



SMBC SUMITOMO MITSUI BANKING CORPORATION
EUROPE LIMITED

**ANNUAL REPORT & FINANCIAL STATEMENTS
31 MARCH 2015**

Company number 4684034

STRATEGIC REPORT

The Directors present the Strategic Report of Sumitomo Mitsui Banking Corporation Europe Limited (the Bank) for the twelve months ended 31 March 2015.

Principal activities

The Bank is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. The Bank is registered in England and Wales under registration number 4684034.

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

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

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

The Bank is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation (SMBC), which is a Japanese banking institution. SMBC is a wholly owned subsidiary of Sumitomo Mitsui Financial Group (SMFG), a financial services conglomerate that is also incorporated in Japan.

SMBC has established a number of subsidiary companies, branches and representative offices in EMEA. The Bank has responsibility, as set out in various Service Level Agreements with SMBC and its group companies, for the provision of certain services to those subsidiary companies, branches and representative offices.

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

- Three client management departments servicing, respectively: Japanese and Asian corporates, non-Japanese corporates and emerging markets customers;
- a structured finance department;
- a trade finance department;
- a maritime finance department;
- an aircraft finance department;
- a syndication and asset distribution department;
- a specialised products department; and
- a treasury department.

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

Results and dividends

Profit before tax for the Bank for the year amounted to USD 152.4 million (2014: USD 144.0 million) with profit after tax for the year of USD 114.4 million (2014: USD 104.1 million).

The results for the year are set out in the Statement of Comprehensive Income on page 14.

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2015.

SMBCE's Objective

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

- Serving Customers

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

- Sustainable Growth

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

To develop an efficient and effective infrastructure to support sound business growth and to provide services to SMBC EMEA branches through Service Level Agreements.

- “Edges” as SMBCE

To establish and develop our “Edges”:

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

- Team SMFG/SMBC

To share SMFG’s/SMBC’s Mission and Vision and to contribute to their realisation.

Strategic review

Going concern

The Bank’s business activities, together with the factors likely to affect its future performance and position, are set out in this Strategic Report. The financial statements set out the financial position of the Bank at 31 March 2015.

Note 4 to the financial statements describes in further detail the ways in which the Bank manages, and its exposure to, market, liquidity and credit risk. Details of financial instruments and hedging activities can be found in notes 4 and 6 respectively.

The Directors believe that the Bank has adequate financial resources and is well placed to manage its business risks successfully despite the current uncertain outlook for the global economy and the banking sector. This belief is based on the following factors: (i) the Bank and its parent company, SMBC, have entered into a Keep Well Deed under which the Bank and SMBC agree to certain financial arrangements, including the obligation of SMBC to maintain tangible net worth in the Bank at all times sufficient to cover the Bank’s obligations arising through any of its business activities; and (ii) a number of measures have been adopted by the Bank to reduce liquidity and funding risk, including steps to improve the deposit base as detailed below.

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

Overview of business during the year

From an economic point of view, growth in the Eurozone stalled in 2014 as it continued to be constrained by high public and private debt, tight credit conditions and excess capacity. Although Germany continued to benefit from record-high employment, rising wages and ultra-low borrowing costs, the continued sluggishness of business investment, despite cash-rich corporations, limited its ability to lift Eurozone growth from near recession. Especially as the year wore on, geopolitical tensions added to the malaise, and as the sanctions related to the crisis in Ukraine intensified, growth suffered across EMEA region.

However, on the plus side the banking system appears much more resilient to a Eurozone crisis as highlighted in October 2014 when the result of the ECB’s asset quality review and forward-looking stress test were published. Furthermore, the UK bucked the trend to some extent as looser monetary policy boosted consumption without any noticeable pick-up in inflation, which remained below target reducing the pressure on the Bank of England to raise interest rates.

As was expected creeping deflation became a major focus on monetary policy as consumer price indices declined to below or close to zero across the European. To offset the concern about a deflationary recession the pace of fiscal consolidation eased considerably as coordinated action by Central Banks maintained monetary stability. Furthermore, the threat of recession enabled the ECB to introduce quantitative easing.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

Against this background the principal factors impacting the Bank's performance during the year were as follows:

- Net interest income of USD 234.4 million was up on last year (2014: USD 192.3 million). This reflected improved contribution from Treasury Department's banking operations and arbitrage activities. Arbitrage activities cross interest and foreign exchange products with part of the increase in interest income offset by losses generated in foreign exchange profits within net trading results.
- Net fees and commissions showed a healthy increase in the year (USD 54.5 million (20%) to USD 327.2 million) with a large part of the increase due to Service Level Agreement income for transactions arranged in the UK but ultimately booked elsewhere in the SMBC group. Through this profit sharing arrangement the Bank is appropriately compensated for these transactions. Fees and commissions payable were USD 20.7million.
- The Bank plays a significant role in SMBC's overall structured finance and trade finance businesses and SMBC in the past year received a number of awards within these sectors. These awards, together with a high ranking in various league tables, reflect the Bank's and SMBC's continuing strong reputation in these markets.
- Net trading results showed a loss of USD 11.6 million compared to a profit of USD 28.2 million in the previous year. Whilst the previous year's result were inflated by a one off disposal profit of USD 10.7m, the losses arose mainly due to Foreign Exchange losses on Arbitrage activities, which are offset by income within net interest income.
- Net operating expenses, excluding net impairment loss on financial assets, increased in the year by USD 24.2 million to USD 361.6 million. Personnel costs increased by USD 20.2 million due to increased staff numbers with a proportionate corresponding increase in non-personnel costs.
- Impairments costs were USD 36.0 million (2014: USD 11.8 million) reflecting a net charge of USD 47.5 million on specific provisions offset by USD 11.5 million credit on the collective provision. On specific provisions USD 26.7 million related to downgrades of exposures to Spanish renewables customers. In addition the Bank continues to sell distressed assets which released USD 34.9 million of specific provisions.
- The tax charge for the year amounted to USD 38.0 million (2014: USD 39.9 million). This equates to a tax charge for the year of 25% which is higher than the previous year and reflects higher tax charges for Milan and Paris branches. The current year was also affected by a USD 4.0 million prior year credit.
- Total asset balances increased slightly on the previous year to USD 32.0 billion (2014: USD 31.6 billion). As in prior years surplus cash over and above funding of the loan book continues to be placed with Bank of England and Banque de France to reduce risk. However, balances with these two institutions reduced in the year with a corresponding increase in loans and advances to banks.
- Off balance sheet guarantees and commitments decreased marginally compared to prior years to USD 11.2 billion (2014: USD 11.8 billion).

Risk Profile

Overview of Risk

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 the Bank is facing and, as such, is a key tool for managing the business. The Bank's risk level is managed at all times to be within its approved risk capacity. This 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.

Principal risks and uncertainties

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

- Credit Risk – the risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.
- Liquidity Risk – the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due.
- Market Risk – the risk that movements in interest rates, foreign exchange rates, or stock prices will change the market value of financial products, leading to a loss. The Bank uses Value at Risk ("VaR") to a 99% confidence interval to measure market risk

alongside other relevant metrics. During the year the average one day VaR was USD 0.4 million.

- Conduct Risk – is the risk of the Bank's behaviour resulting in poor customer outcomes and/or damage to the integrity of the financial markets. Any significant failure in this area could lead to regulatory censure and/or reputational damage.
- Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Historically, losses in this risk category have been low.
- Other non financial risks – as a result of its activities the Bank assumes other potential risk impacts such as reputational and others which it manages within the overall policy framework. Historically, losses in this risk category have been low.

The above list is not exhaustive as the Bank is also exposed to other potential risks and uncertainties.

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

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

A summary of the Bank's Risk Appetite is set out below. The Bank's Risk Appetite for Market Risk, Conduct Risk, Operational Risk and Other Non-Financial Risks is low. As a consequence, the main risks that the Bank proactively seeks are Credit Risk and Liquidity Risk.

Credit Risk -The Bank's total maximum credit exposure as at 31 March 2015 was USD 42.8 billion (2014: USD 42.9 billion) against which the Bank holds total provisions of USD 128.8 million (2014: 149.5million).

Liquidity Risk – The Bank maintains a strong and stable liquidity position. As at 31st March 2015, the Bank's Net Stable Funding Ratio (NSFR) was 69.6% (2014: 71.0%) and the Liquidity Coverage Ratio (LCR) was 115% (2014: 101%).

Risk Management Arrangements

The Directors, through the Audit, Risk and Compliance Committee (ARCCo), consider annually the adequacy and appropriateness of the risk management framework and its governance in the context of the Bank's size and business model. Based on the annual review undertaken in respect of the year ended 31 March 2015, the Directors have formed the view that the Bank's Risk Management framework is adequate. Set out below are further details on the Bank's Risk Management framework.

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

The 3 LOD approach separates the ownership and management of risk from the functions that oversee risk and the function that provides independent assurance:

LOD 1 – Functions that own and manage risk,

LOD 2 – Functions that independently oversee risk,

LOD 3 – Functions that provide independent assurance.

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

The key risk management processes employed to ensure a robust second line of defence are as follows:

- Risk Governance
- Risk Appetite Setting
- Risk Register
- Risk Control Assessment
- Stress Testing/Reverse Stress Testing
- Active Credit Portfolio Quality Management (ACPM)
- Senior Management Training
- Key Risk Indicators/Early Warning Indicators
- Model Governance (e.g. IRB)

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

LOD 3 – Internal and External audit provide independent assurance.

The Bank has established an independent Audit Department, which comprises an Internal Audit Group and a Credit Review Group. The objective of Audit Department is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established and maintained within the Bank. In order to achieve this objective, the Internal Audit Group, which is responsible for reviewing the controls for those risks other than credit risk, conducts audits and provides consulting services to management by using a risk-based approach. The Credit Review Group, which is responsible for reviewing credit risk, conducts credit reviews by employing predetermined risk criteria. The Audit Department acts independently of the Bank's business units. The two Co-General Managers of Audit Department report to the Audit, Risk and Compliance Committee at its quarterly meetings.

Annual review of internal controls

The Directors, through the Audit, Risk and Compliance Committee, undertake an annual review of the effectiveness of the Bank's system of internal controls. In June 2015, the Audit, Risk and Compliance Committee received confirmation from the Bank's Risk Management Department that management has taken or is taking the necessary actions to remedy any weaknesses identified through the operation of the Bank's framework of controls. This review considers the results of an attestation procedure, under which the key risks facing the Bank, along with related key controls, are assessed and recorded by the Heads of Business Units and Functions. On the basis of this assessment, the Board considers the Bank's system of internal controls to be appropriate. The Bank's system of internal controls is designed to mitigate and manage, rather than eliminate, the Bank's risks. As such, this system can only provide reasonable and not absolute assurance against material misstatement or loss.

Key components of the framework which the Bank has in place to provide assurance to the Board on the effectiveness of internal controls set out in note 4.

Financial Instruments

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

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

Key Performance and Key Risk Indicators

Key Performance and Key Risk Indicators are widely used in the Bank and are reported as appropriate in Board and Committee meetings. The indicators used range from basic net income and cost income ratio targets through to more complex measures covering economic capital measures of risk appetite and Value at Risk. However, being a private company, the Bank has no publicly announced targets.

For the year to 31 March 2015 the Bank's return on equity (using internal methodology) was 3.2% (2014: 3.0%). Return on equity is calculated as profit after tax (USD 114.4 million (2014: USD 104.1 million)) divided by the average equity in the year (USD 3,595.0 million (2014: USD 3,488.0 million)).

The Board continues to support the strategy of prudent use of capital resources for the continued profitability and development of the Bank. At the Balance Sheet date the Bank's capital usage ratio was 65.5% (2014: 71.8%) and its tier 1 capital ratio was 24.8% (2014: 22.9%). At the Balance Sheet date the Bank's leverage ratio was 9.7% (2014: 7.8%). The leverage ratio is calculated as the Regulatory Tier 1 capital (USD 3,607.9 million (2014: USD 3,424.9 million)) divided by the Total Exposure Measure (USD 37,242.9 million (2014: USD: 44,107.1 million)).

The Bank's Pillar 3 disclosures can be found at www.smbcgroup.com/emea/info/smbce.

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

Approved by the Board of Directors



K Nakamura

Director

30 June 2015

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

REPORT OF THE DIRECTORS

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

Directors

The Directors who held office as at 31 March 2015 were as follows:

Ms Elizabeth Noël Harwerth	Non-executive Director, Chairman
Mr Masahiko Oshima	Executive Director, Chief Executive Officer
Mr Kenichi Hosomi	Executive Director
Mr Takayuki Inoue	Executive Director
Mr Ian Jameson	Executive Director
Mr Shosuke Mori	Non-executive Director
Mr Keiichiro Nakamura	Executive Director
Mr Yoshiyuki Ohmi	Executive Director
Mr Derek Ross	Non-executive Director

The following changes to the Bank's Directorate occurred in the year.

Mr Hiroyuki Iwami resigned as an executive Director on 15 April 2014. Mr Takayuki Inoue was appointed as an executive Director on 16 May 2014.

The following changes to the Directorate have occurred subsequent to the year-end: Mr Stanislas Roger was appointed an executive Director on 29 April 2015; Mr Yoshiyuki Ohmi resigned as an executive Director on 17 June 2015; Mr Shosuke Mori resigned as a non-executive Director on 23 June 2015; Mr Kenichi Hosomi became a non-executive Director, having previously been an executive Director, on 23 June 2015; and Mr Masaaki Sasai was appointed an executive Director on 30 June 2015.

As a result of these changes, the Directors who held office at the date of signing these annual report and accounts were as follows:

Ms Elizabeth Noël Harwerth	Non-executive Director, Chairman
Mr Masahiko Oshima	Executive Director, Chief Executive Officer
Mr Kenichi Hosomi	Non-Executive Director
Mr Takayuki Inoue	Executive Director
Mr Ian Jameson	Executive Director
Mr Keiichiro Nakamura	Executive Director
Mr Stanislas Roger	Executive Director
Mr Derek Ross	Non-executive Director
Mr Masaaki Sasai	Executive Director

Directors' indemnities

Ms Harwerth and Mr Ross benefited from qualifying third party indemnity provisions, which were in place during the financial year and which remain in place at the date of this Report.

Corporate Governance

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

Board of Directors

The Board is responsible for the leadership, direction and control of the Bank and for ensuring that the Bank complies with its legal and regulatory requirements. The Board has delegated to the Chief Executive Officer (CEO) responsibility for the management and day-to-day running of the Bank. The Chief Operating Officer assists the CEO in this role by participating in and overseeing all key decision making in the Bank.

Board structure

At the date of signing this Report, the Board consisted of nine Directors, six of whom were executive and three of whom were non-executive.

Executive Directors

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

- Mr Masahiko Oshima, appointed as a Director on 13 August 2013, is the Chief Executive Officer. Mr Oshima is a director of two other SMBC Group companies and is a Managing Director of SMBC.
- Mr Takayuki Inoue, appointed as a Director on 16 May 2014, is the General Manager of Credit Department, which has responsibility for the Bank's credit sanctioning activities. Mr Inoue holds no other directorships.
- Mr Ian Jameson, appointed as a Director on 1 December 2011, is the Bank's European General Counsel. He is also Co-General Manager of the Bank's Planning Department - Legal & Compliance Department. Mr Jameson is a director of one other SMBC Group company.
- Mr Keiichiro Nakamura, appointed as a Director on 2 April 2012, is the Chief Operating Officer and General Manager of Planning Department, which has responsibility for the following activities: corporate planning, human resources, financial reporting and information systems. Mr Nakamura holds no other directorships.
- Mr Stanislas Roger, appointed as a Director on 29 April 2015, is Deputy Chief Executive Officer responsible for overseeing maritime asset finance, aircraft finance and specialised products. He is also General Manager of Maritime Asset Finance Department and Global Aircraft Finance Department. Mr Roger is a Director of SMBC. Mr Roger holds no other directorships.
- Mr Masaaki Sasai, appointed as a Director on 30 June 2015, is Deputy Chief Executive Officer responsible for overseeing the structured finance and international finance businesses. Mr Sasai is also a Director of SMBC. Mr Sasai holds no other directorships.

The Board has appointed three non-executive Directors.

- Ms Noël Harwerth is the Chairman of the Board, the EMEA Nomination Committee and the Remuneration and Human Resources Committee. She was appointed a Director of the Bank on 19 December 2003. Ms Harwerth is a director of five other companies: Standard Life Plc (financial services), GE Capital Bank Limited (financial services), Alent plc (speciality chemicals), London Metals Exchange Limited (clearing services) and the British Horseracing Authority (British horseracing governing body). Ms Harwerth was formerly chief operating officer of Citibank International plc.
- Mr Derek Ross is the Chairman of the Bank's Audit, Risk and Compliance Committee. He was appointed a Director of the Bank on 23 September 2010. Mr Ross is a director of three other companies, Depository Trust and Clearing Corporation, and a number of its subsidiary companies (clearing and settlement services), GE Capital Bank Limited (financial services) and The Access Bank UK Limited (financial services). Mr Ross was formerly a senior partner of Deloitte.
- Mr Kenichi Hosomi is a Director of SMBC. He is the General Manager of SMBC's Planning Department, International Banking Unit. He was appointed a Director of the Bank on 13 April 2012. Mr Hosomi is a Director of two other SMBC Group companies.

The Board meets on a quarterly basis and, additionally, when necessary. Between these meetings there is regular contact between the executive and non-executive Directors. The Board has a formal schedule of matters reserved for its consideration. All Directors have access to the advice of the Company Secretary and have the right to seek independent professional advice at the Bank's expense in the furtherance of their duties.

Board Composition

The EMEA Nomination Committee is responsible for nominating candidates to the Board to fill Board and certain other vacancies. The final decision on whether to appoint any candidate to a Board position lies with the Board of Directors.

The Board has put in place a Diversity Policy. This Policy and the Bank's policy on the selection and appointment of senior management and Directors reflect the Bank's status as a wholly-owned subsidiary of SMBC. In respect of gender diversity, the Board has set itself a target that at least 20 per cent of the Board will be made up of women by the end of 2018. Currently, 11 per cent of the Board is made up of women.

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

Appointments to Board and senior management level are made on the basis of the competencies, skills, experience and values of the candidates.

In addition, appointments to the Board seek to ensure that the Directors possess adequate collective knowledge, skills and experience to understand the Bank's activities and that it reflects an adequately broad range of experiences. Directors are also expected to commit sufficient time to perform their functions and to act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of senior management and to effectively oversee and monitor management decision-making.

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

Board Committees

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

- **Executive Committee:** Mr Oshima is the Chairman of this Committee, which is attended by all executive Directors and the other General Managers and Co-General Managers of the Bank. The Co-General Managers of Audit Department attend Committee meetings as non-members.

The Executive Committee is responsible for the supervision and management of the Bank's daily operations and for overseeing the work of the Risk Committees. The Executive Committee meets monthly and reports to the Board of Directors.

- **Audit, Risk and Compliance Committee:** The members of the Audit, Risk and Compliance Committee are the non-executive Directors, with Mr Ross acting as Chairman.

At the invitation of the Committee Chairman, Mr Oshima, Mr Jameson and Mr Nakamura also attend Committee meetings. The relevant members of executive management also attend Committee meetings, including: the Co-General Managers of Audit Department, the Co-Chief Risk Officers, the Chief Compliance Officer, the Money Laundering Reporting Officer and the Head of Finance. A representative of the external auditors is also required to attend a minimum of two meetings per annum. The Co-General Managers of Audit Department and the Co-Chief Risk Officers have direct access at any time to the Committee members.

The Audit, Risk and Compliance Committee is principally responsible for considering the Bank's risk management structure and systems, the main areas of risk faced by the Bank, conduct risk and regulatory issues, annual financial statements, external audit arrangements, Internal Audit and Credit Review oversight, monitoring the Bank's risk management and internal control systems, and the appointment and dismissal of the senior management members of the Audit Department. It also receives a report on the major areas of discussion at Risk Committee meetings. The Audit, Risk and Compliance Committee meets quarterly and reports to the Board of Directors.

- **Remuneration and Human Resources Committee:** The members of the Remuneration and Human Resources Committee are the non-executive Directors, with Ms Harwerth acting as Chairman. Mr Oshima, Mr Nakamura and the Head of Human Resources also attend Committee meetings as participants in discussion.

The Remuneration and Human Resources Committee is responsible for assessing the appropriateness, and approving the remuneration, of the Bank's Directors and certain other members of management. It also has responsibility for other Board level remuneration and human resource matters, such as approving the Bank's remuneration policy and considering the level of staff turnover. The Remuneration and Human Resources Committee meets quarterly and reports to the Board of Directors.

- **EMEA Nomination Committee:** The members of the EMEA Nomination Committee are Ms Harwerth (Chairman), Mr Ross, Mr Oshima, Mr Nakamura, Mr Roger and Mr Sasai.

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

Risk Committees

The Bank has also established four Risk Committees. These Committees are responsible for considering certain areas of risk for the Bank and 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 the compliance with regulatory requirements. The Committee reports to the Executive Committee and the Audit, Risk and Compliance Committee. The Committee has established a sub-committee, Liquidity Management Committee, which considers issues relating to liquidity risk management, including analysis of the funding market, stress testing results, impact of business strategy on assets and deposits and funding strategy.
- **Credit Risk Committee:** This Committee is primarily responsible for reporting and discussing a range of credit issues including consideration of credit risk Key Risk Indicators, portfolio analysis, sector analysis, asset allocation as well as the Bank's credit risk appetite and associated risk tolerances. It also reviews matters such as credit policies and rules, credit strategy and provisioning policy. Issues arising from the ongoing credit review by Audit Department - Credit Review Group are also discussed at this Committee. The Committee reports to the Executive Committee and the Audit, Risk and Compliance Committee. The Committee has established two sub-committees, Special Credits Committee, which considers issues relating to the Bank's non-performing loans, and Credit Risk Models Governance Committee, which considers the risks related to the Bank's credit risk management models.
- **Financial Crime Committee:** This Committee is responsible for considering those aspects of the Bank's financial crime arrangements that it deems necessary to ensure that the Bank's KYC Risk Culture Mission is achieved and its reputational risk is appropriately managed. The Committee is independent of other Committees, but makes reports to the Executive Committee and Audit, Risk and Compliance Committee on any significant matters that require the attention of those Committees.
- **Operational and General Risk Committee:** This Committee is responsible for examining and discussing matters related to 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 Committee reports to the Executive Committee and the Audit, Risk and Compliance Committee. This Committee has established two Sub-Committees: (i) IT Steering Committee, which is responsible for considering IT initiatives, policy and projects and systems performance; and (ii) New Products and Services Committee, which is responsible for considering applications for the introduction of new products and services.

Financial instruments

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

Contracts of significance with controlling shareholder

In addition to the Keep Well Deed with SMBC, in accordance with the normal course of business, the Bank and SMBC have entered into an ISDA Master Agreement and Credit support Annex whereby SMBC agrees, inter alia, to provide the Bank with collateral of a value that is greater than the Bank's exposure to SMBC. The Bank has also entered into a USD 1.5 billion revolving multicurrency revolving liquidity facility agreement with SMBC.

Overseas offices and other operations

During the course of the year, the Bank established a Branch in Madrid, Spain and Prague, Czech Republic. The Bank also has branches located in Amsterdam, Dublin, Milan and Paris.

The Bank also has a one per cent shareholding in ZAO Sumitomo Mitsui Rus Bank, a commercial banking company located in Moscow.

Future developments

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

Charitable and political donations

The Bank respects its employees, its clients and its local community. Involvement in the community is an integral part of this philosophy. The Bank provides up to six paid days per year for employees volunteering for community activities and the Bank is confident that the interaction of our employees with charities and other voluntary organisations helps the Bank keep up to date and ensures that diversity is respected in all areas of the Bank's business. Many employees have actively supported the Bank's community volunteering scheme and, during the year, 177 hours (2014: 333 hours) of employee work time were given to community volunteering, with many more hours volunteered in employees' personal time. The Bank also provides the opportunity for people to undertake paid internships and work experience within the Bank.

To support its involvement in community initiatives, the Bank has established a Corporate Giving Fund. Under this scheme, the Bank establishes an annual fund from which donations are made to carefully selected community organisations in sectors in which the Bank works or that have long-term relationships (via volunteering) with Bank employees. In addition, from this Fund, subject to certain restrictions, the Bank will match contributions made by employees through the Payroll Giving scheme and funds raised by employees from other charitable fund-raising events. During the year, including the matching of employee donations and fund raising, the Bank made total charitable donations of USD 34,521 (2014: USD 31,406) to community organisations focused on a variety of social initiatives.

The Bank made no political contributions during the year (2014: nil).

Equal opportunities

The Bank is an equal opportunities employer. It is the Bank's intention that:

- no potential or current employee is subject to discrimination on account of age, race, nationality, colour, disability, ethnic background, gender, sexual orientation, gender reassignment, pregnancy or maternity leave, marital status, religion or belief;
- employees are not disadvantaged by conditions or requirements which have a disproportionately adverse effect on them more than any other group;
- criteria and procedures are in place to ensure that the Bank will select, appoint, train, develop and promote on the basis of merit and ability;
- all employees have personal responsibility for the practical application of the Bank's equal opportunities policy, which extends to the treatment of employees, customers and suppliers;
- special responsibility for the practical application of the Bank's equal opportunities policy falls upon managers and supervisors involved in the recruitment, selection, promotion and development of employees;
- the Bank's grievance procedure is available to any employee who believes that he or she may have been unfairly discriminated against; and
- the Bank will take disciplinary action against any employee who is found to have committed an act of unlawful discrimination. Discriminating conduct and sexual or racial harassment may be treated as gross misconduct.

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

Employee consultation

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

Disclosure of Information to Auditors

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

Auditors

On 20 October 2014, KPMG Audit Plc resigned as the Bank's auditors. In their place, the Bank's shareholder approved on 20 October 2014 the appointment of KPMG LLP as the Bank's auditors.

A handwritten signature in black ink, appearing to read 'MJ Bradley', with a long horizontal line extending to the right.

By order of the Board

M J Bradley
Company Secretary
99 Queen Victoria Street
London
EC4V 4EH
30 June 2015

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTOR'S REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of Sumitomo Mitsui Banking Corporation Europe Limited ("the Bank") for the year ended 31 March 2015 set out on pages 14 to 63. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Catherine Burnet (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London, E14 5GL

United Kingdom

30 June 2015

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

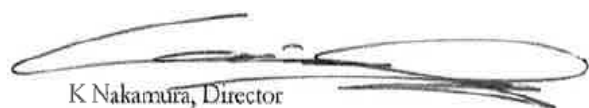
	Notes	2015 USDm	2014 USDm
Interest income	7	383.2	303.5
Interest expense	7	(148.8)	(111.2)
Net Interest Income		<u>234.4</u>	<u>192.3</u>
Fees and commissions income	7	347.9	304.2
Fees and commissions expense	7	(20.7)	(31.5)
Net fee and commission income		<u>327.2</u>	<u>272.7</u>
Net trading (loss)/income	7	(11.6)	28.2
Operating Income		<u>550.0</u>	<u>493.2</u>
Net impairment loss on financial assets	18,26	(36.0)	(11.8)
Personnel Expenses	8	(243.5)	(222.5)
Depreciation and amortisation	20,21	(12.1)	(10.4)
Other Expenses	9	(106.0)	(104.5)
Net Operating Expenses		<u>(397.6)</u>	<u>(349.2)</u>
Profit before income tax		<u>152.4</u>	<u>144.0</u>
Income tax charge	13	(38.0)	(39.9)
Profit for the year attributed to equity holders of the parent		<u>114.4</u>	<u>104.1</u>
Other comprehensive income net of tax			
Items that will never be reclassified to profit and loss			
Actuarial gains/(losses) on defined benefit scheme		4.5	(9.5)
Items that are reclassified to profit and loss			
Cash flow hedges		(1.8)	7.5
Available-for-sale investments		-	(1.0)
Other comprehensive income net of income tax		<u>2.7</u>	<u>(3.0)</u>
Total comprehensive income for the year		<u>117.1</u>	<u>101.1</u>

The notes on pages 18 to 63 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

	Notes	2015 USDm	2014 ⁽¹⁾ USDm
ASSETS			
Cash and balances at central banks	15	11,875.2	13,775.6
Loans and advances to banks - included in cash and cash equivalents	16	4,971.6	3,423.6
Derivative assets	4	1,496.5	715.3
Loans and advances to banks - other	16	807.8	1,103.0
Loans and advances to customers	17	11,589.8	11,351.5
Investment securities	19	882.9	1,001.7
Intangible assets	20	6.8	6.2
Property and equipment	21	12.0	17.4
Other assets	22	299.9	228.0
Pensions surplus	12	21.2	3.7
Current tax asset		-	2.2
Deferred tax asset	23	1.8	8.1
Total assets		<u>31,965.5</u>	<u>31,636.3</u>
LIABILITIES			
Derivative liabilities	4	1,351.0	698.1
Deposits by banks		16,854.8	17,079.8
Customer accounts		7,648.4	7,825.3
Debt securities in issue	24	2,378.4	2,375.7
Other liabilities	25	83.7	100.4
Other provisions	26	3.5	7.8
Current tax liability		3.0	23.6
Total liabilities		<u>28,322.8</u>	<u>28,110.7</u>
SHAREHOLDERS' EQUITY			
Called up share capital	27	3,200.0	3,200.0
Retained earnings		344.9	226.0
Other reserves		97.8	99.6
Total equity		<u>3,642.7</u>	<u>3,525.6</u>
Total liabilities and equity		<u>31,965.5</u>	<u>31,636.3</u>

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



K Nakamura, Director

30 June 2015

The notes on pages 18 to 63 are an integral part of these financial statements.

Company registration number 4684034

⁽¹⁾ The prior year has been restated to reflect the adoption of IAS 32 revised standard. Please refer to note 2c.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2015

	Share Capital USDm	Retained Earnings USDm	Capital Redemption USDm	Cash Flow Hedge Reserve USDm	Available-for Sale Reserve USDm	Total USDm
At 1 April 2013	2,400.0	131.4	100.0	(5.9)	(1.0)	2,624.5
Total comprehensive income for the year						
Net profit for the period	-	104.1	-	-	-	104.1
Other comprehensive income, net of tax						
Effective portion of changes in fair value of cashflow hedges	-	-	-	1.6	-	1.6
Net gains/(losses) transferred to net profit	-	-	-	5.9	-	5.9
Actuarial loss on defined benefits scheme	-	(9.5)	-	-	-	(9.5)
Change in fair value of assets classified as available-for-sale assets	-	-	-	-	0.5	0.5
Net gains/(losses) transferred to net profit on available-for-sale assets	-	-	-	-	(1.5)	(1.5)
Total comprehensive income	2,400.0	226.0	100.0	1.6	(2.0)	2,725.6
Transactions with owners, recorded directly in equity						
Issue of new shares	800.0	-	-	-	-	800.0
At 31 March 2014	3,200.0	226.0	100.0	1.6	(2.0)	3,525.6
At 1 April 2014	3,200.0	226.0	100.0	1.6	(2.0)	3,525.6
Total comprehensive income for the year						
Net profit for the period	-	114.4	-	-	-	114.4
Other comprehensive income, net of tax						
Effective portion of changes in fair value of cashflow hedges	-	-	-	(0.2)	-	(0.2)
Net gains/(losses) transferred to net profit	-	-	-	(1.6)	-	(1.6)
Actuarial gain on defined benefits scheme	-	4.5	-	-	-	4.5
Change in fair value of assets classified as available-for-sale assets	-	-	-	-	(0.1)	(0.1)
Net gains/(losses) transferred to net profit on available-for-sale assets	-	-	-	-	0.1	0.1
Total comprehensive income	3,200.0	344.9	100.0	(0.2)	(2.0)	3,642.7
Transactions with owners, recorded directly in equity						
Issue of new shares	-	-	-	-	-	-
At 31 March 2015	3,200.0	344.9	100.0	(0.2)	(2.0)	3,642.7

The notes on pages 18 to 63 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2015

	2015	2014
	USDm	USDm
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit for the year before tax	152.4	144.0
Adjustments for non cash items:		
Net impairment loss on financial assets	36.0	11.8
Unrealised exchange movements on non operating assets and liabilities	(7.4)	5.9
Impairment loss written off	(30.2)	(122.9)
Depreciation and amortisation	12.1	10.4
Changes in operating assets and liabilities		
Changes in loans and advances to banks - others	319.4	64.0
Changes in derivative financial instruments	(128.3)	50.7
Changes in loans and advances to customers	(246.1)	(297.5)
Changes in other assets	(83.1)	(42.5)
Changes in deposits by banks	(225.0)	(2,197.6)
Changes in customer accounts	(176.9)	2,709.0
Changes in income tax	(18.4)	16.9
Changes in other liabilities	(16.6)	13.4
Net cash from operating activities	<u>(412.1)</u>	<u>365.6</u>
Purchase of investment securities	(950.2)	(936.2)
Proceeds from sale or redemption of investment securities	1,014.5	425.4
Net addition of intangible assets	(4.4)	(5.0)
Purchase of property and equipment	(2.9)	(0.2)
Proceeds from sale of property and equipment	-	-
Net cash from investing activities	<u>57.0</u>	<u>(516.0)</u>
Cash flow from financing activities		
Proceeds from issue of debt securities	2,378.4	2,375.7
Repayment of debt securities	(2,375.7)	(2,240.0)
Repayment and cancellation of subordinated debt	-	(800.0)
Net issue of shares	-	800.0
Net cash from financing activities	<u>2.7</u>	<u>135.7</u>
Net increase in cash and cash equivalents	<u>(352.4)</u>	<u>(14.7)</u>
Cash and cash equivalents at start of the year	17,199.2	17,213.9
Cash and cash equivalents at 31 March	<u>16,846.8</u>	<u>17,199.2</u>
Cash and cash equivalents comprise:		
Cash and balances at central banks	11,875.2	13,775.6
Loans and advances to banks with original maturities of up to three months	4,971.6	3,423.6

The notes on pages 18 to 63 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

1. REPORTING ENTITY

The Bank is a company domiciled in the United Kingdom. The nature of the Bank's principal activities are set out in the Strategic Report.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

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

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

(c) Adoption of IFRS

i) The following new standard and amendments to standards have been adopted. Only the amendments to IAS 32 had a significant impact on the Bank's policies, results or positions, as described below.

IAS 32 - Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments) from 1 April 2014. The amendments to IAS 32 clarify the requirements for offsetting financial instruments and address inconsistencies identified in applying the offsetting criteria used in the standard. In particular what constitutes a currently legally enforceable right of set-off and the circumstances under which gross settlement systems may be considered equivalent to net settlement. As a result of the revision the Bank no longer nets its derivative financial assets and liabilities with counterparties. The impact of adoption on the comparative Balance Sheet was as follows:

	Pre IAS 32 (revised)	IAS 32 (revised) impact	Published
	USDm	USDm	USDm
Derivate assets	468.7	246.6	715.3
Derivative liabilities	451.5	246.6	698.1

IFRS - 10 Consolidated Financial Statements - outlines the requirements for the preparation and presentation of consolidated financial statements. Requiring entities to consolidate entities it controls.

IFRS - 11 Joint Arrangements - outlines the accounting by entities that jointly control an arrangement.

IFRS - 12 Disclosure of Interests in Other Entities is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.

ii) A number of new standards and amendments to standards are effective for annual periods beginning after 1 April 2014. However the Bank has not applied the following new or amended standards in these financial statements.

IFRS 9 - Financial Instruments was published in July 2014 and replaces the existing guidance in *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual reporting periods on or after 1 January 2018 and is awaiting EU endorsement. The Bank has not yet made a full impact assessment.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

IFRS 15 Revenue from Contracts with Customers. This replaces *IAS 18 Revenue*, *IAS 11 Construction Contracts* and *IFRIC 13 Customer Loyalty Programmes*. The standard is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. This standard is also awaiting EU endorsement. The Bank has not yet made a full impact assessment.

(d) Significant accounting judgements and estimates

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

Pensions (note 12)

The cost of the defined benefit pension scheme is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of the scheme, such estimates are subject to significant uncertainty. See note 12 for the assumptions used.

Fair value of financial instruments (note 4)

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

Impairment losses on loans and advances (note 18)

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

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

Provisions on guarantees and other commitments (note 26)

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

Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

Subsidiaries are investees controlled by the bank. The bank 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The group reassesses whether it has control if there are changes to one or more of the elements of control. In the normal course of business the Bank lends to structured entities in a number of different industries. The assessment undertaken by the Bank includes circumstances in which protective rights held (e.g.those resulting from a lending relationship) become substantive and lead the Bank having power over the investee. The financial statements of any subsidiaries would be included in the consolidated financial statements from the date control commences until the date control ceases. At 31 March 2015 the Bank did not control any investees.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

(b) Interest and similar income and expense

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

(c) Fee and commission income and expense

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

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

(d) Net trading income

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

(e) Leases and rental agreements

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

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

(f) Property and equipment

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

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

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

(g) Intangible Assets

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

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

Computer software	3 years
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(h) Income tax expense

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

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

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

(i) Pensions and other post-retirement benefits

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

A defined-benefit scheme is provided to a small number of staff. The assets of the scheme are held separately from the assets of the Bank and are administered by trustees. This scheme is closed to new members.

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

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

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

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

(j) Financial Instruments – initial recognition and subsequent measurement

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

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

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

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

Derivatives

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

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

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

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

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

Loans and receivables

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

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

Held-to-maturity assets

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

Available-for-sale assets

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

Financial assets classified as available-for-sale are measured at fair value on the statement of financial position. Unrealised gains and losses are recognised in other comprehensive income and only when disposed of is the cumulative gain or loss, previously recognised in other comprehensive income, recognised in profit and loss. If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in impairment losses in profit and loss in the period in which the impairment is identified.

Financial Liabilities

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

De-recognition of financial assets and liabilities

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

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

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

Derivatives used for asset and liability management purposes – hedge accounting

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

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

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

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

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

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

(k) Impairment of financial assets

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

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

Impairment is calculated in two principal ways;

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

- i. Impairment is calculated as the difference between the carrying value of the asset and the expected cash flows from the asset discounted at the original effective interest rate. Where a secondary market exists for the asset, this calculation is checked for reasonableness by comparing it to the difference between the current market price (which reflects the market's perception of the discounted value of the future cash flows from the asset) and the carrying value. A provision for impairment is reversed only when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement. Assets individually identified as impaired are removed from the portfolio assessment.
- ii. For the purpose of a collective (portfolio) evaluation of impairment, financial assets are grouped on the basis of the Bank's internal grading system that considers credit risk characteristics such as asset type, tenor, industry, geographical location, collateral type, past due status and other relevant factors.

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

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

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

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

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

(l) Foreign currencies

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

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

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

For the purpose of translation into the presentation currency, assets, liabilities and equity of the Milan, Paris and Amsterdam branches are translated at the closing rate, and items of income and expenses are translated at average rates of exchange, where these approximate actual rates. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

(m) Financial guarantees

In the course of its business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value being the premium received. Subsequent to initial recognition, the

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Bank's liability under each guarantee is measured at the higher of the amortised premium or the provision in line with policy (o). The premium receivable is recognised in profit and loss in fees and commissions income on a straight-line basis over the life of the guarantee. Any increase in the liability relating to financial guarantees is taken to profit and loss.

(n) Cash and cash equivalents

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

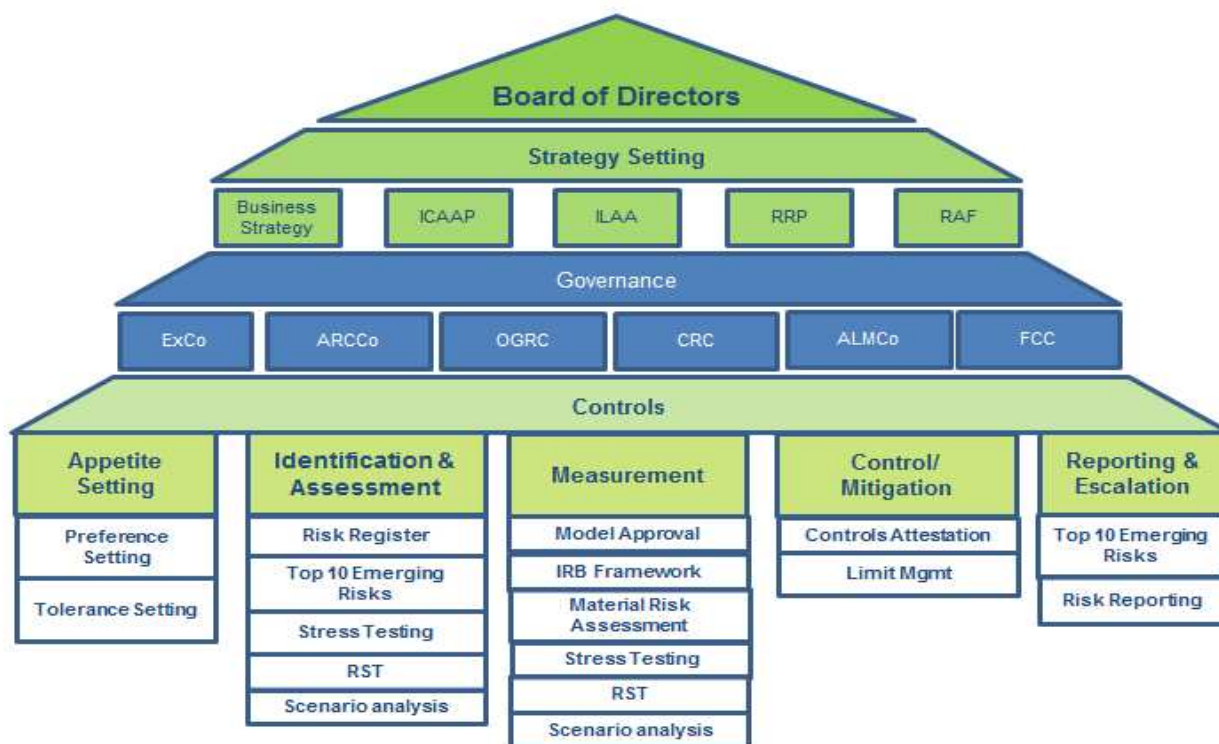
(o) Provisions

Provisions are recognised for present obligations arising as a consequence of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated. Provisions are made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

4. RISK MANAGEMENT

(a) Strategic Risk and Risk Governance

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



Key:

ICAAP: Internal Capital Adequacy Assessment Process

ILAA: Individual Liquidity Adequacy Assessment

RRP: Recovery and Resolution Planning

RAF: Risk Appetite Framework

RST: Reverse Stress Test

ExCo: Executive Committee

ARCCo: Audit, Risk and Compliance Committee

OGRC: Operational and General Risk Committee

CRC: Credit Risk Committee

ALMCo: Asset and Liability Management Committee

FCC: Financial Crime Committee

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

Corporate Culture

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

- Maintaining valued customer relationships upon which the Bank's business model is based,
- Achieving sustainable growth over the long term,
- Ensuring business is run in an appropriately balanced way where all possible risks are correctly identified and managed,
- Ensuring the maintenance of a sufficiently robust risk management and governance framework that is supportive of current and future strategic objectives,
- Ensuring the Bank is appropriately rewarded for the risks it incurs in undertaking its business,
- Ensuring that management and staff are appropriately trained,
- Ensuring the appropriateness of remuneration, and
- Setting objectives to ensure there is no conflict between the strategic and risk management objectives of the Bank.

Risk management objectives

The Bank's business model is designed to ensure that the Bank remains a well-funded, well-controlled, risk averse corporate banking institution focusing resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced growth. The Bank's risk management objectives are as follows:

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

(b) Enterprise Risk Management

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

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

LOD 1 – Functions that own and manage risk;

LOD 2 – Functions that independently oversee risk;

LOD 3 – Functions that provide independent assurance.

The model is illustrated in the diagram below:



(c) Risk Identification and Assessment;

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

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

(d) Risk Management and Monitoring

The key principles used for risk measurement and monitoring are:

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

Internal Ratings Based Framework and Credit Risk Attestation

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

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

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

Stress Testing and Scenario Analysis

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Reverse Stress Testing

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

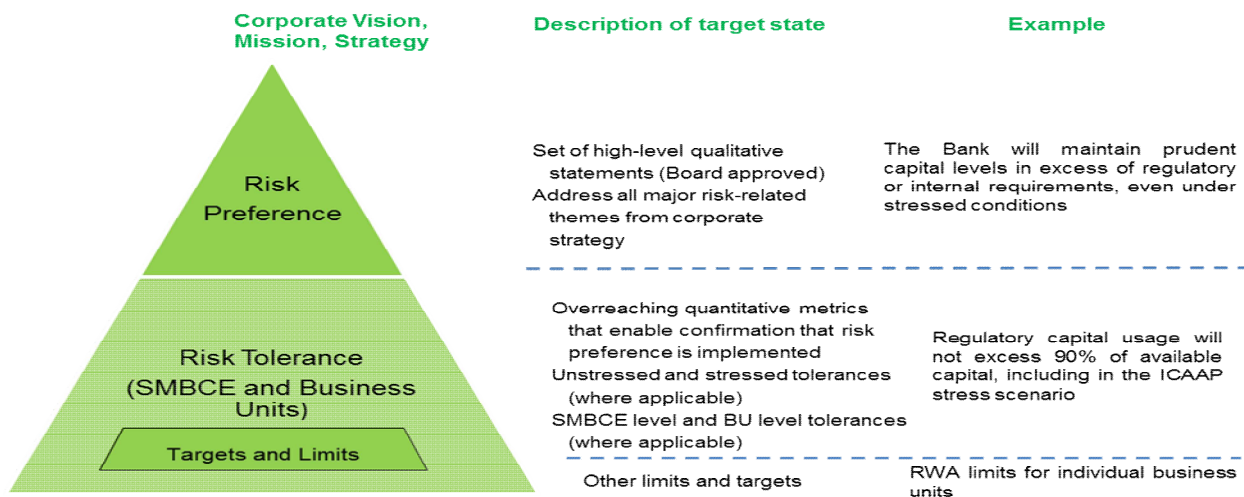
(e) Risk Appetite Setting

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

The key principles of the Risk Appetite Framework are:

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

The Risk Appetite Framework consists of : Risk Preferences, Risk Tolerances and ‘Targets and Limits’. Risk appetite is linked to overall business strategy, including assessment of new business opportunities, liquidity, funding and capital planning.



(f) Risk Control and Mitigation

The Bank seeks to mitigate its inherent risk as far as possible to ensure that it remains within the risk appetite. This takes the form of tangible mitigation such as collateral, credit default swaps, as well as in the form of policies, processes and controls. Both the inherent risks and the residual risks are monitored to analyse the Bank’s risk profile.

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

- Tangible security;
- Financial collateral;
- Credit default swaps and guarantees;

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

- Risk governance, policy and procedures;
- Individual and collective controls; and
- Other mitigation and control actions.

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

Acceptance List

Certain risks may not be capable of being fully mitigated or in certain circumstances the cost or practicality may be excessive for the size of the inherent risk. These risks are formally accepted by the Bank.

To ensure appropriate monitoring and good governance, all outstanding risk acceptances are recorded on the Acceptance List.

(g) Credit Risk

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

The Framework

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

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

There have been no significant changes in the year in the objectives and policies for the management of credit risk.

Credit Assessment

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

The rating system consists of two indicators namely:

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

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

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

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

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

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

Credit Monitoring

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

- Periodic monitoring following financial results disclosures, and
- Ad-hoc monitoring should credit conditions deteriorate.

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

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

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Industry Exposures

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

	2015 USD m	2014 USD m
Finance and insurance	17,554.5	18,304.1
Government and local authorities	1,067.2	1,074.5
Manufacturing	1,075.8	1,752.6
Wholesale	306.2	342.7
Services	349.0	162.0
Other corporate exposures	6,120.2	4,110.1
Transport	1,211.7	1,112.4
Energy	248.1	1,420.0
Infrastructure	2,152.5	2,301.5
Co-Investment	42.0	75.5
	30,127.2	30,655.4

The industry exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. Finance and insurance includes USD 9,868.5m to the Bank of England (2014: USD 9,307.8m) and USD 2,006.6m to the Banque de France (2014: 4,467.8m).

Geographical Exposures

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

	2015 USDm	2014 USDm
United Kingdom	15,855.9	13,495.9
France	4,373.4	7,133.1
Italy	260.3	430.5
Other Europe	3,973.5	2,789.7
Eastern Europe	1,117.0	1,675.2
Japan	294.3	761.0
Other Asia	334.7	600.6
Africa	1,828.0	684.4
Latin America	1.2	-
Middle East	871.3	647.1
North America	1,217.4	2,251.3
Oceania	0.2	186.6
	30,127.2	30,655.4

The geographical exposure classifications shown above follow the same categories as used in the Bank's Pillar 3 disclosures. The above disclosures are based on country of residence, whilst the Bank's Pillar 3 disclosures use country of risk. United Kingdom includes USD 9,868.5m exposure to the Bank of England (2014: USD 9,307.8m) and France includes USD 2,006.6m exposure to the Banque de France (2014: USD 4,467.8m)

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Maximum exposure to credit risk

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

	2015 USDm	2014 USDm
Cash and balances at central banks	11,875.2	13,775.6
Loans and advances to banks	5,779.4	4,526.6
Loans and advances to customers	11,589.8	11,351.5
Derivative Assets	1,496.5	715.3
Investment Securities	882.9	1,001.7
Total	31,623.8	31,370.7
Guarantees and Letters of Credit	2,490.2	3,063.0
Commitments	8,686.8	8,739.7
Total	11,177.0	11,802.7
Total	42,800.8	43,173.4

Collateral Held

The Bank's corporate lending is often secured by fixed and floating charges on the assets of borrowers. However, unless the asset is impaired, the only collateral which is valued on a continuous basis are Cash and Bonds. The value of this collateral held by the Bank, including collateral held against inter-group positions for large exposure purposes, was USD 5,238.3m (2014: USD 6,178.1m). This collateral is held against loans and advances to banks and customers (USD: 4,754.4m (2014: 5,871.9m) and derivative assets (USD 724.6m (2014: 306.2m)).

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

The table below gives the Bank's estimate of the fair value of different types of collateral held as security against loans to customers past due but not impaired and to customers that are individually impaired.

	Past due but not impaired 2015 USDm	Individually impaired 2015 USDm	Past due but not impaired 2014 USDm	Individually impaired 2014 USDm
Guarantees	-	16.3	-	24.1
Ships	-	4.5	-	4.1
Project assets	-	-	-	-
Total	-	20.8	-	28.2
Amounts of loans collateralised	-	52.7	-	67.9

There were no loans classified as past due but not impaired (2014:nil).

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

following an event of default. These do not meet the criteria of offsetting in the statement of financial position.

The disclosures set out below 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. Following the changes to IAS 32 clarifying the offsetting requirements, the Bank no longer nets Foreign exchange transactions.

	Gross amounts recognised in the statement of financial position USDm	Related Financial instruments which are not offset USDm	Cash Collateral USDm	Net Amount USDm
At 31 March 2015				
Derivative Assets	1,496.5	(271.4)	(43.0)	1,182.1
Derivatives liabilities	1,351.0	(271.4)	(554.0)	525.6
Total	145.5	0.0	511.0	656.5
At 31 March 2014				
Derivative Assets	715.3	(252.3)	(306.2)	156.8
Derivatives liabilities	698.1	(252.3)	(19.3)	426.5
Total	17.2	0.0	(286.9)	(269.7)

Credit quality of counterparty per class of financial assets

USDm	Internal grading	2015 Loans and receivables	2015 Available- for- sale	2015 Total**	2014 Loans and receivables	2014 Available- for- sale	2014 Total**
Cash and balances at central banks	1-6	11,875.2	-	11,875.2	13,775.6	-	13,775.6
Loans and advances to banks							
Normal borrowers	1-6	5,779.4	-	5,779.4	4,525.5	-	4,525.5
Borrowers requiring caution	7A	-	-	-	1.1	-	1.1
Borrowers requiring caution	7B*	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-
Total		5,779.4	-	5,779.4	4,526.6	-	4,526.6
Loans and advances to customers							
Normal borrowers	1-6	11,052.1	-	11,052.1	11,035.2	-	11,035.2
Borrowers requiring caution	7A	401.5	-	401.5	170.5	-	170.5
Borrowers requiring caution	7B*	58.0	-	58.0	114.9	-	114.9
Substandard borrowers and below	7R, 8-10	78.2	-	78.2	30.9	-	30.9
Total		11,589.8	-	11,589.8	11,351.5	-	11,351.5
Investment securities							
Normal borrowers	1-6	25.2	857.7	882.9	-	983.7	983.7
Borrowers requiring caution	7A	-	-	-	18.0	-	18.0
Borrowers requiring caution	7B*	-	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	-	-	-	-
Total		25.2	857.7	882.9	18.0	983.7	1,001.7

*There were no customer balances which were past due but not impaired (2014: USD nil).

** There were no balances classified as held-to-maturity (2014:nil).

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Derivative assets, whilst not shown in the table above, are with customers graded normal other than USD 0.2m (2014: USD 1.0m) which were with customers graded 7A.

There were no customers who would have been classified as past due or impaired if they had not renegotiated terms in the year (2014: USD nil).

Four customers which are subject to specific provisions were granted repayments waivers in the year (2014: nil). The loan balances to these customers subject to forbearance was USD 81.9m against which specific provisions of USD 28.5m have been made (35.0% impairment coverage ratio).

(h) Market Risk

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

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

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

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

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

The Bank's VaR exposures during the year were:

	To 31 March 2015				To 31 March 2014			
	Maximum USDm	Minimum USDm	Average USDm	31 March USDm	Maximum USDm	Minimum USDm	Average USDm	31 March USDm
Trading	0.7	-	0.3	0.2	0.7	0.1	0.2	0.4
Banking	0.3	0.1	0.1	0.1	0.3	0.1	0.2	0.2
Consolidated	0.7	0.1	0.3	0.2	0.7	0.1	0.3	0.5

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

Income sensitivity with respect to changes in interest rates:

	Banking Book		Trading Book	
	31 March 2015 USDm	31 March 2014 USDm	31 March 2015 USDm	31 March 2014 USDm
Profit and loss impact	(14.9)	(17.6)	(1.7)	(4.0)

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Fair value of derivative assets and liabilities

The following tables show the Bank's fair value disclosures at 31 March 2015 and 31 March 2014.

	2015 USDm	2015 USDm	2014 USDm	2014 USDm
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Trading derivatives				
Foreign exchange derivatives				
Forward foreign exchange	1,358.4	(1,312.4)	670.3	(644.2)
Currency swaps	-	-	-	-
OTC options bought and sold	1.2	(1.1)	5.6	(5.8)
Total	1,359.6	(1,313.5)	675.9	(650.0)
Interest rate derivatives				
Interest rate swaps	-	-	0.4	-
Total	-	-	0.4	-
Total derivatives	1,359.6	(1,313.5)	676.3	(650.0)
Total fair value	1,359.6	(1,313.5)	676.3	(650.0)
Derivatives held for risk management				
Foreign exchange derivatives				
Forward foreign exchange - Cash flow hedges	-	(0.3)	2.0	-
Currency swaps - Fair value hedges	136.9	(2.1)	35.6	(3.0)
Total	136.9	(2.4)	37.6	(3.0)
Interest rate derivatives				
Interest rate swaps - Fair value hedges	-	(35.1)	1.4	(45.1)
Total	-	(35.1)	1.4	(45.1)
Total derivatives	136.9	(37.5)	39.0	(48.1)
Effect of netting	-	-	-	-
Total fair value	136.9	(37.5)	39.0	(48.1)
Total fair value of derivatives	1,496.5	1,351.0	715.3	(698.1)

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

(i) Liquidity Risk

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

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

- The establishment of a clear, consistent Risk Appetite Framework that is understood across the organisation.
- Defining clear roles and responsibilities for the management of liquidity under normal and stressed circumstances.
- The implementation of a robust committee framework to manage liquidity risk issues, with clear terms of reference and standard agendas.
- Regular management information to demonstrate that the Bank is operating within risk appetite, along with other select metrics.
- Regular senior management training.

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

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

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

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including UK Gilts, Swiss Government bonds, U.S. Treasury Bills and cash held at Bank of England and European Central Bank reserve accounts. The quantity of this buffer of liquid assets is purposefully maintained such that the Bank comfortably exceeds its individual liquidity guidance, as prescribed by the regulators in November 2013.

The Bank is monitoring its estimated positions under the incoming CRD IV liquidity requirements and expects to exceed the minimum liquidity coverage ratio and net stable funding ratio metrics when implemented.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Analysis of liquidity risk

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

At 31 March 2015 USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
ASSETS					
Cash and balances at central banks	11,875.2	-	-	-	11,875.2
Loans and advances to banks	4,968.6	209.2	560.3	41.3	5,779.4
Derivative assets	1,155.6	41.5	286.9	12.5	1,496.5
Loans and advances to customers	2,499.9	446.0	5,722.7	2,921.2	11,589.8
Investment securities	169.2	688.5	25.2	-	882.9
Total financial assets	20,668.5	1,385.2	6,595.1	2,975.0	31,623.8
Other assets					341.7
Total assets					31,965.5
LIABILITIES					
Deposits by banks	16,281.8	112.4	460.6	-	16,854.8
Customer accounts	7,044.1	524.3	80.0	-	7,648.4
Derivative liabilities	1,130.2	16.4	193.9	10.5	1,351.0
Debt securities in issue	2,180.4	198.0	-	-	2,378.4
Subordinated liabilities	-	-	-	-	-
Total financial liabilities	26,636.5	851.1	734.5	10.5	28,232.6
Other liabilities					90.3
Total liabilities					28,322.9
Cumulative gap financial assets less financial liabilities	(5,968.0)	(5,433.9)	426.7	3,391.2	3,391.2
At 31 March 2014					
USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
ASSETS					
Cash and balances at central banks	13,775.6	-	-	-	13,775.6
Loans and advances to banks	3,396.5	666.5	326.5	137.1	4,526.6
Derivative assets	715.3	-	-	-	715.3
Loans and advances to customers	2,308.7	635.6	2,764.4	5,642.8	11,351.5
Investment securities	283.6	59.4	658.7	-	1,001.7
Total financial assets	20,479.7	1,361.5	3,749.6	5,779.9	31,370.7
Other assets					265.6
Total assets					31,636.3
LIABILITIES					
Deposits by banks	15,560.1	1,169.2	123.7	226.8	17,079.8
Customer accounts	7,441.1	281.4	-	102.8	7,825.3
Derivative liabilities	698.1	-	-	-	698.1
Debt securities in issue	2,331.9	43.8	-	-	2,375.7
Subordinated liabilities	-	-	-	-	0.0
Total financial liabilities	26,031.2	1,494.4	123.7	329.6	27,978.9
Other liabilities					131.8
Total liabilities					28,110.7
Cumulative gap financial assets less financial liabilities	(5,551.5)	(5,684.4)	(2,058.5)	3,391.8	3,391.8

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

The table below shows the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and un-recognised loan commitments. From 1 April 2014, the Bank no longer nets derivative assets and liabilities.

Maturity of liabilities as at 31 March 2015	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	16,285.6	124.1	436.5	18.7	16,864.9
Customer accounts	7,048.0	528.7	89.5	-	7,666.2
Debt securities in issue	2,181.7	198.5	-	-	2,380.2
Other financial liabilities	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Issued financial guarantee contracts	461.1	1,254.6	680.1	94.3	2,490.1
Unrecognised loan commitments	60.4	209.6	6,636.8	1,779.9	8,686.7
	26,036.8	2,315.5	7,842.9	1,892.9	38,088.1
Derivative liabilities	400.4	400.1	529.6	25.3	1,355.4
Total liabilities, issued guarantees and commitments	26,437.2	2,715.6	8,372.5	1,918.2	39,443.5
Maturity of liabilities as at 31 March 2014	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Total USDm
Deposits by banks	15,567.6	1,186.9	251.2	108.5	17,114.2
Customer accounts	7,445.2	285.5	13.1	105.3	7,849.1
Debt securities in issue	2,333.1	43.8	-	-	2,376.9
Other financial liabilities	-	-	-	-	-
Subordinated liabilities	-	-	-	-	0.0
Issued financial guarantee contracts	771.2	1,210.8	911.1	169.9	3,063.0
Unrecognised loan commitments	-	175.5	6,465.7	2,098.5	8,739.7
	26,117.1	2,902.5	7,641.1	2,482.2	39,142.9
Derivative liabilities	243.3	241.2	198.7	14.6	697.8
Total liabilities, issued guarantees and commitments	26,360.4	3,143.7	7,839.8	2,496.8	39,840.7

(j) Operational and other risks

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risks. Operational risk arises due to the Bank's day to day operations and is relevant to every aspect of the business.

The Bank's Board is ultimately responsible for ensuring that the level of operational risk taken by the Bank is in line with its risk appetite and business model. The Bank has in place an operational risk management framework to effectively manage operational risk and minimise the occurrence and impact of operational risk events.

This framework consists of the following key elements:

- Internal loss data, used to assess the Bank's exposure to operational risk and the effectiveness of internal controls,
- External loss data, used to explore possible weaknesses in the control environment or consider previously unidentified risk exposures,
- Business Environment & Internal Control Factors (BEICFs), factors that affect operational risk, including changes to laws/regulations, internal rules and procedures and new products.
- Risk & Control Assessments (RCA), the Bank's methodology to assess operational risk.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

The RCA methodology has been developed to evaluate and manage the level of residual operational risk within the Bank and to reflect changes in risk profile and control environment in each business unit. A set of 24 predefined scenarios that are relevant to our business are used. Each scenario is mapped to one of the seven Event Types according to CRD IV.

Risk & Control Assessments are conducted on a semi-annual basis in March and September. During these exercises all business units are required to review and reassess their existing scenarios and update risk and control scores and maximum potential losses as required.

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. For each business line, the Bank calculates a capital requirement for operational risk as a certain percentage of the three year average of the Bank's net income. Stress testing is utilised to calculate any additional capital requirement deemed necessary under stressed conditions.

Conduct Risk

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

Since its establishment in April 2013 the Financial Conduct Authority ("FCA") has been developing and expanding its requirements in respect of the conduct of financial institutions. The Bank's work on conduct includes assessing key risks across the business, identifying controls and ensuring that management receives the right information to enable it to identify and deal with conduct related issues.

Conduct risks are mitigated through a robust risk framework and include:

- Strong governance and culture,
- Good product design and sales processes, and
- Appropriate market behaviour and conflict of interest management.

The Bank's conduct risk initiative is in progress and is set to continue for the coming year and will aim to build on the Bank's existing controls framework.

Further information on the Bank's risk management framework can be found in the Pillar 3 Disclosure document published on the Bank's website.

Pillar 3 is the part of CRD IV that sets out the information banks must disclose about their risks.

5. USE OF ESTIMATES AND JUDGEMENTS

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is disclosed in accounting policy 3i.

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

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

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

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

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

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

31 March 2015	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
USDm					
ASSETS					
Cash and balances at central banks	-	11,875.2	-	11,875.2	11,875.2
Loans and advances to banks	-	5,778.7	-	5,778.7	5,779.4
Loans and advances to customers	-	11,598.0	-	11,598.0	11,589.8
Investment securities	-	13.5	-	13.5	13.3
LIABILITIES					
Deposits by banks	-	16,856.5	-	16,856.5	16,854.8
Customer accounts	-	7,659.7	-	7,659.7	7,648.4
Debt securities in issue	-	2,378.3	-	2,378.3	2,378.4
31 March 2014	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
USDm					
ASSETS					
Cash and balances at central banks	-	13,775.6	-	13,775.6	13,775.6
Loans and advances to banks	-	4,529.3	-	4,529.3	4,526.6
Loans and advances to customers	-	11,377.9	-	11,377.9	11,351.5
Investment securities	-	19.9	-	19.9	18.0
LIABILITIES					
Deposits by banks	-	17,079.7	-	17,079.7	17,079.8
Customer accounts	-	7,836.9	-	7,836.9	7,825.3
Debt securities in issue	-	2,375.7	-	2,375.7	2,375.7

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

31 March 2015 USDm	Effect on profit or loss	Effect on other comprehensive income
Investment securities	1.2	(1.0)
Total	1.2	(1.0)
31 March 2014 USDm	Effect on profit or loss	Effect on other comprehensive income
Investment securities	3.6	(3.7)
Total	3.6	(3.7)

The effects of using reasonably possible alternative assumptions have been calculated by recalibrating the models used to generate the fair values. The key significant inputs have been stressed by 100 basis points (2014: 100 basis points) to show the possible impact on the valuation.

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

31 March 2015 USDm	Note	Level 1	Level 2	Level 3
Investment securities	19	847.4	-	22.2
Derivative trading assets	4	-	1,359.6	-
Derivatives held for risk management	4	-	136.9	-
		847.4	1,496.5	22.2
Derivative trading liabilities	4	-	1,313.4	-
Derivatives held for risk management	4	-	37.6	-
		-	1,351.0	-
31 March 2014 USDm	Note	Level 1	Level 2	Level 3
Investment securities	19	931.7	-	52.0
Derivative trading assets	4	-	676.3	-
Derivatives held for risk management	4	-	39.0	-
		931.7	715.3	52.0
Derivative trading liabilities	4	-	650.0	-
Derivatives held for risk management	4	-	48.1	-
		-	698.1	-

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

	2015 USDm	2014 USDm
	Investment securities	Investment securities
Opening Balance	52.0	66.0
Total gains or losses:		
- in profit or loss	(10.8)	-
- in other comprehensive income	(0.8)	(0.8)
Purchases	-	1.7
Sales	-	-
Issues	-	-
Settlements	(17.4)	(14.9)
Impairments	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	(0.8)	-
Closing Balance	22.2	52.0

6. HEDGING INSTRUMENTS

Gains and losses on derivative hedges

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

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in specified underlying indexes such as an interest rate or foreign currency rate.

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

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

Cash Flow Hedges

The Bank does not, in its normal customer business, transact cash flow hedges. The main use of cash flow hedges is to reduce the foreign exchange risk on the Bank's forecast GBP expenses for each financial year. Prior to the year end the Bank entered into 12 US Dollar/GBP foreign exchange forward contracts, each for a value of GBP 4.0m maturing at each month end. Similar transactions for USD 12.0m were executed in 2013. These transactions hedge the Bank's forecast Sterling expenses for each month of the financial year ending on 31 March 2015, and therefore will be fully recycled through the profit and loss over the coming financial year.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

	USDm
At 1 April 2013	(5.9)
Redassified to the profit and loss account (net trading income/loss)	5.9
Unrealised gains on cash flow hedges	1.6
At 31 March 2014	<u>1.6</u>
At 1 April 2014	1.6
Redassified to the profit and loss account (net trading income/loss)	(1.6)
Unrealised gains on cash flow hedges	0.2
At 31 March 2015	<u>0.2</u>

Fair Value Hedges

The financial instruments hedged for interest rate risk include fixed rate loans and bonds. The Bank uses interest rate swaps to hedge interest rate risk (including currency swaps) to hedge against specifically identified currency risks. In such cases changes in the fair values of both the hedging instrument and the hedged item are recognised in profit and loss.

At 31 March 2015		Fair value of	Gains or	Gains or
Hedged Item	Description of financial instruments designated as hedging instrument	hedging instrument USDm	losses on hedging instrument USDm	losses on hedged item USDm
Assets	Single & cross currency interest rate swaps	99.7	(46.5)	46.5
Liabilities	Single & cross currency interest rate swaps	-	-	-
		<u>99.7</u>	<u>(46.5)</u>	<u>46.5</u>
At 31 March 2014		Fair value of	Gains or	Gains or
Hedged Item	Description of financial instruments designated as hedging instrument	hedging instrument USDm	losses on hedging instrument USDm	losses on hedged item USDm
Assets	Single & cross currency interest rate swaps	(11.0)	(9.2)	9.2
Liabilities	Single & cross currency interest rate swaps	-	-	-
		<u>(11.0)</u>	<u>(9.2)</u>	<u>9.2</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

7. ANALYSIS OF THE PROFIT AND LOSS ACCOUNT BY CLASSIFICATION BASIS

At 31 March 2015 USDm	Trading	Loans and Receivables	Available- for- sale	Financial Liabilities at Amortised Cost	Total
Interest income	-	378.9	4.3	-	383.2
Interest expense	-	-	-	(148.8)	(148.8)
Net interest income/(expense)	-	378.9	4.3	(148.8)	234.4
Fee and commissions income	-	347.9	-	-	347.9
Fee and commissions expense	(0.7)	(19.1)	(0.2)	(0.7)	(20.7)
Net fee and commissions income/(expense)	(0.7)	328.8	(0.2)	(0.7)	327.2
Net trading income	(12.2)	-	0.6	-	(11.6)
Operating Income/(expense)	(12.9)	707.7	4.7	(149.5)	550.0
Net impairment loss on financial assets	-	(36.0)	-	-	(36.0)
Included within interest income is interest on impaired assets of	-	4.3	-	-	4.3
At 31 March 2014 USDm	Trading	Loans and Receivables	Available- for- sale	Financial Liabilities at Amortised Cost	Total
Interest income	-	317.3	(13.8)	-	303.5
Interest expense	-	-	-	(111.2)	(111.2)
Net interest income/(expense)	-	317.3	(13.8)	(111.2)	192.3
Fee and commissions income	-	304.2	-	-	304.2
Fee and commissions expense	(0.6)	(30.1)	0.0	(0.8)	(31.5)
Net fee and commissions income/(expense)	(0.6)	274.1	0.0	(0.8)	272.7
Net trading income	17.4	-	10.80	-	28.2
Operating Income/(expense)	16.8	591.4	(3.0)	(112.0)	493.2
Net impairment loss on financial assets	-	19.2	(31.0)	-	(11.8)
Included within interest income is interest on impaired assets of	-	2.0	-	-	2.0

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

8. PERSONNEL EXPENSES

	2015 USDm	2014 USDm
Salaries and bonuses	165.9	149.1
Compulsory social security obligations	43.5	43.6
Pension costs - contribution plans	10.8	11.1
Pension costs - defined benefit plans	2.9	2.8
Other staff costs	20.4	15.9
	<u>243.5</u>	<u>222.5</u>
Average number of front office department employees	358	341
Average number of support department employees	513	470
	<u>871</u>	<u>811</u>

	USDm	USDm
Operating lease payments	9.1	9.4
Other operating expenses	96.9	95.1
	<u>106.0</u>	<u>104.5</u>

10. AUDITOR'S REMUNERATION

	2015 USDm	2014 USDm
- Auditor's remuneration		
Statutory audit fee	0.7	0.7
Other	0.2	0.1
	<u>0.9</u>	<u>0.7</u>

Statutory audit fees includes fee relating to statutory audit and CASS audit. Other includes regulatory assurance and tax advice.

11. DIRECTORS' EMOLUMENTS

	2015 USDm	2014 USDm
Directors' fees	0.3	0.2
Directors' emoluments (excluding fees)	3.0	3.4
	<u>3.3</u>	<u>3.6</u>

The highest paid Director received emoluments of USD 724,034 (2014: USD 796,239).

One Director belonged to the Bank's defined contribution pension scheme with the Bank paying contributions of USD 30,501 (2014: one Director with contributions of USD 38,079) in the year. These amounts are included within the Director's emoluments figures above. One Director received a bonus (2013: One Director) and part of this was not (2013: was not) subject to a deferral period as the Bank was classified in proportionality level three and so was permitted to dis-apply the rules on deferral of variable remuneration.

Six employees of the parent company were Directors. Five received remuneration from the Bank as they were the subject of secondment agreements. One received no remuneration from the Bank being paid directly by the Bank's parent.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

12. PENSION COSTS

The Bank operates a defined benefit scheme, the Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme. A full valuation was undertaken as at 31 December 2011 and updated to 31 March 2015 by a qualified independent Actuary. The principal actuarial assumptions as at 31 March (expressed as weighted averages) were as follows:

	2015	2014
Discount rate at dosing	3.20%	4.30%
Expected rate of return on scheme assets (weighted average)	3.10%	4.30%
Future salary increase (weighted average)	5.00%	5.30%
Future pension increase	3.00%	3.30%
Inflation assumption	2.00%	2.30%

The mortality assumption for the triennial valuation was reviewed as at 31 December 2014. On a best estimate basis appropriate to FRS17 the actuary recommended S2PA Light tables with CMI_2014 improvements and a long term rate of improvement of 1% per annum. (2014: The underlying mortality assumptions were based upon PA00 medium cohort tables projected by rate of birth, with a minimum rate of improvement of 1.5% per annum):

- Male age 65 now has a life expectancy of 23.2 years (previously 23.6 years).
- Female age 65 now has a life expectancy of 24.4 years (previously 26.1 years).

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

	Defined Benefit Obligations		Fair Value of Plan assets		Net defined benefit liability (asset)	
	2015 USDm	2014 USDm	2015 USDm	2014 USDm	2015 USDm	2014 USDm
Balance at beginning of year	198.5	165.5	202.2	166.0	3.7	0.5
Included in profit or loss						
Current service cost	2.1	2.4	-	-	(2.1)	(2.4)
Interest expense	6.5	7.7	-	-	(6.5)	(8.1)
Interest income	-	-	6.8	8.1	6.8	8.1
	<u>8.6</u>	<u>10.1</u>	<u>6.8</u>	<u>8.1</u>	<u>(1.8)</u>	<u>(2.0)</u>
Included in other comprehensive income						
Actuarial gain (loss) arising from:						
financials	35.3	8.7	-	-	(35.3)	(8.7)
demographic experience	(10.9)	-	-	-	10.9	-
	(9.5)	4.3	-	-	9.5	(4.3)
return on plan assets excluding interest income	-	-	20.4	1.1	20.4	1.1
Effect of movements in exchange rates	(20.4)	15.9	(20.6)	15.8	(0.3)	-
	<u>(5.5)</u>	<u>28.9</u>	<u>(0.2)</u>	<u>16.9</u>	<u>5.1</u>	<u>(12.0)</u>
Other						
Contributions paid by employer	-	-	14.2	17.2	14.2	17.2
Benefits paid by fund	(3.4)	(6.0)	(3.4)	(6.0)	-	-
	<u>(3.4)</u>	<u>(6.0)</u>	<u>10.8</u>	<u>11.2</u>	<u>14.2</u>	<u>17.2</u>
Balance at end of year	<u>198.2</u>	<u>198.5</u>	<u>219.6</u>	<u>202.2</u>	<u>21.2</u>	<u>3.7</u>
Represented by:					2015 USDm	2014 USDm
Net defined benefit asset (liability)					<u>21.2</u>	<u>3.7</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

The agreed contributions to be paid by the Bank for the year ending 31 March 2015 are 38.4% of Pensionable Earnings plus USD 0.6m per month. In addition, the Bank is currently paying contributions to cover the cost of pension payments, cash lump sums on retirement, trivial commutation payments and transfer values.

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

The Trustees use the attained age funding method which is suitable for funding a scheme open for future accrual but is closed to new entrants. The Bank contributes 38.4% of Pensionable Salaries in respect of future service accrual plus deficit contributions of USD 0.6m per month together with additional contributions to meet the benefit payments of the Scheme up until 31 August 2016.

The employer pays all the costs of administering the scheme and any levies required by the Pensions Protection Fund and the Pensions Regulator. The expected employer contributions to the Scheme for the year ending 31 March 2015 in respect of future accrual contributions and benefit payments is USD 16.6m.

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

- Investment Return Risk : If the assets underperform the returns assumed in setting the funding target, additional contributions may be required
- Investment Matching Risk: The scheme invests in equity type assets, whereas the solvency target is closely related to return on bonds. If equity assets fall in value relative to the matching assets of bonds, additional funding may be required.
- Legislative Risk: The Government may introduce over riding legislation leading to an increase in the vale of Scheme benefits.
- Solvency Risk: As the funding target is not a solvency target, Scheme assets may not be sufficient to provide all members with the full value of their benefits on a Scheme wind-up. The Bank would then be required to pay the funding shortfall.

The Bank expects to pay USD 13.3m in contributions to defined benefit plans in the coming financial year to 31 March 2016.

Scheme assets were made up of the following:

	2015 USDm	2014 USDm
Equity Securities	61.8	101.4
Government bonds	157.8	100.2
Cash	-	1.0
	<u>219.6</u>	<u>202.6</u>
Market Value of Scheme Assets:		
Quoted	219.6	201.2
Unquoted	-	0.4
Cash	-	1.0
	<u>219.6</u>	<u>202.6</u>

The investment strategy of the Scheme is to invest 15% in UK equities, 15% in overseas equities, 23% in over 15 years Fixed Interest gilts and 47% in over 5 years Index-Linked Gilts. In addition there is a small investment in non-quoted fixed interest securities which is being liquidated, but its value has been taken as nil.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

Sensitivity Analysis

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

Assumption Varied	% Change in Defined Benefit Obligation
Discount rate 1% p.a. lower	22%
Salary increase rate 1% p.a.lower	(3%)
Pension increase (in payment and in deferment) rate 1% p.a. lower	(10%)
Minimum rate of improvement of mortality 0.5% p.a lower	(3%)

The figures assume that each assumption is changed independently of others. Therefore the disclosures are only a guide because the effect of changing the assumption is not cumulative. The sensitivity analysis was carried out by rerunning the figures at the last formal actuarial valuation at 31 December 2011 adjusted approximately for changes in the membership movements up to 31 March 2015. Therefore, the analysis is only approximate as at the year ending 31 March 2015.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

13. INCOME TAX EXPENSE

Recognised in the income statement

The charge for tax is based upon the UK corporation tax rate of 21% and comprises:

	2015 USDm	2014 USDm
Current tax charge/(credit)		
Current year	20.7	14.4
Overseas tax	15.6	23.8
Adjustment for prior years	(4.0)	-
Overseas tax adjustment for prior years	-	0.5
	<u>32.3</u>	<u>38.7</u>
Deferred tax charge		
Current year	4.2	1.2
Adjustment for prior years	1.5	-
	<u>5.7</u>	<u>1.2</u>
Total income tax expense	<u>38.0</u>	<u>39.9</u>
Reconciliation of effective rate of tax	USDm	USDm
Profit before tax	152.4	144.0
Income tax using the domestic corporation tax rate of 21% (2014-23%)	32.0	33.1
Adjustment for prior years	(2.5)	-
(Income not taxable)/Expenses not deductible for tax purposes	1.2	(0.3)
Reduction in deferred tax asset due to corporate tax rate change	-	0.6
Overseas tax	5.9	9.7
Overseas tax adjustment for prior years	-	0.5
Overseas branch gains/(losses) carried forward	1.4	(3.7)
	<u>38.0</u>	<u>39.9</u>
Effective rate of tax	24.9%	27.7%

Income tax recognised in other comprehensive income

	Before tax 2015 USDm	Tax (expense) benefit 2015 USDm	Net of tax 2015 USDm	Before tax 2014 USDm	Tax (expense) benefit 2014 USDm	Net of tax 2014 USDm
Actuarial (losses)/gains on defined benefit scheme	5.6	(1.1)	4.5	(11.9)	2.4	(9.5)
Cash flow hedges	(2.3)	0.5	(1.8)	9.7	(2.2)	7.5
Available-for-sale financial investments	-	-	-	(1.2)	0.2	(1.0)
	<u>3.3</u>	<u>(0.6)</u>	<u>2.7</u>	<u>(3.4)</u>	<u>0.4</u>	<u>(3.0)</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

At 31 March 2015 USDm	Trading	Loans and Receivables	Available- for-sale	Financial Liabilities at Amortised Cost	Carrying Value	Fair Value
ASSETS						
Cash and balances at central banks	-	11,875.2	-	-	11,875.2	11,875.2
Loans and advances to banks	-	5,779.4	-	-	5,779.4	5,778.7
Derivative assets	1,359.6	136.9	-	-	1,496.5	1,496.5
Loans and advances to customers	-	11,589.8	-	-	11,589.8	11,598.0
Investment securities	-	25.2	857.7	-	882.9	883.1
Total assets	1,359.6	29,406.5	857.7	-	31,623.8	31,631.5
LIABILITIES						
Deposits by banks	-	-	-	16,854.8	16,854.8	16,856.5
Customer accounts	-	-	-	7,648.4	7,648.4	7,659.7
Derivative liabilities	1,313.5	37.5	-	-	1,351.0	1,351.0
Debt securities in issue	-	2,378.4	-	-	2,378.4	2,378.3
Total liabilities	1,313.5	2,415.9	-	24,503.2	28,232.6	28,245.5
At 31 March 2014 USDm						
ASSETS						
Cash and balances at central banks	-	13,775.6	-	-	13,775.6	13,775.6
Loans and advances to banks	-	4,526.6	-	-	4,526.6	4,529.3
Derivative assets	678.3	37.0	-	-	715.3	715.3
Loans and advances to customers	-	11,351.5	-	-	11,351.5	11,377.9
Investment securities	-	18.0	983.7	-	1,001.7	1,003.5
Total assets	678.3	29,708.7	983.7	-	31,370.7	31,401.6
LIABILITIES						
Deposits by banks	-	-	-	17,079.8	17,079.8	17,079.7
Customer accounts	-	-	-	7,825.3	7,825.3	7,836.9
Derivative liabilities	650.0	48.1	-	-	698.1	698.1
Debt securities in issue	-	-	-	2,375.7	2,375.7	2,375.7
Total liabilities	650.0	48.1	-	27,280.8	27,978.9	27,990.4

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

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

15. CASH AND BALANCES AT CENTRAL BANKS

	2015	2014
	USDm	USDm
Current account and short term deposits with the Bank of England	9,868.6	9,307.8
Current account and short term deposits with Banque de France	<u>2,006.6</u>	<u>4,467.8</u>
Cash and balances at central banks after impairment provisions	<u>11,875.2</u>	<u>13,775.6</u>

16. LOANS AND ADVANCES TO BANKS

	2015	2014
	USDm	USDm
Loans and advances to banks before impairment provisions	5,782.4	4,553.8
Impairment provisions (Note 18)	(3.0)	(27.2)
Loans and advances to banks after impairment provisions	<u>5,779.4</u>	<u>4,526.6</u>

Included above are reverse repurchase agreements of USD 1,942.0m (2014: nil) against which the bank held collateral with a fair value of USD 2,137.7m (2014: nil). These transactions are conducted under terms that are usual and customary for secured lending activities.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

17. LOANS AND ADVANCES TO CUSTOMERS

	2015 USDm	2014 USDm
Loans and advances to customers before impairment provisions	11,712.1	11,466.0
Impairment provisions (Note 18)	(122.3)	(114.5)
	<hr/>	<hr/>
Loans and advances to customers after impairment provisions	11,589.8	11,351.5
	<hr/>	<hr/>
Amount expected to be recovered more than 12 months after the reporting date	8,643.9	8,442.9
Amounts include:		
Gross investment in finance leases		
- Less than one year	8.3	10.6
- Between one year and five years	48.3	42.5
- More than five years	80.6	133.8
	<hr/>	<hr/>
	137.2	186.9
	<hr/>	<hr/>
Less: Unearned finance income	14.9	23.6
Less: Accumulated allowance for uncollectible minimum lease payments receivable	-	-
Net investment in finance leases		
- Less than one year	4.9	6.1
- Between one year and five years	36.8	26.1
- More than five years	80.6	131.1
	<hr/>	<hr/>
	122.3	163.3
	<hr/>	<hr/>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

18. IMPAIRMENT PROVISIONS

		2015	
	Specific	Collective	Total
	USDm	USDm	USDm
Balance at beginning of year	96.7	45.0	141.7
Charge/(credit) to Profit and Loss Account	37.1	(7.1)	30.0
Written off on assets sold	(30.2)	-	(30.2)
Exchange adjustments	(16.2)	-	(16.2)
Balance at end of year	<u>87.4</u>	<u>37.9</u>	<u>125.3</u>
		2014	
	Specific	Collective	Total
	USDm	USDm	USDm
Balance at beginning of year	201.0	44.1	245.1
Charge to Profit and Loss Account	9.8	0.9	10.7
Written off on assets sold or restructured	(122.9)	-	(122.9)
Exchange adjustments	8.8	-	8.8
Balance at end of year	<u>96.7</u>	<u>45.0</u>	<u>141.7</u>

In addition to the charge to profit and loss of USD 30.0m, net losses of USD 10.3m (2014: nil) related to sales transactions were recognised under net impairment losses on financial assets.

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

19. INVESTMENT SECURITIES

	2015 USDm	2014 USDm
Investment securities held as loans and receivables	25.2	18.0
Available-for-sale investment securities	857.7	983.7
Allowance for impairment (Note 18)	-	-
Total Investment securities	<u>882.9</u>	<u>1,001.7</u>
	USDm	USDm
Debt Securities held as loans and receivables	25.2	18.0
Debt Securities held as available-for-sale	856.1	980.6
Equities held as available-for-sale	<u>1.6</u>	<u>3.1</u>
	<u>882.9</u>	<u>1,001.7</u>
At start of year	1,001.7	476.1
Exchange adjustments	(48.9)	33.4
Acquisitions & transfers	950.2	936.2
Impairment Provisions (Note 18)	-	-
Fair value movement recognised in other comprehensive income	(0.5)	(1.2)
Fair value movement hedged by fair value hedges	(0.8)	(5.0)
Disposals and maturities	(1,014.5)	(425.4)
Amortisation of discounts and premiums	(4.3)	(12.4)
At end of year	<u>882.9</u>	<u>1,001.7</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

20. INTANGIBLE ASSETS

	Internally generated software cost USDm	Other software cost USDm	Total USDm
At 1 April 2014	6.9	23.6	30.5
Additions	-	4.4	4.4
At 31 March 2015	<u>6.9</u>	<u>28.0</u>	<u>34.9</u>
Accumulated amortisation			
At 1 April 2014	6.8	17.5	24.3
Charge for the year	0.1	3.7	3.8
At 31 March 2015	<u>6.9</u>	<u>21.2</u>	<u>28.1</u>
Net book value at 31 March 2015	<u>-</u>	<u>6.8</u>	<u>6.8</u>
At 1 April 2013	6.9	18.6	25.5
Additions	-	5.0	5.0
At 31 March 2014	<u>6.9</u>	<u>23.6</u>	<u>30.5</u>
Accumulated amortisation			
At 1 April 2013	6.6	15.3	21.9
Charge for the year	0.2	2.2	2.4
At 31 March 2014	<u>6.8</u>	<u>17.5</u>	<u>24.3</u>
Net book value at 31 March 2014	<u>0.1</u>	<u>6.1</u>	<u>6.2</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

21. PROPERTY AND EQUIPMENT

	Leasehold Improvements USDm	Equipment USDm	Total USDm
Cost			
At 1 April 2014	34.5	26.8	61.3
Additions	0.3	2.6	2.9
Disposals	-	(0.5)	(0.5)
At 31 March 2015	<u>34.8</u>	<u>28.9</u>	<u>63.7</u>
Accumulated depreciation			
At 1 April 2014	22.8	21.1	43.9
Charge for the year	3.7	4.6	8.3
Disposals	-	(0.5)	(0.5)
At 31 March 2015	<u>26.5</u>	<u>25.2</u>	<u>51.7</u>
Net book value at 31 March 2015	<u>8.3</u>	<u>3.7</u>	<u>12.0</u>
Cost			
At 1 April 2013	35.4	25.8	61.2
Additions	0.1	2.7	2.8
Disposals	(1.0)	(1.7)	(2.7)
At 31 March 2014	<u>34.5</u>	<u>26.8</u>	<u>61.3</u>
Accumulated depreciation			
At 1 April 2013	20.3	17.5	37.8
Charge for the year	3.5	4.5	8.0
Disposals	(1.0)	(0.9)	(1.9)
At 31 March 2014	<u>22.8</u>	<u>21.1</u>	<u>43.9</u>
Net book value at 31 March 2014	<u>11.7</u>	<u>5.7</u>	<u>17.4</u>

22. OTHER ASSETS

	2015 USDm	2014 USDm
Accrued income	182.7	185.9
Prepayments and other receivables	117.2	42.1
	<u>299.9</u>	<u>228.0</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

23. DEFERRED TAX

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

	USDm 2015	USDm 2014
Deferred tax liability	(5.8)	-
Deferred tax asset	<u>7.6</u>	<u>8.1</u>
Net deferred	<u>1.8</u>	<u>8.1</u>

Deferred taxes are calculated on all temporary differences under the liability method.

Movements on deferred tax assets and liabilities were as follows:

	Fixed asset temporary differences	Partnership interests and bonus accrual	Pensions and other retirement benefits	Allowance for impairment on loans	UK and overseas branch tax losses carried forward	Cash flow hedge / AFS	Total
	USDm	USDm	USDm	USDm	USDm	USDm	USDm
Assets/(liability) at 1 April 2014	3.0	-	(0.7)	1.9	3.8	0.1	8.1
Prior year adjustments	-	(1.5)	-	-	-	-	(1.5)
Movement through the P&L Account	0.5	0.2	(2.6)	(0.9)	(1.4)	-	(4.2)
Movement through P&L Account re change in tax rate	-	-	-	-	-	-	-
Movement through other comprehensive income	-	-	(1.1)	-	-	0.5	(0.6)
Exchange differences	-	-	0.1	-	(0.1)	-	-
At 31 March 2015	<u>3.5</u>	<u>(1.3)</u>	<u>(4.3)</u>	<u>1.0</u>	<u>2.3</u>	<u>0.6</u>	<u>1.8</u>
Assets at 1 April 2013	3.0	0.1	(0.2)	3.4	-	2.1	8.4
Prior year adjustments	-	-	-	-	-	-	-
Movement through the P&L Account	0.4	(0.1)	(3.5)	(1.1)	3.7	-	(0.6)
Movement through P&L Account re change in tax rate	(0.5)	-	0.3	(0.4)	-	-	(0.6)
Movement through other comprehensive income	-	-	2.4	-	-	(2.0)	0.4
Exchange differences	0.1	-	0.3	-	0.1	-	0.5
At 31 March 2014	<u>3.0</u>	<u>-</u>	<u>(0.7)</u>	<u>1.9</u>	<u>3.8</u>	<u>0.1</u>	<u>8.1</u>

The amount of deferred tax asset expected to be recovered after more than 12 months is USD 7.6m (2014: USD 8.1m).

The deferred tax asset at 31 March 2015 has been calculated based on the rate of 20%.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

24. DEBT SECURITIES IN ISSUE

	2015 USDm	2014 USDm
Certificates of deposit - held at amortised cost	<u>2,378.4</u>	<u>2,375.7</u>

All debt securities are expected to be settled no more than 12 months after the reporting date.

25. OTHER LIABILITIES

	2015 USDm	2014 USDm
Accruals and deferred income	80.4	97.6
Accounts payable to parent	0.5	1.6
Other liabilities	2.8	1.2
	<u>83.7</u>	<u>100.4</u>

26. OTHER PROVISIONS

	2015 USDm
Balance at beginning of year	7.8
Credit to Profit and Loss Account	(4.3)
Balance at end of year	<u>3.5</u>

	2014 USDm
Balance at beginning of year	6.7
Charge to Profit and Loss Account	1.1
Balance at end of year	<u>7.8</u>

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

27. CALLED UP SHARE CAPITAL

	USDm
Issued, allotted and fully paid share capital (Ordinary shares of USD 1,000)	
At 31 March 2014	3,200.0
Additions	-
	<hr/>
At 31 March 2015	<u>3,200.0</u>

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

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

The Bank's capital with retained profits is managed by Treasury Department as a primary source of funding for the loan asset book.

28. GUARANTEES

	2015	2014
	Contract	Contract
	amount	amount
	USDm	USDm
Guarantees and Letters of Credit	<u>2,490.2</u>	<u>3,063.0</u>

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

29. COMMITMENTS

	2015	2014
	Contract	Contract
	amount	amount
	USDm	USDm
Undrawn formal standby facilities, credit lines and other commitments to lend	<u>8,686.8</u>	<u>8,739.7</u>

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

30. ASSETS PLEDGED

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

	2015	2014
	USDm	USDm
Cash and cash balances with central banks	-	413.9
Loans and advances to banks	554.0	23.9
Loans and advances to customers	353.7	570.3
	<u>907.7</u>	<u>1,008.1</u>

The above assets other than the loans and advances to banks were pledged to the Banque de France. These assets allow the bank to draw additional liquidity as of the year end of USD 126.3m (2014: USD 620.6m). The Loans and advances to banks have been pledged as security deposits on derivatives.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

31. OPERATING LEASE COMMITMENTS

	2015 USDm	2014 USDm
The future minimum lease payments under non-cancellable operating leases for each of the following period:		
- less than one year	8.3	9.0
- between one and five years	36.0	39.9
- more than five years	-	10.4
	<u>44.3</u>	<u>59.3</u>

32. RELATED PARTIES

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

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

Key management personnel compensation:

	2015 USDm	2014 USDm
Short term employee benefits	3.0	3.3
Post-employment benefits	-	-
Other long term employee benefits	-	-
Termination benefits	-	-
	<u>3.0</u>	<u>3.3</u>

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

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

	2015		2014	
	Loans and receivables USDm	Other assets USDm	Loans and receivables USDm	Other assets USDm
Amounts due from parent company	1,671.0	720.0	1,834.3	157.6
Amounts due from other related parties	466.9	56.3	320.0	18.4
Total	<u>2,137.9</u>	<u>776.3</u>	<u>2,154.3</u>	<u>176.0</u>

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

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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

	2015		2014	
	Deposits USDm	Other liabilities USDm	Deposits USDm	Other liabilities USDm
Amounts due to parent company	9,704.3	88.7	8,559.9	145.7
Amounts due to other related parties	463.7	59.4	447.4	81.3
Total	<u>10,168.0</u>	<u>148.1</u>	<u>9,007.3</u>	<u>227.0</u>

The Bank receives collateral, consisting of cash (part of Amounts due to parent company) and Government Bonds of USD 3,057.5m (2014: USD 5,820.6m), from SMBC, to mitigate large exposures on intra-group positions. Deposits are taken in the ordinary course of business and on the same terms as comparable transactions with third parties.

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

	2015 USDm	2014 USDm
Guarantees received on customer accounts	<u>810.2</u>	<u>1,921.7</u>
Guarantees received on the Bank's liabilities	<u>1,189.7</u>	<u>1,080.2</u>

Other transactions as at 31 March 2015 with related parties of the Bank are as follows:

- On the 25 November 2010 the Bank entered into a USD 1.5 billion revolving multicurrency liquidity facility agreement with the Bank's parent, Sumitomo Mitsui Banking Corporation. This has an indefinite term and is still in existence as at 31 March 2015.

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

2015	Parent Companies USDm	Other related parties USDm	Total USDm
Interest income	24.4	22.2	46.6
Interest payable	(30.0)	(30.6)	(60.6)
Fees and commissions receivables	244.3	5.6	249.9
Fees and commissions payable	(1.4)	(1.3)	(2.7)
Net Trading	-	(1.2)	(1.2)
Other expenses	(16.8)	(5.1)	(21.9)
Total	<u>220.5</u>	<u>(10.4)</u>	<u>210.1</u>

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

2014	Parent Company USDm	Other related parties USDm	Total USDm
Interest income	11.7	4.6	16.3
Interest payable	(33.5)	(12.9)	(46.4)
Fees and commissions receivables	225.6	3.2	228.8
Fees and commissions payable	(1.2)	(1.5)	(2.7)
Net Trading	-	(2.7)	(2.7)
Other expenses	(14.7)	(2.6)	(17.3)
Total	<u>187.9</u>	<u>(11.9)</u>	<u>176.0</u>

33. PARENT COMPANIES

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

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