4m), net losses of USD nil (2017: USD 36.6m) related to sales transactions were recognised under net impairment losses on financial assets. There were no recoveries on impaired assets previously written off in the year (2017: USD 0.1m). There were no impairment charges in the year relating to AFS securities (2017: USD 1.7m).

Please refer to the accounting policy on credit impairment (note 3.(l)) for an explanation of the factors taken into account when assessing the level of impairment provisions.

19. INVESTMENT SECURITIES

	2018 USDm	2017 USDm
Investment securities held as loans and receivables	30.8	0.3
Available-for-sale investment securities	726.6	460.5
Impairment	(6.3)	(5.5)
Total Investment securities	751.1	455.3

	USDm	USDm
Debt securities held as loans and receivables	30.8	0.3
Debt Securities held as available-for-sale	713.8	447.8
Equities held as available-for-sale	6.5	7.2
	751.1	455.3

At start of year	455.3	783.7
Exchange rate adjustments	12.6	(16.4)
Acquisitions & transfers	821.4	878.4
Impairment (note 18)	-	(1.7)
Fair value movement recognised in other comprehensive income	3.3	(0.4)
Disposals and maturities	(542.1)	(1,178.4)
Amortisation of discounts and premiums	0.6	(9.9)
At end of year	751.1	455.3

20. INTANGIBLE ASSETS AND 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 of USD 1.9m has been allocated to Specialised Products Department (SPD).

The recoverable amounts of the CGU to which goodwill is allocated is assessed using the value-in use calculation. The bank prepares cashflow forecasts derived from the most recent financial budgets and corporate strategy covering the next three years. The budgets represent Management's best estimate of the results for the coming years which for SPD assumes limited asset and business growth in future years along with a stable economic background. The rate used to discount the forecasted cashflows are based on the company's estimation of the group's cost of capital for this business type. The value in use assumes terminal values after 4 years using a discounted rate of 14.7% (2017: 13.1%) and cash flow growth rate of 2.2% (2017: 2.2%).

The carrying value of the goodwill remains at USD 1.9m (2017: USD 1.9 m).

Software

The carrying amount of software is as follows:

	Internally generated software USDm	Other software USDm	Total USDm
At 1 April 2017	8.8	46.7	55.5
Additions	3.0	12.9	15.9
Disposals	-	0.1	0.1
At 31 March 2018	11.8	59.7	71.5
Accumulated amortisation			
At 1 April 2017	7.2	33.8	41.0
Charge for the year	1.0	9.5	10.5
Disposals	-	(0.1)	(0.1)
At 31 March 2018	8.2	43.2	51.4
Net book value at 31 March 2018	3.6	16.5	20.1
At 1 April 2016	6.9	37.8	44.7
Additions	1.9	8.9	10.8
Disposals	-	-	-
At 31 March 2017	8.8	46.7	55.5
Accumulated amortisation			
At 1 April 2016	6.9	26.1	33.0
Charge for the year	0.3	7.7	8.0
Disposals	-	-	-
At 31 March 2017	7.2	33.8	41.0
Net book value at 31 March 2017	1.6	12.9	14.5

21. PROPERTY AND EQUIPMENT

	Leasehold Improvements USDm	Equipment USDm	Total USDm
Cost			
At 1 April 2017	44.5	38.5	83.0
Additions	4.9	13.0	17.9
Disposals	(0.1)	-	(0.1)
At 31 March 2018	49.3	51.5	100.8
Accumulated depreciation			
At 1 April 2017	35.1	31.1	66.2
Charge for the year	2.5	4.0	6.5
Disposals	(0.1)	-	(0.1)
At 31 March 2018	37.5	35.1	72.6
Net book value at 31 March 2018	11.8	16.4	28.2
Cost			
At 1 April 2016	44.6	33.3	77.9
Additions	-	5.2	5.2
Disposals	(0.1)	-	(0.1)
At 31 March 2017	44.5	38.5	83.0
Accumulated depreciation			
At 1 April 2016	30.3	28.0	58.3
Charge for the year	4.8	3.1	7.9
Disposals	-	-	-
At 31 March 2017	35.1	31.1	66.2
Net book value at 31 March 2017	9.4	7.4	16.8

The gross carrying amount of fully depreciated property plant and equipment still in use is USD 88.1m (2017: USD 70.0m).

22. OTHER ASSETS

	2018 USDm	2017 USDm
Accrued income	218.0	203.4
Prepayments and other receivables	36.8	13.8
	254.8	217.2

23. DEFERRED TAX

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

	USDm 2018	USDm 2017
Deferred tax liability	(13.5)	(10.2)
Deferred tax asset	5.3	6.9
Net deferred tax asset/(liability)	(8.2)	(3.3)

Movements on deferred tax assets and liabilities were as follows:

	Fixed asset temporary differences USDm	Bonus accrual USDm	Pensions and other retirement benefits USDm	UK and overseas branch tax losses carried forward USDm	Cash flow hedge / AFS USDm	Total USDm
Asset/(liability) at 1 April 2017	4.4	0.7	(9.6)	1.8	(0.6)	(3.3)
Prior year adjustments	(0.6)	0.5	(0.5)	-	-	(0.6)
Movement through the P&L Account	(0.4)	0.7	(1.6)	(1.8)	-	(3.1)
Movement through other comprehensive income	-	-	(0.7)	-	(0.4)	(1.1)
Exchange rate changes	-	-	(0.1)	-	-	(0.1)
At 31 March 2018	3.4	1.9	(12.5)	(0.0)	(1.0)	(8.2)
Asset at 1 April 2016	5.9	-	(10.6)	2.4	(0.8)	(3.1)
Prior year adjustments	(1.1)	0.6	(0.1)	(0.6)	-	(1.2)
Movement through the P&L Account	(0.2)	0.1	(1.5)	-	-	(1.6)
Movement through P&L Account re change in tax rate	-	-	-	-	-	-
Movement through other comprehensive income	-	-	1.4	-	0.2	1.6
Exchange rate changes	(0.2)	-	1.2	-	-	1.0
At 31 March 2017	4.4	0.7	(9.6)	1.8	(0.6)	(3.3)

The amount of deferred tax asset expected to be recovered after more than 12 months is USD 4.7m (2017: USD 6.9m).

The deferred tax asset at 31 March 2018 has been calculated based on the rate of 25%.

24. DEBT SECURITIES IN ISSUE

	2018 USDm	2017 USDm
Certificates of deposit - held at amortised cost	4,045.3	3,730.0

All debt securities are expected to be settled no more than 12 months after the reporting (2017: all debt securities are expected to be settled no more than 12 months after the reporting).

25. OTHER LIABILITIES

	2018 USDm	2017 USDm
Accruals and deferred income	146.5	107.1
Accounts payable to parent	14.1	6.6
Other liabilities	4.4	90.4
	165.0	204.1

26. OTHER PROVISIONS

	2018 USDm	2017 USDm
Balance at beginning of year	8.4	14.4
Charge/(credit) to the Income Statement	2.4	(6.0)
Balance at end of year	10.8	8.4

All provisions relate to undrawn loan commitments, guarantees and letters of credit. Provisions are made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

27. CALLED UP SHARE CAPITAL

	USDm
Issued, alloted and fully paid share capital (Ordinary shares of USD 1,000)	
At 31 March 2017	3,200.0
Additions	-
At 31 March 2018	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 capital with retained profits is managed by Treasury Department as a primary source of funding for the loan asset book.

28. GUARANTEES

	2018 Contract amount USDm	2017 Contract amount USDm
Guarantees and Letters of Credit	4,349.4	2,756.5

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. Guarantees and letters of credit carry the same credit risk as loans.

29. COMMITMENTS

	2018 Contract amount USDm	2017 Contract amount USDm
Undrawn formal standby facilities, credit lines and other commitments to lend	13,479.2	9,530.7

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.

30. 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.

	2018 USDm	2017 USDm
Loans and advances to banks	606.2	255.6
Loans and advances to customers	719.4	605.9
	1,325.6	861.5

The loans and advances to banks shown above are included within cash and cash equivalent in the statement of financial position and cash flow statement. The above assets other than the loans and advances to banks were pledged to the Banque de France. These assets allow the bank to draw additional liquidity as of the year end of USD 233.6m (2017: USD 191.4.m). The Loans and advances to banks have been pledged as security deposits on derivatives.

31. OPERATING LEASE COMMITMENTS

	2018 USDm	2017 USDm
The future minimum lease payments under non-cancellable operating leases for each of the following period:		
- less than one year	11.2	8.9
- between one and five years	31.5	24.9
- more than five years	182.3	2.4
	225.0	36.2

In January 2018 the Bank entered into an agreement for lease to occupy 184,000 square feet of the property known as 100 Liverpool Street. On completion of construction, lease payments of USD 168.7m will be due after more than 5 years.

32. 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:

	2018 USDm	2017 USDm
Short term employee benefits	2.4	2.8
Post-employment benefits	-	0.1
Other long term employee benefits	-	-
Termination benefits	-	-
	2.4	2.9

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:

	2018		2017	
	Loans and receivables USDm	Other assets USDm	Loans and receivables USDm	Other assets USDm
Amounts due from parent company	2,882.7	601.5	3,282.4	627.1
Amounts due from other related parties	401.3	58.6	269.2	89.0
Total	3,284.0	660.1	3,551.6	716.1

Loans and receivables 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:

	2018		2017	
	Deposits USDm	Other liabilities USDm	Deposits USDm	Other liabilities USDm
Amounts due to parent company	18,907.3	543.4	7,633.3	136.5
Amounts due to other related parties	477.5	134.0	413.5	96.5
Total	19,384.8	677.4	8,046.8	233.0

The Bank receives collateral consisting of cash (part of Amounts due to parent company) of USD 4,713.7m (2017: USD 4,228.5m), 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:

	2018 USDm	2017 USDm
Guarantees received on customer accounts	2,467.3	1,264.1
Guarantees received on the Bank's liabilities	1,611.4	2,203.5

Other transactions as at 31 March 2018 with related parties of the Bank are as follows:

- On the 25 November 2010 the Bank entered into a USD 1.5 billion revolving multicurrency liquidity facility agreement with the Bank's parent, Sumitomo Mitsui Banking Corporation. This has an indefinite term and is still in existence as at 31 March 2018.

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

2018	Parent Companies USDm	Other related parties USDm	Total USDm
Interest income	10.5	17.9	28.4
Interest payable	(71.3)	(71.0)	(142.3)
Fees and commissions receivables	278.6	5.7	284.3
Fees and commissions payable	(0.3)	(1.4)	(1.7)
Net Trading	-	(0.1)	(0.1)
Other expenses	(26.0)	(4.0)	(30.0)
Total	191.5	(52.9)	138.6

2017	Parent Companies USDm	Other related parties USDm	Total USDm
Interest income	14.5	9.9	24.4
Interest payable	(30.5)	(65.1)	(95.6)
Fees and commissions receivables	268.7	5.9	274.6
Fees and commissions payable	(1.0)	(0.5)	(1.5)
Net Trading	-	(0.2)	(0.2)
Other expenses	(19.8)	(4.2)	(24.0)
Total	231.9	(54.2)	177.7

33. 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)

2018

Type	Activity	Geographical location	Turnover	Profit or loss before income tax	Cash tax	Public Subsidies	Average headcount
Branch	Corporate Banking	UK	637.2	226.8	45.1	-	952.0
Branch	Corporate Banking	France	87.3	56.0	20.9	-	61.0
Branch	Corporate Banking	Italy	21.6	12.6	3.2	-	11.0
Branch	Marketing activities	Netherlands	3.0	0.6	0.2	-	7.0
Branch	Marketing activities	Ireland	3.6	0.8	-	-	8.0
Branch	Marketing activities	Spain	1.7	0.1	0.2	-	3.0
Branch	Marketing activities	Czechia	1.9	0.3	0.1	-	8.0
Consolidation adjustments			(17.2)	-	-	-	-
Total			739.1	297.2	69.7	-	1,050.0

2017

Type	Activity	Geographical location	Turnover	Profit or loss before income tax	Cash tax	Public Subsidies	Average headcount
Branch	Corporate Banking	UK	561.0	177.5	29.3	-	928.0
Branch	Corporate Banking	France	79.1	46.7	24.7	-	56.0
Branch	Corporate Banking	Italy	13.4	5.2	0.1	-	12.0
Branch	Marketing activities	Netherlands	2.6	0.7	-	-	7.0
Branch	Marketing activities	Ireland	1.4	0.1	0.1	-	6.0
Branch	Marketing activities	Spain	1.6	0.2	0.1	-	3.0
Branch	Marketing activities	Czechia	1.7	0.3	0.1	-	7.0
Consolidation adjustments			(18.2)	-	-	-	-
Total			642.6	230.7	54.4	-	1,019.0

Basis of preparation

1. Activities:

Corporate banking – refers to the activities mentioned on page 1.

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.

34. 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.