SMBC

SMBC Group

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

Pillar 3 Disclosures

As of 31st March 2020

Contents

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 disclosure document may not be directly comparable with that made available by other banks. This may be due to several factors such as:

    - The different approaches to calculating capital allowed under the 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 but nevertheless play a major role in determining both the total capital requirements of the Bank and any surplus capital available. However, reference has been made to SMBCE's Total Capital Requirements ("TCR").

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 Total Capital Requirement & 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 the Standardised approach to credit risk and capital management in January 2020, effective from December 2019. The revised Total Capital Requirement (TCR) aligns with SMBCE’s analysis included in the CRR article 149 waiver application

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)

1.3 Basis and Frequency of Disclosures

In accordance with Part 8 of the CRR, these disclosures are based on 31 March 2020 year end data. The Corporate Governance disclosures set out in Sections 3.2 are correct as at the date of approval of the Bank’s Annual Report & Financial Statements, XX June 20XX.

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.

1.4 Consolidation basis

The Bank is required by the PRA to produce regulatory reports 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 branch.

At the start of the fiscal year, the Bank had Branches established in Amsterdam, Dublin, Madrid, Paris and Prague. On 1 April 2019, the assets and liabilities of these Branches were transferred to SMBC Bank EU AG and the Branches ceased operations as part of the Bank on that date. As a result, at the date of signing this Report the Bank had one Branch, which is established in Paris.

1.5 Location and verification

This Disclosure Document has been reviewed and approved 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 10.01%. Supplementary information can be found in the table references provided.

2.1 Key metrics

All figures in this section USD millions

		Ref	31 March 2020	31 March 2019
	Available capital			
1	Common Equity Tier 1 (CET1)	9.1	4,583.3	4,320.3
2	Tier 1	9.1	4,583.3	4,320.3
3	Total capital	9.1	4,583.3	4,320.3
	Risk-weighted assets			
4	Total risk-weighted assets (RWA)	9.4	28,958.3	23,357.1
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	9.4	15.8%	18.5%
6	Tier 1 ratio (%)	9.4	15.8%	18.5%
7	Total capital ratio (%)	9.4	15.8%	18.5%
	Additional CET1 buffers requirements as a percentage of RWA			
8	Capital conservation buffer requirements (2.5% from 2019)		2.500%	2.500%
9	Countercyclical buffer requirement	9.6	0.091%	0.358%
11	Total of bank CET1 specific buffer requirements		2.591%	2.858%
	Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	11.1	67,858.7	56,691.0
14	Basell III leverage ratio (%)	11.1	6.8%	7.6%
	Liquidity Coverage Ratio			
15	Total High-Quality Liquid Assets ("HQLA")*		25,678.8	20,726.6
16	Total Net 30-day Cash Outflow		20,351.9	14,661.3
17	LCR ratio (%)		126.2%	141.4%
	Net Stable Funding Ratio			
15	Total Available Stable Funding		23,740.4	21,494.1
16	Total Required Stable Funding		22,064.3	19,450.2
18	NSFR Ratio (%)		107.6%	110.5%

3. Risk Management Framework

3.1 Risk Management Strategy and objectives

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 and collaboration with capital markets. 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.

SMBCE intends to grow its sustainable finance business and help customers to transition to a low-carbon economy. SMBCE will manage the material sustainability and climate change risks within its portfolio and own operations.

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 always seeks to manage its business 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 have strong market standard defences and should 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.

Climate change poses risks for the stability of the financial system and may manifest in economic losses caused by severe weather events (physical risks) and/or through the transition to a low carbon economy (transition risks). The Bank is building on its existing overall risk management framework to address the impact of climate change on its clients and its operational infrastructure. The Bank has four pillars that will address the potential impact, and mitigation, of climate change on its clients, these are: -

Education; Ensuring that our staff are aware of, and capable of understanding, climate change risks faced by our clients and the impact of their strategic plans on medium / longer term credit metrics

Analysis; Stress testing to determine the climate change risk profile of the portfolio

Policy & Strategy; The Bank complies with the SMFG policy regarding certain sectors and ESG and maintains a regular dialogue with its parent to ensure these remain aligned. The Bank will also consider its policies and strategies relating to climate change risks once it has collated the results of the obligor level data analysis.

Opportunities; Climate Change also presents opportunities to the Bank and it has established a cross departmental forum to ensure that we are in a position to capitalize on these in a coordinated way.

The Bank is also considering the impact on physical risks arising from Climate Change on its operations and has included this as part of its Operational Risk / Operational Resilience assessment.

The Bank’s risk management objectives are as follows:

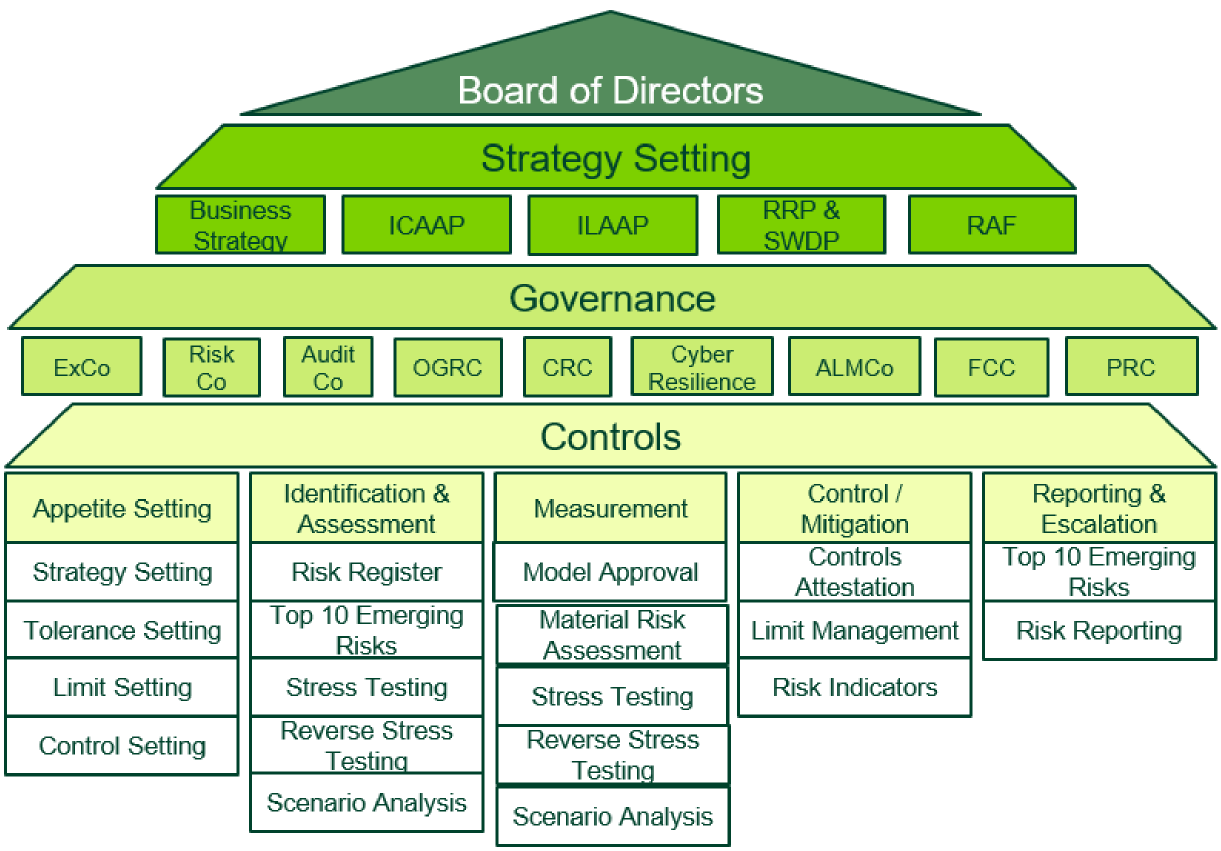
- To ensure the Bank’s risk strategy and tolerances are observed and maintained in the pursuit of the Bank’s strategic objectives;
- To maintain a risk appetite that maximises risk/return whilst ensuring that the Bank always maintains adequate capital;
- To ensure that prudent levels of liquidity are 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 because 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 Strategy and 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 Strategy and 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 assessing Pillar 1 capital for credit risk.

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.

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 may result in the Bank invoking its Recovery Plan. 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.

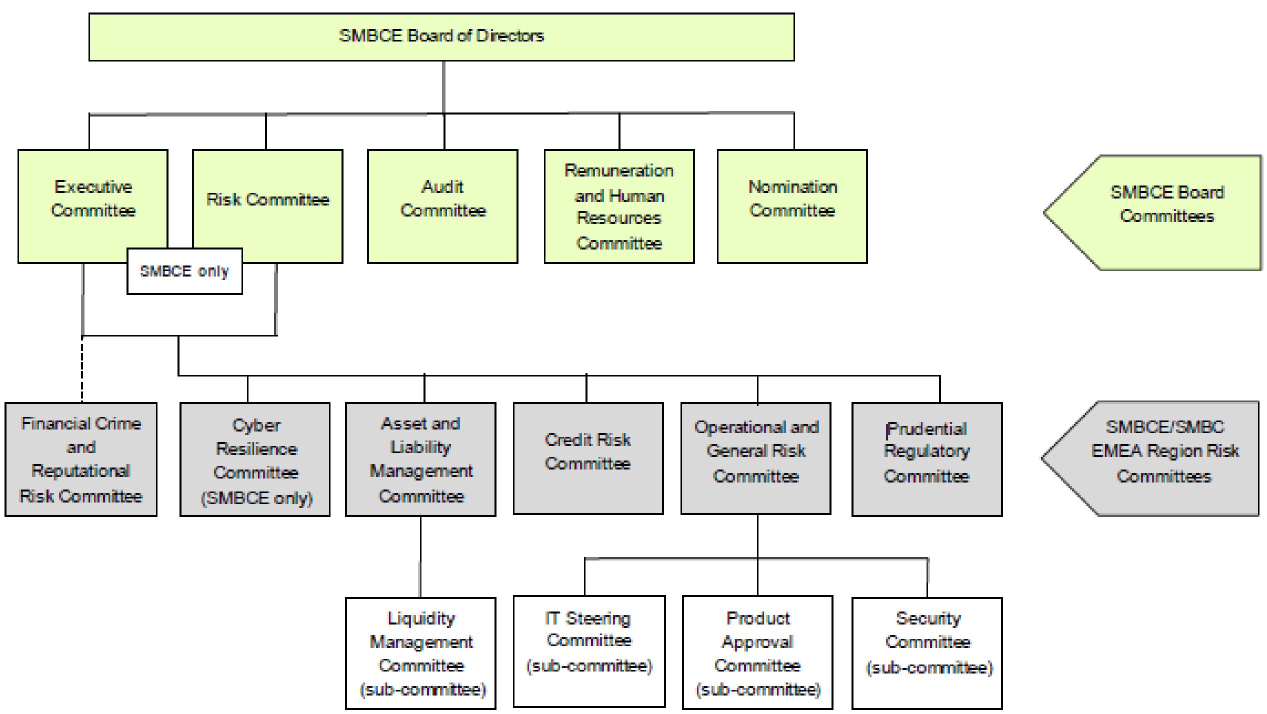
3.2 Governance Structure

The Directors are committed to maintaining a high standard of corporate governance within the Bank.

SMBCE Governance Structure

This part sets out key components of the Bank's risk governance.

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



3.2.1 Overview of responsibilities

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

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

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

Executive Committee
The Executive Committee is responsible for the supervision and management of the Bank's daily operations and for overseeing the work of the executive risk committees. The Executive Committee meets monthly and reports to the Board of Directors. The Bank's non-executive Directors receive a copy of the papers and minutes of all Executive Committee meetings.

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

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

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

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

Asset and Liability Management Committee
This Committee is primarily responsible for considering market and liquidity risk management issues, asset and liability management issues, discussing operations and funding policy (including the long-term funding strategy)

and reporting on the Bank's risk appetite and associated risk tolerances, monitoring limits, guidelines and compliance with regulatory requirements.
The Asset and Liability Management Committee has established the following sub-committee:

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

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

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

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

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

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

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

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

3.3 Board composition and diversity

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

The Board has appointed a separate (non-executive) Chairman and Chief Executive to ensure there is clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The Nomination Committee is responsible for nominating candidates to the Board to fill Board, Senior Manager Function and certain other senior level vacancies. The final decision on whether to appoint a candidate to one of these positions lies with the Board of Directors.

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

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

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

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

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

3.4 Directorships

The below table shows the names of the Bank’s Directors and the number of internal and external directorships they each held at 31 March 2020.

Name of Director	Internal directorships and trusteeships (including the Bank)	External directorships and trusteeships
Tetsuro Imaeda	5	1
Masaki Kambayashi	1	0
Hideo Kawafune	6	0
Alan Keir	1	2
Charlotte Morgan	1	5
Keiichiro Nakamura	2	0
Laurel Powers-Freeling	1	6
Stanislas Roger	2	0

Subsequent to 31 March 2020, the following changes to the Directors have occurred:

Mr Tetsuro Imaeda resigned as a Director and Chief Executive Officer on 1 May 2020.
Mr Masaki Kambayashi resigned as a Director on 15 May 2020.
Mr Keiichiro Nakamura was appointed an executive Director and Chief Executive Officer on 1 May 2020. Mr Nakamura was a non-executive Director from 25 July 2018 until his current role. The table shown above sets out the directorships that Mr Nakamura held while still a non-executive Director on 31 March 2020.

3.3 Enterprise Risk Management Model

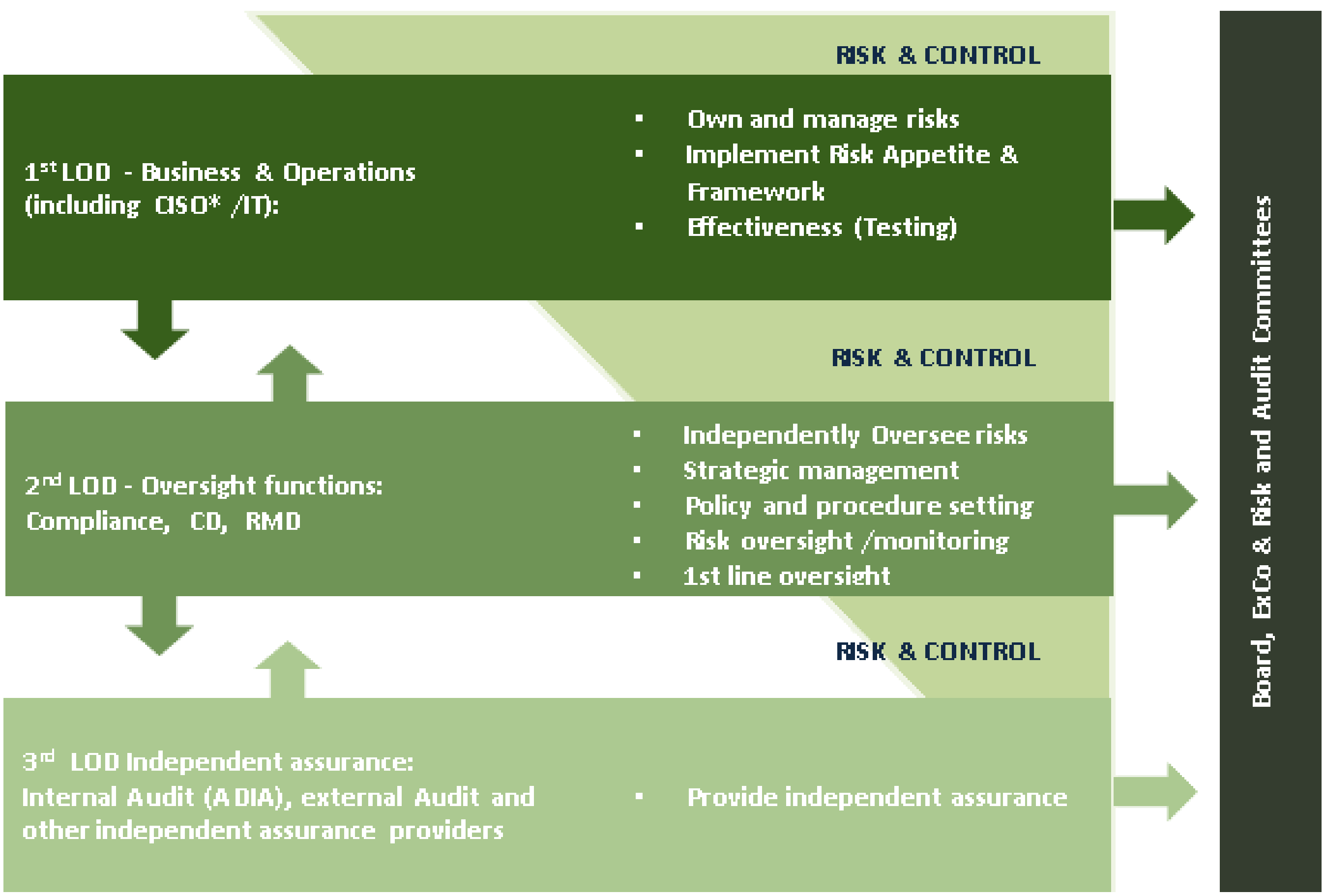
The Bank utilises the industry-wide standard 3 Lines of Defence ("3 LOD") model to manage its risk across the enterprise. The model is used to communicate clear accountabilities to achieve and assure overall effective risk governance, management and assurance, reflecting and reinforcing the Bank's internal 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 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 Strategy and 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 ("ACPQM")
- Senior Management Training
- Key Risk Indicator / Early Warning Indicator
- Model Governance
- Product and Services Approval Framework
- 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 third line of defence comprises the Bank's Internal Audit function and the external auditors, which together provide independent assurance through: (a) the review of the activities and results of the first and second lines of defence; and (b) by ensuring that the arrangements and structures of the first and second lines of defence are appropriate and that those involved are discharging their roles and responsibilities effectively.

Audit Department

Audit Department comprises an Internal Audit Group and a Credit Review Group. The objective of Internal Audit is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established and maintained within the Bank. In order to achieve this objective, the Internal

Audit Group conducts audits and related services using a risk-based approach and through following the Guidance on Effective Internal Audit in the Financial Services Sector issued by the Chartered Institute of Internal Auditors.

Additional assurance is provided by Credit Review Group, which is responsible for reviewing the credit grading process.

Audit Department acts independently of the Bank's business units. The two Co-General Managers of Audit Department report to the Audit Committee at its quarterly meetings.

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,).

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.

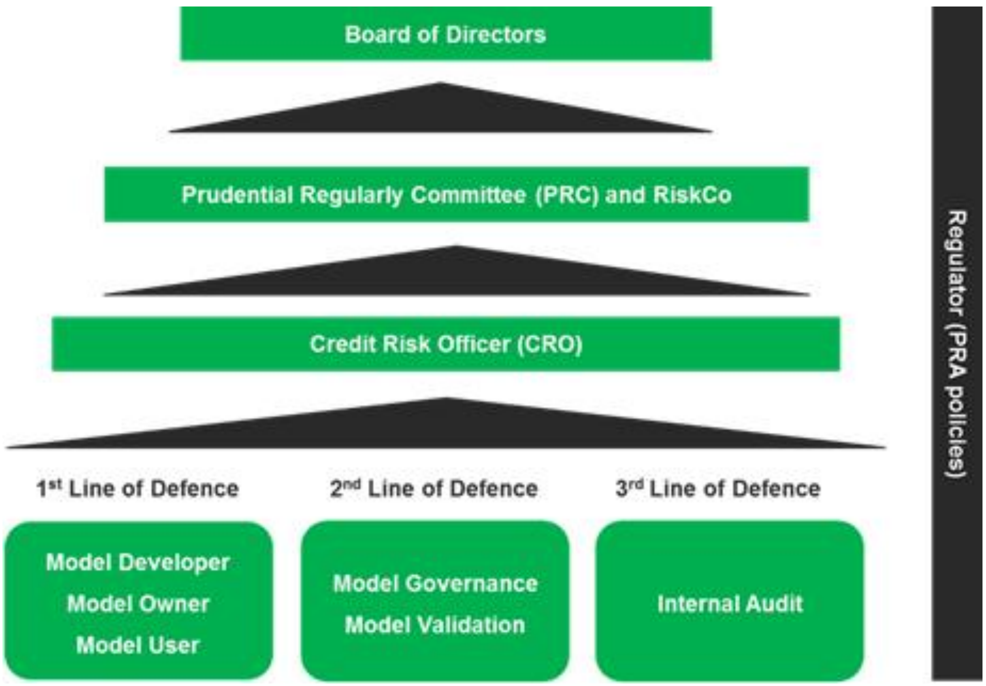
For more information on the Bank's annual review of internal controls and adequacy of risk management systems please refer to the Strategic Report section of the Financial Statements.

3.4.1 Model risk management framework

SMBCE has developed a comprehensive Model Risk Management ("MRM") framework which consists of 4 key components Model Governance & Control, Model Management, Model Development and Independent Model Validation as depicted in the diagram below:

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

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



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 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 March 2020 was USD 71.2 billion (2019: USD 63.6billion) 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 FY2019 the average VaR was USD 2.1million.
- Liquidity Risk – the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due. The Bank maintains a strong and stable liquidity position. As at the 31 March 2020, the Bank's CRD IV Delegated Act Liquidity Coverage Ratio (LCR) was at 126.2% and the Net Stable Funding Ratio (NSFR) based on the latest Basel III rules was 107.6%.
- 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.
- Model Risk - the risk of loss resulting from errors in the development, implementation or use of internal models.
- 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.

The Bank's Risk Appetite for Market Risk, Conduct Risk, Operational Risk, Model Risk and Other Non-Financial Risks is low. Consequently, the main risks that the Bank manages are Credit Risk and Liquidity Risk.
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 and quarterly at the Risk Committee.

3.6 Business Environment

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

The Bank operates in an environment of unprecedented uncertainty with respect to the currently unfolding crisis presented by the COVID-19 pandemic and the continued uncertainty following the UK's withdrawal from the EU ("Brexit"). The Bank's strategic plan, which incorporates the challenges and opportunities presented by Brexit, LIBOR and the Bank's response to the COVID-19 crisis are discussed in the Bank's Annual Report and Financial Statements

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.

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

- Ad-hoc monitoring should credit conditions change.

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

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

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

The scope and definitions of “past-due” and “impaired” exposures are contained in Notes 4 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 frequently 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 counterparts 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 all exposure.. 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 ("RAF") 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.

In order to assess IRRBB, a monthly stress test is conducted utilizing the SMBCE Banking Group net basis point value ("BPV") position for the major currencies (the Bank does not carry any significant positions in other currencies). Six Economic Value of Equity ("EVE") scenarios for each currency, based on historical analysis are conducted on the banking book positions with a maximum loss scenario reported to management. The scenarios also include a floor starting with -100bp's and increasing by 5bp's each year until 0% for 20-year maturity. Aggregation of positive changes can also be included, with a 50% weighting.

Details of the income sensitivity table can be found in Note 4 of the Financial Statements.

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 12 of the Financial Statements show the Bank's fair value disclosures at 31 March 2020 and 31 March 2019.

Market risk-weighted assets under the standardised approach:

All figures in this template in USD millions

31 March 2020

		RWA amounts	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	102.5	8.2
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	269.8	21.6
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	0.3	0.0
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**372.6**	**29.8**

Please refer to section 10 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.

Within the governance framework outlined above, the Bank has established a liquidity risk management approach as a core component of the enterprise risk management process. The purpose of the framework is to ensure that the Bank successfully follows its strategy while operating within the bounds outlined by the liquidity risk appetite statement.

The Bank uses a variety of metrics to measure and control liquidity risk. In terms of Liquidity Metrics, we use Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) both monitored on a daily basis. LCR is measuring the ability of a bank's liquid asset resources to absorb stressed net outflows over a 30-day period and NSFR defines the minimum proportion of stable funding that is required in relation to the amount of long-term assets held by the Bank.

The LCR and NSFR as at 31 March 2020 were 126.2% and 107.6% respectively.

Stress testing is conducted on a weekly basis and is used to understand what can happen in various scenarios to the liquidity of the Bank and provide management with a way of assessing the adequacy of the liquidity buffer. Key metrics are the 3-month SMBCE combined stress scenario and the 30 days SMBC Group idiosyncratic crisis test both of which are reported to the monthly Liquidity Management Committee.

In addition, a number of controls are in place to monitor and escalate any issues observed on our liquidity position. Key controls include monitoring our cash flow mismatch, observe market volatility and impact on our liquidity profile and finally observing our funding concentration risk and whether that imposes any threat to our viability.

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including US, French, 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. Operational Risk management is embedded in the Bank through regular engagement with the business, challenge where required, operational risk reporting and training. In addition, this is further supported by the execution of the following processes to ensure the operational risk profile is understood and managed: operational risk appetite definition and calibration; operational risk identification, assessment, measurement; control and mitigation; reporting and escalation. SMBCE formally 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.

- Product and Service Approval Framework - This describes the governance of the "Product Approval Committee" and the process for product and service approval, monitoring and review. 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 several 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 with process implementation to be supported by a centralised in-house team under supervision of F&C. The framework 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. In addition, independent onsite reviews are required for critical services.

- Operational Risk Capital Requirement - Outlines the procedures for calculating the Operational Risk Capital Pilar 1 - Standardised approach.

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 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.

Operational resilience is a key focus of the regulators and the Bank developed a framework in line with the July 2018 discussion paper (DP) (published by the BoE, PRC and FCA).

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

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

The following are the key components of the existing Operational Resilience framework which is being developed, enhanced and implemented in accordance with the recent Operational Resilience Consultation Papers (CP) issued by the PRA and FCA in December 2019. These components complement the operational risk processes, which are largely focused on the prevention of disruption, to introduce the operational resilience concepts of response and recovery to normal operations, 'without materially impacting clients, market integrity or financial stability':

Key Business Services (now Important Business Services):

- A series of business services has been defined which are considered key to the Bank's existence, ability to generate income and ability to serve clients and the market
- These are the anchor points which the CP requires Banks to document and provide the foundation for assessing operational resilience
- The systems, processes, third party services etc. on which the business services depend require identification and mapping to support the Bank's management and maintenance of operational resilience

Operational Resilience Assessments:

- These aim to assess the current level of resilience at the Bank (using available framework components – numerous components yet to be developed)
- A detailed questionnaire has been developed which looks at key areas which contribute to operational resilience. These include the following:
- Strategy and governance
- Risk Management
- People
- Processes
- Systems
- Third parties

The above elements are scored based on predetermined criteria for each topic and cover prevention as well as response and recovery across the key business services.

Scenarios are aligned to each Important Business Service to determine any key areas where resilience can be improved.

Reverse Stress testing is performed for each Important Business Service to determine any key areas where resilience can be improved.

The operational resilience framework will be undergoing a process of continuous development to ensure compliance with the CP and to recognise the cross functional nature of the operational resilience framework, its implementation, ongoing assessment, governance and ownership. These include the following:

Important Business Services (IBS)

- IBS are services provided to an external user and do not include internal services (e.g. HR, IT etc.) and a required to be at a proportionate level of granularity

Impact Tolerances

- At least one Impact Tolerance will be required for each IBS

Mapping:

- Firms are expected to conduct extensive and meaningful mapping i.e. map all the resources (people, processes, systems, third party services, data/ information to the IBSs at a sufficient level of granularity

Scenario testing:

- Firms are expected to test their ability to stay within impact tolerances in severe but plausible scenarios - these should be tests of the response and recovery measures (not prevention)

Self-assessment

- Firms are expected to prepare a self-assessment to demonstrate their compliance with the requirements and to document the: IBSs, the impact tolerances, the scenario tests and results, and actions planned to remain within impact tolerances

Boards and governance

- Boards are expected to oversee the operational resilience compliance and approve IBSs, impact Tolerances, scenario tests and results, actions planned and the self-assessment itself

8. Conduct Risk Management

Conduct Risk is the risk of our actions, inactions or behaviors resulting in poor outcomes for our customers and stakeholders, damaging the integrity of the financial markets or undermining effective competition.

Conduct risk management is integrated 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 introduction of a Conduct Risk Forum to review incidents for conduct risk implications and for escalation to senior management.

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. In addition, to complement the conduct risk management efforts, there has been greater focus on culture in the Bank through the introduction of enhanced culture risk statements, the development of culture risk metrics which are reviewed quarterly by the Board and culture risk training which has been rolled out to all people managers at all levels of the Bank

9. Own funds

9.1 Overview of Own Funds

All figures in this section in USD millions

Ref*	Own funds	31 March 2020	31 March 2019
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
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	1,261.3	1,108.2
3	Accumulated other comprehensive income (and other reserves)	116.2	99.9
6	**Common equity tier 1 capital before regulatory adjustments**	**4,577.4**	**4,408.1**
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	(3.8)	(2.2)
8	Intangible assets (net of related tax liability)	(38.3)	(30.0)
11	Fair value reserves related to gains or losses on cash flow hedges	(3.9)	-
12	Negative amounts resulting from the calculation of expected loss amounts	.0	(28.6)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0.4	0.0
15	Defined benefit pension fund assets	(45.4)	(34.2)
16	Adjustment under IFRS 9 transitional arrangements	96.9	7.20
28	**Total regulatory adjustments to common equity tier 1**	**5.9**	**(87.8)**
29	**Common Equity Tier 1 (CET1) Capital**	**4,583.3**	**4,320.3**
59	**Total capital**	**4,583.3**	**4,320.3**

* 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.

For this calculation CET1 capital and RWAs are calculated applying the transitional arrangements under the CRR, including the IFRS 9 transitional arrangements.

9.2 Reconciliation of Total Capital to Shareholders' Equity

	31 March 2020	31 March 2019
Shareholders Equity per Financial Statements	4,577.4	4,408.1
Reserves not included in Tier 1 capital	(3.9)	-
Cash flow hedge	(3.9)	-
Available for sale reserve	-	-
Total deductions	9.8	(87.8)
Tier 1 capital after deductions	**4,583.3**	**4,320.3**

9.3 Pillar 1 overview

The Standardised Approach ("SA") is used for all assets classes and the capital requirements are calculated as credit risk-weighted assets amount multiplied by 8%.
The risk-weighted assets and Pillar 1 capital requirements, by key regulatory exposure class, of SMBCE as at 31 March 2020 are presented in the table below:

	31 March 2020	31 March 2019
Credit risk capital required	**2,157.5**	**1,732.7**
Internal ratings based approach - foundation	**-**	**529.7**
Central governments and central banks	-	25.5
Institutions	-	71.2
Corporate exposures	-	174.3
Corporate exposures - specialised lending	-	257.9
Equity	-	0.8
Other credit risk	**-**	**8.0**
Non-credit obligation assets (IRB)*	-	7.9
Contributions to the default fund of a central counterparty	0.1	0.1
Standardised approach	**2,157.5**	**1,195.0**
Corporate exposures	1,876.5	1,195.0
Central governments or central banks	18.3	-
Institutions	160.6	-
Equity	0.4	-
Exposures in default	5.0	-
Secured by mortgages on immovable property	53.8	-
Items associated with particularly high risk	27.2	-
Multilateral Development Banks	7.2	-
Public sector entities	1.0	-
Other items	7.6	-
Credit valuation adjustment	**5.1**	**5.7**
Market risk capital required	**29.8**	**15.9**
Interest rate risk	8.2	6.5
Options transactions	0.0	0.0
Foreign exchange risk	21.6	9.3
Operational risk capital required	**124.2**	**114.2**
Total capital requirements	**2,316.7**	**1,868.6**

* 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 2020	31 March 2019
Common Equity Tier 1 ratio	**15.8%**	**18.5%**
Tier 1 ratio	**15.8%**	**18.5%**
Total capital ratio	**15.8%**	**18.5%**
Total risk-weighted assets	**28,958.3**	**23,357.1**
Total capital requirements (8% of RWAs)	**2,316.7**	**1,868.6**
Capital requirements of credit risk	2,157.5	1,732.7
Capital requirements for credit valuation adjustment	5.1	5.7
Capital requirements for market risk	29.8	15.9
Capital requirements for operational risk	124.2	114.2

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

31 March 2020

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	48.9	-	3.9	0.197%	1.750%
Denmark	122.0	-	9.2	0.463%	0.000%
Hong Kong	25.1	-	1.8	0.092%	1.000%
Germany	387.1	-	29.7	1.501%	0.000%
France	6,935.8	-	454.0	22.934%	0.250%
Ireland	227.3	-	18.2	0.918%	1.000%
Norway	462.9	-	33.4	1.685%	1.000%
Slovakia	49.7	-	4.0	0.201%	1.500%
Sweden	327.3	-	27.7	1.401%	0.000%
United Kingdom	7,785.0	-	602.7	30.446%	0.000%
Other countries	11,554.3	-	795.0	40.16%	0.000%
	27,925.3	**-**	**1,979.5**	**100.00%**	

9.6 Amount of institution-specific countercyclical capital buffer

31 March 2020

	Total
Total risk-weighted assets	**28,958.3**
Institution specific countercyclical capital buffer rate	**0.091%**
Institution specific countercyclical capital buffer requirement	**26.3**

9.7 Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

31 March 2020

SMBCE has adopted the EU's regulatory transitional arrangements for IFRS 9 Financial Instruments under CRR Article 473a as published on 27 December 2017. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The transitional benefit is phased out over the five-year period with 70% applicable for financial year 2019 and reduces to 25% by 2022. The Bank elected to apply the transitional arrangements at a consolidated level and implemented these on 1 January 2018.

The table below provides a comparison of the Bank's Capital Ratios, Risk-Weighted Assets, and Leverage Ratio with and without the application of IFRS 9 transitional arrangements.

		Ref	31 March 2020
	Available capital		
1	Common Equity Tier 1 (CET1) Capital	9.1	4,583.3
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4,486.5
3	Tier 1 capital	9.1	4,583.3
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4,486.5
5	Total capital	9.1	4,583.3
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4,486.5
	Risk-weighted assets		
7	Total risk-weighted assets (RWA)	10.2	28,958.3
8	Total risk-weighted assets (RWA) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		28,853.9
	Capital Ratios		
9	Common Equity Tier 1 ratio (%)	10.2	15.8%
10	Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		15.5%
11	Tier 1 ratio (%)	10.2	15.8%
12	Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		15.5%
13	Total capital ratio (%)	10.2	15.8%
14	Total capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		15.5%
	Leverage Ratio		
15	Leverage ratio total exposure measure	11.1	67,858.7
16	Leverage ratio	11.1	6.8%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		6.6%

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 Standardised approach, with the PRA's article 149 waiver approval. The tables below identify the Bank's credit risk exposures by approach and exposure class.

Please note the values as at 31 March 2020 for net original exposure, EAD, RWA and specific provisions have all been impacted by the application of IFRS 9 transitional arrangement as detailed in Section 9.7 above.

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.

- **RWA:** Risk-Weighted Assets ("RWA") are the product of multiplying the EAD by the risk-weight assigned to the 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 based on 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 2020

	Original Exposure	Net original exposure	Average exposure value	EAD	RWA
IRB foundation approach	-	-	-	-	-
Central governments or central banks	-	-	-	-	-
Institutions	-	-	-	-	-
Corporates	-	-	-	-	-
Corporates - Specialised lending	-	-	-	-	-
Equity	-	-	-	-	-
Standardised approach	74,240.2	74,053.8	73,923.3	59,834.1	26,969.2
Corporates	36,735.1	36,603.1	37,995.0	25,177.3	23,455.7
Central governments or central banks	26,262.2	26,261.9	27,491.0	27,325.7	228.8
Institutions	9,705.6	9,702.8	6,801.2	6,002.9	2,007.1
Equity	2.9	2.9	1.9	2.9	5.1
Exposures in default	110.5	79.9	117.3	51.0	62.0
Secured by mortgages on immovable property	693.8	691.0	777.7	672.4	672.4
Items associated with particularly high risk	385.6	367.7	368.3	226.9	340.3
Multilateral Development Banks	100.9	100.8	100.7	138.6	90.3
Public sector entities	148.3	148.3	184.5	140.8	12.0
Other items	95.4	95.4	85.7	95.4	95.4
As at 31 March 2020	**74,240.2**	**74,053.8**	**73,923.3**	**59,834.1**	**26,969.2**

Please note that the average exposure value is the average of the Standardised exposures from December 2019 following approval from the PRA that the Bank can implement Standardised approach to Credit risk and Capital management.

31 March 2019

	Original Exposure	Net original exposure	Average exposure value	EAD	RWA
IRB foundation approach	38,936.2	38,897.6	44,949.9	41,932.8	6,621.7
Central governments or central banks	21,282.2	21,282.0	26,610.2	22,851.5	318.4
Institutions	5,431.5	5,431.3	4,977.3	8,400.4	890.6
Corporates	6,370.4	6,367.6	7,503.8	6,643.5	2,178.4
Corporates - Specialised lending	5,848.8	5,813.4	3.6	4,034.1	3,224.1
Equity	3.3	3.3	5,855.0	3.3	10.3
Standardised approach	25,453.2	25,392.8	25,995.3	15,436.7	14,937.4
Institutions	-	-	-	-	-
Corporates	25,384.7	25,355.2	25,951.2	15,400.0	14,889.9
Exposures in default	53.7	32.3	39.5	31.4	39.5
Items associated with particularly high risk	14.8	5.3	4.5	5.3	8.0
As at 31 March 2019	**64,389.3**	**64,290.4**	**70,945.2**	**57,369.5**	**21,559.1**

10.2 Credit risk exposure – by industry

The following table shows the net original exposure broken down by credit exposure class and the industrial sector associated with the obligor or counterparty.

31 March 2020

	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	-	-	-	-	-	-	-	-	-
Central governments or central banks	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-
Corporates - Specialised lending	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-
Standardised approach	39,869.5	7,752.5	2,424.9	4,214.3	3,524.6	2,210.2	3,409.8	10,648.1	74,053.8
Corporates	5,023.8	7,750.8	1,942.9	4,126.3	3,506.3	2,144.8	3,409.8	8,698.4	36,603.1
Central governments or central banks	24,735.2	-	-	-	-	-	-	1,526.7	26,261.9
Institutions	9,702.8	-	-	-	-	-	-	-	9,702.8
Equity	2.9	0.0	-	-	-	-	-	-	2.9
Exposures in default	-	1.6	-	55.3	2.6	4.8	-	15.5	79.9
Secured by mortgages on immovable property	76.5	-	453.9	-	-	-	-	160.6	691.0
Items associated with particularly high risk	12.1	-	28.1	32.7	15.7	60.6	-	218.6	367.7
Multilateral Development Banks	100.8	-	-	-	-	-	-	-	100.8
Public sector entities	120.0	-	-	-	-	-	-	28.4	148.3
Other items	95.4	-	-	-	-	-	-	-	95.4
As at 31 March 2020	**39,869.5**	**7,752.5**	**2,424.9**	**4,214.3**	**3,524.6**	**2,210.2**	**3,409.8**	**10,648.1**	**74,053.8**
Memorandum items:									
Specific credit risk adjustments	*12.8*	*21.5*	*1.4*	*24.9*	*7.8*	*20.4*	*9.0*	*88.6*	*186.4*
General credit risk adjustments	-	-	-	-	-	-	-	-	-
Credit risk adjustment charges in the period	*3.1*	*12.0*	*(0.4)*	*(13.9)*	*2.3*	*6.0*	*(0.7)*	*63.9*	*81.3*
Impaired assets	*6.4*	*4.8*	-	*84.7*	*3.8*	*14.2*	-	*17.5*	*131.3*

31 March 2019

	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	28,061.6	2,649.9	682.0	1,871.7	654.9	225.5	771.7	3,980.2	38,897.6
Central governments or central banks	19,686.2	-	-	-	-	-	-	1,595.8	21,282.0
Institutions	5,394.7	-	-	-	-	-	-	36.6	5,431.3
Corporates	2,898.6	2,100.5	75.6	14.7	170.4	89.4	771.7	246.7	6,367.6
Corporates - Specialised lending	78.8	549.4	606.4	1,857.0	484.6	136.1	-	2,101.1	5,813.4
Equity	3.3	0.0	-	0.0	-	-	-	-	3.3
Standardised approach	1,770.0	5,027.0	1,965.3	3,321.6	3,179.1	2,237.7	2,420.2	5,472.0	25,392.8
Institutions	-	-	-	-	-	-	-	-	-
Corporates	1,770.0	5,026.7	1,965.3	3,316.3	3,177.1	2,209.9	2,420.2	5,469.8	25,355.2
Exposures in default	-	0.3	-	-	2.0	27.8	-	2.2	32.3
Items associated with particularly high risk	-	-	-	5.3	-	-	-	-	5.3
As at 31 March 2019	**29,831.7**	**7,676.9**	**2,647.3**	**5,193.3**	**3,834.0**	**2,463.1**	**3,191.9**	**9,452.2**	**64,290.4**
Memorandum items:									
Specific credit risk adjustments	*9.7*	*9.5*	*0.6*	*38.8*	*5.4*	*14.5*	*1.9*	*24.8*	*105.1*
General credit risk adjustments	-	-	-	-	-	-	-	-	-
Credit risk adjustment charges in the period	*(1.0)*	*(3.8)*	*(0.4)*	*(64.0)*	*(2.2)*	*1.2*	*(0.7)*	*(7.3)*	*(78.3)*
Impaired assets	*0.9*	*4.8*	-	*51.3*	*3.9*	*38.5*	-	*6.4*	*105.9*

10.3 Credit risk exposure – by maturity

31 March 2020

	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	-	-	-	-	-	-
Central governments or central banks	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Corporates - Specialised lending	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Standardised approach	43,924.3	9,161.6	12,939.1	2,732.4	5,296.4	74,053.8
Corporates	9,103.8	7,704.3	12,180.0	2,678.6	4,936.5	36,603.1
Central governments or central banks	25,194.2	947.4	72.2	-	48.1	26,261.9
Institutions	9,263.8	335.7	103.3	-	-	9,702.8
Equity	2.9	-	-	-	-	2.9
Exposures in default	5.6	15.5	4.1	-	54.7	79.9
Secured by mortgages on immovable property	17.8	49.6	579.6	44.0	-	691.0
Items associated with particularly high risk	30.5	109.0	-	9.8	218.4	367.7
Multilateral Development Banks	90.4	-	-	-	10.4	100.8
Public sector entities	120.0	-	-	-	28.4	148.3
Other items	95.4	-	-	-	-	95.4
As at 31 March 2020	**43,924.3**	**9,161.6**	**12,939.1**	**2,732.4**	**5,296.4**	**74,053.8**
Memorandum items:						
Specific credit risk adjustments	*26.1*	*44.2*	*54.2*	*35.1*	*26.9*	*186.4*
General credit risk adjustments	-	-	-	-	-	-
Impaired assets	*32.3*	*17.6*	*11.9*	-	*69.5*	*131.3*

31 March 2019

	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	28,316.1	2,373.9	3,082.0	663.3	4,462.2	38,897.6
Central governments or central banks	20,053.8	91.3	971.3	86.6	79.0	21,282.0
Institutions	5,135.6	121.0	164.2	0.1	10.4	5,431.3
Corporates	2,987.6	1,673.8	1,339.1	141.0	226.1	6,367.6
Corporates - Specialised lending	135.8	487.8	607.5	435.5	4,146.8	5,813.4
Equity	3.3	-	-	-	-	3.3
Standardised approach	4,450.9	5,647.5	12,061.1	2,123.9	1,109.5	25,392.8
Institutions	-	-	-	-	-	-
Corporates	4,439.9	5,631.3	12,050.7	2,123.9	1,109.5	25,355.2
Exposures in default	5.6	16.2	10.5	-	-	32.3
Items associated with particularly high risk	5.3	-	-	-	-	5.3
As at 31 March 2019	**32,767.0**	**8,021.4**	**15,143.2**	**2,787.2**	**5,571.7**	**64,290.4**
Memorandum items:						
Specific credit risk adjustments	*27.5*	*11.9*	*23.6*	*6.4*	*35.7*	*105.1*
General credit risk adjustments	-	-	-	-	-	-
Impaired assets	*30.5*	*19.6*	*19.7*	-	*36.0*	*105.9*

10.4 Credit risk exposure – by geographical area

31 March 2020

	Europe			Asia & Oceania		Rest of the World	Net original exposure
	Total Exposure	Of which UK	Of which France	Total Exposure	Of which Japan		
IRB foundation approach	-	-	-	-	-	-	-
Central governments or central banks	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-
Corporates - Specialised lending	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Standardised approach	59,558.0	29,764.0	20,906.4	4,414.3	3,176.7	10,081.5	74,053.8
Corporates	27,152.6	9,009.7	10,786.2	1,363.3	336.8	8,087.3	36,603.1
Central governments or central banks	25,165.3	14,690.3	10,042.9	-	-	1,096.5	26,261.9
Institutions	6,021.5	5,411.6	48.9	2,990.5	2,839.9	690.8	9,702.8
Equity	1.6	0.0	-	-	-	1.4	2.9
Exposures in default	49.7	22.0	-	-	-	30.2	79.9
Secured by mortgages on immovable property	646.7	242.9	-	-	-	44.3	691.0
Items associated with particularly high risk	276.8	172.1	-	60.6	-	30.3	367.7
Multilateral Development Banks	-	-	-	-	-	100.8	100.8
Public sector entities	148.3	120.0	28.4	-	-	-	148.3
Other items	95.4	95.4	-	-	-	-	95.4
As at 31 March 2020	**59,558.0**	**29,764.0**	**20,906.4**	**4,414.3**	**3,176.7**	**10,081.5**	**74,053.8**
Memorandum items:							
Specific credit risk adjustments	*169.9*	*86.9*	*17.4*	*2.4*	*0.0*	*14.1*	*186.4*
General credit risk adjustments	-	-	-	-	-	-	-
Impaired assets	*100.9*	*36.4*	-	-	-	*30.4*	*131.3*

31 March 2019

	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	30,746.5	15,428.0	12,137.8	14.4	3,597.6	3,294.2	4,553.5	38,897.6
Central governments or central banks	20,071.6	9,220.0	10,486.3	-	-	-	1,210.4	21,282.0
Institutions	1,726.6	1,158.7	52.4	-	3,251.4	3,050.8	453.3	5,431.3
Corporates	4,319.8	2,266.1	492.0	6.6	255.3	243.4	1,792.5	6,367.6
Corporates - Specialised lending	4,625.2	2,783.2	1,107.1	7.8	90.9	-	1,097.3	5,813.4
Equity	3.3	0.0	-	-	-	-	-	3.3
Standardised approach	20,548.5	4,387.2	7,868.6	390.7	851.6	18.5	3,992.7	25,392.8
Institutions	-	-	-	-	-	-	-	-
Corporates	20,510.9	4,356.8	7,868.6	388.7	851.6	18.5	3,992.7	25,355.2
Exposures in default	32.3	30.3	-	2.0	-	-	-	32.3
Items associated with particularly high risk	5.3	-	-	-	-	-	-	5.3
As at 31 March 2019	**51,295.1**	**19,815.1**	**20,006.4**	**405.1**	**4,449.1**	**3,312.7**	**8,546.3**	**64,290.4**
Memorandum items:								
Specific credit risk adjustments	*100.3*	*37.8*	*7.0*	*3.5*	*0.8*	*0.0*	*4.1*	*105.1*
General credit risk adjustments	-	-	-	-	-	-	-	-
Impaired assets	*105.9*	*49.7*	-	*3.9*	-	-	-	*105.9*

10.9 Derivative counterparty credit exposures

31 March 2020

	Mark to Market Method
Gross positive fair value of contracts	1,776.3
Netting benefits	(840.4)
Net Current Credit Exposure	**935.8**
Collateral held	(169.1)
Potential future credit exposure	864.2
Net Derivative Credit Exposure	**1,630.9**

31 March 2019

	Mark to Market Method
Gross positive fair value of contracts	996.0
Netting benefits	(563.5)
Net Current Credit Exposure	**432.5**
Collateral held	(76.9)
Potential future credit exposure	956.6
Net Derivative Credit Exposure	**1,312.2**

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 2020

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	-	-	-
Central governments or central banks	-	-	-
Institutions	-	-	-
Corporates	-	-	-
Corporates - Specialised lending	-	-	-
Equity	-	-	-
Standardised approach	7,548.7	5,526.3	13,075.0
Corporates	35.6	4,988.8	5,024.4
Central governments or central banks	-	245.0	245.0
Institutions	7,513.1	230.0	7,743.1
Equity	-	-	-
Exposures in default	-	28.9	28.9
Secured by mortgages on immovable property	-	18.6	18.6
Items associated with particularly high risk	-	4.6	4.6
Multilateral Development Banks	-	10.5	10.5
Public sector entities	-	-	-
Other items	-	-	-
As at 31 March 2020	**7,548.7**	**5,526.3**	**13,075.0**

Note that in order to avoid double counting CRM covered exposures, items covered by both a guarantee and collateral are classified as exposures covered by collateral

31 March 2019

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by CRM
IRB foundation approach	6,469.6	4,196.1	10,665.7
Central governments or central banks	-	749.3	749.3
Institutions	6,310.1	169.9	6,480.0
Corporates	159.5	1,570.8	1,730.3
Corporates - Specialised lending	-	1,706.1	1,706.1
Equity	-	-	-
Standardised approach	0.0	5,388.9	5,388.9
Institutions	-	-	-
Corporates	0.0	5,388.9	5,388.9
Exposures in default	-	-	-
Items associated with particularly high risk	-	-	-
As at 31 March 2019	**6,469.6**	**9,585.0**	**16,054.6**

10.11 Standardised approach – by exposure class and risk-weight

31 March 2020

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
	0%	20%	50%	100%	150%	250%		
Central governments or central banks	26,512.1	681.0	99.8	26.2	-	6.6	27,325.7	26.2
Regional governments or local authorities	-	-	-	-	-	-	-	-
Public sector entities	80.8	60.0	-	-	-	-	140.8	88.4
Multilateral development banks	48.3	-	-	90.3	-	-	138.6	90.3
International organisations	-	-	-	-	-	-	-	-
Institutions	-	4,540.0	727.6	735.2	-	-	6,002.9	974.9
Corporates	-	614.9	3,456.4	20,109.3	996.8	-	25,177.3	16,135.2
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	672.4	-	-	672.4	672.4
Exposures in default	-	-	-	28.9	22.1	-	51.0	51.0
Items associated with particularly high risk	-	-	-	-	226.9	-	226.9	226.9
Covered bonds	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-
Equity	-	-	-	1.5	-	1.4	2.9	2.9
Other items	-	-	-	95.4	-	-	95.4	95.4
As at 31 March 2020	**26,641.2**	**5,895.9**	**4,283.8**	**21,759.4**	**1,245.8**	**8.1**	**59,834.1**	**18,363.7**

31 March 2019

Exposure classes	Risk weight				Total	Of which unrated
	20%	50%	100%	150%		
Institutions	-	-	-	-	-	-
Corporates	-	1,805.2	12,809.6	785.1	15,400.0	10,605.3
Exposures in default	-	-	15.1	16.3	31.4	31.4
Items associated with particularly high risk	-	-	-	5.3	5.3	5.3
As at 31 March 2019	-	**1,805.2**	**12,824.7**	**806.7**	**15,436.7**	**10,642.0**

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

31 March 2020

Provisions in this table are stated without the application of IFRS 9 transitional arrangements as detailed in Section 9.7. The opening balance reflects the impact of the adoption of IFRS 9 from 01.01.18

	IFRS 9 provisions for loan losses
Opening balance	**97.6**
Increases due to amounts set aside for estimated loan losses during the period	186.1
Decreases due to amounts reversed for estimated loan losses during the period	(10.1)
Transfers between credit risk adjustments	-
Impact of exchange rate differences	0.0
Closing balance	**273.6**

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 2020

Leverage ratio common disclosure	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	57,221.2
Asset amounts deducted in determining Tier 1 capital	(83.7)
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral	**57,137.5**
Derivative exposures	
Replacement cost associated with derivatives transactions	931.6
Add-on amounts for PFE associated with derivatives transactions	895.7
Total derivative exposures	**1,827.3**
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting)	1,502.5
Add-on amount for counterparty credit risk exposure for SFT assets	2.2
Total securities financing transaction exposures	**1,504.7**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	14,169.7
Adjustments for conversion to credit equivalent amounts	(6,780.5)
Total off-balance sheet exposures	**7,389.2**
Capital and Total Exposures	
Tier 1 capital	**4,583.3**
Total Exposures	**67,858.7**
Leverage Ratios	
End of quarter leverage ratio	**6.8%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	**Transitional**
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 2020

Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts
Total assets as per published financial statements	60,391.3
Adjustments for derivative financial instruments	51.0
Adjustments for securities financing transactions	2.2
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7,389.2
Other adjustments	25.0
Leverage ratio exposure	**67,858.7**

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

31 March 2020

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:	**57,221.2**
Trading book exposures	-
Banking book exposures, of which:	57,221.2
Exposures treated as sovereigns	27,019.4
Institutions	10,916.6
Corporate	18,027.0
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1,258.1

11.4 Table LRQua: Disclosure on qualitative items

31 March 2020

Disclosure on qualitative items	
Description of the processes used to manage the risk of excessive leverage	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.
Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	- The increase in deposits placed at central banks. - The increase in derivative exposures. - The decrease in undrawn commitments.

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 2020

	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
Assets of the reporting institution	**828.4**	**491.3**	**57,516.0**	**29,694.2**		
Equity instruments	-	-	5.1	-		
Debt securities	92.3	92.3	543.6	428.0	545.7	423.1
of which: issued by general governments	92.3	92.3	428.0	428.0	423.1	423.1
of which: issued by financial corporations	-	-	114.2	-	117.3	-
Other assets	736.1	399.0	56,967.3	29,266.2		

12.2 Encumbrance: Collateral received

31 March 2020

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**5,901.6**	**92.4**	**1,638.8**	**1,638.8**
Loans on demand	103.0	**-**	-	-
Debt securities	92.4	**92.4**	1,638.8	1,638.8
of which: issued by general governments	92.4	**92.4**	1,638.8	1,638.8
Loans and advances other than loans on demand	5,682.6	**-**	-	-
Other collateral received	23.7	**-**	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**6,839.3**	**583.7**		

12.3 Sources of encumbrance

31 March 2020

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**6,105.8**	**6,793.9**

12.4 Accompanying narrative information

The main sources of funding that contribute to SMBCE's low levels of encumbrance include cash lending under repo transactions, derivative margin given, and loans pledged under central bank liquidity facilities (of which USD 636m 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 ("SMBCE" or "the Bank"). 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 RemCo 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

Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments

While PD-HR owns the Remuneration Policy, HR consults Risk Management Department ("RMD") and Compliance regularly concerning remuneration policy and formally once a quarter about concerns to be addressed about department, group and/or individual remuneration especially variable pay.

Under proportionality principles and regulations as agreed with the PRA and FCA, the Bank is considered to be a Level 2 institution.

Risk Appetite

SMBCE is a wholly owned subsidiary of SMBC and the emphasis is on long term sustainable growth while seeking 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 are involved in transacting business. No piece of business is the sole result of the actions of any one individual and no one individual can on his or her own initiative transact business that might place the Bank at risk. The Board has a framework for setting, managing and monitoring risk appetite, with the aim of optimising the return to, and protecting the interests of, stakeholders (including shareholders, customers and employees).

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 which are at the heart of Management's overall planning processes.

The Bank's Board annually reviews and approves the Risk Appetite Framework which is approved annually by the Board. 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. 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:

1. Pillar 1: Business Model (Sustainable Growth)
2. Pillar 2: Maintaining Solvency & Liquidity
3. Pillar 3: Conducting Business
4. Pillar 4: Maintaining Operational Risk & Resilience

Remuneration Policy Objectives

SMBCE's remuneration policy is an expression of the Bank's overall philosophy, aims and objectives with regard to how the Bank pays its employees.

It is the Bank's intention that:

1) Remuneration policy will support the Bank's long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness; and

2) Decisions about remuneration policy will be reviewed, considered and approved/ratified by the Remuneration Committee; and

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; and

4) The amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and

5) Employees have the opportunity to share in the success of the Bank in years of good performance and also accept diminished levels of variable pay in times of poor performance or losses.

Governance

SMBCE has established a RemCo which has the discretion to adjust the bonus pool and individual payments at any stage in the annual pay review process, from the calculation and determination of the fund itself to the final distribution. 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.

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

The Bank identifies Material Risk Takers ("MRT") in line with the quantitative and qualitative criteria as set out by the European Banking Authority. The criteria identify staff as MRT as a result of their role, their seniority, their authority to expose the institution to material credit, market or other identified risks, and also their compensation.

The Bank is satisfied that it has identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk due to their professional responsibilities.

Employees, including 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. The Remuneration Committee reviews and approves Risk and Compliance function pay. 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 the credit cost of non-impaired assets, liquidity cost, an adjustment for the prudent valuation of fair valued positions, and then by the Risk Adjustments. These risk adjustments focus on a Value at Risk ("VaR") approach for key risk types reflecting potential loss scenarios to a 90% confidence level for market and operational risk. Liquidity risk reflects the cost of a parallel shift of 100bp in the yield curve. These adjustments link to the most important risks identified through the risk register and ICAAP process. For credit risk, and in recognition of the impact of CoVID-19, the severity of the credit risk scenario was modelled at 1 in 25 years instead of 1 in 10 years. That would be in line with a BAU ICAAP frequency and attempts to capture a more forward-looking view.

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 employee given a Personal Performance Rating ("PPR") between "20" (low) and "100" (high) based on the following factors with the following weightings in FY19:

	PPR Factors	Weighting
1	Objectives (professional and personal)	20% of overall assessment (4-20)
2	Quality of Work	20% of overall assessment (4-20)
3	Compliance	20% of overall assessment (4-20)
4	Risk Management	20% of overall assessment (4-20)
5	Workplace Behaviours	20% of overall assessment (4-20)

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 from 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's philosophy is committed to a conservative risk appetite which extends from its business risk approach to how the Bank pays risk taking employees. The Bank also believes that its risk profile is conservative and the Bank's ratio of variable to fixed pay is low. The Bank believes deferring the variable pay of the MRTs and higher earning staff provides incentives for both good conduct and the prudent risk decision. MRT deferral awards are subject to malus and clawback strengthening the link between conduct and reward.

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.

The UK and EU regulators view MRT remuneration below certain regulatory thresholds as not material enough to warrant deferment. In such cases, the Bank applies "de-minimus" to the variable award and pays the bonus on award date.

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 variable award and may result in the loss of bonus.
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:
there is reasonable evidence of employee misbehaviour or material error; or
there is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the Bank; or
there is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety; or
the firm or the relevant business unit suffers a material failure of risk management; or
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.

Extraordinary Covid-19 intervention

In light of the Covid-19 economic challenges, the Prudential Regulatory Authority ("PRA") instructed institutions to take prudent decisions to safeguard their capital and maintain liquidity. With the goal of preserving the Bank's capital, the Remuneration Committee approved a series of actions responding to the regulator's COVID-19 expectations. Planned actions include varying the deferral terms for the payment of variable compensation to Material Risk Takers and adjusting the schedule for all FY2020 deferred and current variable payments.

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.

FY19 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	13	68
2		Total fixed remuneration	4,685	21,909
3	Variable remuneration	Number of employees	8	61
4		Total variable remuneration	1,013	5,693
5	Total remuneration (2 + 4)		5,698	27,602

Appendix I

Glossary

3 LOD	3 Lines of Defence
ACPQM	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
CISCO	Chief Information Security Officer
COO	Chief Operating 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
ECL	Expected Credit Loss
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
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
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IPRE	Income Producing Real Estate
ISDA	International Swaps & Derivatives Association
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
MRM	Model Risk Management
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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