SMBC SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS
31 MARCH 2013

Company number 4684034

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of Sumitomo Mitsui Banking Corporation Europe Limited (the Bank), company registration number 4684034, for the year ended 31 March 2013.

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 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.

The Bank is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation (SMBC), which is a Japanese banking institution. SMBC has established a number of subsidiary companies, branches and representative offices across Europe, the Middle East and Africa. The Bank has responsibility, as set out in various Service Level Agreements with SMBC, for the provision of certain services to those subsidiary companies, branches and representative offices.

At the year-end, the Bank was structured around nine main business units, as follows:

- Three client management departments servicing, respectively: Japanese and Asian corporates; non-Japanese corporates; and emerging markets customers;
- A structured products department;
- A trade finance department;
- A maritime and aircraft finance department;
- A syndication and asset distribution department;
- An asset work-out department; and
- A specialist 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.

Changes to Capital

On 25 May 2012, the Bank issued to SMBC 800,000 new Ordinary shares of USD 1,000 each at par value.

On 28 May 2013, the Bank repaid and cancelled the USD 800 million Subordinated Loan Note that had been issued to SMBC in May 2008. On the same date, the Bank issued to SMBC 800,000 new Ordinary shares of USD 1,000 each at par value.

Results and dividends

Profit before tax for the Bank for the year amounted to USD 122.7 million (2012: USD 82.7 million) with profit after tax for the year of USD 90.6 million (2012: USD 52.1 million).

The results for the year are set out in the statement of comprehensive income on page 13.

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2013.

Business 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 Directors' Report. The financial statements included with this Directors' Report set out the financial position of the Bank at 31 March 2013. Notes 4 to 6 to the financial statements describe 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 7 and 9 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 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; 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

The Eurozone crisis was again the dominant feature in 2012 as peripheral countries saw bond spreads soar and Italy and Spain struggled to maintain market access. With governments focused on fiscal consolidation and the corporate sector reluctant to commit to substantial capital expenditure before consumer demand recovers, the recession continued to deepen in southern Europe before spreading to the Eurozone's core.

Despite these pressures, which threatened the will to sustain Eurozone integrity, Eurozone governments acknowledged that staying together was likely to be less costly than splitting apart, which allowed the ECB to back-up its announcement in July 2012 that it stands ready to do whatever is necessary to protect the Euro through the introduction of the Outright Monetary Transactions (OMT) scheme, which gives the ECB the ability to purchase sovereign bonds in the secondary market. Its very existence had a significant effect on the markets and peripheral countries spreads returned to more manageable levels.

Although there remains a sense of foreboding over the competitiveness problems that exist in the EU, there is hope that 2013 will not be as bleak as 2012. The deep rooted lack of competitiveness and the austerity being implemented across the region has left aggregate demand very weak, but with governments expected to show lower deficits, the Eurozone economy looks set to stabilize before returning to growth later in 2013.

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

- Net interest income at USD 208.7 million was significantly up on last year (2012: USD 188.2 million) due to a combination of increased loan margin income, and strong performance from Treasury Department's banking operations. Despite the low interest rate environment Treasury Department consistently delivered good results through the year. Marketing Departments also delivered strong results especially in the first half of the year.

- Fees and commissions income increased by USD 46.6 million (22%) to USD 263.0 million due in particular to Service Level Agreement income. The improvement in Service Level Agreement income was predominantly driven by changes from a cost plus to a profit sharing basis for transactions arranged in the UK but ultimately booked elsewhere in the SMBC group.

- 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 profits increased in the year from USD 10.7 million to USD 21.8 million, principally due to Foreign Exchange activities with customers.

- Fees and commissions payable, which largely comprise brokerage, commitment, guarantee and risk participation fees, were largely in line with the previous year at USD 33.2 million (2012: USD 34.7 million).

- Net operating expenses, excluding net impairment loss on financial assets, increased in the year by USD 41.1 million to USD 308.4 million. As in prior years personnel costs increased significantly (up USD 23.1 million) largely due to increased staff numbers. In addition there were increased costs due to compliance and regulatory related demands. It remains the Bank's policy to take out annually GBP/USD forward foreign exchange rate contracts to 'lock-in' and hedge the Bank's expense base against actual rates and budget.

- Net impairment loss on financial assets for the year were USD 29.2 million (2012: USD 30.6 million). This reflected a specific charge of USD 52.1 million offset by a collective provision credit of USD 22.9 million. The collective provision reduced in the year from USD 73.7 million to USD 50.8 million, largely due to customer loan repayments against which there were significant collective provisions.

- The tax charge for the year amounted to USD 32.1 million (2012: USD 30.6 million). This equates to a tax charge for the year of 26% which is significantly lower than the previous year which was adversely affected by higher non recoverable overseas taxes. The current year is also affected by a devaluation of deferred tax following changes in future year corporate tax rates enacted during the year.

- Total asset balances at 31 March 2013 of USD 30.6 billion increased significantly during the year by USD 7.6 billion. This has largely been due to additional cash collateral received from SMBC during the year to mitigate connected party exposure limits. Surplus cash over and above funding of the loan book has been placed with Bank of England and Banque de France to reduce risk.

- Off balance sheet guarantees and commitments remained in line with prior years at USD 10.2 billion at 31 March 2013 compared to USD 10.5 billion at 31 March 2012.

Principal risks and uncertainties

As a banking institution, the Bank is exposed to certain risks and uncertainties in conducting its business. The principal risks and uncertainties 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.

- **Market risk:** the possibility that fluctuations in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.

- **Liquidity risk:** the possibility of encountering an obstacle to raising the funds required for settlement due either to a mismatch between the use and procurement of funds or to an unexpected outflow of funds, or being forced to borrow at higher interest rates than usual.

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

- **Business Environment risk:** encompasses other risks not noted above, including the risk to earnings and capital arising from changes in the business environment, adverse business decisions, improper setting of or implementation of strategy or lack of responsiveness to changes in the business environment.

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

The Bank reviews its risk management processes on an ongoing basis to ensure that the Board and management have an appropriate understanding of potential risks and uncertainties impacting the Bank within its own operating environment. The Bank has also documented its overall risk appetite across the spectrum of risks.

The Board has put in place a corporate governance framework that it believes is appropriate for considering the risks to which the Bank is exposed. This framework comprises the Audit, Risk and Compliance Committee; the Executive Committee; Remuneration and Human Resources Committee; Nomination Committee; four Risk Committees; and five Risk Sub-Committees. Further details on the management of risk in the Bank can be found in notes 4, 5 and 6.

The Bank has developed its approach to assessing and managing the above risks and uncertainties in line with UK regulation, best practice and SMBC Group policy.

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 i).

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 and Value at Risk (Value at Risk is disclosed in detail in note 4 to the financial statements). Being a private company the Bank has no publicly announced targets.

For the year to 31 March 2013 the Bank's return on equity (using internal methodology) was 3.3% (2012: 2.8%) which remains below the target set by the Bank of 5.0%. Return on equity is calculated as profit after tax (USD 90.6 million (2012: USD 52.1 million)) after adding back Subordinated Debt interest (USD 19.5 million (2012: USD 19.5 million)) divided by the average equity in the year including Subordinated Debt (USD 3,324.3 million (2012: USD 2,501.8 million)).

At the Balance Sheet date the Bank's capital usage ratio was 65.0% (2012: 71.1%) and its it's tier 1 capital ratio was 19.4% (2012: 11.6%).

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

The Board continues to support the strategy of prudent use of capital resources for the continued profitability and development of the Bank.

The Bank's long-term Standard & Poor's rating is A+. The Bank is also rated A- by Fitch, and Aa3 by Moody's.

Operational Risk

The Bank has an operational risk management function the purpose of which is to develop, implement and maintain the Bank's operational risk strategy and framework. This strategy and framework is in place to mitigate the risk of losses from inadequate or failed internal processes, people and systems or from external events, including legal risks.

The primary objective of the Bank's operational risk management function is to minimise the occurrence and impact of operational risk events, in particular avoiding extreme or catastrophic events, in order to support the Bank in achieving its strategic objectives.

To achieve this primary objective the Bank has established an operational risk management governance structure and framework of processes to:

- ensure an appropriate understanding and awareness of operational risk at all levels of the Bank;
- effectively anticipate operational risks and implement appropriate mitigation in line with the Bank's operational risk appetite;
- effectively review operational risk events to minimise their reoccurrence; and
- implement the Bank's operational risk capital strategy to ensure the Bank is adequately capitalised against operational risk.

The Bank's activities and methodology are closely aligned with those adopted across the Sumitomo Mitsui Financial Group (SMFG) globally.

Overseas offices and other operations

The Bank has three branches, located in Amsterdam, Milan and Paris, and a representative office in Moscow. The Bank also has a one per cent shareholding in ZAO Sumitomo Mitsui Rus Bank, a commercial banking company located in Moscow.

Mission as part of the SMBC Group

The Bank's mission is to operate itself as an independent force in European corporate banking with a recognised European identity. The Bank will strive to add value to the SMBC Group by diversifying the Bank's portfolio and business opportunities by providing clients with value-added solutions to their financing needs from a strong capital base and through utilising the global reach of the SMBC Group.

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 and in order to strive to improve shareholder returns, 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 stable 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.

Shareholder

The Bank is wholly owned by SMBC, a company incorporated in Japan. SMBC is wholly owned by SMFG, a company also incorporated in Japan.

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 either greater than or equal to 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.

Directors

The Directors who held office as at 31 March 2013 were as follows:

Ms Elizabeth Noël Harwerth	Non-executive Director, Chairman
Mr Hiroyuki Iwami	Executive Director, Chief Executive Officer
Mr Kenichi Hosomi	Executive Director, Chief Operating Officer
Mr Ian Jameson	Executive Director
Mr Yasuyuki Kawasaki	Non-executive Director
Mr Keiichiro Nakamura	Executive Director
Mr Yoshiyuki Ohmi	Executive Director
Mr Derek Ross	Non-executive Director
Mr Nobuyuki Shirafuji	Executive Director (resigned on 9 May 2013)

The following changes to the Bank's Directorate occurred in the year. Mr Yoshihisa Seko resigned as an executive Director on 2 April 2012 and was replaced on the board by Mr Keiichiro Nakamura who was appointed an executive Director on the same date. Mr Mitsuhiro Akiyama resigned as an executive Director on 13 April 2012 and was replaced on the Board by Mr Kenichi Hosomi who was appointed an executive Director on the same date. Mr Yoshiyuki Ohmi was appointed an executive Director on 9 July 2012.

Subsequent to the Balance Sheet date, Mr Nobuyuki Shirafuji resigned as an executive Director on 9 May 2013.

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. Whilst not mandatory, the Directors seek to ensure the Bank complies with the provisions of The UK Corporate Governance Code insofar as they are suitable and relevant for a wholly owned subsidiary of a multinational company.

- ***Board of Directors***

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

- ***Board structure***

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

- **Executive Directors**

  The executive Directors, under the leadership of the CEO, Mr Iwami, 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 Hiroyuki Iwami, appointed as a Director on 5 July 2010, is the Chief Executive Officer.
  - Mr Kenichi Hosomi, appointed as a Director on 13 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 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 Keiichiro Nakamura, appointed as a Director on 2 April 2012, is the General Manager of Corporate Banking Department – II, which has responsibility for servicing non-emerging market, non-Japanese corporate customers.
  - Mr Yoshiyuki Ohmi, appointed as a Director on 9 July 2012, is the Bank's Chief Risk Officer. He is also General Manager of the Bank's Risk Management Department.

- **Non-executive Directors**

  The Board has appointed three non-executive Directors.

  - Ms Noël Harwerth is the Chairman of the Board, the Nomination Committee and the Remuneration and Human Resources Committee. She was appointed a Director of the Bank on 19 December 2003. Ms Harwerth is a director of a number of companies including Standard Life Plc (financial services), GE Capital Bank Ltd (financial services), Alent plc (speciality chemicals), Avocet Mining PLC (mining) and Dominion Diamond Corporation (retail and mining). 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 Depository Trust and Clearing Corporation and a number of its subsidiary companies (clearing and settlement services), GE Capital Bank Ltd (financial services) and The Access Bank UK Limited (financial services). Mr Ross was formerly a senior partner of Deloitte.
  - Mr Yasuyuki Kawasaki is an executive officer and managing director of SMBC. He is Deputy Head of SMBC's International Banking Unit and Head of SMBC's Emerging Markets Business Division. He was appointed a Director of the Bank on 18 June 2010.

Of the three non-executive Directors, the Board considers Ms Harwerth and Mr Ross to be independent Directors.

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.

Ms Harwerth, as non-executive Chairman, conducts a regular survey of the Directors to obtain opinions on the effectiveness of the Board and Board Committees. The results of this survey are reported to the Board and proposals are made to implement any changes required. Mr Ross, as Audit, Risk and Compliance Committee chairman, also undertakes a regular performance evaluation of that Committee, encompassing the Committee's activity and terms of reference, the performance of the external auditors, and the performance of Audit Department. Any proposals made as a result of this evaluation are considered by the Committee and the Board as required.

-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:**

  The members of the Executive Committee are Mr Iwami (Chairman), Mr Hosomi, Mr Jameson, Mr Nakamura, Mr Ohmi, and the other 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 Mr Ross (Chairman), Ms Harwerth and Mr Kawasaki.

At the invitation of the Committee Chairman, Mr Iwami, Mr Hosomi, Mr Jameson and Mr Ohmi also attend Committee meetings. The relevant members of executive management also attend Committee meetings, including: the Co-General Managers of Audit Department, 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 Chief Risk Officer 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, annual financial statements, external audit arrangements, Internal Audit and Credit Review oversight, and the appointment and dismissal of the senior management members of the Audit Department. 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 Ms Harwerth (Chairman), Mr Ross and Mr Kawasaki.

The Remuneration and Human Resources Committee is responsible for assessing the appropriateness of 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.

- **Nomination Committee**

The members of the Nomination Committee are Ms Harwerth (Chairman), Mr Iwami, Mr Ross and the Head of Human Resources, Ms Sheila Cork.

The Nomination Committee is responsible for assessing and recommending candidates to the Board to fill Board, General Manager and Significant Influence Function (as defined by the Prudential Regulation Authority and Financial Conduct Authority) vacancies as and when they arise.

- ***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 observance of limits and guidelines. This 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 and asset allocation. 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. This Committee has established a sub-committee, Special Credits Committee, which considers issues relating to the Bank's non-performing loans.

- **Financial Crime Committee:**

  This Committee is responsible for considering all aspects of the Bank's financial crime arrangements, including policies and procedures, and individual customer transactions where this is deemed necessary.

- **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. 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.

- ***Internal Controls and Risk Management***

The Bank adopts a coordinated approach to its overall risk management to ensure that the work undertaken by the various risk functions and committees is reported to management with the level of detail necessary to facilitate appropriate understanding of the actual levels of risk across the organisation and the effectiveness of internal controls. The effectiveness of the Bank's risk management processes and reporting is a constant area of management focus. The Board regards effective risk management as essential to the running and success of the Bank as a whole. In this regard the Bank is also placing more emphasis on linkage between risk appetite and the Corporate Strategy.

During the year the Board conducted a review of the effectiveness of its system of internal controls. On the basis of the findings from this review and the findings of Internal Audit and Credit Review reports over the year and other control activities, 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 are described below:

- A risk register is maintained to reflect the key risks facing the Bank, and which could impact on achievement of its primary strategic objectives, as set out in the Bank's Corporate Strategy. These risks encompass all the principal risk categories (shown on page 3). The risk register is reviewed and updated as part of the semi-annual high level risk assessment process, in which senior management across the Bank are involved and determine, from a strategic perspective, the most significant risks to the Bank. In this way, the Bank ensures that appropriate controls are in place for those risks that are either most likely to materialise, or may have the greatest impact on the Bank.

- The Bank's Audit Department comprises the Internal Audit Group and the Credit Review Group. The objective of the Audit Department is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established 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.

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, 461 hours (2012: 357.5 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 20,050 (2012: USD 12,506) to community organisations focused on a variety of social initiatives. The Bank made no political contributions during the year (2012: 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.

Supplier payment policy

It is the Bank's policy to pay its suppliers within the agreed relevant terms and conditions of business. The average time between receipt of an invoice and its payment during the year was 20 days (2012: 22 days).

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

Pursuant to Section 487 of the Companies Act 2006, the Bank's auditors, KPMG Audit Plc, are deemed to be reappointed and will therefore continue in office for the year ending 31 March 2014.

By order of the Board

M J Bradley
Company Secretary
27 June 2013
Registered Office:
99 Queen Victoria Street
London
EC4V 4EH

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and 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 prepared 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 Bank and of its profit or loss for that period. In preparing financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its 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 Bank 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.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
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 2013 set out on pages 13 to 58. 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 Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, 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 Bank's affairs as at 31 March 2013 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 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.

Matthew Davies (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
27 June 2013

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 USDm	2012 USDm
Interest income	10	388.4	408.1
Interest expense	10	(179.7)	(219.9)
Net Interest Income		208.7	188.2
Fees and commissions income	10	263.0	216.4
Fees and commissions expense	10	(33.2)	(34.7)
Net fee and commission income		229.8	181.7
Net trading income	10	21.8	10.7
Operating Income		460.3	380.6
Net impairment loss on financial assets	21,30	(29.2)	(30.6)
Personnel Expenses	11	(198.9)	(175.8)
Depreciation and amortisation	23,24	(9.4)	(7.5)
Other Expenses	12	(100.1)	(84.0)
Net Operating Expenses		(337.6)	(297.9)
Profit before income tax		122.7	82.7
Income tax charge	16	(32.1)	(30.6)
Profit for the year attributed to equity holders of the parent		90.6	52.1
Other comprehensive income, net of income tax			
Actuarial gains/(losses) on defined benefit scheme		5.6	(8.4)
Cash flow hedges		(9.0)	4.6
Available-for-sale investments		(0.6)	0.9
Other comprehensive income net of income tax		(4.0)	(2.9)
Total comprehensive income for the year		86.6	49.2

The notes on pages 17 to 58 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2013

	Notes	2013 USDm	2012 USDm
ASSETS			
Cash and balances at central banks	18	15,425.1	5,938.7
Loans and advances to banks - included in cash and cash equivalents	19	1,788.8	3,209.1
Derivative assets	7	483.0	392.2
Loans and advances to banks - other	19	1,157.1	2,108.3
Loans and advances to customers	20	11,022.7	10,694.1
Investment securities	22	476.1	446.7
Intangible assets	23	3.6	3.4
Property and equipment	24	23.4	26.2
Other assets	25	185.0	139.5
Pensions surplus	15	0.5	-
Deferred tax asset	26	8.4	14.7
Total assets		30,573.7	22,972.9
LIABILITIES			
Derivative liabilities	7	415.1	426.0
Deposits by banks		19,277.4	11,227.3
Customer accounts		5,116.3	5,333.1
Debt securities in issue	27	2,240.0	3,323.7
Subordinated liabilities	28	800.0	800.0
Other liabilities	29	87.0	81.1
Pension deficit	15	-	20.0
Other provisions	30	6.7	11.8
Current tax liability		6.7	12.0
Total liabilities		27,949.2	21,235.0
SHAREHOLDERS' EQUITY			
Called up share capital	31	2,400.0	1,600.0
Retained earnings		131.4	35.2
Other reserves		93.1	102.7
Total equity		2,624.5	1,737.9
Total liabilities and equity		30,573.7	22,972.9

These financial statements were approved by the Board of Directors on 27 June 2013 and signed on its behalf by:

K Hosomi, Director

The notes on pages 17 to 58 are an integral part of these financial statements.

Company registration number 4684034

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2013

	Share Capital USDm	Retained Earnings USDm	Capital Redemption USDm	Cash Flow Hedge Reserve USDm	Available-for Sale Reserve USDm	Total USDm
At 1 April 2011	1,600.0	(8.5)	100.0	(1.5)	(1.3)	1,688.7
Total comprehensive income for the year						
Net profit for the period	-	52.1	-	-	-	52.1
Other comprehensive income, net of tax						
Effective portion of changes in fair value of cashflow hedges	-	-	-	3.1	-	3.1
Net gains/(losses) transferred to net profit	-	-	-	1.5	-	1.5
Actuarial gain on defined benefits scheme	-	(8.4)	-	-	-	(8.4)
Change in fair value of assets classified as available-for-sale assets	-	-	-	-	1.3	1.3
Net gains/(losses) transferred to net profit on avilable-for--sale assets	-	-	-	-	(0.4)	(0.4)
Total comprehensive income	1,600.0	35.2	100.0	3.1	(0.4)	1,737.9
Transactions with owners, recorded directly in equity						
Issue of new shares	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	-	-	-
At 31 March 2012	1,600.0	35.2	100.0	3.1	(0.4)	1,737.9
At 1 April 2012	1,600.0	35.2	100.0	3.1	(0.4)	1,737.9
Total comprehensive income for the year						
Net profit for the period	-	90.6	-	-	-	90.6
Other comprehensive income, net of tax						
Effective portion of changes in fair value of cashflow hedges	-	-	-	(5.9)	-	(5.9)
Net gains/(losses) transferred to net profit	-	-	-	(3.1)	-	(3.1)
Actuarial gain on defined benefits scheme	-	5.6	-	-	-	5.6
Change in fair value of assets classified as available-for-sale assets	-	-	-	-	(1.0)	(1.0)
Net gains/(losses) transferred to net profit on avilable-for--sale assets	-	-	-	-	0.4	0.4
Total comprehensive income	1,600.0	131.4	100.0	(5.9)	(1.0)	1,824.5
Transactions with owners, recorded directly in equity						
Issue of new shares	800.0	-	-	-	-	800.0
Transfer to capital redemption reserve	-	-	-	-	-	-
At 31 March 2013	2,400.0	131.4	100.0	(5.9)	(1.0)	2,624.5

SUMITOMO MITSUI BANKING CORPORATION EUROPE LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2013

	2013	2012
	USDm	USDm
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit for the year before tax	122.7	82.7
Adjustments for non cash items:		
Net impairment loss on financial assets	29.2	30.6
Unrealised exchange movements on non operating assets and liabilities	(2.5)	(16.4)
Impairment loss written off	(28.4)	(189.4)
Depreciation and amortisation	9.4	7.5
Changes in operating assets and liabilities		
Changes in loans and advances to banks - others	964.0	(755.6)
Changes in derivative financial instruments	(101.7)	(56.3)
Changes in loans and advances to customers	(345.3)	(1,207.9)
Changes in other assets	(46.0)	(18.2)
Changes in deposits by banks	8,050.1	1,726.3
Changes in customer accounts	(216.8)	(104.7)
Changes in income tax	(5.3)	8.5
Changes in other liabilities	(14.1)	(395.0)
Net cash from operating activites	8,415.3	(887.9)
Purchase of investment securities	(585.0)	(409.3)
Proceeds from sale or redemption of investment securities	526.4	961.7
Net additon of intangible assets	(2.1)	(2.6)
Purchase of property and equipment	(4.8)	(6.9)
Proceeds from sale of property and equipment	-	0.2
Net cash from investing activities	(65.5)	543.1
Cash flow from financing activities		
Proceeds from issue of debt securities	2,240.0	3,323.7
Repayment of debt securities	(3,323.7)	(1,501.3)
Net issue of shares	800.00	-
Net cash from financing activities	(283.7)	1,822.4
Net increase in cash and cash equivalents	8,066.1	1,477.6
Cash and cash equivalents at start of the year	9,147.8	7,670.2
Cash and cash equivalents at 31 March	17,213.9	9,147.8
Cash and cash equivalents comprise:		
Cash and balances at central banks	15,425.1	5,938.7
Loans and advances to banks with original maturities of up to three months	1,788.8	3,209.1
	17,213.9	9,147.8

The notes on pages 17 to 58 are an integral part of these financial statements.

1. REPORTING ENTITY

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

The financial statements were authorised for issue by the Board of Directors on 27 June 2013.

(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, the 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

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 April 2013 or later periods, but have not been adopted. Apart from IFRS 9: Financial Instruments, they are not expected to result in significant changes to the Bank's accounting policies and therefore the position or results.

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IAS 27 – Separate Financial Statements (Amendments)

IAS 28 – Investments in Associates and Joint Ventures (Amendments)

IAS 1 – Presentation of Items of Financial Statements (Amendments)

IAS 19 – Employee Benefits (Amendments)

IFRS 7 – Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)

IAS 32 – Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

IFRS 1 – First-time Adoption of IFRSs (Amendments)

IFRS 9 – Financial Instruments was published in draft form on 12 November 2009. Adoption of the standard is not mandatory until accounting periods beginning on or after 1 January 2015 but early adoption is permitted. However, it is not available for adoption in the EU until it has been endorsed and no expected endorsement date has, as yet, been announced. This standard, once issued in final form will result in fundamental changes in the way the Bank accounts for its financial instruments, hedging activities and impairment provisions.

(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 15)

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 longer term nature of the scheme, such estimates are subject to significant uncertainty. See note 15 for the assumptions used.

Fair value of financial instruments (note 17)

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 21)

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 against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. 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 30)

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) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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, which-ever is the shorter
Computer hardware	3 years
Motor vehicles	5 years
Equipment, Fixtures and fittings	5 years

(f) Intangible Assets

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

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner which will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

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

Computer software	3 years

(g) 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.

(h) 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 now 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 assts 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.

(i) 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.

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.

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, held-for-trading liabilities or liabilities designated as held at fair value through profit and loss are accounted for as indicated in the accounting policy for financial assets and liabilities held for trading.

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.

(j) Impairment of financial assets

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

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

Impairment is calculated in two principal ways.

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

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

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

Historical loss experience is adjusted where appropriate on the basis of current observable data to reflect the effects of current conditions that do not affect the years on which the historical loss experience is based 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 reduce the differences between loss estimates and actual loss experience.

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.

(k) 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 into US Dollar 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.

(l) Financial guarantees

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

(m) 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.

(n) Netting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position, only to the extent there is a legally enforceable right of set off and there is an intention to settle on a net basis. In practice this is applied only to foreign exchange transactions where these factors apply.

(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. MARKET AND LIQUIDITY RISK

Overview

The global financial crisis of 2007 underlined the need for all financial institutions to maintain robust market and liquidity risk management practices. The Bank defines market and liquidity risk as follows:

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange and interest rates. This risk can arise from market making, dealing, and position taking in approved products including Foreign Exchange, Interest Rates, bonds and the related derivatives. Market risk also includes the risk that a position in a financial product cannot be liquidated or hedged effectively without loss due to market price illiquidity.

Liquidity risk is the risk that the Bank, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Governance framework

The Board is ultimately responsible for ensuring that the level of market and liquidity risk run by the Bank is in line with their chosen business model. This is achieved through the following main measures:

- The establishment of a clear, consistent risk appetite statement that is understood across the organisation.
- Defining clear roles and responsibilities for the management of liquidity under both normal and stressed circumstances.
- The implementation of a robust framework to identify, monitor and manage market and liquidity risk issues.

The Board has established three main committees to execute the above measures: the Audit, Risk and Compliance Committee ("ARCCo") and the Asset and Liability Management Committee ("ALMCo") consider and approve the relevant policy documents, while a working level Liquidity Management Committee ("LMC") has also been established in the past year to monitor key risk metrics and to promote market and liquidity risk awareness more widely throughout the organisation. These committees are furnished with suitable management information to demonstrate whether the Bank is operating within the specified risk appetite, along with other select metrics.

Allocation of responsibility

The Chief Risk Officer ("CRO") reports regularly to the Board, which collectively oversees the market and liquidity risk management process. The Risk Management Department manages market and liquidity risks in an integrated manner. The corporate governance framework for market risk management ensures appropriate controls, senior management oversight and thorough risk analysis and reporting conducted by an independent risk management team with the capabilities and resources to evaluate and monitor the exposures and limits. Regular reviews are conducted by the Audit Department to ensure compliance with policies, procedures and market best practice.

Management of market risk including market price risk, market liquidity risk and liquidity risk are the responsibility of the Treasurer. Market risk is transferred from the business desks to Treasury books. The resultant risk is managed within defined risk tolerances or limits.

Market and liquidity risk management issues are discussed at the monthly ALMCo. This Committee is chaired by the head of Market Risk Management Group of Risk Management Department and members include the CEO, COO, CRO and other senior management of the Bank. The CRO reports to the Executive Committee monthly.

Market risk

The foundation of the Bank's approach to measuring and controlling market risk 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 to generate the VaR result using data from a four -year observation period and which is updated monthly. 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 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 were:

	2013				2012			
	Maximum USDm	Minimum USDm	Average USDm	31 March USDm	Maximum USDm	Minimum USDm	Average USDm	31 March USDm
Trading	0.9	0.1	0.3	0.1	0.8	0.1	0.3	0.6
Banking	0.4	0.1	0.2	0.1	0.6	0.1	0.2	0.3
Consolidated	1.0	0.1	0.4	0.1	1.1	0.1	0.4	0.9

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 2013 USDm	31 March 2012 USDm	31 March 2013 USDm	31 March 2012 USDm
(14.9)	(16.5)*	(5.0)	(5.4)

Note: Impact to future income is based on an adverse 100bp move in interest rates.

Liquidity risk

The Bank is continuing its work to enhance the effectiveness of its quantitative liquidity risk management. The primary goals of the Bank in respect of the management of market and liquidity risk are as follows:

- Development of proactive and practical risk management policies in line with best practice,
- Quantification and communication of risk,
- Control of the relevant risk limits,
- Ensuring the transparency of risk management,
- Clearly separating front-office, middle-office and back-office operations,
- Ensuring validity of reports through appropriate checks and comparisons, and
- Accurate and timely risk measurement.

The Bank's liquidity risk management framework includes setting funding gap limits and guidelines (consistent with the requirements of the Risk Appetite), maintaining highly liquid supplementary funding sources, establishing contingency funding plans and maintaining forward looking planning tools and strategies. This reflects the Bank's conservative approach towards liquidity.

The fundamental objective is to ensure that the Bank is not overly dependent on short-term wholesale funding and can accordingly survive a combined market-wide and idiosyncratic liquidity stress event.

The Board approves the Bank's funding gap limits and guidelines. The limits are set on the accumulated future net funding requirement in each significant currency and on a consolidated basis. Liquidity is managed on a day-to-day basis by Treasury

Department in London. Market Risk Management Group monitors positions versus limits and report these to senior management on a same day basis.

Additionally, the Bank has made it a strategic objective to maintain a funding structure that is well diversified in terms of funding sources, currency composition and tenor mismatches. This is monitored at the monthly ALMCo meeting.

In the past year, the Bank has undertaken a targeted programme of review and improvement to the overall liquidity risk management framework. As a result, we have made significant enhancements to the following areas:

- Funds transfer pricing,
- Use of quantitative early warning indicators,
- Liquidity stress testing, and
- Contingency funding planning.

To supplement the current limit framework the Bank also holds a portfolio of highly liquid unencumbered assets including UK Gilts, Swiss Government bonds, and cash held at Bank of England and European Central Bank reserve accounts. The quantity of this buffer of liquid assets is purposefully maintained such that the Bank comfortably exceeds its individual liquidity guidance, as prescribed by the regulators in March 2012.

With respect to the incoming Basel liquidity requirements, the liquid asset buffer is sufficient such that the Bank presently exceeds the minimum liquidity coverage ratio and is close to full compliance with the net stable funding ratio (as currently defined).

5. 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 advance to banks and customers are included in the up to 3 months column. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity.

At 31 March 2013 USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Netting Effect	Total USDm
ASSETS						
Cash and balances at central banks	15,425.1	-	-	-	-	15,425.1
Loans and advances to banks	2,008.2	209.2	540.0	188.5	-	2,945.9
Derivative assets	896.5	-	-	-	(413.5)	483.0
Loans and advances to customers	2,409.8	626.7	2,644.5	5,341.7	-	11,022.7
Investment securities	26.6	378.5	62.4	8.6	-	476.1
Total financial assets	20,766.2	1,214.4	3,246.9	5,538.8	(413.5)	30,352.8
Other assets						220.9
Total assets						30,573.7
LIABILITIES						
Deposits by banks	17,563.5	615.4	946.6	151.9	-	19,277.4
Customer accounts	4,837.8	278.5	-	-	-	5,116.3
Derivative liabilities	828.6	-	-	-	(413.5)	415.1
Debt securities in issue	2,140.8	99.2	-	-	-	2,240.0
Subordinated liabilities	-	-	-	800.0	-	800.0
Total financial liabilities	25,370.7	993.1	946.6	951.9	(413.5)	27,848.8
Other liabilities						100.4
Total liabilities						27,949.2
Cumulative gap	(4,604.5)	(4,383.2)	(2,082.9)	2,504.0	-	2,504.0

At 31 March 2012 USDm	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Netting Effect	Total USDm
ASSETS						
Cash and balances at central banks	5,938.7	-	-	-	-	5,938.7
Loans and advances to banks	3,524.3	878.1	797.4	117.6	-	5,317.4
Derivative assets	878.5	-	-	-	(486.3)	392.2
Loans and advances to customers	2,025.6	541.5	3,003.4	5,123.6	-	10,694.1
Investment securities	299.6	-	17.4	129.7	-	446.7
Total financial assets	12,666.7	1,419.6	3,818.2	5,370.9	(486.3)	22,789.1
Other assets						183.8
Total assets						22,972.9
LIABILITIES						
Deposits by banks	9,235.7	98.8	1,732.7	160.1	-	11,227.3
Customer accounts	5,089.6	179.9	31.6	32.0	-	5,333.1
Derivative liabilities	912.3	-	-	-	(486.3)	426.0
Debt securities in issue	3,227.2	96.5	-	-	-	3,323.7
Subordinated liabilities	-	-	-	800.0	-	800.0
Total financial liabilities	18,464.8	375.2	1,764.3	992.1	(486.3)	21,110.1
Other liabilities						124.9
Total liabilities						21,235.0
Cumulative gap	(5,798.1)	(4,753.7)	(2,699.8)	1,679.0	-	1,679.0

The table below shows the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments. The effect of netting on derivative liabilities is shown separate to the actual maturity.

Maturity of liabilities as at 31 March 2013	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Netting Effect	Total USDm
Deposits by banks	17,570.4	621.7	1,017.9	99.7	-	19,309.7
Customer Accounts	4,839.3	279.4	-	-	-	5,118.7
Debt securities in issue	2,142.6	99.3	-	-	-	2,241.9
Other financial liabilities	-	-	-	-	-	-
Subordinated liabilities	9.2	9.2	73.7	809.2	-	901.3
Issued financial guarantee contracts	603.7	1,070.1	839.3	165.3	-	2,678.4
Unrecognised loan commitments	82.0	88.9	5,232.4	2,259.2	-	7,662.5
	25,247.2	2,168.6	7,163.3	3,333.4	-	37,912.5
Derivative Liabilities	374.1	182.3	252.6	19.3	(413.5)	414.8
Total liabilities, issued guarantees and commitments	25,621.3	2,350.9	7,415.9	3,352.7	(413.5)	38,327.3

Maturity of liabilities as at 31 March 2012	Up to 3 months USDm	3 to 12 months USDm	1 to 5 years USDm	Over 5 years USDm	Netting Effect	Total USDm
Deposits by banks	9,247.7	109.0	1,794.5	137.2	-	11,288.4
Customer Accounts	5,095.9	181.9	33.6	32.2	-	5,343.6
Debt securities in issue	3,228.7	97.0	-	-	-	3,325.7
Other financial liabilities	-	-	-	-	-	-
Subordinated liabilities	10.1	10.1	80.6	830.2	-	931.0
Issued financial guarantee contracts	862.2	1,466.4	657.7	250.2	-	3,236.5
Unrecognised loan commitments	34.2	152.9	5,368.0	1,720.9	-	7,276.0
	18,478.8	2,017.3	7,934.4	2,970.7	-	31,401.2
Derivative Liabilities	544.5	191.9	124.1	48.3	(486.3)	422.5
Total liabilities, issued guarantees and commitments	19,023.3	2,209.2	8,058.5	3,019.0	(486.3)	31,823.7

6. CREDIT RISK

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Bank or its failure to perform as agreed. This risk includes residual risk, the credit risk in securitisation, cross border (or transfer) and country risk, which is closely related to credit risk. Country risk includes the risk of loss caused by changes in foreign exchange, or political or economic situations.

The Bank has in place well defined policies and procedures for the identification, measurement and control of credit risk. Embedded within these is a framework of management responsibilities. There have been no significant changes from prior years in the objectives and policies for management of credit risk.

The Board oversees the credit risk management process. The Bank has centralised the credit risk control responsibilities under the Chief Risk Officer (CRO) to improve the credit risk control functions of the Bank. The CRO has a right of veto on credit and underwriting transactions. The corporate governance framework for credit risk management ensures appropriate controls, appropriate senior management oversight and thorough risk analysis and reporting conducted by a credit management team with the capabilities and resources to evaluate and monitor the exposures and limits. Regular reviews are conducted by Audit Department – Credit Review Group to ensure compliance with policies, procedures and market best practice.

The Bank follows the basic credit management policy of the SMBC group to assess and manage credit risk and raise further the level of accuracy and comprehensiveness of credit risk management. The Bank assesses and manages credit risk of individual loans and credit portfolios on a quantitative basis using consistent standards. The purpose of credit risk management is to keep credit risk exposure to a permissible level relative to capital, to maintain the soundness of assets, and to ensure returns are commensurate with risk. This leads to a loan portfolio that achieves appropriate returns on capital and assets.

For the purpose of quantitative assessment the Bank assesses the credit risk posed by each borrower or loan using an internal rating system and quantifies that risk for control purposes. The rating system consists of two indicators; the obligor grading which indicates the credit worthiness of the borrower; and the facility grading, which shows the probability of collecting for each facility. Facility gradings are assigned based on the borrower's obligor grading and transaction terms such as guarantee, tenure and collateral. The internal process for monitoring and grading obligors is known as Credit Monitoring and Self-Assessment. Self-Assessment refers to the classification of assets according to the degree of risk of collection or value impairment. The Bank's internal grading, definitions, borrower's categories and comparable external ratings are set out in the below table and are used for the purposes of compiling the Bank's credit quality of obligors.

G Grade* Code	J Grade* Code		Definition	Borrower's Category	Comparable External Rating (reference) G Grade	Comparable External Rating (reference) J Grade
G1a	J1	a	Certainty about the standard level of debt repayment is extremely high.	Normal Borrower's	AAA, AA+,AA	AAA,AA+
G1b		b			AA-,A+	AA
G1c		c			A,A-	AA-
G2a	J2	a	Certainty about the standard level of debt repayment is high		BBB+	A+
G2b		b			BBB	A
G2c		c			BBB-	A-
G3a	J3	a	Certainty about the standard levelf debt repayment is sufficient		BB+or below	BBB+
G3b		b				BBB
G3c		c				BBB-
G4	J4A		Although repayment is certain, there still remain possibilities about the influence when there are drastic changes in the Ecnonomic trend and environment of the industry.			BB+or below
	J4B					
	J4C					
G5	J5A		Although there are no problems found in the debt repayment, there still remains possibility about the influence when there are drastic changes in the Economic trend and environment of the industy.			
	J5B					
	J5C					
G6	J6		Although there are no problems found in the debt repayment at present, there still remains uncertainty regarding the business prospect and financial condition which cause some problems regarding the debt repayment in future.			
G7A	J7A		Customer needs caution regarding the credit risk management in the terms of loan condition, repayment situation and downward and unstable busines condition and financial problems.	Borrowers Requiring Caution A		
G7B	J7B			Borrowers Requiring Caution B		
G7R	J7R		Substandard Borrower	Substandard Borrowers		
G8	J8		Although present situation is not in the bankruptcy, there still seem to have no problem in the manageable condition as of now and the progress of the business improvement is not enough, that there are possibility for the customer to become bankrupt.	Pontentially Bankrupt Borrowers		
G9	J9		Although legal and formal bankruptcy still haven't occurred yet, the obligor is materlially bankrupt and in serious condition because there seems to be no prospect in the recovery.	Virtually Bankrupt Borrowers		
G10	J10		Legal and material occurance of the bankruptcy	Bankrupt Borrowers		

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

Credit assessment of individual loans involves analysis of a variety of financial measures including cash flow to predict an enterprise's capability of loan repayment and its growth prospects. These measures, when combined with quantitative analyses of industrial trends, the competitiveness of a borrower's products, services and management calibre, result in a comprehensive credit assessment. Loan applications are also analysed in terms of intended use of funds and the repayment schedules to arrive at an accurate and fair credit decision based on objective examination of all relevant factors.

Credit monitoring is carried out through an ongoing reassessment of obligor grades. This involves periodic monitoring each time an obligor discloses financial results, as well as continuous monitoring performed each time the credit conditions change. When customers are downgraded or considered to be downgraded in the future to below 'normal borrower' category, they are added to the Special Credit borrower List and reported to Management.

As part of the Credit Monitoring regime, the Bank utilises all resources available including monitoring of a wide range of market indicators. The Bank also regularly monitors all wider aspects of its business such as reviewing specific country exposure, products, industries etc. on a portfolio basis and undertakes regular stress testing scenarios.

Apart from the quantitative and portfolio approach, the Bank started an early warning process in the year ending 31 March 2008. The purpose of this being to share information of potential problem assets at an early stage among Marketing, Credit and Research departments and discuss any risk mitigation opportunities or exit strategies.

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

Reference to past due, but not impaired loans and investment securities below are those for which contractual interest or principal payment are past due, but the Bank believes that impairment is not appropriate on the basis of the nature regarding the stage of collection of amounts owed.

Reference to renegotiated loans refers to loans that have been restructured due to the deterioration in the borrower's financial position and where the Bank has made concessions it would not have otherwise considered.

Assets which are graded 1 to 7A are considered neither past due nor impaired. Assets graded 7B are considered individually impaired where objective evidence of impairment exists. Assets graded 7R, 8, 9 and 10 are individually impaired.

Industry Exposures

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

	2013		2012	
	USD m	%	USD m	%
Financial institutions and Insurance	18,002.7	60.3%	10,771.0	48.1%
Manufacturing	2,675.9	9.0%	3,284.0	14.7%
Service Industry	2,214.1	7.4%	1,071.4	4.8%
Agriculture, Forestry, Fisheries and Mining	1,596.3	5.3%	1,778.4	7.9%
Transportation, communications and other public enterprises	1,195.5	4.0%	1,320.9	5.9%
Governments and official institutions	592.0	2.0%	508.8	2.3%
Construction	576.7	1.9%	514.3	2.3%
Wholesale and retail	146.4	0.5%	101.7	0.5%
Others	2,870.2	9.6%	3,046.4	13.5%
	29,869.8	100.0%	22,396.9	100.0%

Country Exposures

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

	2013		2012	
	USDm	%	USDm	%
United Kingdom	13,185.6	44.1%	6,173.7	27.5%
France	8,403.2	28.1%	5,776.8	25.8%
Russian Federation	1,099.1	3.7%	1,216.9	5.4%
Cayman Islands	746.6	2.5%	662.8	3.0%
Japan	590.9	2.0%	1,437.5	6.4%
Switzerland	561.6	1.9%	459.1	2.0%
Netherlands	559.2	1.9%	384.7	1.7%
Spain	552.9	1.9%	702.3	3.1%
Italy	425.3	1.4%	617.9	2.8%
United States	363.6	1.2%	467.2	2.1%
Saudi Arabia	328.7	1.1%	273.5	1.2%
Turkey	327.0	1.1%	420.5	1.9%
Germany	216.4	0.7%	323.7	1.4%
Australia	213.3	0.7%	213.1	1.0%
Nigeria	202.8	0.7%	128.0	0.6%
Singapore	187.4	0.6%	282.8	1.3%
Other Countries	1,906.2	6.4%	2,856.4	12.8%
	29,869.8	100.0%	22,396.9	100.0%

Maximum exposure to credit risk without taking into account collateral and other credit enhancements

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.

	2013 USDm	2012 USDm
Cash and balances at central banks	15,425.1	5,938.7
Loans and advances to banks	2,945.9	5,317.4
Loans and advances to customers	11,022.7	10,694.1
Derivative Assets	483.0	392.2
Investment Securities	476.1	446.7
Total	30,352.8	22,789.1
Guarantees and Letters of Credit	2,678.4	3,247.8
Commitments	7,512.5	7,275.9
Total	10,190.9	10,523.7

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 value is only attributed on an ongoing basis to cash and Japanese Government Bonds held as collateral. The value of this collateral held by the Bank, including collateral held against inter-group positions for large exposure purposes, was USD 8,364.4m (2012: USD 9,540.0m). This collateral is held against loans and advances to banks and customers and derivative assets.

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 that are individually impaired and past due but not impaired.

	Past due but not impaired 2013 USDm	Individually impaired 2013 USDm	Past due but not impaired 2012 USDm	Individually impaired 2012 USDm
Guarantees	25.3	-	-	35.7
Ships	3.8	-	-	72.2
Project assets	15.9	-	-	22.9
Total	45.0	-	-	130.8
Amounts of loans collateralised	70.3	-	-	204.9

Credit quality of counterparty per class of financial assets

At 31 March 2013 USDm	Internal Grading	Held-to maturity	Trading	Loans and Receivables	Available-for- sale	Total
Cash and balances at central banks		-	-	15,425.1	-	15,425.1
Loans and advances to banks						
Normal borrowers	1-6	-	-	2,940.2	-	2,940.2
Borrowers requiring caution	7A, 7B	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	5.7	-	5.7
Total		-	-	2,945.9	-	2,945.9
Loans and advances to customers						
Normal borrowers	1-6	-	-	10,708.1	-	10,708.1
Borrowers requiring caution	7A, 7B*	-	-	272.1	-	272.1
Substandard borrowers and below	7R, 8-10	-	-	42.5	-	42.5
Total		-	-	11,022.7	-	11,022.7
Investment securities						
Normal borrowers	1-6	-	-	-	444.5	444.5
Borrowers requiring caution	7A, 7B*	-	-	23.1	-	23.1
Substandard borrowers and below	7R, 8-10	-	-	8.5	-	8.5
Total		-	-	31.6	444.5	476.1

At 31 March 2012 USDm	Internal Grading	Held-to maturity	Trading	Loans and Receivables	Available-for- sale	Total
Cash and balances at central banks		-	-	5,938.7	-	5,938.7
Loans and advances to banks						
Normal borrowers	1-6	-	-	5,309.0	-	5,309.0
Borrowers requiring caution	7A, 7B*	-	-	8.4	-	8.4
Substandard borrowers and below	7R, 8-10	-	-	-	-	-
Total		-	-	5,317.4	-	5,317.4
Loans and advances to customers						
Normal borrowers	1-6	-	-	10,157.8	-	10,157.8
Borrowers requiring caution	7A, 7B*	-	-	483.7	-	483.7
Substandard borrowers and below	7R, 8-10	-	-	52.6	-	52.6
Total		-	-	10,694.1	-	10,694.1
Investment securities						
Normal borrowers	1-6	141.4	-	45.5	225.1	412.0
Borrowers requiring caution	7A, 7B	-	-	-	-	-
Substandard borrowers and below	7R, 8-10	-	-	34.7	-	34.7
Total		141.4	-	80.2	225.1	446.7

*There were no customer balances which were past due but not impaired (2012: USD nil).

There were no customers who would have been classified as past due or impaired if they had not renegotiated terms in the year (2012: USD nil).

7. FAIR VALUE ON DERIVATIVES

The following tables show the Bank's fair value disclosures at 31 March 2013.

	Positive fair value	Negative fair value
	USDm	USDm
Trading derivatives		
Foreign exchange derivatives		
Forward foreign exchange	884.8	(712.3)
Currency swaps	-	-
OTC options bought and sold	4.4	(4.6)
Total	889.2	(716.9)
Interest rate derivatives		
Interest rate swaps	1.0	-
Total	1.0	-
Total derivatives	890.2	(716.9)
Effect of netting	(413.5)	413.5
Total fair value	476.7	(303.4)
Derivatives held for risk management		
Foreign exchange derivatives		
Forward foreign exchange - Cash flow hedges	-	(7.7)
Currency swaps - Fair value hedges	6.3	(31.2)
Total	6.3	(38.9)
Interest rate derivatives		
Interest rate swaps - Fair value hedges	-	(72.8)
Total	-	(72.8)
Total derivatives	6.3	(111.7)
Effect of netting	-	-
Total fair value	6.3	(111.7)
Total fair value on derivatives	483.0	(415.1)

The following tables show the Bank's fair value disclosures at 31 March 2012.

	Positive fair value USDm	Negative fair value USDm
Trading derivatives		
Foreign exchange derivatives		
Forward foreign exchange	850.7	(823.9)
Currency swaps	-	-
OTC options bought and sold	15.7	(15.4)
Total	866.4	(839.3)
Interest rate derivatives		
Interest rate swaps	3.6	-
Swaptions	0.7	(0.7)
Exchange traded futures	-	(0.1)
Total	4.3	(0.8)
Total derivatives	870.7	(840.1)
Effect of netting	(486.3)	486.3
Total fair value	384.4	(353.8)
Derivatives held for risk management		
Foreign exchange derivatives		
Forward foreign exchange - Cash flow hedges	4.1	-
Currency swaps - Fair value hedges	3.3	(8.1)
Total	7.4	(8.1)
Interest rate derivatives		
Interest rate swaps - Fair value hedges	0.4	(64.1)
Total	0.4	(64.1)
Total derivatives	7.8	(72.2)
Effect of netting	-	-
Total fair value	7.8	(72.2)
Total fair value on derivatives	392.2	(426.0)

Where master netting agreements are in place and there is intention and ability to settle on a net basis, the net balance has been shown on the face of the statement of financial position.

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.

8. 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.

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

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

31 March 2013 USDm	Note	Level 1	Level 2	Level 3
Investment securities	22	378.5	-	66.0
Derivative trading assets	7	-	476.7	-
Derivatives held for risk management	7	-	6.3	-
		378.5	483.0	66.0
Derivative trading liabilities	7	-	303.4	-
Derivatives held for risk management	7	-	111.7	-
		-	415.1	-

31 March 2012 USDm	Note	Level 1	Level 2	Level 3
Investment securities	22	201.8	-	68.8
Derivative trading assets	7	-	384.4	-
Derivatives held for risk management	7	-	7.8	-
		201.8	392.2	68.8
Derivative trading liabilities	7	0.1	353.8	-
Derivatives held for risk management	7	-	72.2	-
		0.1	426.0	-

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

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:

31 March 2013 USDm	Loans and advances to banks	Investment securities	Total
Opening Balance	-	68.8	68.8
Total gains or losses:			
- in profit or loss	-	(2.8)	(2.8)
- in other comprehensive income	-	(1.4)	(1.4)
Purchases	-	2.8	2.8
Sales	-	-	-
Issues	-	-	-
Settlements	-	(1.4)	(1.4)
Impairments	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Closing Balance	-	66.0	66.0

31 March 2012 USDm	Loans and advances to banks	Investment securities	Total
Opening Balance	4.3	88.7	93.0
Total gains or losses:			
- in profit or loss	-	(3.5)	(3.5)
- in other comprehensive income	-	-	-
Purchases	-	4.5	4.5
Sales	-	(18.7)	(18.7)
Issues	-	-	-
Settlements	(4.3)	(2.2)	(6.5)
Impairments	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Closing Balance	-	68.8	68.8

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 fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

31 March 2013 USDm	Effect on profit or loss	Effect on other comprehensive income
Investment securities	-	(4.4)
Total	-	(4.4)

31 March 2012 USDm	Effect on profit or loss	Effect on other comprehensive income
Investment securities	-	(8.7)
Total	-	(8.7)

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 (2012: 100 basis points) to show the possible impact on the valuation.

9. 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 a specified underlying index 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 rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

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

Cash Flow Hedges

The Bank does not, in its normal customer business, transact cash flow hedges. The main use of cash flow hedges is to reduce the foreign exchange risk on the Bank's forecast Sterling expenses for each financial year. Prior to the year end the Bank entered into 12 US Dollar/Sterling foreign exchange forward contracts, each for a value of GBP 10.0m maturing at each month end. Similar transactions were executed in 2012. These transactions hedge the Bank's forecast Sterling expenses for each month of the financial year ending on 31 March 2014, and therefore will be fully recycled through the profit and loss over the coming financial year.

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

	USDm
	USDm
At 1 April 2011	(1.5)
Reclassifed to the profit and loss account (net trading income/loss)	1.5
Unrealised gains on cash flow hedges	3.1
At 31 March 2012	3.1
At 1 April 2012	3.1
Reclassifed to the profit and loss account (net trading income/loss)	(3.1)
Unrealised gains on cash flow hedges	(5.9)
At 31 March 2013	(5.9)

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 and 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 2013	Description of financial instruments designated as hedging instrument	Fair value of hedging instrument USDm	Gains or losses on hedging instrument USDm	Gains or losses on hedged item USDm
Assets	Interest rate swap	(97.7)	(51.4)	51.4
Liabilities	Interest rate swap	-	-	-
		(97.7)	(51.4)	51.4

At 31 March 2012	Description of financial instruments designated as hedging instrument	Fair value of hedging instrument USDm	Gains or losses on hedging instrument USDm	Gains or losses on hedged item USDm
Assets	Interest rate swap	(68.5)	(36.6)	36.6
Liabilities	Interest rate swap	-	-	-
		(68.5)	(36.6)	36.6

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

At 31 March 2013 USDm	Trading	Held to Maturity	Loans and Receivables	Available-for- sale	Financial Liabilities at Amortised Cost	Non financial instruments	Total
Interest income	-	0.5	379.1	8.8	-	-	388.4
Interest expense	-	-	-	-	(179.7)	-	(179.7)
Net interest income/(expense)	-	0.5	379.1	8.8	(179.7)	-	208.7
Fee and commissions income	-	-	263.0	-	-	-	263.0
Fee and commissions expense	(0.3)	-	(32.8)	(0.1)	-	-	(33.2)
Net fee and commissions income/(expense)	(0.3)	-	230.2	(0.1)	-	-	229.8
Net trading income	21.8	-	-	-	-	-	21.8
Operating Income/(expense)	21.5	0.5	609.3	8.7	(179.7)	-	460.3
Net impairment loss on financial assets	-	-	(29.2)	-	-	-	(29.2)
Included within interest income is interest on impaired assets of	-	-	7.4	4.0	-	-	11.40

At 31 March 2012 USDm	Trading	Held to Maturity	Loans and Receivables	Available-for- sale	Financial Liabilities at Amortised Cost	Non financial instruments	Total
Interest income	-	0.1	405.5	2.5	-	-	408.1
Interest expense	-	-		-	(219.9)	-	(219.9)
Net interest income/(expense)	-	0.1	405.5	2.5	(219.9)	-	188.2
Fee and commissions income	-	-	216.4	-	-	-	216.4
Fee and commissions expense	(0.7)	-	-	-	(34.0)	-	(34.7)
Net fee and commissions income/(expense)	(0.7)	-	216.4	-	(34.0)	-	181.7
Net trading income	10.7	-	-	-	-	-	10.7
Operating Income/(expense)	10.0	0.1	621.9	2.5	(253.9)	0.0	380.6
Net impairment loss on financial assets	-	-	(19.6)	(11.0)	-	-	(30.6)
Included within interest income is interest on impaired assets of	-	-	13.0	0.9	-	-	13.9

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

11. PERSONNEL EXPENSES

	2013 USDm	2012 USDm
Salaries and bonuses	127.6	115.8
Compulsory social security obligations	41.3	32.9
Pension costs - contribution plans	10.3	9.0
Pension costs - defined benefit plans	2.3	2.3
Termination benefit	0.2	1.0
Other staff costs	17.2	14.8
	198.9	175.8
Average number of front office department employees	326	308
Average number of support department employees	433	397
Average number of employees	759	705

12. OTHER EXPENSES

	2013 USDm	2012 USDm
Operating lease payments	7.7	7.7
Other operating expenses	92.4	76.3
	100.1	84.0

13. AUDITORS' REMUNERATION

	2013 USDm	2012 USDm
- Auditors' remuneration		
Statutory audit fee	0.7	0.6
Other services persuant to legislation	-	-
Other services persuant to taxation	0.2	0.5
Other	-	-
	0.9	1.1

14. DIRECTORS' EMOLUMENTS

	2013 USDm	2012 USDm
Directors' fees	0.2	0.2
Directors' emoluments (excluding fees)	3.9	2.7
	4.1	2.9

The highest paid Director received emoluments of USD 948,493 (2012: USD 721,540).

One Director belonged to the Bank's defined contribution pension scheme with the Bank paying contributions of USD 36,877 (2012: one Director with contributions of USD 11,714) in the year. These amounts are included within the Director's emoluments figures above. One Director received a bonus (2012: One Director) and part of this was not (2012: was) subject to a deferral period as the Bank was classified in proportionality level three and so was permitted to disapply 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.

15. 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 2013 by a qualified independent Actuary. The principal actuarial assumptions as at 31 March (expressed as weighted averages) were as follows:

	2013	2012
Discount rate at dosing	4.50%	4.60%
Expected rate of return on Scheme assets (weighted average)	4.50%	4.40%
Future salary increase (weighted average)	5.20%	4.90%
Future pension increase	3.20%	2.90%
Inflation assumption	2.20%	2.00%

The underlying mortality assumption is based upon the standard table known as PA92 on a year of birth usage with long cohort future improvement factors (2012: no change).

The amounts recognised in the statement of financial position are as follows:

	2013 USD m	2012 USD m
Present value of funded obligation at dosing	(165.5)	(162.1)
Fair value of Scheme assets	166.0	142.1
Total Defined Benefit Asset/(Liability)	0.5	(20.0)

Changes in the present value of the Scheme liabilities are as follows:

	2013 USD m	2012 USD m
Present value of obligation at opening	162.1	139.8
Service cost	2.2	2.0
Interest cost	7.0	7.7
Past service cost (vested)	-	-
Benefits paid	(5.0)	(2.3)
Actuarial loss on obligation	7.5	15.4
Exchange movement	(8.3)	(0.5)
Present value of obligation at dosing	165.5	162.1

Changes in the fair value of the Scheme assets for the year are as follows:

	2013 USD m	2012 USD m
Fair value of Scheme assets at opening	142.1	120.9
Expected return on Scheme assets	6.1	6.9
Contributions paid by the Company	15.2	12.8
Benefits paid by fund	(5.0)	(2.3)
Actuarial gain on Scheme assets	14.7	4.3
Exchange movement	(7.1)	(0.5)
Fair value of Scheme assets at dosing	166.0	142.1

Scheme assets were made up of the following:

	2013	2012
	%	%
Bonds and Gilts	49.6%	49.1%
Cash	0.0%	0.0%
Equity	50.4%	50.9%
	100.0%	100.0%

The expected rate of return on assets is determined by calculating a total return estimate based on weighted average returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as equity risk premiums.

The amounts to be recognised in profit and loss are as follows:

Income Statement	2013	2012
	USD m	USD m
Service cost	2.2	2.0
Interest cost	7.0	7.7
Expected return on Scheme assets	(6.2)	(6.9)
Past service cost recognised	-	-
Total expense (included in staff cost)	3.0	2.8

The agreed contributions to be paid by the Bank for the forthcoming year (year ending 31 March 2013) are 38.4% of Pensionable Earnings plus USD 0.7m 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.

Analysis of amount recognisable in other comprehensive income is as follows:

	2013	2012
	USD m	USD m
Actual return less expected return on pension Plan assets	14.7	4.3
Experience losses arising on Plan liabilities	(1.1)	(1.0)
Changes in assumptions underlying present value of Plan liabilities	(6.4)	(14.4)
Actuarial gains/(loss) recognised in other comprehensive income gross of tax	7.2	(11.1)

	2013	2012
	USD m	USD m
Cummulative actuarial loss at 1 April	(52.1)	(43.9)
Recognised during the period net of tax	5.6	(8.2)
Cummulative actuarial loss at 31 March	(46.5)	(52.1)

Movement in surplus/(deficit) during the year is as follows:

Movements in net surplus/(liability)	2013 USD m	2012 USD m
Net liability at beginning of year	(20.0)	(18.9)
Expense in income statement	(3.0)	(2.8)
Contributions paid	15.2	12.8
Actuarial loss/(gains)	7.2	(11.1)
Exchange movement	1.1	-
Net asset/(liability) at end of the year	0.5	(20.0)

Amounts for the current and previous four accounting periods are as follows:

	2013 USD m	2012 USD m	2011 USD m	2010 USD m	2009 USD m
Present value of Scheme liabilities	(165.5)	(162.1)	(139.8)	(127.0)	(96.4)
Market value of Scheme assets	166.0	142.1	120.9	97.0	71.2
Surplus / (Deficit) in the Scheme	0.5	(20.0)	(18.9)	(30.0)	(25.2)
Experience adjustments arising on Scheme assets	14.7	4.3	1.7	8.9	(16.0)
Experience adjustments arising on Scheme liabilities	(1.1)	(1.0)	(2.7)	4.8	(2.1)

The Bank expects to pay USD 11.8m in contributions to defined benefit plans in the coming financial year to 31 March 2014.

16. INCOME TAX EXPENSE

Recognised in the income statement

The charge for tax is based upon the UK corporation tax rate of 24% and comprises:

	2013 USDm	2012 USDm
Current tax charge/(credit)		
Current year	17.7	0.3
Overseas tax	8.2	12.9
Adjustment for prior years	(0.2)	-
Overseas tax adjustment for prior years	(0.9)	(2.7)
	24.8	10.5
Deferred tax charge		
Current year	6.8	19.4
Adjustment for prior years	0.5	0.7
	7.3	20.1
Total income tax expense	32.1	30.6

Reconciliation of effective rate of tax	USDm	USDm
Profit before tax	122.7	82.7
Income tax using the domestic corporation tax rate of 24% (2012-26%)	29.4	21.5
Adjustment for prior years	0.3	0.7
(Income not taxable)/Expenses not deductible for tax purposes	0.4	(3.0)
Reduction in deferred tax asset due to corporate tax rate change	0.3	1.2
Overseas tax	2.6	12.9
Overseas tax adjustment for prior years	(0.9)	(2.7)
	32.1	30.6
Effective rate of tax	26.2%	37.0%

The main rate of UK corporation tax is 23% with effect from 1 April 2013. This change became substantively enacted in advance of 31 March 2013 and therefore the effect of the rate reduction creates a reduction in the deferred tax asset which has been included in the figures above.

Income tax recognised in other comprehensive income

	Before tax 2013 USDm	Tax (expense) benefit 2013 USDm	Net of tax 2013 USDm	Before tax 2012 USDm	Tax (expense) benefit 2012 USDm	Net of tax 2012 USDm
Actuarial losses on defined benefit scheme	7.3	(1.7)	5.6	(11.1)	2.7	(8.4)
Cash flow hedges	(11.7)	2.7	(9.0)	6.1	(1.5)	4.6
Available-for-sale financial investments	(0.8)	0.2	(0.6)	1.2	(0.3)	0.9
	(5.2)	1.2	(4.0)	(3.8)	0.9	(2.9)

17. ANALYSIS OF ASSETS AND LIABILITIES BY CLASSIFICATION

At 31 March 2013 USDm	Trading	Held to Maturity	Loans and Receivables	Available-for-sale	Financial Liabilities at Amortised Cost	Carrying Value	Fair Value
ASSETS							
Cash and balances at central banks	-	-	15,425.1	-	-	15,425.1	15,425.1
Loans and advances to banks	-	-	2,945.9	-	-	2,945.9	2,951.5
Derivative assets	476.7	-	6.3	-	-	483.0	483.0
Loans and advances to customers	-	-	11,022.7	-	-	11,022.7	11,086.4
Investment securities	-	-	31.6	444.5	-	476.1	476.1
Total assets	476.7	-	29,431.6	444.5	-	30,352.8	30,422.1
LIABILITIES							
Deposits by banks	-	-	-	-	19,277.4	19,277.4	19,274.6
Customer accounts	-	-	-	-	5,116.3	5,116.3	5,116.4
Derivative liabilities	311.1	-	104.0	-	-	415.1	415.1
Debt securities in issue	-	-	-	-	2,240.0	2,240.0	2,240.0
Subordinated liabilities	-	-	-	-	800.0	800.0	872.4
Total liabilities	311.1	-	104.0	-	27,433.7	27,848.8	27,918.5

At 31 March 2012 USDm	Trading	Held to Maturity	Loans and Receivables	Available-for-sale	Financial Liabilities at Amortised Cost	Carrying Value	Fair Value
ASSETS							
Cash and balances at central banks	-	-	5,938.7	-	-	5,938.7	5,938.7
Loans and advances to banks	-	-	5,317.4	-	-	5,317.4	5,332.7
Derivative assets	388.5	-	3.7	-	-	392.2	392.2
Loans and advances to customers	-	-	10,694.1	-	-	10,694.1	10,723.8
Investment securities	-	141.4	34.7	270.6	-	446.7	446.7
Total assets	388.5	141.4	21,988.6	270.6	-	22,789.1	22,834.1
LIABILITIES							
Deposits by banks	-	-	-	-	11,227.3	11,227.3	11,218.2
Customer accounts	-	-	-	-	5,333.1	5,333.1	5,334.7
Derivative liabilities	353.8	-	72.2	-	-	426.0	426.0
Debt securities in issue	-	-	-	-	3,323.7	3,323.7	3,323.7
Subordinated liabilities	-	-	-	-	800.0	800.0	885.0
Total liabilities	353.8	-	72.2	-	20,684.1	21,110.1	21,187.6

There were no positions classified as designated as fair value on inception during the year.

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

18. CASH AND BALANCES AT CENTRAL BANKS

	2013 USDm	2012 USDm
Current Account and short term deposits with the Bank of England	8,817.3	2,163.7
Current Account and short term deposits with Banque de France	6,607.8	3,775.0
Cash and balances at Central banks before impairment provisions	15,425.1	5,938.7
Impairment provisions (Note 21)	-	-
Cash and balances at Central banks after impairment provisions	15,425.1	5,938.7

19. LOANS AND ADVANCES TO BANKS

	2013 USDm	2012 USDm
Loans and advances to banks before impairment provisions	2,983.0	5,367.3
Impairment provisions (Note 21)	(37.1)	(49.9)
Loans and advances to banks after impairment provisions	2,945.9	5,317.4

20. LOANS AND ADVANCES TO CUSTOMERS

	2013 USDm	2012 USDm
Loans and advances to customers before impairment provisions	11,168.5	10,823.2
Impairment provisions (Note 21)	(145.8)	(129.1)
Loans and advances to customers after impairment provisions	11,022.7	10,694.1
Amount expected to be recovered more than 12 months after the reporting date	7,986.2	8,155.1
Amounts include:		
Gross investment in finance leases		
- Less than one year	88.0	7.7
- Between one year and five years	-	91.4
- More than five years	-	-
	88.0	99.1
Less: Unearned finance income	0.4	2.7
Less: Accumulated allowance for uncollectible minimum lease payments receivable	-	-
Net investment in finance leases		
- Less than one year	87.6	7.4
- Between one year and five years	-	89.0
- More than five years	-	-
	87.6	96.4

21. IMPAIRMENT PROVISIONS

	2013		
	Specific USDm	Collective USDm	Total USDm
Balance at beginning of year	182.6	61.9	244.5
Charge/(credit) to Profit and Loss Account	52.1	(17.8)	34.3
Written off on assets sold	(28.4)	-	(28.4)
Exchange adjustments	(5.3)	-	(5.3)
Balance at end of year	201.0	44.1	245.1

	2012		
	Specific USDm	Collective USDm	Total USDm
Balance at beginning of year	350.5	61.9	412.4
Charge to Profit and Loss Account	27.0	-	27.0
Written off on assets sold or restructured	(189.4)	-	(189.4)
Exchange adjustments	(5.5)	-	(5.5)
Balance at end of year	182.6	61.9	244.5

In the year to 31 March 2012 in addition to the charge to profit and loss of USD 27.0m, net losses of USD 3.5m were recognised under impairment provisions related to sales transactions.

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

22. INVESTMENT SECURITIES

	2013 USDm	2012 USDm
Investment securities held as loans and receivables	55.3	101.6
Held-to-maturity investment securities	-	141.4
Available-for-sale investment securities	483.0	270.6
Allowance for impairment (Note 21)	(62.2)	(66.9)
Total Investment securities	476.1	446.7

Investment securities held as loans and receivables	USDm	USDm
Debt Securities	31.6	34.7
Equities	-	-
	31.6	34.7

Held-to-maturity investment securities	USDm	USDm
Debt Securities	-	141.4
Equities	-	-
	-	141.4

Available-for-sale investment securities	USDm	USDm
Debt Securities	441.5	267.3
Equities	3.0	3.3
	444.5	270.6

At 1 April 2012 (2011)	446.7	1,029.1
Exchange adjustments	(21.0)	(4.2)
Acquisitions & transfers	585.0	409.3
Impairment Provisions (Note 21)	2.3	(27.0)
Fair value movement recognised in other comprehensive income	(0.9)	1.2
Disposals and maturities	(526.4)	(961.7)
Amortisation of discounts and premiums	(9.6)	-
At 31 March 2013 (2012)	476.1	446.7

23. INTANGIBLE FIXED ASSETS

	Internally generated software USDm	Other software cost USDm	Total USDm
At 1 April 2012	6.9	16.5	23.4
Additions	-	2.1	2.1
At 31 March 2013	6.9	18.6	25.5
Accumulated amortisation			
At 1 April 2012	6.4	13.6	20.0
Charge for the year	0.2	1.7	1.9
At 31 March 2013	6.6	15.3	21.9
Net book value at 31 March 2013	0.3	3.3	3.6
At 1 April 2011	6.5	14.3	20.8
Additions	0.4	2.2	2.6
At 31 March 2012	6.9	16.5	23.4
Accumulated amortisation			
At 1 April 2011	6.2	12.1	18.3
Charge for the year	0.2	1.5	1.7
At 31 March 2012	6.4	13.6	20.0
Net book value at 31 March 2012	0.5	2.9	3.4
Net book value at 1 April 2011	0.3	2.2	2.5

24. PROPERTY AND EQUIPMENT

	Leasehold Improvements USDm	Equipment USDm	Total USDm
Cost			
At 1 April 2012	34.8	21.6	56.4
Additions	0.6	4.2	4.8
Disposals	-	-	-
At 31 March 2013	35.4	25.8	61.2
Accumulated depreciation			
At 1 April 2012	16.8	13.4	30.2
Charge for the year	3.5	4.1	7.6
Disposals	-	-	-
At 31 March 2013	20.3	17.5	37.8
Net book value at 31 March 2013	15.1	8.3	23.4
Cost			
At 1 April 2011	34.7	15.0	49.7
Additions	0.3	6.6	6.9
Disposals	(0.2)	-	(0.2)
At 31 March 2012	34.8	21.6	56.4
Accumulated depreciation			
At 1 April 2011	13.5	11.1	24.6
Charge for the year	3.5	2.3	5.8
Disposals	(0.2)	-	(0.2)
At 31 March 2012	16.8	13.4	30.2
Net book value at 31 March 2012	18.0	8.2	26.2

25. OTHER ASSETS

	Total 2013 USDm	Total 2012 USDm
Accrued income	165.4	126.7
Prepayments and other receivables	19.6	12.8
	185.0	139.5

26. DEFERRED TAX

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

	USDm 2013	USDm 2012
Deferred tax liability	-	-
Deferred tax asset	8.4	14.7
Net deferred	8.4	14.7

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	UK property lease and bonus accrual	Pensions and other retirement benefits	Allowance for impairment on loans	Tax losses carried forward	Cash flow hedge / AFS	Total
	USDm	USDm	USDm	USDm	USDm	USDm	USDm
Assets at 1 April 2012	6.0	-	4.6	4.7	-	(0.6)	14.7
Prior year adjustments	(2.4)	0.1	-	-	1.8	-	(0.5)
Movement through the P&L Account	(0.5)	-	(3.0)	(1.2)	(1.8)	-	(6.5)
Movement through P&L Account re change in tax rate	(0.1)	-	(0.1)	(0.1)	-	-	(0.3)
Movement through other comprehensive income	-	-	(1.7)	-	-	2.9	1.2
Exchange differences	-	-	-	-	-	(0.2)	(0.2)
At 31 March 2013	3.0	0.1	(0.2)	3.4	-	2.1	8.4
Assets at 1 April 2011	4.7	1.2	5.0	6.4	15.6	1.1	34.0
Prior year adjustments	-	(0.8)	-	-	0.1	-	(0.7)
Movement through the P&L Account	1.8	(0.4)	(2.6)	(1.3)	(15.7)	-	(18.2)
Movement through P&L Account re change in tax rate	(0.5)	-	(0.4)	(0.4)	-	0.1	(1.2)
Movement through other comprehensive income	-	-	2.7	-	-	(1.8)	0.9
Exchange differences	-	-	(0.1)	-	-	-	(0.1)
At 31 March 2012	6.0	-	4.6	4.7	-	(0.6)	14.7

The amount of deferred tax asset expected to be recovered after more than 12 months is USD 8.4m (2012: USD 14.7m).

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent to 21% by 1 April 2014 and 20% by 1 April 2015. These changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 23 per cent to 20 per cent, if these applied to the deferred tax asset at 31 March 2013, would be to further reduce the deferred tax asset by approximately USD 1.1m.

27. DEBT SECURITIES IN ISSUE

	2013 USDm	2012 USDm
Certificates of deposit - held at amortised cost	2,240.0	3,323.7

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

28. SUBORDINATED LIABILITIES

On 27 May 2008 following the restructure of the Bank's capital, the Bank entered into a Subordinated Loan of USD 800m with SMBC based on USD 6 month LIBOR plus 1.75%. On 28 May 2013, the Bank cancelled and repaid this Note.

29. OTHER LIABILITIES

	2013 USDm	2012 USDm
Accruals and deferred income	78.7	67.9
Accounts payable to parent	7.2	10.7
Other liabilities	1.1	2.5
	87.0	81.1

Finance Lease Commitments:	Total future minimum payments USDm	Total future minimum payments USDm
Obligations under finance leases were as follows:		
- less than one year	1.0	1.2
- between one and five years	-	0.7
Net obligations under finance leases	1.0	1.9

The carrying amount of assets held under finance leases at the balance sheet date was:

Cost	3.5	3.5
Accumulated depreciation	(2.1)	(0.9)
Net book value	1.4	2.6

30. OTHER PROVISIONS

	2013
	USDm
Balance at beginnining of year	11.8
Charge to Profit and Loss Account	(5.1)
Balance at end of year	6.7

	2012
	USDm
Balance at beginnining of year	11.7
Charge to Profit and Loss Account	0.1
Balance at end of year	11.8

All provisions relate to undrawn loan commitments. 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.

31. CALLED UP SHARE CAPITAL

	USDm
Issued, alloted and fully paid share capital (Ordinary shares of USD 1,000)	
At 31 March 2012	1,600.0
Additions	800.0
At 31 March 2013	2,400.0

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

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

On 25 May 2012, the Bank increased its issued ordinary shares by USD 800m to USD 2,400m. On 28 May 2013 the Bank increased its issued ordinary shares by an additional USD 800m to USD 3,200m.

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

32. GUARANTEES

	2013 Contract amount USDm	2012 Contract amount USDm
Guarantees and Letters of Credit	2,678.4	3,247.8

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.

33. COMMITMENTS

	2013 Contract amount USDm	2012 Contract amount USDm
Undrawn formal standby facilities, credit lines and other commitments to lend	7,512.5	7,275.9

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.

34. 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.

	2013 USDm	2012 USDm
Cash and cash balances with central banks	1,027.0	2,460.3
Loans and advances to banks	75.6	175.2
Loans and advances to customers	556.6	534.2
Investment Securities	-	128.5
	1,659.2	3,298.2

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 1,246.6m (2012: USD 2,504.9m). The Loans and advances to banks have been pledged as security deposits on derivatives.

35. OPERATING LEASE COMMITMENTS

	2013 USDm	2012 USDm
The future minimum lease payments under non-cancellable operating leases for each of the following period:		
- less than one year	7.5	7.7
- between one and five years	34.5	36.1
- more than five years	16.2	22.8
	58.2	66.6

36. 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:

	2013 USDm	2012 USDm
Short term employee benefits	3.9	2.6
Post-employment benefits	-	-
Other long term employee benefits	-	-
Termination benefits	-	-

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:

	2013		2012	
	Loans and receivables USDm	Other assets USDm	Loans and receivables USDm	Other assets USDm
Amounts due from parent company	758.7	205.5	2,560.7	104.5
Amounts due from subsidiaries	-	-	-	-
Amounts due from other related parties	277.7	79.6	119.7	136.6
Total	1,036.4	285.1	2,680.4	241.1

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

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

	2013			2012		
	Deposits USDm	Subordinated liability USDm	Other liabilities USDm	Deposits USDm	Subordinated liability USDm	Other liabilities USDm
Amounts due to parent company	9,703.8	800.0	77.3	2,517.3	800.0	76.1
Amounts due to subsidiaries	-	-	-	-	-	-
Amounts due to other related parties	140.4	-	133.8	108.9	-	76.0
Total	9,844.2	800.0	211.1	2,626.2	800.0	152.1

Deposits are taken in the ordinary course of business and on the same terms as comparable transactions with third parties. Full disclosures of the terms of the subordinated liability are given in note 28.

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

	2013 USDm	2012 USDm
Guarantees received on customer accounts	2,363.2	2,874.3
Guarantees received on the Bank's liabilities	1,262.1	1,022.8

The Bank no longer has issued guarantees to the Bank's parent, (2012: USD 10.7m).

Other transactions as at 31 March 2013 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 2013.

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

2013	Parent Companies USDm	Associated Undertakings USDm	Subsidiary USDm	Pension Fund USDm	Other related parties USDm	Total USDm
Interest income	6.8	-	-	-	15.2	22.0
Interest payable	(43.5)	-	-	-	27.4	(16.1)
Fees and commissions receivables	156.7	-	-	-	0.1	156.8
Fees and commissions payable	(1.7)	-	-	-	1.6	(0.1)
Net Trading	-	-	-	-	(3.6)	(3.6)
Other expenses	(14.9)	-	-	-	(2.7)	(17.6)
Total	103.4	-	-	-	38.0	141.4

2012	Parent Companies USDm	Associated Undertakings USDm	Subsidiary USDm	Pension Fund USDm	Other related parties USDm	Total USDm
Interest income	19.8	-	-	-	11.5	31.3
Interest payable	(34.5)	-	-	-	(25.4)	(59.9)
Fees and commissions receivables	118.1	-	-	-	1.9	120.0
Fees and commissions payable	(2.5)	-	-	-	(1.6)	(4.1)
Net Trading	-	-	-	-	6.7	6.7
Other expenses	(13.3)	-	-	-	(4.1)	(17.4)
Total	87.6	-	-	-	(11.0)	76.6

37. 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.