



# Pillar 3 Disclosures

As of 31<sup>st</sup> March 2018

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## **Document disclaimer**

- The purpose of the Pillar 3 disclosures as contained within this Disclosure Document is to explain how Sumitomo Mitsui Banking Corporation Europe Limited (“SMBCE” or “the Bank”) complies with certain capital related requirements and to provide information about the management of risks relating to those requirements.
- This Disclosure Document does not constitute any form of financial statement on behalf of the Bank and should be read in conjunction with the Bank’s Annual Report & Financial Statements.
- This Disclosure Document reflects, where appropriate, information which is contained within the Bank’s Annual Report & Financial Statements.
- The Information has been subject to internal review, but has not been audited by the Bank’s external auditors.
- Although Pillar 3 disclosures are designed to provide transparent capital disclosure by banks on a common basis, the information contained in this particular Disclosure Document may not be directly comparable with that made available by other banks. This may be due to a number of factors such as:
  - The different approaches to calculating capital allowed under the Capital Requirements Directive IV (“CRDIV”);
  - The mix of corporate exposure types between banks;
  - The different risk appetites and profiles of banks; and
  - The different waivers applied for and granted by the Prudential Regulation Authority (“PRA”).
- Pillar 2 capital requirements do not form part of this Disclosure Document, though reference has been made to SMBCE’s Total Capital Requirements (“TCR”) but nevertheless play a major role in determining both the total capital requirements of the Bank and any surplus capital available.

# 1. Overview

## 1.1 Background

The ongoing capital requirements for international banks are governed on an overall basis by a capital accord formulated by the Basel Committee on Banking Supervision, commonly referred to as Basel 3, implemented in Europe under CRDIV, made up of a Capital Requirements Directive (“CRD”) and Capital Requirements Regulation (“CRR”). The framework involves a three-pillar approach, with each individual Pillar being an important and mutually reinforcing element in determining the overall capital which an institution needs to have in place:

- Pillar 1 is Minimum & Enhanced Capital Requirement (quantification of credit risk, market risk and operational risk);
- Pillar 2 is Supervisory Review (involving Individual Capital Guidance & Assessment by the regulator based on consideration of Individual Bank Risk and Business & Control Risk Factors. This enables capture of other wider general risks not captured sufficiently under Pillar 1; and
- Pillar 3 is Market Discipline (requires disclosure to allow market participants to understand the Bank’s risk profile).

SMBCE is authorised by the PRA in the United Kingdom (“UK”). The Bank is regulated by the Financial Conduct Authority (“FCA”) and PRA from which it receives information for assessing capital adequacy and setting capital requirements for SMBCE.

The relevant requirements are contained in the CRR. Part 8 of the CRR lays out the disclosure requirements applicable to banks and building societies, in accordance with Pillar 3. These requirements are designed to promote market discipline by providing market participants with key information on a firm’s risk exposures, risk management processes, and capital adequacy. Improved public disclosures of such information are intended to ensure increased transparency and hence more effective market discipline.

The PRA granted the Bank permission to use an Internal Ratings Based (“IRB”) approach to credit risk and capital management, alongside the Standardised approach for certain assets (as outlined in more detail in subsequent sections of this document) in December 2007.

## 1.2 Disclosure overview

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

- **Key Metrics** (section 2)
- **Risk Management**; both in relation to overall risk management issues and specific risk categories (sections 3 - 8);
- **Own funds** (sections 9)
- **Credit risk exposures** (section 10)
- **Leverage Ratio** (section 11)
- **Asset Encumbrance** (section 12)
- **Remuneration disclosures** (section 13)
- **Corporate Governance disclosures** (section 14)

### **1.3 Basis and Frequency of Disclosures**

In accordance with Part 8 of the CRR, these disclosures are based on 31st March 2018 year end data. The Corporate Governance disclosures set out in Sections 3.2 and 14 are correct as at the date of approval of the Bank's Annual Report & Financial Statements, 4 July 2018.

After due consideration of the size and complexity of operations, the Bank has determined that this Disclosure Document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. However, any material change in the approaches or permissions used to calculate capital requirements will be disclosed as it arises.

### **1.4 Consolidation basis**

The Bank is required by the PRA to produce regulatory reports, which include its branches in France, Italy, Spain, the Netherlands, the Republic of Ireland and the Czech Republic in order to assess its capital resources and capital requirements. There is no difference in the basis of consolidation for accounting and prudential purposes.

This Disclosure Document therefore relates to SMBCE and its branches.

### **1.5 Location and verification**

This Disclosure Document has been reviewed by the Bank's senior management but has not been subject to external audit. However, where data is equivalent to that included in the Bank's Annual Report and Financial Statements, then such data has been subject to external audit during the formal review and verification process.

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

This can be found at <https://www.smbcgroup.com/emea/info/smbce>

## 2. Key Metrics

The key metrics dashboard provides an overview of the Bank's prudential regulatory situation including its capital requirements, leverage ratio and key liquidity monitoring metrics. SMBCE's Total Capital Requirement ("TCR", Pillar 1 + Pillar 2A) currently stands at 10.3%. Supplementary information can be found in the table references provided.

### 2.1 Key metrics

All figures in this section USD millions

	Ref	31 March 2018	31 March 2017	
<b>Available capital</b>				
1	Common Equity Tier 1 (CET1)	9.1	4,036.1	3,817.2
2	Tier 1	9.1	4,036.1	3,817.2
3	Total capital	9.1	4,036.1	3,817.2
<b>Risk-weighted assets</b>				
4	Total risk-weighted assets (RWA)	9.4	24,087.4	18,277.5
<b>Risk-based capital ratios as a percentage of RWA</b>				
5	Common Equity Tier 1 ratio (%)	9.4	16.8%	20.9%
6	Tier 1 ratio (%)	9.4	16.8%	20.9%
7	Total capital ratio (%)	9.4	16.8%	20.9%
<b>Additional CET1 buffers requirements as a percentage of RWA</b>				
8	Capital conservation buffer requirements (2.5% from 2019)		1.875%	1.250%
9	Countercyclical buffer requirement	9.6	0.066%	0.061%
11	Total of bank CET1 specific buffer requirements		1.941%	1.311%
<b>Basel III leverage ratio</b>				
13	Total leverage ratio exposure measure	11.1	70,307.1	45,662.0
14	Leverage ratio (%)	11.1	5.8%	8.4%
<b>Liquidity Coverage Ratio ("LCR")</b>				
15	Total High-Quality Liquid Assets ("HQLA")		35,672.0	18,351.6
16	Total Net 30-day Cash Outflow		26,101.6	14,024.0
17	LCR ratio (%)		133.4%	125.5%
<b>Net Stable Funding Ratio</b>				
15	Total Available Stable Funding		20,366.0	13,875.3
16	Total Required Stable Funding		19,797.9	14,438.4
18	NSFR Ratio (%)		102.9%	96.1%

## 3. Risk Management Framework

### 3.1 Risk Management Strategy and objectives

Risk Statement: SMBCE'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. The key risks related to the business model are managed within the risk appetite framework and are further described in the Strategic Report of the Annual Report and Financial Statements.

SMBCE's risk strategy has been developed to support the corporate strategy and the achievement of long-term sustainable growth. The risk strategy comprises 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 Bank aims to minimise regulatory/compliance risk by meeting both the spirit and letter of all applicable regulation.

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

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

### **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 principal risks that SMBCE encounters in the pursuit of its strategic objectives have been categorised as follows: Conduct, Credit, Market, Liquidity, Operational and Other Non-Financial.

The Bank’s risk management objectives are as follows:

- To ensure the Bank’s risk preference statements and tolerances are observed and maintained in the pursuit of the Bank’s strategic objectives;
- To maintain a risk appetite that maximises risk/return whilst ensuring that the Bank maintains adequate capital 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 mitigate 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.

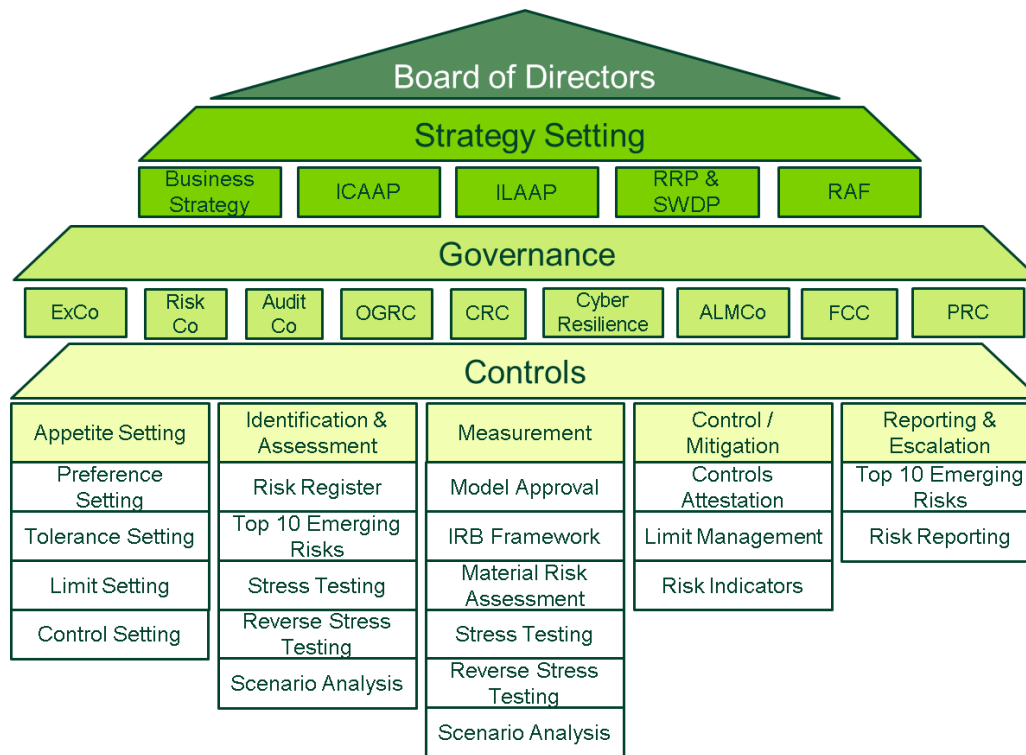
The key principles to ensure an effective risk management strategy are;

- Providing a fit for purpose Risk management framework;
- Providing the Bank with an appropriately robust 2nd Line of Defence;
- Combining the overall principles set by the Bank’s Corporate Strategy and the level of risk the Bank is able and willing to undertake, i.e. the Bank’s Risk Appetite;
- Ensuring that risk issues associated with business development activities are being correctly identified measured and properly reported; and
- Obtaining appropriate assurance that there are sufficient controls in place to control risk.



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

### SMBCE Risk Management Framework



**Key:**

- ALMCo:** Asset and Liability Management Committee
- AuditCo:** 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
- RiskCo:** Risk Committee
- RRP & SWDP:** Recovery and Resolution Planning & Solvent Wind Down Plan

#### 3.1.1 Corporate Strategy

The high level principles of the Bank’s Corporate Strategy are that:

- The SMBCE Board has overall responsibility for the Bank’s Corporate Strategy and also for ensuring that there is an appropriately aligned Risk Appetite framework in place;
- The Bank pursues an annual strategic planning cycle, with the business strategy being developed in the last quarter of each financial year;
- The Corporate Strategy is approved by the Board in June/July each year, following review of the draft in April; and
- The long term planning of Capital and Liquidity management and Recovery & Resolution Planning is a key component of the Corporate Strategy.

### 3.1.2 Capital Planning

As part of the Corporate Strategy process the Board critically assesses the capital requirements to support the business plan, and the requirements under stress. This is documented through the Internal Capital Adequacy Assessment Process (“ICAAP”) and is available to regulators on request.

The Bank adopts a “Pillar 1 plus approach”, using the Pillar 1 elements (Credit, Market and Operational risk) as a basis. It then quantifies any other material risks, not covered or adequately captured by Pillar 1, under Pillar 2A.

**Credit Risk:** The Bank uses the Standardised approach for non-Japanese corporates (graded as per G series rating scale), the Supervisory Slotting Approach for specialised lending, while for Japanese corporates (J-series rating scale), Sovereign and bank exposures, it uses the Foundation IRB (FIRB) approach.

**Market Risk:** The Bank follows the Standardised methodology for calculating market risk capital under Pillar 1 for its forex and interest rate risk positions.

**Operational Risk:** The Bank follows the Standardised Approach for assessing Pillar 1 capital for operational risk. The capital requirement for each business line is determined by taking the 3 year average of the income mapped to each category multiplied by the relevant business line percentage.

See section 4, 5 and 7 for further details.

### 3.1.3 Liquidity Planning

As part of the Corporate Strategy process the Board critically assesses the liquidity the Bank needs to support the business plan and also those requirements under stress. This is documented through the Internal Liquidity Adequacy Assessment Process (“ILAAP”) and includes a risk assessment of the material drivers of liquidity risk affecting the Bank. This is available to regulators on request.

See section 6 for further details.

### 3.1.4 Risk Appetite

As part of the Corporate Strategy process the Board will approve a risk appetite that supports the long term objective of sustainable growth and balances the need for long term profitability with prudent risk management.

### 3.1.5 Recovery and Resolution Planning

The Board also considers on an annual basis extreme but plausible scenarios which can be systemic or idiosyncratic in nature and result in the Bank invoking its Recovery Plan options. The Recovery Plan, that includes a wind down plan, is approved by the Board annually.

The ICAAP, ILAAP and RRP documents and the Credit, Market and Operational Risk policies are key elements of the risk management framework and are aligned to the Bank’s Risk Appetite and Corporate Strategy.

Policies and procedures have been established to ensure appropriate governance of the work streams supporting the risk management framework. These are reviewed at least annually.

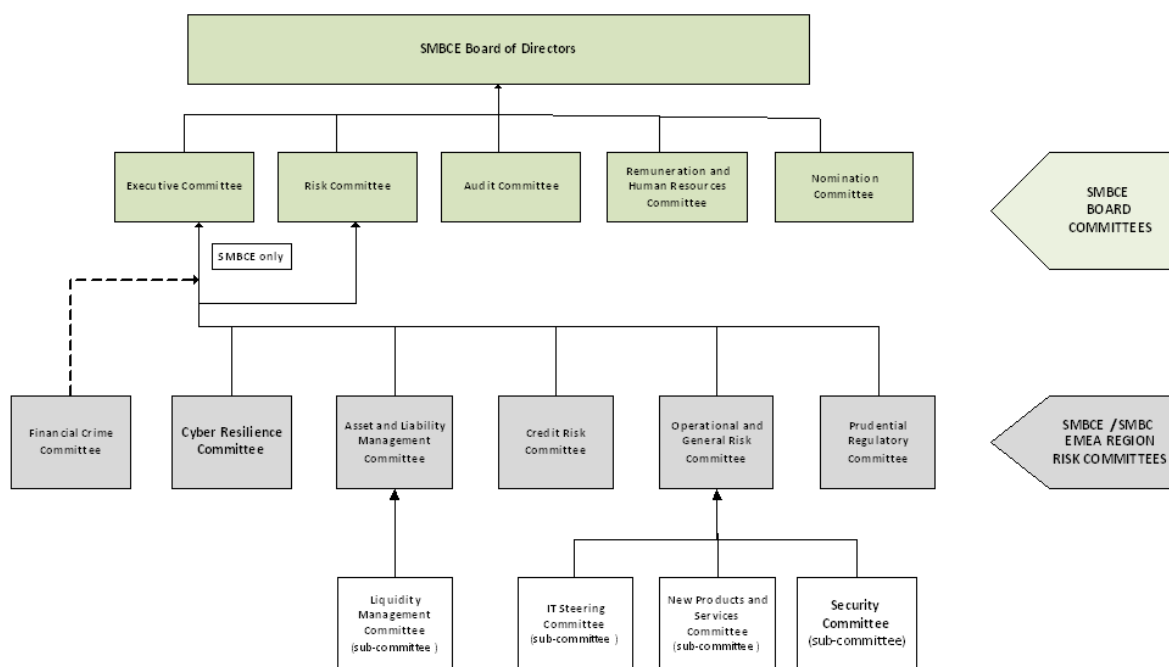
## 3.2 Governance Structure

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.

## SMBCE Governance Structure

This part sets out key components of the Bank's risk governance. Further detail on the Bank's governance arrangements are set out in section 14.

The Bank's Board and Committee framework is as follows:



- The **SMBCE Board** retains all decision-making powers except those that it has delegated to either a Committee or an individual. The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed at least annually.
- The **Risk Committee** is responsible for the consideration of risk matters and for providing, inter alia, focused support, advice, oversight and challenge on risk governance.
- The **Audit Committee** monitors the effectiveness of the firm's internal financial controls and, where applicable, its internal audit, regarding the financial reporting of the firm.
- The **Executive Committee** is responsible for, inter alia, overseeing the work of the risk committees.

The Bank's governance structure is detailed in section 14.

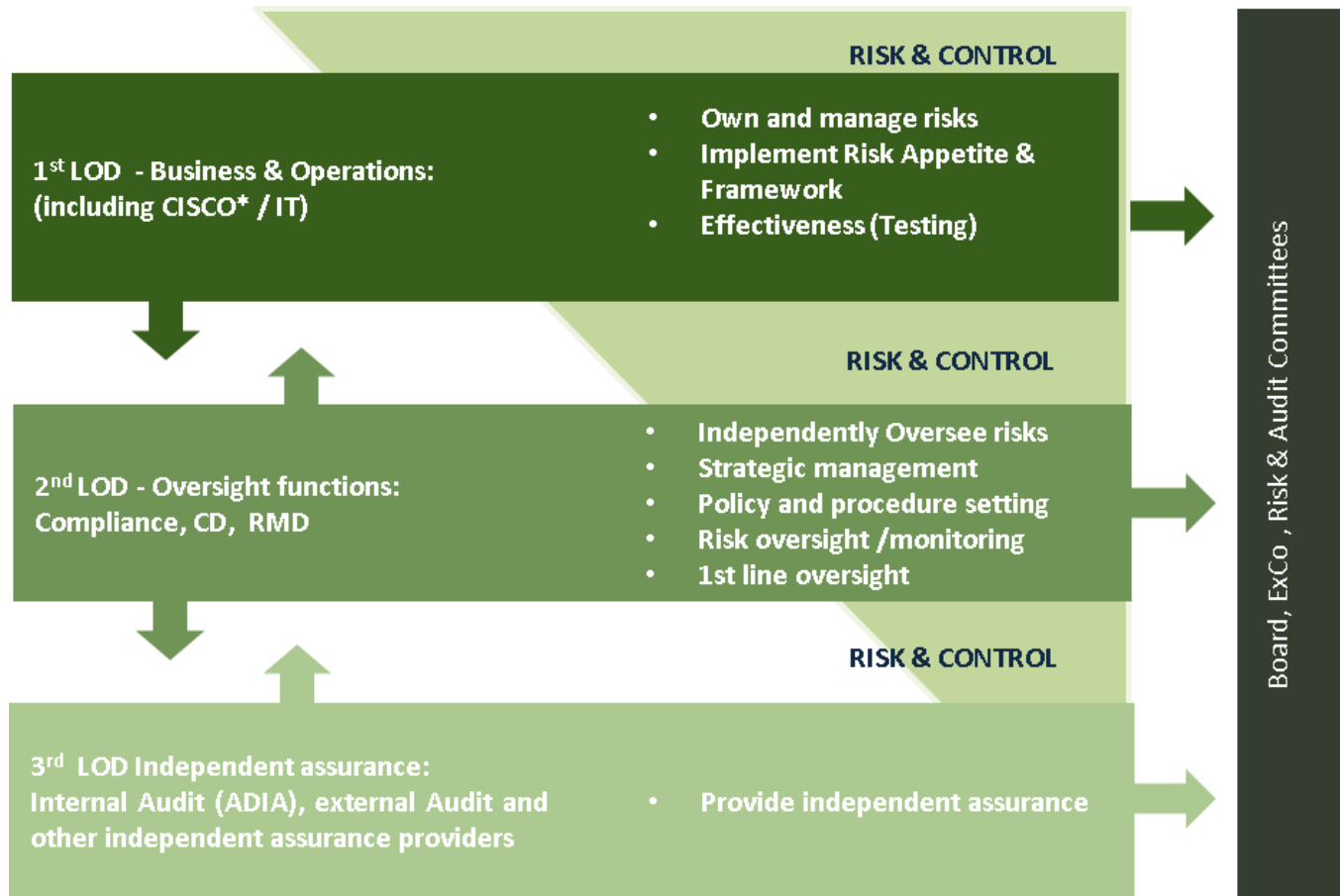
### 3.3 Enterprise Risk Management Model

The Bank utilises the industry-wide standard 3 Lines Of Defence ("3 LOD") model to manage its risk across the enterprise. 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 3 LOD approach separates the ownership/management of risk from the functions that oversee risk and the functions that provides independent assurance:

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

The model is illustrated in the diagram below:



\* Chief Information Security Officer

The First Line Of Defence (“LOD 1) comprises business and operational units.

SMBCE’s key principles for LOD 1 are:

- Any risk which results from the Bank’s business activities is a risk for which the LOD 1 are responsible,
- First Line of Defence staff may not necessarily be directly responsible for “operationalising” all controls which mitigate the risks, but should understand the controls and how well they are working.

The **General Managers** as **Risk Owners** and **Control Owners** are ultimately responsible for each of the risks and controls that fall within their area of responsibility and are responsible for ensuring that appropriate controls are in place to mitigate the risks.

LOD 2 -The key risk management process employed to ensure a robust second line of defence is as follows:

- Risk Governance
- Risk Appetite Setting
- Risk Register
- Top 10 risks
- Three Lines of Defence
- Risk Control Assessment (scenario analysis)
- Stress Testing / Reverse Stress Testing
- Active Credit Portfolio Quality Management (“ACPM”)
- Senior Management Training
- Key Risk Indicator / Early Warning Indicator
- Model Governance (e.g. IRB)
- New Products and Services
- Internal Control Assessment/Attestation
- Ongoing monitoring of the key risk management policies and procedures
- Operational risk event reporting

LOD 3 – Internal and External audit provide independent assurance.

The Bank has established an independent Audit Department, which comprises an Internal Audit Group and a Credit Review Group. The objective of 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, which is responsible for reviewing the controls for those risks other than credit risk, conducts audits and provides consulting services to management by using a risk-based approach. The Credit Review Group, which is responsible for reviewing credit risk, conducts credit reviews by employing predetermined risk criteria. The 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.

### **3.4 Risk measurement and monitoring systems (Scope and nature of risk reporting)**

The key principles for effective risk measurement and monitoring are:

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

Risk reporting to senior management and the management body is disseminated through the Risk Report submitted at Executive Committee and Board Risk Committee meetings, on a monthly and quarterly basis respectively. Risk reporting covers the Bank's key risks. The Risk Report includes:

- The Chief Risk Officer report;
- A Credit risk report;
- The Top 10 emerging risks;
- A Risk Tolerance dashboard (risk profile versus risk appetite) ;
- A Liquidity risk report (risk profile);
- A Market Risk report (risk profile); and
- A report on status of annual risk management regulatory processes (ICAAP, ILAAP, RRP, IRB/CRR attestation).

Risk management strategies are embedded in the risk appetite framework. Risk strategies are delivered through the implementation of the risk appetite framework. Risk appetite is systematically reviewed on a monthly basis and reported to the relevant risk and Executive Committees. Board reviews risk appetite on a quarterly basis. The RAF, which includes the risk strategy, is reviewed annually in parallel with the Corporate Strategy to ensure it remains effective and fit for purpose.

#### **3.4.1 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 Policy and Standards.
- This RiskCo 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.

#### **3.4.2 Stress Testing and Scenario Analysis**

- Stress testing and scenario analysis are used across the principal risks to ensure that the Bank can adequately understand and quantify not only risks as they currently exist, but as they might develop in times of stress.
- Stress testing is a key tool to calculate the impact of several scenarios over differing timeframes. Stress testing models the impact of low-frequency, downside and extreme impact events that might not be sufficiently captured by other risk management techniques. The methodologies used often involve forward looking estimates but insight can also be gained by using historic periods of stress applied to the current portfolio. Stress testing is performed annually as part of the ICAAP/ILAAP/RRP and also on an ad-hoc basis for management information or when a possible new risk materialises.
- When conducting stress testing, where appropriate the Bank will apply the stress scenario across various risk types to understand the combined impact of the scenario. For instance, a Brexit scenario will have an impact across Credit, Liquidity and Market risk.

### 3.4.3 Reverse Stress Testing

- The then UK FSA Policy Statement (PS 09/20) requires “a firm to identify explicitly and assess the scenarios most likely to render its business model unviable”.
- Reverse Stress Testing (“RST”) is utilised to identify and monitor the factors and stress levels that have the potential to cause SMBCE’s business model to become unviable. Reverse stress testing is seen as an important part of the overall risk management framework of the Bank, since it can aid understanding of key vulnerabilities.
- Reverse stress testing work has assisted in developing a better understanding of the relationship between movements in capital and liquidity.
- The RST is developed in conjunction and alignment with the Risk Assessment processes (Risk Register and Emerging Top 10 Risks).

### 3.5 SMBCE’s Risk Profile and ratios

The Bank’s goal is to achieve sustainable growth in its business over the long-term.

The Bank uses Risk Appetite to define the broad-based level of risk that the Bank is able and willing to undertake in carrying out its business. The Bank’s Risk Appetite ensures formal management identification and consensus about the strategic level risks that the Bank is facing and, as such, is a key tool for managing business. The Bank’s risk level is, at all times, managed to be within its approved risk capacity, which is considered to be the maximum level of risk the Bank can assume given its current level of resources before breaching constraints determined by available capital and liquidity and set within the Bank’s risk appetite.

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. The Bank’s total maximum exposure to credit risk as at 31<sup>st</sup> March 2018 was USD 78.5 billion (2017: USD 50.8 billion) and can be found in the Financial Statements Note 4.
- 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 FY17 the average VaR was USD 0.9 million.
- Liquidity Risk – the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.
- 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.
- Conduct Risk – the risk of the Bank’s behaviour resulting in poor customer outcome 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.
- Other non-financial risks – as a result of its activities the Bank assumes other potential risk impacts such

as reputational and others which it manages with in the overall policy framework. Historically, losses in this risk category have been low.

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

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

A summary of the Bank's Risk Appetite is set out below. 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 manages are Credit Risk and Liquidity Risk.

Credit Risk – As at the 31st March 2018, the average credit cost ratio for non-defaulted assets was 0.52% and the problem asset ratio was 1.08%.

Liquidity Risk – The Bank maintains a strong and stable liquidity position. As at the 31st March 2018, the Bank's CRD IV Delegated Act Liquidity Coverage Ratio (LCR) was at 133.4% and the Net Stable Funding Ratio (NSFR) based on the latest Basel III rules was 102.9%.



## 4. Credit Risk Management

### 4.1 The Framework

Credit risk is the risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing. The Bank's business model and translation into the risk appetite framework is described in Section 3.1.

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

- Having a credit risk management framework that consists of appropriate controls and senior management governance and oversight;
- The establishment of well-defined policies and procedures for the identification, measurement and control of credit risk;
- A centralised credit risk control function under the responsibility of the Chief Risk Officer (CRO). The CRO has a right of veto on credit and underwriting transactions;
- Having thorough risk analysis and reporting functions, conducted by a credit management team with the capabilities and resources to evaluate and monitor the exposures and limits;
- By the implementation of the Bank's risk appetite framework;
- Ensuring understanding of vulnerabilities through stress testing and reverse stress testing;
- Having strong rating systems to measure the risk on individual transactions;
- By regular reviews conducted by Audit Department – Credit Review Group to ensure compliance with policies, procedures; and
- Market best practice.

#### 4.1.1 Credit Assessment

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

The rating system consists of two indicators namely:

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

Where a borrower is domiciled overseas, internal ratings for credit include consideration of the country rank, which represents an assessment of the credit quality of each country, based on its political and economic situation as well as its current account balance and external debt.

The use of IRB approach, internal ratings structure and description by exposure class is described in the table below.

Portfolio	Exposure class	Supervisory Approach
Non-Japanese Commercial and Industrial Companies	Corporates, Items associated with particularly high risk Exposures in default	Standardised
Japanese Commercial and Industrial Companies, Lease/Rental /Non-bank, Banks, Securities, Life-Insurance, Non-Life Insurance, Japanese sovereign related entities	Central governments or central banks Institutions Corporates	F-IRB
Non-Japanese Banks, Securities, Insurance	Institutions Corporates	F-IRB
Governments, Central Banks, Entities related to Governments	Central governments or central banks Institutions Corporates	F-IRB
Project Finance, Shipping Finance, Aircraft Finance, IPRE	Corporates - Specialised lending	Supervisory Slotting Criteria

*Equity exposure uses IRB (Simple Risk Weight) approach. No use of internal PD grades.*

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

J-series	(Benchmark) S&P	G-series	(Benchmark) S&P	Borrower's Category
J1	AAA to AA-	G1	AAA to A-	Normal Borrowers
J2	A+ to A-	G2	BBB+ to BBB-	
J3	BBB+ to BBB-	G3	BB+ to BB-	
J4	BB+ and lower	G4	B+	
J5		G5	B	
J6		G6	B-	
J7		CCC and lower	G7	CCC and lower
J7R	G7R		Substandard Borrowers	
J8	G8		Potentially Bankrupt Borrowers	
J9	G9		Virtually Bankrupt Borrowers	
J10	G10		Bankrupt Borrowers	

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

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

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

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

The results of the credit risk assessments are used to make optimal business decisions across the whole range of operations, such as pricing, reporting, stress testing, formulating business plans or providing a standard against which individual credit applications are assessed.

The Bank has a number of procedural documents to describe the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of PD and LGD and conversion factors, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of default as set out in Article 178, as follows:

- PD Estimation Procedures describes the definition, methods and data for estimation of PD in detail;
- Model Validation Procedures describes details on the validation of PD;
- Rules and Methodology of Facility Grading discloses LGD and conversion factors, including assumptions employed in the derivation of these variables; and
- CRR compliance satisfaction report (disclosed in IRB Credit Risk Model Policy and Standards) is sent to Prudential Regulatory Committee when the Independent Credit Risk Control Unit (“ICRCU”) find any dissatisfaction through CRR compliance assessment check. This includes the "material deviations from the definition of default set out in Article 178".

#### **4.1.2 Credit Monitoring**

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

- Annual monitoring following financial results disclosures; and
- Adhoc monitoring should credit conditions change.

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below ‘normal borrowers’ category, the customer is added to the Special Credit Borrower List and reported to management.

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

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

The scope and definitions of “past-due” and “impaired” exposures are contained in Note 3 of the Financial Statements.

The description of methods used for determining general and specific credit risk adjustments is contained in Note 3 of the Financial Statements.

### **4.1.3 Industry Exposures**

The exposure by major industrial sectors of cash and balances at central banks, advances and loans to banks and customers and debt securities can be analysed and found in Note 4 of the Financial Statements.

### **4.1.4 Geographical Exposures**

Please refer to Note 4 of the Financial Statements for analysis of the geographical spread of cash and balances at central banks, advances and loans to banks and customers, and debt securities. This is based on country of domicile of the counterparty.

### **4.1.5 Maximum exposure to credit risk**

Please refer to Note 4 of the Financial Statements which shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross and does not take into account collateral or other credit enhancements.

### **4.1.6 Use of credit risk mitigation techniques**

The Bank's corporate lending is often secured by fixed and floating charges on the assets of borrowers. However, unless the asset is impaired, the only types of collateral which are valued on a continuous basis are cash and Government Bonds. Collateral takes various forms and the value of this security will vary over time and is dependent on the types of asset and the jurisdiction of the borrowers as well as the ability to dispose of the collateral.

The use of credit risk mitigation techniques is described in the Bank's Security Management procedures. This contains the policies and processes for collateral valuation and management.

Management and recognition of credit risk mitigation is assessed under the ICAAP and subject to Board oversight and approval.

SMBCE assesses, on a monthly basis, the potential impact of a downgrade in its credit rating on collateral requirements.

### **4.1.7 Offsetting of financial assets and financial liabilities**

The Bank receives or gives collateral against certain derivative transactions with such collateral subject to standard industry terms including ISDA Credit Support Annex.

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

The disclosures set out in Note 6 of the Financial Statements include derivative assets and derivative liabilities that are offset in the Bank's statement of financial position or are subject to enforceable master netting arrangements or similar agreement irrespective of whether they are offset in the statement of financial position.

### **4.1.8 Credit quality of counterparty per class of financial assets**

A detailed breakdown of credit quality of counterparty per class of financial assets can be found in Note 4 of the Financial Statements.

#### **4.1.9 Counterparty Credit risk**

The methodology used to assign capital for counterparty credit exposures and Wrong-Way Risk (“WWR”) is documented in the Bank’s ICAAP.

Wrong-Way Risk occurs when exposure to a counterparty increases as its credit quality worsens and is generally divided into the following categories:

Specific WWR – This is generally driven factors specific to the counterparty to the derivative transaction. The Bank does not enter trades that feature specific wrong-way risk. The collateral accepted by the Bank only includes cash and government bonds which do not give rise to Specific Wrong-Way Risk.

General WWR – This is driven by macroeconomic factors which increase exposure of the derivative while the probability of the customer defaulting is also increasing. The Bank’s derivative portfolio consists of fairly simple interest rate and FX based products and it is considered that the Bank’s counterparties to these trades have a probability of default which is independent of the macroeconomic variables driving exposures and therefore not subject to General Wrong-Way Risk

The Bank considers its exposure to Wrong-Way Risk to be limited.

For further information on policy for securing collateral please see Section 4.1.6.

For further information on counterparty credit risk exposure see Table 10.9.

#### **4.1.10 Qualitative information on external credit ratings**

SMBCE uses ratings from External Credit Assessment Institutions (ECAI) to derive risk weights under the Standardised Approach for its corporate portfolio under internal models that are not approved for the IRB approach. Exposures treated under the Standardised Approach currently all have a corporate exposure class. ECAI nominated by SMBCE for external ratings for corporates is Standard & Poor’s Ratings Services (S&P).

Issuer and issue specific ratings are captured by using information from S&P and information in SMBCE booking systems. An identifier for each issuer / issue is booked in the SMBCE booking systems. These identifiers are then used to map ratings from an automated data feed provided by S&P.

All exposures to credit risk can be found in section 10.

## 5. Market Risk Management

### Market Risk

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

### Framework

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. 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 Market Risk under normal and stressed circumstances;
- A robust committee framework to manage Market Risk issues, with clear terms of reference and standard agendas;
- Regular management information to demonstrate that the Bank is operating within risk appetite, along with other select metrics; and
- Regular senior management training.

The Bank uses a variety of limits within its risk framework 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 also conducts a program of stress-testing using scenarios relevant to the current portfolio composition. Any breaches to limit results are governed by the escalation to the appropriate risk committee to review and monitor any necessary remediation.

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

### 5.1 Exposure to interest rate risk on positions not included in the trading book

Exposure to interest rate risk on positions not included in the trading book is described below and covers:

- (a) Nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of measurement of the interest rate risk); and
- (b) The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

The nature of the Banking book consists of loans to corporates, group and financial organisations and the funding thereof by similar entities, including non-maturity deposits. 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) as well as historic scenarios such as the 2007/8 Financial Crisis. In addition a further 200 bp parallel, steepening and flattening of the curve shift to calculate economic value is made in various currencies. Stress tests are also

carried out on FX positions (applying a historic stress scenario). 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. Monitoring the BPV, on a daily basis, the Bank can examine the effects to income of movements in yields applied to the Banking and Trading portfolios.

The Bank's VaR exposures can be found in Note 4 of the Financial Statements. The income sensitivity table in the Financial Statements reports the worst case of six possible yield curve shift scenarios averaging 100bp, including "Steepening", "Flattening" and "Parallel" shifts, which comprises the Market Risk Stress Test.

The market risk governance structure is described in 3.1 and 3.2. ALMCo is the risk committee with primary responsible for considering market risk.

### Fair value of derivative assets and liabilities

The tables in Note 4 of the Financial Statements show the Bank's fair value disclosures at 31 March 2018 and 31 March 2017.

### Market risk-weighted assets under the standardised approach:

*All figures in this template in USD millions*

	RWA	Capital requirements	
<b>Outright products</b>			
1	Interest rate risk (general and specific)	213.0	17.0
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	148.9	11.9
4	Commodity risk	-	-
<b>Options</b>			
5	Simplified approach	63.4	5.1
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
<b>9</b>	<b>Total</b>	<b>425.3</b>	<b>34.0</b>

*Please refer to page 33 for a definition of "RWA".*

## 6. Liquidity Risk Management

### Liquidity Risk

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

The Bank's Board is ultimately responsible for ensuring that the level of liquidity risk taken 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;
- 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; and
- Regular senior management training.

Within the governance framework outlined above, the Bank has established a liquidity risk management approach that is 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; and
- Accurate and timely risk measurement.

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including US, Swiss, Swedish and Norwegian Government bonds and cash held at Bank of England and Banque de France reserve accounts. The quantity of this buffer of liquid assets is managed 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

The tables in Note 4 of the Financial Statements show the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments.

Contractual maturity of financial assets and liabilities form an important source of information used by management for the management of liquidity risk. Impairment provisions on loans and advances to banks and customers are included in the up to 3 months column. From 1 April 2014, the Bank has chosen not to net derivative assets and liabilities.



## 7. Operational Risk Management

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risks. Operational risk arises due to the Bank's day to day operations and is relevant to every aspect of the business. SMBCE formally identifies, assesses and manages its operational risks through the following processes and tools:

- Operational Risk Event Reporting - This is the reporting and recording of operational risk losses, near misses and other non-monetary events. These events are captured and logged centrally and are analysed to pro-actively manage risk through root cause analysis.
- Local Scenario Analysis - This process seeks to identify the high impact, low likelihood but plausible events that could impact the Bank and 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. The process also identifies potential areas for further control remediation.
- Risk Register (Risk and Control Self-Assessment) - This process is used to assess the Bank's existing key or expected risks. It assesses the inherent risks, control effectiveness and resultant residual risks of the key risks that the Bank is exposed to and which could negatively impact the achievement of strategic objectives. In this way the Bank ensures that appropriate controls are in place to mitigate risk and loss impact.
- Risk Acceptance - 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. This process supports this need and describes the approach for raising, accepting, monitoring and reporting a Risk Acceptance.
- New Product and Services ("NPS") - 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. It is an important component of the Conduct Risk management agenda.
- Risk Indicator Governance Framework - The Bank has identified a number of Operational Risk Key Risk Indicators ("KRIs"). The monitoring, reporting and escalation (where required) of KRIs is another risk management tool which seeks to alert the Bank to potential deterioration in the operational risk profile.
- Third Party Risk Management / Outsourcing ("TPRM") - Operational Risk Management Group ("ORMG") currently owns the TPRM framework and implementation. 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. This is governed by a more detailed policy.
- Operational Risk Capital Requirement - Outlines the procedures for calculating the Operational Risk Capital Pillar 1 - Standardised approach.

- Risk Indicator Governance Framework - The Bank has identified a number of Operational Risk indicators. The monitoring, reporting and escalation (where required) of risk indicators is another risk management tool which seeks to alert the Bank to potential deterioration in the operational risk profile. All risk indicators are processed by Strategic and Credit Risk Management Group (“SCMG”) but their review remains the responsibility of the relevant first and second lines of defence.

The output from the above processes are analysed in order to give a view of the operational risks that the Bank is exposed to versus its risk appetite, and therefore mitigated 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 utilised to calculate any additional capital requirement deemed necessary under stressed conditions.

## 8. Conduct Risk Management

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 within 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;
- Use of the operational risk management framework's risk and control assessment process to assess conduct risk on a periodic basis;
- Training to ensure that all employees are familiar with the Bank's policy and procedure framework and that employees are 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;
- A remuneration structure that ensures remuneration is at risk when things go wrong;
- Conduct risk indicators and a conduct risk measurement framework; and
- Reporting of conduct risk measures to senior management and risk committees.

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.

## 9. Own funds

### 9.1 Overview of Own Funds

All figures in this section in USD millions

Ref*	Own funds	31 March 2018	31 March 2017
	<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>		
1	Capital instruments and the related share premium accounts	3,200.0	3,200.0
	- Ordinary shares	3,200.0	3,200.0
2	Retained earnings	816.5	603.3
3	Accumulated other comprehensive income (and other reserves)	104.7	101.4
6	<b>Common equity tier 1 capital before regulatory adjustments</b>	<b>4,121.2</b>	<b>3,904.7</b>
	<b>Common equity tier 1 capital: regulatory adjustments</b>		
7	Additional value adjustments	(3.9)	-
8	Intangible assets (net of related tax liability)	(20.6)	(16.5)
11	Fair value reserves related to gains or losses on cash flow hedges	0.0	(0.7)
12	Negative amounts resulting from the calculation of expected loss amounts	(23.4)	(40.1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0.2	.0
15	Defined benefit pension fund assets	(37.4)	(30.2)
28	<b>Total regulatory adjustments to common equity tier 1</b>	<b>(85.1)</b>	<b>(87.5)</b>
29	<b>Common Equity Tier 1 (CET1) Capital</b>	<b>4,036.1</b>	<b>3,817.2</b>
59	<b>Total capital</b>	<b>4,036.1</b>	<b>3,817.2</b>

\* The references identify the lines prescribed in the European Banking Authority ('EBA') template on the disclosure of own funds requirements. Lines represented in this table are those lines which are applicable and where there is a value.

Regulatory Expected Losses exceeded the Bank's estimate of total provisions for IRB exposures as at 31 March 2018. Therefore, the excess has been deducted from Tier 1 capital and included in the total deductions in the above table.

### 9.2 Reconciliation of Total Capital to Shareholders' Equity

	31 March 2018	31 March 2017
<b>Shareholders Equity per Financial Statements</b>	4,121.2	3,904.7
Reserves not included in Tier 1 capital	0.0	(0.7)
Cash flow hedge	0.0	(0.7)
Available for sale reserve	-	-
Total deductions	(85.1)	(86.8)
<b>Tier 1 capital after deductions</b>	<b>4,036.1</b>	<b>3,817.2</b>

### 9.3 Pillar 1 overview

The Standardised Approach (“SA”) is used for non-Japanese customers graded under a corporate model and the capital requirements are calculated as credit risk-weighted assets amount multiplied by 8%. The Internal ratings Based (“IRB”) Foundation Approach is used for all other asset classes, including Specialised Lending via the Supervisory Slotting Criteria. It is calculated as per CRDIV guidelines using the Bank’s own estimates of Probability of Default (“PD”) and the regulatory estimates for Loss Given Default (“LGD”).

The risk-weighted assets and Pillar 1 capital requirements, by key regulatory exposure class, of SMBCE as at 31 March 2018 are presented in the table below:

	31 March 2018	31 March 2017
<b>Credit risk capital required</b>	<b>1,781.7</b>	<b>1,341.8</b>
Standardised approach	<b>1,219.5</b>	<b>918.7</b>
Corporate exposures	1,219.5	918.7
Internal ratings based approach - foundation	<b>554.0</b>	<b>419.0</b>
Central governments and central banks	36.7	27.8
Institutions	39.4	21.5
Corporate exposures	196.4	132.1
Corporate exposures - specialised lending	279.3	234.2
Equity	2.2	3.4
Other credit risk	<b>8.2</b>	<b>4.1</b>
Non-credit obligation assets (IRB)*	8.1	4.0
Contributions to the default fund of a central counterparty	0.1	0.1
<b>Credit valuation adjustment</b>	<b>6.2</b>	<b>7.7</b>
<b>Market risk capital required</b>	<b>34.1</b>	<b>13.8</b>
Interest rate risk	17.1	7.8
Options transactions	5.1	1.9
Foreign exchange risk	11.9	4.1
<b>Operational risk capital required</b>	<b>105.0</b>	<b>98.9</b>
<b>Total capital requirements</b>	<b>1,927.0</b>	<b>1,462.2</b>

\* Non-credit obligation assets (IRB approach) primarily relate to other balance sheet assets that have no associated credit risk.

#### 9.4 Capital adequacy ratio & capital requirements

	31 March 2018	31 March 2017
<b>Common Equity Tier 1 ratio</b>	<b>16.8%</b>	<b>20.9%</b>
<b>Tier 1 ratio</b>	<b>16.8%</b>	<b>20.9%</b>
<b>Total capital ratio</b>	<b>16.8%</b>	<b>20.9%</b>
<b>Total risk-weighted assets</b>	<b>24,087.5</b>	<b>18,277.5</b>
<b>Total capital requirements (8% of RWAs)</b>	<b>1,927.0</b>	<b>1,462.2</b>
Capital requirements of credit risk	1,781.7	1,341.8
Capital requirements for credit valuation adjustment	6.2	7.7
Capital requirements for market risk	34.1	13.8
Capital requirements for operational risk	105.0	98.9

#### 9.5 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Geographical breakdown	General credit exposures		Own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB			
Czech Republic	274.1	61.2	20.7	1.213%	0.500%
Hong Kong	-	32.5	1.3	0.076%	1.875%
Iceland	-	-	-	0.000%	1.250%
Norway	369.5	348.5	38.0	2.227%	2.000%
Slovakia	43.2	13.1	2.0	0.119%	0.500%
Sweden	121.1	67.6	11.4	0.670%	2.000%
Other countries	15,067.4	14,613.2	1,633.1	95.70%	0.000%
	<b>15,875.3</b>	<b>15,136.1</b>	<b>1,706.5</b>	<b>100.00%</b>	

#### 9.6 Amount of institution-specific countercyclical capital buffer

	Total
Total risk-weighted assets	<b>24,087.4</b>
Institution specific countercyclical capital buffer rate	<b>0.066%</b>
Institution specific countercyclical capital buffer requirement	<b>15.9</b>

## 10. Credit Risk Exposures

### Overview

*All figures in this section in USD millions*

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

For these purposes the Bank has adopted the IRB foundation approach, with the PRA's approval, and the Standardised approach to calculate its credit risk exposures. The tables below identify the Bank's credit risk exposures by approach and exposure class.

Please note the following definitions of values when referring to the tables within this section:

- **Original exposure:** The original exposure of the transaction before credit risk mitigation ("CRM") and credit conversion factors ("CCF").
- **Net original exposure:** The original exposure (as described above) less allowances/impairments (on-balance-sheet) and provisions (off-balance-sheet).
- **Average exposure value:** The average of the net original exposure values observed at the end of each quarter of the observation period.
- **EAD:** Exposure at Default ("EAD") is the value that the Bank is exposed to at the time of default. This is calculated after CRM factors using the Bank's Standardised approach and IRB models.
- **RWA:** Risk-Weighted Assets ("RWA") are the product of multiplying the EAD by the risk-weight assigned to the particular obligor or guarantor of the asset.
- **Equity exposure:** Equities not included in the trading book under article 447 of the CRR have been included in the exposure class categories for the purpose of completeness of SMBCE's total credit risk exposure. Please note that all other disclosures under this article are excluded on the basis of materiality.
- Please note that **impaired assets** broken down in templates 10.2 to 10.4 are allocated according to original obligor and, therefore, original exposure is used here.

## 10.1 Credit risk exposure – by exposure class and approach

31 March 2018

	Original Exposure	Net original exposure	Average exposure value	EAD	RWA
IRB foundation approach	52,212.1	52,130.0	47,141.2	55,274.4	6,924.9
Central governments or central banks	35,627.2	35,627.2	31,228.4	38,024.3	458.9
Institutions	4,610.4	4,610.4	4,800.5	7,025.1	493.0
Corporates	7,561.9	7,561.9	7,156.7	5,973.2	2,454.6
Corporates - Specialised lending	4,404.7	4,322.6	3,944.1	4,243.9	3,491.1
Equity	7.9	7.9	11.5	7.9	27.3
Standardised approach	25,826.9	25,788.8	23,367.5	15,875.3	15,243.7
Institutions	-	-	1.4	-	-
Corporates	25,725.5	25,725.5	23,320.0	15,812.0	15,155.3
Exposures in default	76.8	49.7	32.6	49.7	68.0
Items associated with particularly high risk	24.6	13.6	13.5	13.6	20.4
<b>As at 31 March 2018</b>	<b>78,039.0</b>	<b>77,918.8</b>	<b>70,508.7</b>	<b>71,149.7</b>	<b>22,168.6</b>

31 March 2017

	Original Exposure	Net original exposure	Average exposure value	EAD	RWA
IRB foundation approach	31,630.7	31,581.1	34,721.4	34,281.4	5,237.6
Central governments or central banks	17,508.3	17,508.3	18,904.9	19,666.3	347.9
Institutions	5,277.9	5,277.9	5,198.6	6,171.5	268.4
Corporates	5,046.3	5,046.3	6,824.6	4,788.2	1,651.1
Corporates - Specialised lending	3,786.6	3,737.0	3,776.8	3,643.7	2,927.2
Equity	11.6	11.6	16.5	11.6	43.1
Standardised approach	19,494.7	19,448.3	18,207.6	12,002.5	11,483.5
Institutions	1.5	1.5	0.7	1.5	0.3
Corporates	19,248.1	19,248.1	18,093.7	11,927.5	11,391.3
Exposures in default	223.7	185.3	97.1	60.2	71.9
Items associated with particularly high risk	21.4	13.3	16.2	13.3	20.0
<b>As at 31 March 2017</b>	<b>51,125.4</b>	<b>51,029.4</b>	<b>52,929.0</b>	<b>46,283.9</b>	<b>16,721.1</b>



## 10.2 Credit risk exposure – by industry

The following industry breakdowns are based on the European Commission's NACE Rev. 2 classifications of economic activities. Less material industry activities been aggregated into the column "Other industries".

A full list of the NACE Rev. 2 classifications can be found at [ec.europa.eu/eurostat/](http://ec.europa.eu/eurostat/).

### 31 March 2018

	Financial and insurance activities	Manufacturing	Construction	Electricity, gas, steam and air conditioning supply	Transport and storage	Mining and quarrying	Wholesale and retail trade	Other industries	Net original exposure
IRB foundation approach	40,841.2	2,712.2	783.2	1,748.6	777.9	242.7	404.4	4,619.9	52,130.0
Central governments or central banks	33,667.6	-	-	-	-	-	-	1,959.6	35,627.2
Institutions	4,541.3	-	-	-	-	-	-	69.1	4,610.4
Corporates	2,527.6	2,146.3	474.1	647.1	367.4	200.9	404.4	794.0	7,561.9
Corporates - Specialised lending	96.8	565.9	309.1	1,101.5	410.5	41.8	-	1,797.2	4,322.6
Equity	7.9	0.0	-	0.0	-	-	-	-	7.9
Standardised approach	1,710.5	5,168.7	2,191.4	4,125.9	3,304.6	2,640.4	2,179.5	4,467.9	25,788.8
Institutions	-	-	-	-	-	-	-	-	-
Corporates	1,710.5	5,168.7	2,191.4	4,112.3	3,302.6	2,607.8	2,179.5	4,452.8	25,725.5
Exposures in default	-	0.0	-	-	2.0	32.6	-	15.1	49.7
Items associated with particularly high risk	-	-	-	13.6	-	-	-	-	13.6
<b>As at 31 March 2018</b>	<b>42,551.7</b>	<b>7,880.9</b>	<b>2,974.5</b>	<b>5,874.5</b>	<b>4,082.4</b>	<b>2,883.1</b>	<b>2,583.9</b>	<b>9,087.8</b>	<b>77,918.8</b>
<i>Memorandum items:</i>									
Specific credit risk adjustments	6.3	5.2	0.0	93.1	2.3	9.0	0.0	10.6	126.5
General credit risk adjustments	4.4	8.1	1.0	9.6	5.2	4.4	2.6	21.6	56.9
Credit risk adjustment charges in the period	2.4	(4.1)	0.2	37.1	(5.7)	(5.5)	0.7	8.7	33.8
Impaired assets	1.5	5.2	-	187.0	4.3	41.6	-	25.7	265.3

Please note that the comparative 31 March 2017 table is on the following page.

31 March 2017

	Financial and insurance activities	Manufacturing	Construction	Electricity, gas, steam and air conditioning supply	Transport and storage	Mining and quarrying	Wholesale and retail trade	Other industries	Net original exposure
IRB foundation approach	24,415.0	1,294.5	602.1	1,275.7	640.2	147.2	362.8	2,843.7	31,581.1
Central governments or central banks	16,793.9	-	-	-	-	-	-	714.4	17,508.3
Institutions	5,248.6	-	-	-	-	-	-	29.3	5,277.9
Corporates	2,336.8	724.5	272.0	470.2	136.5	113.0	362.8	630.5	5,046.3
Corporates - Specialised lending	24.1	569.9	330.1	805.5	503.7	34.2	-	1,469.4	3,737.0
Equity	11.6	0.0	-	0.0	-	-	-	-	11.6
Standardised approach	1,436.2	5,542.4	337.8	2,754.6	2,677.9	2,155.3	1,299.5	3,244.5	19,448.3
Institutions	1.5	-	-	-	-	-	-	-	1.5
Corporates	1,434.7	5,528.7	337.8	2,741.3	2,670.9	1,990.7	1,299.5	3,244.5	19,248.1
Exposures in default	-	13.7	-	-	7.0	164.6	-	-	185.3
Items associated with particularly high risk	-	-	-	13.3	-	-	-	-	13.3
<b>As at 31 March 2017</b>	<b>25,851.2</b>	<b>6,836.9</b>	<b>939.9</b>	<b>4,030.3</b>	<b>3,318.1</b>	<b>2,302.5</b>	<b>1,662.3</b>	<b>6,088.2</b>	<b>51,029.4</b>
<i>Memorandum items:</i>									
<i>Specific credit risk adjustments</i>	5.5	4.9	-	57.6	8.1	16.2	-	9.1	101.5
<i>General credit risk adjustments</i>	2.9	12.4	0.8	8.1	5.2	2.6	1.9	14.3	48.2
<i>Credit risk adjustment charges in the period</i>	2.4	(1.2)	(1.9)	(13.8)	(1.1)	(8.5)	0.1	(17.1)	(41.1)
<i>Impaired assets</i>	4.7	18.6	-	198.7	15.1	46.4	-	9.1	292.6

### 10.3 Credit risk exposure – by maturity

31 March 2018

	Up to 1 year	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years to 7 years	More than 7 years	Net original exposure
IRB foundation approach	40,429.4	2,961.7	2,968.3	658.7	5,112.0	52,130.0
Central governments or central banks	34,316.0	134.0	1,048.4	95.5	33.2	35,627.2
Institutions	4,182.9	393.5	23.7	-	10.4	4,610.4
Corporates	1,902.4	1,918.1	1,718.3	208.9	1,814.2	7,561.9
Corporates - Specialised lending	21.6	514.7	177.9	354.3	3,254.2	4,322.6
Equity	6.4	1.5	-	-	-	7.9
Standardised approach	3,629.3	7,701.7	10,838.8	2,465.5	1,153.5	25,788.8
Institutions	-	-	-	-	-	-
Corporates	3,613.6	7,684.2	10,808.6	2,465.5	1,153.5	25,725.5
Exposures in default	2.0	17.6	30.1	-	-	49.7
Items associated with particularly high risk	13.6	-	-	-	-	13.6
<b>As at 31 March 2018</b>	<b>44,058.7</b>	<b>10,663.4</b>	<b>13,807.1</b>	<b>3,124.2</b>	<b>6,265.5</b>	<b>77,918.8</b>
<i>Memorandum items:</i>						
<i>Specific credit risk adjustments</i>	29.1	6.6	9.0	-	0.0	126.5
<i>General credit risk adjustments</i>	6.1	12.6	16.0	9.2	13.0	56.9
<i>Impaired assets</i>	45.1	19.3	71.7	-	129.2	265.3

31 March 2017

	Up to 1 year	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years to 7 years	More than 7 years	Net original exposure
IRB foundation approach	23,483.1	2,318.3	1,087.0	653.0	4,039.7	31,581.1
Central governments or central banks	17,155.4	90.0	68.0	194.8	-	17,508.3
Institutions	4,432.1	767.3	49.1	-	29.3	5,277.9
Corporates	1,812.3	1,000.5	534.2	338.0	1,361.4	5,046.3
Corporates - Specialised lending	71.6	460.5	435.7	120.2	2,648.9	3,737.0
Equity	11.6	-	-	-	-	11.6
Standardised approach	3,720.8	4,936.0	7,945.2	1,753.2	1,093.0	19,448.3
Institutions	-	0.4	0.1	0.2	0.9	1.5
Corporates	3,690.9	4,919.6	7,792.4	1,753.0	1,092.1	19,248.1
Exposures in default	16.6	16.0	152.7	-	-	185.3
Items associated with particularly high risk	13.3	-	-	-	-	13.3
<b>As at 31 March 2017</b>	<b>27,203.9</b>	<b>7,254.4</b>	<b>9,032.3</b>	<b>2,406.2</b>	<b>5,132.7</b>	<b>51,029.4</b>
<i>Memorandum items:</i>						
<i>Specific credit risk adjustments</i>	28.9	14.7	8.5	-	49.4	101.5
<i>General credit risk adjustments</i>	5.6	8.9	14.5	8.3	10.8	48.2
<i>Impaired assets</i>	58.6	30.7	27.0	32.6	143.8	292.6

## 10.4 Credit risk exposure – by geographical area

31 March 2018

	Europe				Asia & Oceania		Rest of the World	Net original exposure
	Total Exposure	Of which UK	Of which France	Of which Italy	Total Exposure	Of which Japan		
IRB foundation approach	44,698.5	19,039.9	21,348.9	521.5	3,054.7	2,890.5	4,376.8	52,129.9
Central governments or central banks	34,408.8	14,178.0	19,518.0	-	-	-	1,218.3	35,627.2
Institutions	1,355.2	840.1	53.7	1.4	2,779.6	2,718.1	475.5	4,610.4
Corporates	5,566.1	1,856.9	1,275.7	474.3	242.6	172.4	1,753.2	7,561.9
Corporates - Specialised lending	3,360.4	2,164.9	501.5	45.8	32.5	-	929.8	4,322.6
Equity	7.9	0.0	-	-	-	-	-	7.9
Standardised approach	21,954.1	4,660.1	6,528.8	2,394.0	916.2	34.4	2,918.5	25,788.8
Institutions	-	-	-	-	-	-	-	-
Corporates	21,890.8	4,627.5	6,528.8	2,392.0	916.2	34.4	2,918.5	25,725.5
Exposures in default	49.7	32.6	-	2.0	-	-	-	49.7
Items associated with particularly high risk	13.6	-	-	-	-	-	-	13.6
<b>As at 31 March 2018</b>	<b>66,652.7</b>	<b>23,700.0</b>	<b>27,877.7</b>	<b>2,915.5</b>	<b>3,970.9</b>	<b>2,924.9</b>	<b>7,295.3</b>	<b>77,918.8</b>
<i>Memorandum items:</i>								
Specific credit risk adjustments	126.5	24.4	0.0	2.3	-	-	0.0	126.5
General credit risk adjustments	47.2	20.9	6.7	4.4	0.9	0.0	8.9	56.9
Impaired assets	232.5	57.1	-	4.3	-	-	32.8	265.3

31 March 2017

	Europe				Asia & Oceania		Rest of the World	Net original exposure
	Total Exposure	Of which UK	Of which France	Of which Italy	Total Exposure	Of which Japan		
IRB foundation approach	24,451.7	12,024.3	9,855.5	505.8	4,167.7	4,058.7	2,961.8	31,581.1
Central governments or central banks	17,018.1	8,429.1	8,138.3	-	-	-	490.2	17,508.3
Institutions	1,146.0	769.8	87.4	213.7	3,923.7	3,907.2	208.2	5,277.9
Corporates	3,489.0	1,188.9	881.2	248.9	215.2	151.5	1,342.2	5,046.3
Corporates - Specialised lending	2,787.0	1,636.5	748.7	43.2	28.8	-	921.2	3,737.0
Equity	11.6	0.0	-	-	-	-	-	11.6
Standardised approach	16,299.8	3,717.5	5,669.6	1,035.9	529.2	34.0	2,619.3	19,448.3
Institutions	1.5	1.5	-	-	-	-	-	1.5
Corporates	16,099.6	3,685.7	5,650.7	1,034.2	529.2	34.0	2,619.3	19,248.1
Exposures in default	185.3	30.2	18.9	1.7	-	-	-	185.3
Items associated with particularly high risk	13.3	-	-	-	-	-	-	13.3
<b>As at 31 March 2017</b>	<b>40,751.5</b>	<b>15,741.8</b>	<b>15,525.1</b>	<b>1,541.7</b>	<b>4,696.8</b>	<b>4,092.7</b>	<b>5,581.1</b>	<b>51,029.4</b>
<i>Memorandum items:</i>								
Specific credit risk adjustments	101.5	29.8	3.6	5.0	-	-	-	101.5
General credit risk adjustments	38.7	14.0	5.0	2.8	0.5	0.1	8.9	48.2
Impaired assets	259.8	60.0	22.5	6.7	-	-	32.9	292.6

## 10.5 Exposures subject to IRB approach – All exposures

31 March 2018

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	EAD post-CRM and post-CCF	RWAs	Average risk-weight	EL	Value adjustments and provisions
<b>Central governments or central banks</b>							
0.00 to <0.15	35,202.6	-	37,790.9	284.7	0.0	0.2	
0.15 to <0.25	-	-	218.7	146.6	0.7	0.2	
0.25 to <0.50	-	-	-	-	-	-	
0.50 to <0.75	-	-	-	-	-	-	
0.75 to <2.50	51.1	266.5	2.7	3.9	1.4	0.0	
2.50 to <10.00	0.1	100.2	5.4	7.0	1.3	0.1	
10.00 to <100.00	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	
<b>Subtotal</b>	<b>35,253.8</b>	<b>366.7</b>	<b>38,017.7</b>	<b>442.2</b>	<b>3.4</b>	<b>0.5</b>	<b>0.1</b>

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	EAD post-CRM and post-CCF	RWAs	Average risk-weight	EL	Value adjustments and provisions
<b>Institutions</b>							
0.00 to <0.15	3,000.4	851.1	6,557.4	189.3	0.0	0.2	
0.15 to <0.25	1.0	154.5	149.9	75.4	0.5	0.1	
0.25 to <0.50	259.3	12.9	150.4	83.6	0.5	0.2	
0.50 to <0.75	-	-	-	-	-	-	
0.75 to <2.50	214.0	42.1	151.9	144.6	1.0	0.6	
2.50 to <10.00	0.1	75.0	15.5	0.1	0.0	0.0	
10.00 to <100.00	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	
<b>Subtotal</b>	<b>3,474.8</b>	<b>1,135.6</b>	<b>7,025.1</b>	<b>493.0</b>	<b>2.0</b>	<b>1.1</b>	<b>0.4</b>

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	EAD post-CRM and post-CCF	RWAs	Average risk-weight	EL	Value adjustments and provisions
<b>Corporates</b>							
0.00 to <0.15	2,559.7	2,000.6	3,934.6	965.4	0.2	0.9	
0.15 to <0.25	718.0	507.2	780.4	341.7	0.4	0.6	
0.25 to <0.50	1,118.2	100.5	829.3	495.7	0.6	1.1	
0.50 to <0.75	8.7	-	-	-	-	-	
0.75 to <2.50	9.4	127.0	119.4	162.2	1.4	0.9	
2.50 to <10.00	270.2	138.9	306.2	483.2	1.6	5.5	
10.00 to <100.00	0.0	3.5	3.3	6.4	1.9	0.2	
100.00 (Default)	-	-	-	-	-	-	
<b>Subtotal</b>	<b>4,684.2</b>	<b>2,877.7</b>	<b>5,973.2</b>	<b>2,454.6</b>	<b>6.1</b>	<b>9.2</b>	<b>3.2</b>
<b>Total (all portfolios)</b>	<b>43,412.8</b>	<b>4,380.0</b>	<b>51,016.0</b>	<b>3,389.8</b>	<b>11.5</b>	<b>10.8</b>	<b>3.7</b>

Please note that the tables exclude specialised lending, deferred tax asset and equity exposures and that derivative exposure are included in the off-balance sheet columns.

31 March 2017

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	EAD post-CRM and post-CCF	RWAs	Average risk-weight	EL	Value adjustments and provisions
<b>Central governments or central banks</b>							
0.00 to <0.15	17,011.2	-	19,335.4	-	-	-	
0.15 to <0.25	26.8	-	149.4	136.8	0.9	0.1	
0.25 to <0.50	0.7	262.9	-	-	-	-	
0.50 to <0.75	133.8	-	98.6	71.6	0.7	0.2	
0.75 to <2.50	0.2	-	11.3	10.2	0.9	0.1	
2.50 to <10.00	56.8	9.1	64.7	112.1	1.7	1.3	
10.00 to <100.00	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	
<b>Subtotal</b>	<b>17,229.5</b>	<b>271.9</b>	<b>19,659.5</b>	<b>330.7</b>	<b>4.3</b>	<b>1.7</b>	<b>0.5</b>

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	EAD post-CRM and post-CCF	RWAs	Average risk-weight	EL	Value adjustments and provisions
<b>Institutions</b>							
0.00 to <0.15	4,096.2	808.8	5,882.0	135.4	0.0	0.1	
0.15 to <0.25	213.4	78.1	230.9	97.4	0.4	0.2	
0.25 to <0.50	57.1	0.1	54.7	32.8	0.6	0.1	
0.50 to <0.75	3.2	-	2.6	2.0	0.8	0.0	
0.75 to <2.50	0.7	18.8	0.7	0.7	1.0	0.0	
2.50 to <10.00	0.4	1.1	0.6	0.1	0.2	0.0	
10.00 to <100.00	-	-	-	-	-	-	
100.00 (Default)	-	-	-	-	-	-	
<b>Subtotal</b>	<b>4,370.9</b>	<b>906.9</b>	<b>6,171.5</b>	<b>268.4</b>	<b>3.0</b>	<b>0.4</b>	<b>0.1</b>

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	EAD post-CRM and post-CCF	RWAs	Average risk-weight	EL	Value adjustments and provisions
<b>Corporates</b>							
0.00 to <0.15	1,588.3	1,318.4	3,297.3	650.6	0.2	0.7	
0.15 to <0.25	223.4	332.6	486.6	207.5	0.4	0.4	
0.25 to <0.50	901.9	87.3	691.4	372.1	0.5	0.9	
0.50 to <0.75	32.7	0.1	32.7	30.8	0.9	0.1	
0.75 to <2.50	65.8	10.8	95.7	89.6	0.9	0.4	
2.50 to <10.00	307.7	103.0	146.2	195.3	1.3	2.4	
10.00 to <100.00	0.0	74.4	38.5	105.1	2.7	1.8	
100.00 (Default)	-	-	-	-	-	-	
<b>Subtotal</b>	<b>3,119.8</b>	<b>1,926.5</b>	<b>4,788.2</b>	<b>1,651.1</b>	<b>7.1</b>	<b>6.7</b>	<b>2.3</b>
<b>Total (all portfolios)</b>	<b>24,720.2</b>	<b>3,105.4</b>	<b>30,619.2</b>	<b>2,250.1</b>	<b>14.4</b>	<b>8.7</b>	<b>3.0</b>

Please note that the tables exclude specialised lending, deferred tax asset and equity exposures and that derivative exposure are included in the off-balance sheet columns.

#### 10.6 IRB approach – Backtesting of PD per exposure class

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Central governments or central banks	0.00% - 4.38%	-	0.02%	0.60%	28	31	0	0	0.00%
Institutions	0.03% - 4.38%	-	0.04%	0.26%	97	117	0	0	0.00%
Corporates	0.03% - 10.36%	-	0.33%	0.51%	303	315	0	0	0.00%



## 10.7 Specialised lending and equities - by exposure and weighting

Specialised lending relates to financing of individual projects where repayment is dependent on the performance of the actual underlying asset or collateral.

31 March 2018

Specialised lending							
Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Expected losses
Category 1	Less than 2.5 years	79.0	34.8	50%	105.0	52.5	-
	Equal to or more than 2.5 years	2,224.0	262.5	70%	2,415.6	1,690.9	9.7
Category 2	Less than 2.5 years	413.1	0.2	70%	413.3	289.3	1.7
	Equal to or more than 2.5 years	630.7	280.3	90%	835.4	751.9	6.7
Category 3	Less than 2.5 years	0.3	-	115%	0.3	0.4	0.0
	Equal to or more than 2.5 years	104.8	9.9	115%	112.2	129.1	3.1
Category 4	Less than 2.5 years	1.3	-	250%	1.3	3.1	0.1
	Equal to or more than 2.5 years	219.7	12.8	250%	229.6	574.0	18.4
Category 5	Less than 2.5 years	0.4	-	-	0.4	-	0.2
	Equal to or more than 2.5 years	130.8	0.0	-	130.8	-	65.4
<b>Total</b>	Less than 2.5 years	<b>494.1</b>	<b>35.0</b>		<b>520.3</b>	<b>345.3</b>	<b>2.0</b>
	Equal to or more than 2.5 years	<b>3,310.1</b>	<b>565.6</b>		<b>3,723.7</b>	<b>3,145.8</b>	<b>103.3</b>

Equities under the simple risk-weighted approach						
Regulatory categories	On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Capital requirements
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	-	-	290%	-	-	-
Other equity exposures	6.2	-	370%	6.2	23.1	1.9
Equity - other risk-weight*	1.7	-		1.7	4.2	0.3
<b>Total</b>	<b>7.9</b>	<b>-</b>		<b>7.9</b>	<b>27.3</b>	<b>2.2</b>

\* Equity positions in financial sector entities treated in accordance with Article 48(4) of CRR.

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Specialised lending							
Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Expected losses
Category 1	Less than 2.5 years	376.3	41.6	50%	407.5	203.7	-
	Equal to or more than 2.5 years	1,836.7	286.5	70%	2,046.7	1,432.7	8.2
Category 2	Less than 2.5 years	1.3	-	70%	1.3	0.9	0.0
	Equal to or more than 2.5 years	608.8	164.5	90%	727.3	654.6	5.8
Category 3	Less than 2.5 years	19.1	21.6	115%	35.3	40.6	1.0
	Equal to or more than 2.5 years	94.6	0.8	115%	95.2	109.5	2.7
Category 4	Less than 2.5 years	0.9	-	250%	0.9	2.3	0.1
	Equal to or more than 2.5 years	179.3	18.2	250%	193.1	482.9	15.5
Category 5	Less than 2.5 years	0.7	-	-	0.7	-	0.3
	Equal to or more than 2.5 years	135.6	0.0	-	135.6	-	67.8
<b>Total</b>	Less than 2.5 years	<b>398.3</b>	<b>63.2</b>		<b>445.7</b>	<b>247.6</b>	<b>1.4</b>
	Equal to or more than 2.5 years	<b>2,855.0</b>	<b>470.0</b>		<b>3,197.9</b>	<b>2,679.6</b>	<b>99.9</b>

Equities under the simple risk-weighted approach						
Regulatory categories	On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Capital requirements
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	-	-	290%	-	-	-
Other equity exposures	11.6	-	370%	11.6	43.1	3.4
Equity - other risk-weight*	-	-		-	-	-
<b>Total</b>	<b>11.6</b>	<b>-</b>		<b>11.6</b>	<b>43.1</b>	<b>3.4</b>

\* Equity positions in financial sector entities treated in accordance with Article 48(4) of CRR.

## 10.8 Average weighted PD – by booking location

The table below analyses the average weighted Probability of Default for each exposure class by booking location:

### 31 March 2018

	United Kingdom	France	Italy
<b>IRB foundation approach</b>			
Central governments or central banks	0.01%	0.00%	0.00%
Institutions	0.07%	0.03%	0.18%
Corporates	0.39%	0.13%	0.13%
<b>Total average weighted PD</b>	<b>0.09%</b>	<b>0.00%</b>	<b>0.13%</b>

### 31 March 2017

	United Kingdom	France	Italy
<b>IRB foundation approach</b>			
Central governments or central banks	0.04%	0.00%	0.00%
Institutions	0.04%	0.03%	0.19%
Corporates	0.38%	0.20%	0.11%
<b>Total average weighted PD</b>	<b>0.10%</b>	<b>0.01%</b>	<b>0.13%</b>

## 10.9 Derivative counterparty credit exposures

### 31 March 2018

	Mark to Market Method
Gross positive fair value of contracts	1,568.2
Netting benefits	(387.4)
<b>Net Current Credit Exposure</b>	<b>1,180.8</b>
Collateral held	(929.7)
Potential future credit exposure	921.7
<b>Net Derivative Credit Exposure</b>	<b>1,172.8</b>

### 31 March 2017

	Mark to Market Method
Gross positive fair value of contracts	1,093.6
Netting benefits	(535.3)
<b>Net Current Credit Exposure</b>	<b>558.3</b>
Collateral held	(60.7)
Potential future credit exposure	886.3
<b>Net Derivative Credit Exposure</b>	<b>1,383.9</b>

### 10.10 Credit risk mitigation – by exposure class

The table below analyses the exposure value (EAD) that has been covered by eligible financial collateral or by guarantee resulting in credit risk mitigation (CRM):

#### 31 March 2018

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	5,832.5	4,061.3	9,893.8
Central governments or central banks	-	410.6	410.6
Institutions	5,647.0	214.9	5,862.0
Corporates	185.5	3,435.8	3,621.2
Corporates - Specialised lending	-	-	-
Equity	-	-	-
Standardised approach	0.5	5,638.6	5,639.1
Institutions	-	-	-
Corporates	0.5	5,638.6	5,639.1
Exposures in default	-	-	-
Items associated with particularly high risk	-	-	-
<b>As at 31 March 2018</b>	<b>5,833.0</b>	<b>9,699.9</b>	<b>15,532.9</b>

#### 31 March 2017

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	5,656.0	2,123.3	7,779.2
Central governments or central banks	6.5	325.5	332.0
Institutions	5,468.7	90.7	5,559.3
Corporates	180.8	1,707.1	1,887.9
Corporates - Specialised lending	-	-	-
Equity	-	-	-
Standardised approach	0.5	4,629.2	4,629.7
Institutions	-	-	-
Corporates	0.5	4,507.9	4,508.4
Exposures in default	-	121.3	121.3
Items associated with particularly high risk	-	-	-
<b>As at 31 March 2017</b>	<b>5,656.5</b>	<b>6,752.5</b>	<b>12,408.9</b>

## 10.11 Standardised approach – by exposure class and risk-weight

31 March 2018

The following tables represent SMBCE's exposures under the Standardised approach by risk-weight and have been broken down by EAD.

Exposure classes	Risk weight				Total	Of which unrated
	20%	50%	100%	150%		
Institutions	-	-	-	-	-	-
Corporates	-	1,363.3	14,398.8	49.9	15,812.0	10,815.3
Exposures in default	-	-	13.2	36.5	49.7	49.7
Items associated with particularly high risk	-	-	-	13.6	13.6	13.6
<b>As at 31 March 2018</b>	<b>-</b>	<b>1,363.3</b>	<b>14,412.0</b>	<b>100.0</b>	<b>15,875.3</b>	<b>10,878.6</b>

31 March 2017

Exposure classes	Risk weight				Total	Of which unrated
	20%	50%	100%	150%		
Institutions	1.5	-	-	-	1.5	1.5
Corporates	-	1,133.8	10,732.3	61.4	11,927.5	7,940.8
Exposures in default	-	-	36.7	23.4	60.2	60.2
Items associated with particularly high risk	-	-	-	13.3	13.3	13.3
<b>As at 31 March 2017</b>	<b>1.5</b>	<b>1,133.8</b>	<b>10,769.0</b>	<b>98.1</b>	<b>12,002.5</b>	<b>8,015.8</b>

## 10.12 Changes in the stock of general and specific credit risk adjustments

31 March 2018

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
<b>Opening balance</b>	<b>101.5</b>	<b>48.2</b>
Increases due to amounts set aside for estimated loan losses during the period	40.3	23.0
Decreases due to amounts reversed for estimated loan losses during the period	(27.6)	(14.3)
Impact of exchange rate differences	12.3	-
<b>Closing balance</b>	<b>126.5</b>	<b>56.9</b>

## 11. Leverage Ratio

### Leverage Ratio

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

The following tables focus on the Bank's leverage ratio calculation and provide a breakdown of the on and off-balance sheet exposures that are used. Further analysis of qualitative items includes descriptions of the processes used to manage the risk of excessive leverage and the factors that had an impact on the leverage ratio:

*All figures in this section USD millions*

#### 11.1 Table LRCom: Leverage ratio common disclosure

31 March 2018

Leverage ratio common disclosure	CRR leverage ratio exposures
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	58,196.2
Asset amounts deducted in determining Tier 1 capital	(85.1)
<b>Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral)</b>	<b>58,111.1</b>
<b>Derivative exposures</b>	
Replacement cost associated with derivatives transactions	251.1
Add-on amounts for PFE associated with derivatives transactions	921.7
<b>Total derivative exposures</b>	<b>1,172.8</b>
<b>Securities financing transaction exposures</b>	
Gross SFT assets (with no recognition of netting)	1,333.6
Add-on amount for counterparty credit risk exposure for SFT assets	63.1
<b>Total securities financing transaction exposures</b>	<b>1,396.7</b>
<b>Off-balance sheet exposures</b>	
Off-balance sheet exposures at gross notional amount	16,907.8
Adjustments for conversion to credit equivalent amounts	(7,276.0)
<b>Total off-balance sheet exposures</b>	<b>9,631.8</b>
<b>Capital and Total Exposures</b>	
<b>Tier 1 capital</b>	<b>4,036.1</b>
<b>Total Exposures</b>	<b>70,312.4</b>
<b>Leverage Ratios</b>	
<b>End of quarter leverage ratio</b>	<b>5.8%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>	
Choice on transitional arrangements for the definition of the capital measure	-
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-

"SFTs" refers to securities financing transactions where securities are used to borrow cash or other high investment-grade securities (or vice versa).

## 11.2 Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

31 March 2018

Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts
Total assets as per published financial statements	61,097.9
Adjustments for derivative financial instruments	(395.4)
Adjustments for securities financing transactions	63.2
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	9,631.8
Other adjustments	(85.1)
<b>Leverage ratio exposure</b>	<b>70,312.4</b>

## 11.3 Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives and SFTs)

31 March 2018

Split-up of on-balance sheet exposures (excluding derivatives and SFTs)	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	<b>58,196.2</b>
Trading book exposures	-
Banking book exposures, of which:	58,196.2
Exposures treated as sovereigns	37,181.3
Institutions	3,073.6
Corporate	17,338.3
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	603.0

## 11.4 Table LRQua: Disclosure on qualitative items

31 March 2018

Disclosure on qualitative items	
<p><b>Description of the processes used to manage the risk of excessive leverage</b></p>	<p>The leverage ratio is calculated and reported to senior management on a monthly basis by Finance and Control. The ratio is monitored on a monthly basis by Risk Management department and is managed within Board approved Amber and Red thresholds. The thresholds are established to allow sufficient headroom above regulatory minimum standards and sufficient time for remedial action to be undertaken. Should these thresholds be breached the Bank has an internal escalation policy which would be implemented.</p>
<p><b>Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers</b></p>	<ul style="list-style-type: none"> <li>- Growth in the balance sheet size as a result of the increase in deposits by banks and corporate customers placed with central banks</li> <li>- The benefit of profits increasing Tier 1 capital</li> <li>- Increase in derivative and securities financing transaction exposures</li> </ul>

## 12. Asset Encumbrance

Asset Encumbrance affects the transferability of assets and can restrict its free use. An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The Bank assesses asset encumbrance in the following disclosure of on-balance sheet encumbered and unencumbered assets, off-balance sheet collateral and matching liabilities based on the requirement in Part Eight of CRD IV guidelines. Please note that the values reported in the following templates are based on the median values across the four quarters through the financial year.

All figures in this section USD millions

### 12.1 Encumbrance: Assets

31 March 2018

	Carrying amount of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
<b>Assets of the reporting institution</b>	<b>2,453.0</b>	<b>821.8</b>	<b>54,553.0</b>	<b>32,645.6</b>		
Equity instruments	-	-	8.0	-		
Debt securities	-	-	640.3	556.2	643.3	559.1
of which: issued by general governments	-	-	556.2	556.2	559.1	559.1
of which: issued by financial corporations	-	-	65.6	-	65.7	-
Other assets	2,453.0	821.8	53,904.8	32,089.3		



## 12.2 Encumbrance: Collateral received

31 March 2018

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
		of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available	of which EHQLA and HQLA
<b>Collateral received by the reporting institution</b>	<b>4,308.2</b>	<b>-</b>	<b>1,316.3</b>	<b>-</b>
Loans on demand	199.2	-	-	-
Debt securities	-	-	1,316.3	-
of which: issued by general governments	-	-	1,316.3	-
Loans and advances other than loans on demand	3,445.9	-	-	-
Other collateral received	663.1	-	-	-
<b>TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	<b>6,627.7</b>	<b>821.8</b>		

## 12.3 Sources of encumbrance

31 March 2018

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
<b>Carrying amount of selected financial liabilities</b>	<b>5,483.0</b>	<b>6,597.6</b>

## 12.4 Accompanying narrative information

The main sources of funding that contribute to SMBCE's low levels of encumbrance include cash lending under reverse repo transactions, derivative margin given and loans pledged under central bank liquidity facilities (of which USD 820m is denominated in EUR through its Paris branch).

## 13. Remuneration

The SMBCE Remuneration Policy applies to all locally hired employees of Sumitomo Mitsui Banking Corporation Europe Limited. Except for certain aspects of variable pay for Material Risk Takers and other employees as defined below, it does not apply to employees of Sumitomo Mitsui Banking Corporation (“SMBC”) seconded from SMBC, whose remuneration is governed by rules established by SMBC in Japan.

The Policy for SMBCE forms a significant part of the Policy for SMBC in Europe, Middle East and Africa (“EMEA” or “EMEA Region”) and the calculation of the bonus fund is based on the results of SMBC in EMEA.

The Policy is owned by the Head of PD-HR Group, who will review the policy annually or more frequently if necessary. The Remuneration and Human Resources Committee (RemCo) has the authority to make significant revisions to the Policy. Minor revisions may be made by PD-HR Group and approved by the CEO, with ratification by the RemCo.

The Committee will oversee the development of, and implementation of, the Bank’s remuneration policies and practices. In particular it has the responsibility to:

- set, and recommend to the Board for approval, the Remuneration Policy;
- ensure the policy, amongst other things, assesses the impact of pay arrangements on culture and all elements of risk management; and
- ensure the Policy adheres to the Remuneration Code.

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

- Reviewing and approving current and deferred remuneration, including performance adjustments, malus and clawback for identified Material Risk takers; and
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments

### **Risk Appetite**

SMBCE is a wholly owned subsidiary of SMBC and the emphasis is on long term sustainable growth. The Bank seeks long term sustainable growth and seeks to avoid significant volatility from year to year.

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

The Bank is committed to ensuring that it has suitable processes in place to ensure that employees fully understand the risks which relate to their activities, and risk considerations are at the heart of Management’s overall planning processes.

SMBCE’s Risk Appetite and risk tolerances are clearly defined to ensure the appropriate utilisation of its capital as well as for funding and liquidity. Risk Appetite is approved annually by the Board. The structure has four levels being qualitative preferences, quantitative tolerances, various risk limits and control measures.

Preference 12 incorporates the Bank’s risk appetite towards to remuneration:-

"The Bank will ensure appropriate staffing arrangements (including remuneration, competence and resourcing) which enables sustainable growth and reinforces the overall risk culture."

Under proportionality principles and regulations as agreed with the PRA and FCA, The Bank is considered to be a Level 2 Bank due to the average assets held on the Balance Sheet over the last three years. The Bank files all regulatory remuneration disclosures compliant with Level 2 regulations.

### **Remuneration Policy Objectives**

SMBCE's remuneration policy is an expression of the Bank's overall philosophy, aims and objectives.

It is the Bank's intention that:

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

### **Governance**

SMBCE has established a RemCo which has the discretion to adjust the bonus pool and individual payments at any stage of the process, from the calculation of the fund itself to the final distribution. The RemCo comprises three independent Non-Executive Directors (one of whom is Chair of the RemCo) and one Shareholder Non-Executive Director. Non-Executive Directors do not receive any form of variable pay.

HR Group consults Risk Management Department ("RMD") and Compliance Department ("CPD") regularly on an informal basis concerning remuneration policy and formally once a year about concerns to be addressed about department, group and/or individual remuneration, particularly variable pay. The Business Performance Rating ("BPR") of each Department includes an independent assessment on both financial and non-financial, and qualitative and quantitative by RMD, CPD, Audit Department, Credit Department, Operations and Administration Department and HR of their contribution to and engagement with the Bank's risk management and compliance activities respectively. The Personal Performance Rating ("PPR") of each individual includes an assessment of their compliance, risk management and overall behaviour.

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

### **Material Risk Takers**

Material Risk Takers for SMBCE have been identified in line with the quantitative and qualitative criteria as set out by the European Banking Authority. Material Risk Takers have been identified by reason of their role, their seniority, their authority to expose the institution to material credit, market or other identified risks, or the level of their compensation.

The Bank is satisfied that it has identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk in respect of their delegated authority.

Employees, including Material Risk Takers, understand that their bonus is based on the Risk Adjusted performance of the EMEA region as a whole and that individual financial performance will not have any direct influence on their individual bonus. They also know that credit cost, liquidity cost and conduct will directly affect the calculation of the bonus fund and that there is therefore a clear incentive to develop prudent sustainable business.

### **Control Function Employees**

Employees engaged in Risk and Compliance functions are independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front line business units in the process, and is reviewed and approved by the Remuneration Committee. Control function pay is predominantly made up of fixed pay.

### **Discretionary Bonus Scheme**

All employees are eligible to participate in the annual performance related bonus scheme with Company, Department and personal performance all assessed to form a view on recommended variable pay outcomes. The Bonus Scheme is a team-based bonus scheme, a key objective of which is to emphasise the shared purpose of all colleagues across SMBC in EMEA, including SMBCE.

### **Risk adjustment**

The calculation of the bonus fund is a percentage of SMBC EMEA Net Income after Risk Adjustment (“NIARA”). Net Income is adjusted for credit cost of non-impaired assets, liquidity cost, an adjustment for the prudent valuation of fair valued positions, and then by the Risk Adjustments. These risk adjustments focus on a Value at Risk (“VaR”) approach for all risk types reflecting potential loss scenarios to a 90% confidence level for credit, market and operational risk. An adjustment for liquidity risk, reflecting the cost of long term funding, is also applied. These adjustments link to the most important risks identified through the risk register and ICAAP process.

Each Department is also assessed against three core considerations, each of equal weighting, that Management believes are essential for the sustainable growth of the EMEA Region. These are Financial Performance, Non-Financial Performance and Management and Compliance. This qualitative review considers the Bank’s risk appetite, its operational needs and other significant factors such as risk, control or compliance events, together with any other factors that Management may consider significant including conduct. These assessments will provide a Business Performance Rating (“BPR”) that dictates the pool available to that Department.

In addition, all support functions are requested to input onto the assessment of all back office and front office departments. This assessment happens on an annual basis and encompasses a wide ranging review of activities with the information provided included as part of the annual assessment of the BPR for each Department.

Individuals' performance is also assessed, with each given a Personal Performance Rating ("PPR") based on the following factors with the following weightings in FY17:

1 Objectives (professional and personal)	20% of overall assessment
2 Quality of Work	20% of overall assessment
3 Compliance	20% of overall assessment
4 Risk & Challenge	20% of overall assessment
5 Behaviours & Conduct	20% of overall assessment

These weightings may change from year to year, subject to the approval of the RemCo.

### **Leverage**

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

SMBCE operates a cap on the maximum variable pay award of 200% of fixed pay following the approval of SMBC, the sole shareholder of SMBCE on 11 August 2015.

The only variable remuneration operated by SMBCE is the Discretionary Bonus Scheme. All other remuneration is considered fixed remuneration, and includes salary, fixed pay allowances and benefits.

### **Deferral Policy**

The Bank believes in principle that those employees who have a material impact on its risk profile in EMEA should have variable pay that is subject to deferral and performance adjustment. The Bank also believes that its risk profile is conservative and the Bank's ratio of variable to fixed pay is low. The Bank may therefore defer bonus for Material Risk Takers and other Staff where fixed and /or variable remuneration exceed certain thresholds.

The Bank's deferral policy provides for between 20% and 60% of bonus to be deferred for 2 to 7 years for Material Risk Takers and senior staff at Senior Executive Director level and above, depending on the particular remuneration of the individual. The policy allows for deferral in cash and non-cash, depending on the particular remuneration of the individual. Any amounts paid in the non-cash instrument are subject to a holding period of either 6 or 12 months depending on the category of the Material Risk Taker (including Senior Manager Functions).

For identified Material Risk Takers, 50% of each tranche of variable remuneration will be awarded in instruments other than cash. To this end, SMBCE has established a Cash and Phantom Share Scheme. Benefits under the scheme are linked to the change of the share price of SMFG between award date and release date.

The Phantom Share Scheme is used to align the long-term performance of SMFG to the interest of the individuals deemed to have a material impact on SMBCE.

## **Performance Adjustment – Malus and Clawback**

It is the Bank's policy that any deferred bonus is subject to performance adjustment. Performance adjustment seeks to take account of matters that were not apparent at the time of the original bonus award and may result in the loss of bonus. In particular, adjustments may take place where there is reasonable evidence of employee misbehaviour or material error, where there is material downturn in the financial circumstances of the Bank or where there is a material failure of risk management in the Bank.

Decisions on performance adjustment will be considered and decided by Management, the RemCo and the Board, as necessary.

The RemCo and the Board have the authority to withhold payment of any bonus in the event of significant organisational stress or incident, including but not limited to the following circumstances:

- (a) there is reasonable evidence of employee misbehaviour or material error; or
- (b) there is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the Bank; or
- (c) there is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety; or
- (d) the firm or the relevant business unit suffers a material failure of risk management; or
- (e) the firm or the relevant business unit suffers a material downturn in its financial performance.

The RemCo and the Board have the authority to reclaim payments of any bonus for Material Risk Takers, during a period which may be up to seven years after the award date in the event that the Participant is involved in or responsible for any of the circumstances detailed in a) – d) above.

For PRA Senior Managers, this period may be extended to at least ten years should the Bank or a regulator have commenced an enquiry into potential material failures.

## **Guaranteed variable remuneration**

Guaranteed variable remuneration will only be made in exceptional circumstances to new joiners. In all circumstances guarantees will not be made for a period longer than 12 months from the date of joining.

## **Severance Payment Policy**

It is the Bank's policy to follow all local statutory severance requirements. Severance payments made will not be disproportionate, but will appropriately compensate the employee in cases of early termination of the contract. Severance payments do not reward failure and will not be awarded where there is a failure in risk management or misconduct.

**FY17 Aggregate Remuneration in respect of Material Risk Takers split into fixed and variable remuneration**

All of SMBCE works in a single business area – international commercial banking, and hence no disaggregation is required.

*All figures in this table USD thousands*

Remuneration amount		Senior management	Other material risk takers
1	Fixed remuneration		
	Number of employees	17	38
2	Total fixed remuneration	5,650	13,095
3	Variable remuneration		
	Number of employees	12	38
4	Total variable remuneration	2,390	6,486
5	Total remuneration (2 + 4)	8,041	19,581

## 14. Corporate Governance

This section sets out further details of the Bank's governance arrangements as at the date of approval of the Bank's financial statements, 4 July 2018.

### 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 (COO) assists the CEO in this role by participating in and overseeing all key decisions making in the Bank.

The Board comprises eight Directors, four of whom are executive and four of whom are non-executive.

The Directors are as follows:

#### *Independent non-executive*

Ms Laurel Powers-Freeling (Chairman)  
Mr Alan Keir  
Ms Charlotte Morgan

#### *Group non-executive*

Mr Kenichi Hosomi

#### *Executive*

Mr Tetsuro Imaeda (Chief Executive Officer)  
Mr Masaki Kambayashi  
Mr Hideo Kawafune  
Mr Stanislas Roger

### Independent non-executive Directors

The Board has appointed three 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. Ms Powers-Freeling holds no other internal directorships and six external directorships.
- Mr Alan Keir was appointed to the Board on 12 October 2016 and is Chairman of the Risk Committee. Mr Keir holds no other internal directorships and two external directorships.
- Ms Charlotte Morgan was appointed to the Board on 1 September 2017 and is Chairman of the Audit Committee. Ms Morgan holds no other internal directorships and four external directorships.

### 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. Mr Hosomi holds no other internal directorships and one external directorship.



## 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 executive Directors is shown below.

- Mr Tetsuro Imaeda, appointed as a Director on 27 September 2016, is the Chief Executive Officer. Mr Imaeda is also a Managing Executive Officer of SMBC. In addition to his Directorship of the Bank, Mr Imaeda holds four other internal directorships.
- Mr Masaki Kambayashi, appointed as a Director on 17 July 2017, is a Deputy Chief Executive Officer. Mr Kambayashi holds no other directorships.
- 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 Kawafune holds two other internal directorships.
- Mr Stanislas Roger, appointed as a Director on 29 April 2015, is a Deputy Chief Executive Officer. Mr Roger is an Executive Officer of SMBC. Mr Roger holds no other directorships.

All internal directorships are appointments within the SMBC Group.

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 Committees

The Board has delegated specific areas of responsibility to the Board Committees, each of which has terms of reference that are reviewed at least annually. The 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 (MLRO), 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 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 other General Managers and Co-General Managers of the Bank. 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. 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 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 also considers other Board level remuneration and human resources 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.

## **Risk committees**

- **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 the compliance with regulatory requirements.

The Committee has established a sub-committee, Liquidity Management Committee, which considers issues relating to liquidity risk management, including analysis of the funding market, stress testing results, impact of business strategy on assets and deposits and funding strategy

- **Credit Risk Committee**

This Committee is primarily responsible for 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**

This Committee is 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 cyber and technical resilience.

- **Financial Crime Committee**

This Committee is 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**

This Committee is responsible for examining and discussing matters related to the Bank's general risk management issues. 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.

This Committee has established three sub-committees: (i) 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; (ii) New Products and Services Committee, which is responsible for considering applications for the introduction of new products and services and (iii) Security Committee, which is responsible for supporting actions to deliver the SMBCE Security Strategy to achieve the right balance between keeping the Bank secure and doing customer-focused business at speed.

- **Prudential Regulatory Committee**

This Committee is 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).

## **Nomination matters**

The Nomination Committee is responsible for nominating candidates to the Board to fill SMBCE Board, Senior Manager Function and certain other senior-level vacancies. The final decision on whether to appoint any candidate to a Board position 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 SMBCE internal candidates are available for senior management positions and management determines that it needs to recruit in the local market, SMBCE 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.

## Appendix I

### Glossary

3 LOD	3 Lines of Defence
ABS	Asset Backed Securities
ACPM	Active Credit Portfolio Quality Management
ADIA	Audit Department Internal Audit Group
ALMCo	Asset and Liability Management Committee
AuditCo	Audit Committee
BP	Basis Points
BPR	Business Performance Rating
BPV	Basis Point Value
CCF	Credit Conversion Factors
CD	Credit Department
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CISO	Chief Information Security Officer
CPD	Compliance Department
CRC	Credit Risk Committee
CRD	Capital Requirement Directive
CRDIV	Capital Requirements Directive IV
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EAD	Exposure at Default
ECAI	External Credit Assessment Institutions
EL	Expected Loss
EMEA	Europe, Middle East & Africa
EHQLA	Extremely High Quality Liquid Assets
EU	European Union
EUR	Euro (currency)
ExCo	Executive Committee
FCA	Financial Conduct Authority
FCC	Financial Crime Committee
FIRB	Foundation IRB
FSA	Financial Services Authority
FX	Forex
FY	Financial Year
HQLA	High Quality Liquid Assets
HR	Human Resources, Planning Department
ICAAP	Internal Capital Adequacy Assessment Process
ICRCU	Independent Credit Risk Control Unit
ILAAP	Internal Liquidity Adequacy Assessment Process
IPRE	Income Producing Real Estate
IRB	Internal Ratings-Based Approach
ISDA	International Swaps & Derivatives Association

JRI	Japan Research Institute
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LOD	Line of Defence
LOD 1	First Line of Defence
LOD 2	Second Line of Defence
LOD 3	Third Line of Defence
MLRO	Money Laundering Reporting Officer
MRT	Material Risk Takers
NACE	Statistical Classification of Economic Activities in the European Community
NIARA	Net Income After Risk Adjustment
NPS	New Product and Services
NSFR	Net Stable Funding Ratio
OGRC	Operational and General Risk Committee
ORMG	Operational Risk Management Group, Risk Management Department
PD	Planning Department, which includes PG, HR, F&C, Legal Group and Company Secretarial and Central Support Group
PD	Probability of Default
PFE	Potential Future Exposure
PPR	Personal Performance Rating
PRA	Prudential Regulation Authority
PRC	Prudential Regulatory Committee
RAF	Risk Appetite Framework
RemCo	Remuneration and Human Resource Committee
RiskCo	Risk Committee
RMD	Risk Management Department
RRP	Recovery and Resolution Planning
RST	Reverse Stress Testing
RW	Risk Weight
RWA	Risk-Weighted Assets
S&P	Standard & Poor's Rating Services
SA	The Standardised Approach
SCMG	Strategic and Credit Risk Management Group
SFT	Securities Financing Transaction
SMBC	Sumitomo Mitsui Banking Corporation
SMBCE	Sumitomo Mitsui Banking Corporation Europe Limited
SMFG	Sumitomo Mitsui Financial Group, Inc.
SWDP	Solvent Wind Down Plan
TCR	Total Capital Requirement
TPRM	Third Party Risk Management/Outsourcing
UK	United Kingdom
US	United States of America
USD	United States Dollar (Currency)
VaR	Value at Risk
WWR	Wrong-Way Risk

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