



SMBC NIKKO

SMBC NIKKO CAPITAL MARKETS LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2018

Company Number 02418137



**SMBC NIKKO CAPITAL MARKETS LIMITED  
COMPANY INFORMATION**

Registered number: 02418137

Incorporated with limited liability by shares in England and Wales

**Directors**

T Imaeda

P Jackson (Independent Director)

H Kawafune

H Minami

N Okubo

S Souchon (Independent Director)

J Thomas

A Yates

T Yazawa

**Secretary**

P Davé

**Auditor**

KPMG LLP

15 Canada Square

London E14 5GL

**Banker**

Sumitomo Mitsui Banking Corporation Europe Limited

99 Queen Victoria Street

London EC4V 4EH

**Solicitor**

Allen & Overy

One Bishops Square

London E1 6AO

**Registered Office**

One New Change

London EC4M 9AF

**AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY**

## **SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT**

The directors present the Group Strategic Report of SMBC Nikko Capital Markets Limited for the year ended 31 December 2018.

### **Principal activities**

SMBC Nikko Capital Markets Limited and its subsidiaries (the “Group”) is an investment business with derivatives and securities divisions. It is part of the Sumitomo Mitsui Financial Group (“SMBC Group”).

The Group includes the following consolidated legal entities:

- SMBC Nikko Capital Markets Limited (“the Company” or “CM Ltd”), company number 02418137 incorporated in England and Wales, is an IFPRU investment firm authorised and regulated by the Financial Conduct Authority (“FCA”). Sumitomo Mitsui Banking Corporation (“SMBC”) of Japan is the majority shareholder and controller. The Company has a representative office in Australia.
- SMBC Derivative Products Limited (“SMBC DP”), company number 02988637 incorporated in England and Wales, is a wholly owned subsidiary of CM Ltd and a full scope investment firm, authorised and regulated by the FCA. It is structured as a bankruptcy remote derivative products company (“DPC”) and has received a credit rating of Aa1 from Moody’s Investors Service Inc. (“Moody’s”) and AA- from Standard & Poor’s Ratings Group (“S&P”). SMBC DP’s principal activities are the provision of interest rate and foreign exchange risk hedging products to customers seeking a highly rated counterparty and the provision, for a fee, of performance guarantees on its affiliate.
- SMBC Capital Markets (Asia) Limited (“CM Asia”) is incorporated in Hong Kong and is authorised and regulated by the Securities and Futures Commission. CM Asia acts as an agent and intermediary for the Company and its affiliated entities in Asian markets outside of Japan and in Australia.

### **Business model and strategy**

The Company’s business model is to provide customer focused investment banking services including securities and derivatives products and corporate advisory services to investors and customers, including on behalf of SMBC Group.

The Company’s business strategy continues to be focussed on sustainable growth and upon meeting the financial services needs of its customers.

The Group is organised as two divisions, the Securities Products Group (“SPG”) and the Derivatives Products Group (“DPG”). SPG’s activities are underwriting primary issuances and facilitating secondary market trading in bonds and equities focussed on customer facilitation and maximising order flow. The repo business is primarily a customer service rather than a source of funding. The M&A advisory group provides advice and support to SMBC Group customers seeking new business opportunities. DPG provides largely vanilla derivative hedging products to meet the needs of its customers, including those customers of affiliated entities in the SMBC Group.

### **Corporate Governance**

The Company is committed to the ongoing enhancement of its corporate governance framework to promote a culture of integrity, good conduct, ethical values and the operation of an effective internal control framework to maintain a disciplined operational environment which meets changing legal and regulatory requirements, client needs, shareholder interests, the wellbeing and conduct of staff and the Company’s risk appetite.

## SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT

The Company's Board members include two Independent Non-Executive Directors, one appointed in June 2017 and a second appointed in January 2018.

The governance framework consists of:

- A Committee structure to oversee and manage the risks of the Group,
- An organisational structure that utilises a "Three Lines Of Defence" model for the management of risks with clearly established responsibilities for the various Lines of Defence, and
- A policy framework that defines the mandatory minimum requirements for the management of risks across the Group.

The Committee structure comprises:

### *The Board Risk and Compliance Committee ("BRCC")*

The BRCC is responsible for assisting the Board in its oversight of risk, reviewing the Company's risk appetite and risk profile, reviewing the effectiveness of the risk management framework, reviewing the methodology used in determining the Company's capital and liquidity requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, working with the Remuneration Committee to ensure that risk is properly considered in setting remuneration policy and monitoring regulatory requirements. The BRCC is supported by and oversees the work of the Prudential Regulation Committee. The BRCC members include independent non-executive directors and meets at least quarterly.

### *The Nominations Committee*

The Nominations Committee is constituted of non-executive directors and is responsible for assessing the skills, knowledge, experience and capabilities of candidates of the Board, and to senior management positions within the Group.

The Nominations Committee has the responsibility to review on an annual basis the size and composition of the Board. Such a review will cover those areas that the Nominations Committee determines are relevant and shall include: skills, knowledge, experience and diversity of the Board. The Nominations Committee shall provide the Board with outcomes of each review, including the review of the operation of its diversity policies, and where appropriate make recommendations for changes or areas for further development by the Board.

### *The Remuneration Committee*

The Remuneration Committee consists entirely of NEDs and has oversight for the operation of remuneration policies across CM-UK. It is also responsible for the review, approval and challenge where appropriate of remuneration proposals for members of senior management (including Executive Committee members) and other employees and Directors of CM-UK who are considered to have a material risk impact on CM-UK.

### *The Audit Committee*

The Audit Committee is responsible for assisting the Board in i) its oversight and monitoring of the integrity of CM-UK's financial statements and internal financial controls ii) monitoring and reviewing the effectiveness of the internal audit function. It is chaired by an independent non executive director.

### *The Executive Committee*

The Board delegates day-to-day management of the Group to the CEO who is further supported by a management committee framework including the following committees:

## SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT

- an Executive Committee;
- a management risk committee (the Risk Management Steering Committee, “RMSC”) and its sub-committees;
- a Prudential Regulatory Committee

The Executive Committee supports the CEO in his responsibility to implement the strategic vision of the Board and to manage the daily operations of the Group. The Executive Committee oversees the operation of the RMSC.

The Company has also established the following sub-committees to support the activities and carry out responsibilities of the executive committees:

- Employee Conduct Review Committee
- Control & Conduct Assessment Forum

### *The RMSC and sub-committees*

The RMSC and associated sub-committees are responsible for assisting the Board in the oversight of its i) risk governance structure; ii) risk management and risk assessment processes; iii) risk appetite and tolerance; iv) capital, liquidity and funding; v) compliance with all applicable laws and regulations; vi) systems risk management and vii) internal controls.

The RMSC sub-committees can be summarised as follows:

- Credit Committee is responsible for reviewing and monitoring credit risk exposure vs. agreed internal limits, as well as risk appetite. Other areas, e.g. analysis of problem credits or portfolio concentrations, are also considered.
- Operational Risk Committee is a specialist forum structured to look more closely at, inter alia, risk events, losses and associated trends, escalated Key Risk Indicators (“KRIs”) and Key Performance Indicators (“KPIs”), overdue actions and remedial steps, as well as wider themes around Third Party Vendor Management and, as relevant, Information Security.
- Liquidity Management Committee focuses on issues related to liquidity risk and treasury management, e.g. liquidity stress testing, funds transfer pricing and efficiency of liquid asset buffer.
- The Transaction Approval and New Product Committees convene to review new business which could potentially be considered to be outside of the norm, e.g. due to size, specific risk considerations (e.g. liquidity or credit) or if there are reputational considerations

### *The Prudential Regulation Committee (“PRC”)*

The PRC is a sub-committee reporting to the BRCC which provides additional oversight of important processes within the firm such as the Internal Capital Adequacy Assessment Process (“ICAAP”), Internal Liquidity Adequacy Assessment (“ILAA”), Recovery and Resolution Plans (“RRP”) and Solvent Wind Down Plans (“SWDP”). The Committee meets to review and challenge metrics, models and results related to risk management and valuation, as well the accuracy of regulatory returns (such as COREP & FSA 047/048) and interpretation of relevant rules and guidelines (e.g. CRR / BIPRU/IFPRU).

## **Three Lines of Defence**

The Group has adopted a “Three Lines of Defence” approach to financial risk management to ensure the adequate oversight of risks and to embed a culture of risk awareness throughout the organisation. This approach separates the ownership and management of risk from the functions that oversee risk and those that provide independent assurance.

Each business function, and its respective head, is required to ensure that all business decisions maintain an appropriate balance between risk and return and are in accordance with the Group’s and the Company’s objectives and risk appetite. The business functions constitute the first line of defence (“1<sup>st</sup> LOD”) and are responsible for identifying and managing risks directly and are

## SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT

accountable for both upside and downside outcomes. Each business function undertakes a regular risk self-assessment that is presented for executive management scrutiny.

The Risk, Compliance, Finance and Legal functions all report to the Board and make up the second line of defence (“2<sup>nd</sup> LOD”) to ensure financial stability and continuity of the Group, by acting as guardian of its risk profile. The 2<sup>nd</sup> LOD is responsible for designing an appropriate and effective risk and policy framework and day-to-day risk identification, assessment and monitoring. This provides oversight and guidance as well as advising, facilitating and challenging the 1<sup>st</sup> LOD in their risk management activities and risk-return considerations. The Risk function ensures that the Board and senior management are duly informed and engaged.

The Internal Audit department constitutes the third line of defence (“3<sup>rd</sup> LOD”) and provides independent assurance to the Board that the 1<sup>st</sup> and 2<sup>nd</sup> LOD’s are fit for purpose and that the risk based information provided to the Board and management is accurate and reliable.

### Principal risks and uncertainties

The Group is subject to a range of risk factors and uncertainties in the course of conducting its investment business, including credit and counterparty risk, liquidity risk, market risk, cash flow risk, operational risk and other risks, an overview of which is included in Note 20 to the financial statements.

Risks and uncertainties are managed through the Group’s Risk Management framework.

### Risk Management Framework

The Board of Directors (the “Board”) ensures that risk management is embedded throughout the organisation through:

- A formal risk governance framework, with clear and well understood risk ownership, standards and policies,
- A strong risk culture, with personal accountability for decisions,
- The alignment of risk and business objectives through the integration of risk appetite into business planning and capital management,
- The alignment of remuneration within the risk framework and risk outcomes, and
- Daily monitoring by an independent risk function

The Board has established an Enterprise Wide Risk Management Policy that sets out the Group’s objectives and defines a framework for how the risks it faces are managed. The framework covers governance arrangements, roles and responsibilities, risk appetite and limits and the processes and reporting that are in place across the Group. It is designed to achieve and assure effective risk governance and management across all business activities.

The responsibilities of the Risk and Compliance Committee (BRCC) are summarised above. The BRCC members include independent non-executive directors and meets at least quarterly. The BRCC is responsible for providing oversight of the components of the Risk Management Framework:

- Adherence to the Risk Appetite
- Implementation of Risk Strategy
- Risk Identification and Measurement
- Risk Monitoring and Reporting
- Stress Testing and Scenario Analysis

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- Capital and Liquidity Management
- Management of Large Exposures

The Group's and the Company's Risk Appetite Framework sets out the broad level of risks that are to be accepted in pursuit of its business goals and strategy. Underpinning this framework, day-to-day business activities are managed using appropriate measures, risk targets and limits, which are to be considered as defining acceptable levels of each category of risk under normal conditions and are set-out within the specific policies and procedures in place across the organisation. A comprehensive risk assessment process is undertaken annually and is fully documented in the Group's Internal Capital Adequacy Assessment Process (ICAAP).

### *Credit Risk and Counterparty Credit Risk*

Credit risk is the risk of any losses to the Group arising from any credit events caused by a third party's inability or unwillingness, or a change in the market's perception of the third party's ability or willingness, to meet its obligations as they fall due.

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. CCR is one of the most significant risks that the Group is exposed to.

Credit risk mitigation is a high priority for the Group's management and a variety of mitigants are employed including:

- Collateral and netting agreements are both used to mitigate credit and also liquidity risks. Collateral is predominantly in form of Cash, mainly in major currencies and Securities Collateral is limited to high grade government bonds.
- Parent guarantees purchased by the Group to cover specifically identified counterparty credit risks. Guarantee arrangements are set-out in Notes 1 and 25.
- Strict credit control procedures and limits monitoring to ensure front office staff incorporate a comprehensive credit assessment in their approach to pricing.

Another element of credit risk management is a rigorous quantitative valuation adjustment process based on scenario simulation and market-risk-adjusted probabilities of default. Such a system cannot by itself assure efficient pricing or monitoring of individual credit exposures but it is a strong incentive for proper trade-off of risk and return at the time of transaction, as well as providing an efficient incentive for assignment and termination of transactions later. The result of this calculation methodology is that the reserve for each name effectively reflects the market credit spread charged on the expected exposure to the counterparty at each time point. This is a good proxy for the transaction unwinding cost in the market. Management uses this reserve as a tool for credit monitoring on a portfolio basis, supplemented by reports from the Credit department, including breaking news of sharply deteriorating credits. Additionally, management reviews a series of reports on specific exposures identified as high risk.

At each balance sheet date, the Group assesses whether financial and other assets which are not accounted for at fair value through profit and loss, are impaired. As at 31 December 2018, no adjustments in respect of asset impairments were made (31 December 2017: nil).

### *Liquidity Risk*

Liquidity risk is the risk of loss or damage to the Group as a result of being unable to meet obligations when they fall due without incurring material costs in realising liquid assets. Liquidity risk arises primarily from the requirement to fund securities balances and collateral calls on derivatives contracts.

Liquidity risk is mitigated by holding cash and highly liquid securities, including a buffer of high quality, unencumbered assets, to cover any unexpected cash outflows. The Group measures and maintains liquidity ratios in accordance with the Individual Liquidity Guidance set by the FCA and the Group's risk appetite.

The Group monitors expected cash flows on its assets and liabilities to identify and address any funding gaps that may arise in the future. The funding requirements are met from its own resources, borrowing from its parent company and, occasionally, through

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repo market transactions. Potential funding risk is mitigated by a policy of holding significant positions in high quality marketable securities that may be sold to cover any funding gaps. For stress testing purposes, reliance is placed only on a committed facility provided by SMBC.

### *Market Risk*

Market Risk is the risk of financial loss or damage to the Group's financial position caused by changes to market prices and other market values.

All trading instruments are subject to market risk, the potential that future changes in market conditions and other factors may create variation in the value of instruments, due to fluctuations in security prices, as well as interest and foreign exchange rates. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying assets are traded. As the instruments are recognised at fair value, those changes directly affect reported income.

The Group has strict market risk limits for its derivative business which is predominantly undertaken on the basis that the market risk arising from customer trades is hedged either with a group company CM Inc., or a market counterparty, which substantially mitigates market risk in the derivatives business.

Market risk arises in both the primary underwriting activity and the secondary securities held for market making purposes. It is mitigated through the monitoring and enforcing of position limits and management of inventory holding periods. Market risk limits are reviewed regularly and are approved annually by the board, and are set out in the Group's Risk Appetite Statement.

### *Cash Flow Risk on Currency Expenses*

Cash flow risk arises on expenses incurred in currencies other than the functional currency. The Group hedges the risk arising from expected future GBP expense cash flows by entering into forward foreign exchange contracts which effectively fix the exchange rate of the expected GBP expense cash flows to US dollars, its functional and presentational currency. Accounting for cash flow hedges is described in Notes 1 and 12.

### *Operational Risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Broadly, the definition excludes Strategic and Reputational risk, but does include risks from the wider regulatory environment including Legal risk, Compliance risk and, increasingly Conduct Risk.

In applying this definition to its on-going operations, the Group monitors operational risk within its risk appetite and through the following core processes:

- Operational Risk Event reporting,
- Operational Risk and Control Self-Assessments, and
- Key Risk Indicator reporting.

Collectively, these processes help to identify the operational risk events that the Group is subject to and helps build a risk profile that is represented in the Group's Risk Register, as well as providing loss data and scenarios that are considered in the annual ICAAP process.

The Group seeks to minimise operational risk through clearly defined responsibilities for management and staff, comprehensive daily risk reporting and regular self-assessment of the operational framework to identify any weaknesses covering front office, credit, risk management, settlements, finance, compliance, legal and systems functions.



## SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT

Internal processes and controls are subject to regular verification by the internal audit function, reporting to the Board, which has full discretion over the particular processes and controls it chooses to review and the timing of any review.

### *Regulatory risk*

A significant factor for authorised and regulated firms, is the risk of non-compliance to existing regulations and that of changes to applicable regulations or laws having an adverse impact on the business.

### *Conduct Risk*

Conduct risk arises from any activity that the Group or its employees might engage in which would result in unfair treatment of the Group's customers, breaches of conduct of business or financial crime rules or damage to market integrity or competition.

Additionally the Group is exposed to macro-economic, geopolitical and other external business risks which include, but are not limited to, the uncertain economic environment, particularly in regards to an unstable geopolitical environment, and changes to the level and volatility of prices such as foreign exchange rates, credit spreads, commodity and equity prices and, particularly, interest rates.

## **Business Environment**

The Group operates in a highly regulated environment with significant requirements in respect of reporting, capital, liquidity, product design, customer service and other business areas, which come from multiple regulators in the countries where the Group offers its services. These regulations constantly change and evolve in response to periods of financial instability, new business practices, economic and political developments, becoming increasingly stringent and detailed in order to promote stability in global financial markets.

The Group continues to operate in an environment of uncertainty with respect to the UK's withdrawal from the EU ("Brexit"). The Group's strategic plans in response to the challenges and opportunities presented by Brexit are discussed below.

### *Brexit*

Following the formal notification to the EU of the UK's intention to withdraw from the EU pursuant to Article 50 of the Lisbon Treaty in 2017, the UK financial services industry is expected to lose the passporting rights granted to UK authorised financial institutions under the national transpositions of applicable EU law (in particular CRD IV as well as MiFID) which enabled them to freely provide banking business and financial services within the European Economic Area (EEA).

At the time of approval of the financial statements, uncertainties prevail around the outcome of the UK Government's negotiations of the terms of the UK's withdrawal from the European Union. However, the Company's and SMBC Group's goal and strategic planning has been, and continues to be, to provide customers with uninterrupted financial services following Brexit, including in the scenario of a 'no-deal' or 'hard' Brexit in March 2019.

Therefore, while the loss of passporting rights is expected to have an adverse impact on revenues and profitability this has been incorporated into the Group's strategic plans. The Group will continue to develop its derivatives business and primary and secondary securities business for UK and non-EEA customers, and act as an arranger, broker and underwriting entity with other SMBC entities for securities transactions, and will continue to focus upon diversifying its product offering and customer base.

The Company will carefully consider the post-Brexit regulatory landscape, the availability of any transitional arrangements and period, and the wishes of customers in the process of implementing its strategic Brexit plans.

## **SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT**

SMBC Group's response to Brexit has been to address the challenges presented as an opportunity to further strengthen SMBC's business in the EEA, as aligned with the vision of its strategic plan. A new entity, SMBC Nikko Capital Markets Europe GmbH (CMFRA) has been established in Frankfurt, Germany, to operate as a cross-border passporting hub for securities business and derivatives arranging with clients in all EEA jurisdictions. CMFRA will operate alongside and collaborate with the Company, enabling the SMBC group as a whole to continue to offer, and also build upon, the level of financial services currently provided to all its clients in the EEA. CMFRA received its securities trading license in October 2018.

Strategically, SMBC Group plans to continue providing the current suite of services to both UK and EEA clients. In particular, its plans to expand its securities business services in the UK, and continental Europe remain in place, with the Company and the CMFRA working in close collaboration as part of the global financial services group.

### **Business Development and Performance**

The Group takes into account a range of strategic, business and operational considerations when reviewing the performance of each business line. Such considerations include the efficient allocation and use of capital, earnings stability, balance sheet quality, operational robustness and the maintenance of good regulatory compliance.

Effectiveness is measured through the use of financial indicators such as budgeted revenue targets, new deal revenue and return on capital and also non-financial indicators including conduct considerations, compliance with relevant internal and external rules and targets and the setting of measurable goals for all employees through a comprehensive assessment process. The directors pay particular attention to management information relating to earnings, regulatory capital, leverage and liquidity.

Despite the challenges presented by Brexit, and the mix of factors affecting the business environment and global markets in which the business operates, the Group reported a net trading income of \$228.3m in 2018, representing a \$0.7m increase on the previous year.

The primary debt and equity markets were strong through 2018 and the Group secured significant mandates. While the secondary trading markets were challenging and the derivatives business saw a modest reduction in trading income, the overall net trading income of the Group showed a slight year on year increase. As a result, the financial performance of the Group has continued to be steady, with total income in line with the previous year, while operating expenses increased mostly due to the Group's investment initiatives.

During 2018, in accordance with its medium term business plan, the Group continued its strategic investment in the ongoing enhancement of its governance, control and risk management framework, including major enhancements to information technology systems to facilitate controlled and sustainable growth. This is reflected in an increase in the number of Group employees and the increase in operating costs which resulted in a reduction in operating profit for the year. The Group reported a profit before tax of \$59.4m for the year ended 31<sup>st</sup> December 2018.

The Group balance sheet at the end of 2018 shows a year on year reduction in total assets and total liabilities, largely due to reduced repo levels driven by client activity. Cash balance levels remained unchanged and securities assets showed growth arising from planned business development. Derivatives asset and liability levels remained broadly unchanged year on year, largely the result of the combined effect of new business growth, plus interest rate and foreign currency exchange rate changes upon the portfolio valuation. Changes to collateral balances, and in particular the increased cash flow from the reduction of collateral paid in 2018, reflects the changes to trade valuations within the derivatives portfolio and resultant affect upon collateralized valuations by counterparty.

The financial position of the Company at the end of the year was satisfactory.

## SMBC NIKKO CAPITAL MARKETS LIMITED STRATEGIC REPORT

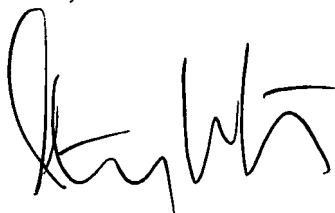
### Key Performance Indicators (KPI's)

In addition to the statutory financial reporting results, management also focuses on various key performance indicators, including the analysis of the management reporting of financial results for revenue and expenses at a business division and business line level, comparisons against budget, liquidity ratios, and capital adequacy ratios. Certain KPI's are shown below.

	2018	2017
Net trading income - year on year change	+ 0.3 %	+ 2.8%
Operating expenses increase - year on year change	+ 7.4 %	+ 18.9%
Total Capital Ratio (Group) - at 31 December	40.9 %	42%

Capital ratios are set out in Note 26 and have been maintained at levels that correspond with the Group and Company's risk appetite, as determined by the Board, throughout the year.

By order of the Board



Antony Yates

Director

One New Change

London EC4M 9AF

Date: 16 April 2019

## **SMBC NIKKO CAPITAL MARKETS LIMITED DIRECTORS' REPORT**

The directors present their report and the financial statements of SMBC Nikko Capital Markets Limited for the year ended 31 December 2018.

### **Results and dividends**

The Group profit for the year, after taxation, amounted to \$43.7 million (2017: \$59.2 million). No dividend was paid in the year and none has been declared (2017: \$nil).

### **Directors**

The directors who served during the year were as follows:

M Akiyama (resigned on 19 April 2018)

T Imaeda

P Jackson

H Kawafune (appointed on 4 July 2018)

H Minami (appointed on 10 September 2018)

B Miura (resigned on 31 March 2019)

K Nakamura (resigned on 5 July 2018)

N Okubo

S Souchon (appointed as Independent Director on 25 January 2018)

J Thomas

A Yates

T Yazawa

Each current and former director is indemnified out of the assets of the Company against all costs, charges, losses and liabilities incurred by them in the proper exercise of their duties subject to the provisions of the Company's Articles of Association. The Company maintains directors' and officers' liabilities insurance cover for its directors and officers as permitted by its Articles of Association and the Companies Act 2006. Such insurance policies were reviewed during the period and remain in force.

### **Disclosure of information to the auditor**

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

### **Going Concern**

Management believe that there are no material uncertainties related to events or conditions that may cast significant doubt upon the ability of the Company or the Group to continue as a going concern. The financial statements have been prepared on a going concern basis.

### **Events after the reporting date**

No significant events occurred after 31 December 2018 that would have a material impact on the financial statements for the year ended 31 December 2018.

## **SMBC NIKKO CAPITAL MARKETS LIMITED DIRECTORS' REPORT**

### **Financial risk management**

Financial risk management objectives are included in the strategic report.

### **Future developments**

The Company holds a strategically important position within the SMBC Group, providing the EMEA region component of a comprehensive, global and diverse suite of financial products and services. This allows the Company to both benefit from and contribute towards the strategy of the wider group to provide sustainable growth in a comprehensive range of customer focussed products and services.

The Group remains committed to implementing its medium-term business plans to invest in strengthening its client offering, to meet the diverse needs of clients; to develop and diversify revenue opportunities and sustainable profitability; and continue to develop its governance and control framework.

Future developments in respect of Brexit are discussed in the Strategic Report.

### **Employees**

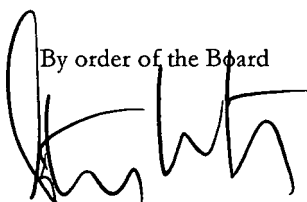
The Group is committed to fostering a diverse and inclusive workplace with equal opportunities and a clear and firm aim to ensure that no employee or potential employee receives less favourable treatment on the grounds of age, race, nationality, colour, disability, ethnic background, gender, sexual orientation, gender reassignment, pregnancy or maternity leave, marital status and religion or belief, and that no unlawful discrimination or disadvantage is caused by conditions or requirements which have a disproportionately adverse effect on them more than any other group. The Group's selection criteria and recruitment and promotion procedures are intended to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities.

The Company recognises the importance of keeping its employees well informed and involved in the various matters that affect both the business and them as employees, to promote a culture of inclusion, good conduct and teamwork to deliver the Group's objectives and a quality service to its customers. The Group has established various means and initiatives to promote staff involvement and the communication of matters affecting employees and the Group, including training courses, an intranet website, employee focus groups, specific campaigns, regular circulars to all employees and the Group financial statements.

### **Auditor**

In accordance with section 487 of the Companies Act 2006, an elective resolution is in place that dispenses with the obligation to appoint an auditor annually. As a consequence, KPMG LLP continues to hold the position as the Company's auditor.

By order of the Board



Antony Yates

Director

One New Change

London EC4M 9AF

Date: 16 April 2019

**SMBC NIKKO CAPITAL MARKETS LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT,**  
**STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC NIKKO CAPITAL MARKETS LIMITED

## Opinion

We have audited the financial statements of SMBC Nikko Capital Markets Limited (“the company”) for the year ended 31 December 2018 which comprise the group income statement, group statement of comprehensive income, group statement of financial position, company statement of financial position, group statement of changes in equity, company statement of changes in equity, group statement of cash flows, company statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2018 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group’s future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group’s future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors’ conclusions, we considered the inherent risks to the group’s business model, including the impact of Brexit, and analysed how those risks might affect the group and company’s financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor’s report is not a guarantee that the group or the company will continue in operation.

## Strategic report and directors’ report

The directors are responsible for the strategic report and the directors’ report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors’ report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors’ report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC NIKKO CAPITAL MARKETS LIMITED

### Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

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



**Simon Clark (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square  
London E14 5GL  
United Kingdom

Date: 16 April 2019



**SMBC NIKKO CAPITAL MARKETS LIMITED  
GROUP STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 US\$m	2017 US\$m
Net fees and trading income	2	228.3	227.6
Interest income	4	69.9	58.8
Interest expense	5	(65.0)	(52.8)
Net interest income		4.9	6.0
Total income		233.2	233.6
Staff costs	6	(99.1)	(81.4)
Depreciation and amortisation	16, 17	(4.0)	(3.5)
Other operating expenses	3	(70.7)	(76.9)
Operating expenses		(173.8)	(161.8)
Profit before taxation		59.4	71.8
Taxation	8	(15.7)	(12.6)
Profit for the financial year		43.7	59.2
Profit for the financial year (Company)		31.8	51.0

Group profit for the financial year is entirely attributable to the equity holders of the Parent. All results are from continuing operations.

The notes on pages 24 to 79 form an integral part of these financial statements.

**SMBC NIKKO CAPITAL MARKETS LIMITED  
GROUP STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 US\$m	2017 US\$m
Profit for the financial year		43.7	59.2
Other comprehensive income, net of tax			
Items that will never be reclassified to profit and loss:			
Actuarial gains / (losses) arising on a defined benefit pension plan, net of tax	9	0.3	(0.1)
Items that are reclassified to other reserves:			
Net (losses) / gains from cash flow hedges		(2.0)	1.9
		<hr/>	<hr/>
Total comprehensive income for the year attributable to equity holders of the Group		42.0	61.0

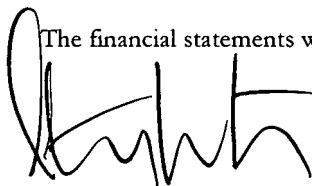
The notes on pages 24 to 79 form an integral part of these financial statements.

**SMBC NIKKO CAPITAL MARKETS LIMITED**  
**GROUP STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 US\$m	2017 US\$m
<b>Assets</b>			
Cash at banks	10	839.5	846.0
Trading securities	11	1,890.3	1,376.2
Derivative assets	12	6,937.4	7,036.7
Other trading assets, at fair value	13	119.9	76.6
Securities purchased under agreements to resell	14	2,867.2	3,650.9
Other debtors	15	2,485.5	3,087.2
Intangible assets	16	7.2	2.0
Property, plant and equipment	17	13.4	10.9
Deferred tax asset	8	2.3	1.0
<b>Total assets</b>		<b>15,162.7</b>	<b>16,087.5</b>
<b>Liabilities</b>			
Trading securities sold, not yet purchased	11	548.2	681.8
Derivative liabilities	12	6,921.0	7,005.2
Other trading liabilities, at fair value	13	192.8	176.0
Securities sold under agreements to repurchase	14	2,287.8	2,998.0
Other creditors	18	3,483.0	3,538.2
Pension scheme liability	9	2.6	3.0
<b>Total liabilities</b>		<b>13,435.4</b>	<b>14,402.2</b>
<b>Net assets</b>		<b>1,727.3</b>	<b>1,685.3</b>
<b>Equity attributable to equity holders of the parent</b>			
Called up share capital	19	1,139.0	1,139.0
Share premium		165.0	165.0
Retained earnings		425.9	382.2
Other reserves		(2.6)	(0.9)
<b>Total equity</b>		<b>1,727.3</b>	<b>1,685.3</b>

The notes on pages 24 to 79 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 April 2019 and were signed on its behalf by:



Antony Yates

Director

Company number 02418137

**SMBC NIKKO CAPITAL MARKETS LIMITED**  
**COMPANY STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 US\$m	2017 US\$m
<b>Assets</b>			
Cash at banks	10	720.3	702.3
Trading securities	11	1,772.8	1,284.3
Derivative assets	12	6,922.2	7,023.0
Other trading assets, at fair value	13	119.9	76.6
Securities purchased under agreements to resell	14	2,867.2	3,650.9
Other debtors	15	2,474.6	3,089.1
Investment in subsidiary undertaking	33	202.0	202.0
Intangible assets	16	7.2	2.0
Property, plant and equipment	17	13.3	10.8
Deferred tax asset	8	2.3	1.0
<b>Total assets</b>		<b>15,101.8</b>	<b>16,042.0</b>
<b>Liabilities</b>			
Trading securities sold, not yet purchased	11	548.2	681.8
Derivative liabilities	12	6,907.0	6,992.5
Other trading liabilities, at fair value	13	192.8	176.0
Securities sold under agreements to repurchase	14	2,287.8	2,998.0
Other creditors	18	3,477.7	3,535.1
Pension scheme liability	9	2.6	3.0
<b>Total liabilities</b>		<b>13,416.1</b>	<b>14,386.4</b>
<b>Net assets</b>		<b>1,685.7</b>	<b>1,655.6</b>
<b>Equity attributable to equity holders of the parent</b>			
Called up share capital	19	1,139.0	1,139.0
Share premium		165.0	165.0
Retained earnings		384.3	352.5
Other reserves		(2.6)	(0.9)
<b>Total equity</b>		<b>1,685.7</b>	<b>1,655.6</b>

The notes on pages 24 to 79 form an integral part of these financial statements.

**SMBC NIKKO CAPITAL MARKETS LIMITED**  
**GROUP STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Called up share capital US\$m	Share premium US\$m	Retained earnings US\$m	Other reserves: Pension reserve US\$m	Other reserves: Cash flow hedges reserve US\$m	Total equity US\$m
At 1 January 2017		1,139.0	165.0	323.0	(1.3)	(1.4)	1,624.3
Profit for the year		-	-	59.2	-	-	59.2
Actuarial losses arising on a defined benefit pension plan, net of tax	9	-	-	-	(0.1)	-	(0.1)
Net gains arising on cash flow hedges		-	-	-	-	1.9	1.9
Total comprehensive income for the period		-	-	59.2	(0.1)	1.9	61.0
At 31 December 2017		1,139.0	165.0	382.2	(1.4)	0.5	1,685.3
At 1 January 2018		1,139.0	165.0	382.2	(1.4)	0.5	1,685.3
Profit for the year		-	-	43.7	-	-	43.7
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	-	-	0.3	-	0.3
Net losses arising on cash flow hedges		-	-	-	-	(2.0)	(2.0)
Total comprehensive income for the period		-	-	43.7	0.3	(2.0)	42.0
At 31 December 2018		1,139.0	165.0	425.9	(1.1)	(1.5)	1,727.3

The notes on pages 24 to 79 form an integral part of these financial statements.

**SMBC NIKKO CAPITAL MARKETS LIMITED**  
**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Called up share capital US\$m	Share premium US\$m	Retained earnings US\$m	Other reserves: Pension reserve US\$m	Other reserves: Cash flow hedges reserve US\$m	Total equity US\$m
At 1 January 2017		1,139.0	165.0	301.5	(1.3)	(1.4)	1,602.8
Profit for the year		-	-	51.0	-	-	51.0
Actuarial losses arising on a defined benefit pension plan, net of tax	9	-	-	-	(0.1)	-	(0.1)
Net gains arising on cash flow hedges		-	-	-	-	1.9	1.9
Total comprehensive income for the period		-	-	51.0	(0.1)	1.9	52.8
At 31 December 2017		<u>1,139.0</u>	<u>165.0</u>	<u>352.5</u>	<u>(1.4)</u>	<u>0.5</u>	<u>1,655.6</u>
At 1 January 2018		1,139.0	165.0	352.5	(1.4)	0.5	1,655.6
Profit for the year		-	-	31.8	-	-	31.8
Actuarial gains arising on a defined benefit pension plan, net of tax	9	-	-	-	0.3	-	0.3
Net losses arising on cash flow hedges		-	-	-	-	(2.0)	(2.0)
Total comprehensive income for the period		-	-	31.8	0.3	(2.0)	30.1
At 31 December 2018		<u>1,139.0</u>	<u>165.0</u>	<u>384.3</u>	<u>(1.1)</u>	<u>(1.5)</u>	<u>1,685.7</u>

The notes on pages 24 to 79 form an integral part of these financial statements.

**SMBC NIKKO CAPITAL MARKETS LIMITED  
GROUP STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 US\$m	2017 US\$m
Cash flows from operating activities			
Profit for the financial year		43.7	59.2
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	16, 17	4.0	3.5
Tax expense	8	15.7	12.6
Change in trading securities and repurchase contracts		(574.2)	(608.6)
Change in trading assets, at fair value		(43.3)	(46.3)
Change in trading liabilities, at fair value		16.8	63.8
Change in other debtors		604.6	(172.8)
Change in derivative assets	12	99.3	300.0
Change in deferred tax assets	8	(1.3)	0.9
Change in derivative liabilities	12	(84.2)	(332.3)
Change in other creditors		(55.2)	1,116.5
Net (losses)/gains arising on cash flow hedges		(2.0)	1.9
Corporation tax paid	27	(18.7)	(5.6)
Net cash flows from operating activities		<u>(38.5)</u>	<u>333.6</u>
Cash flows from investing activities			
Purchase of intangible assets	16	(5.3)	(2.1)
Purchase of property, plant and equipment	17	(6.4)	(3.3)
Net cash outflow from investing activities		<u>(11.7)</u>	<u>(5.4)</u>
Net change in cash		<u>(6.5)</u>	<u>387.4</u>
Cash and cash equivalents at beginning of year	10	846.0	458.6
Cash and cash equivalents at end of year	10	839.5	846.0
Net (decrease) / increase in cash		<u>(6.5)</u>	<u>387.4</u>

The notes on pages 24 to 79 form an integral part of these financial statements.

**SMBC NIKKO CAPITAL MARKETS LIMITED  
COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 US\$m	2017 US\$m
Cash flows from operating activities			
Profit for the financial year		31.8	51.0
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	16, 17	3.9	3.4
Tax expense		14.4	11.1
Change in trading securities and repurchase contracts		(548.6)	(612.3)
Change in trading assets, at fair value		(43.3)	(46.3)
Change in trading liabilities, at fair value		16.8	63.8
Change in other debtors		615.8	(174.3)
Change in derivative assets	12	100.8	296.6
Change in deferred tax assets	8	(1.3)	0.9
Change in derivative liabilities	12	(85.5)	(329.4)
Change in other creditors		(57.4)	1,116.2
Net (losses)/gains arising on cash flow hedges		(2.0)	1.9
Corporation tax paid	27	(15.8)	(5.6)
Net cash flows from operating activities		<u>(2.2)</u>	<u>326.0</u>
Cash flows from investing activities			
Purchase of intangible assets	16	(5.3)	(2.1)
Purchase of property, plant and equipment	17	(6.3)	(3.2)
Net cash outflow from investing activities		<u>(11.6)</u>	<u>(5.3)</u>
Net change in cash		<u>18.0</u>	<u>371.7</u>
Cash and cash equivalents at beginning of year	10	702.3	330.6
Cash and cash equivalents at end of year	10	720.3	702.3
Net increase in cash		<u>18.0</u>	<u>371.7</u>

The notes on pages 24 to 79 form an integral part of these financial statements.



**SMBC NIKKO CAPITAL MARKETS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1. Accounting policies**

**Reporting entity**

These financial statements are prepared for SMBC Nikko Capital Markets Limited (“the Company”) and its subsidiaries, SMBC Derivative Products Limited and SMBC Capital Markets Asia Limited (together “the Group”), under Section 399 of the Companies Act 2006. The Company is domiciled in England and Wales with the registered office as stated on page 1 and principal activities as set out in the Strategic Report.

**Basis of consolidation**

The Group consolidates all entities it controls. Control exists where the Group has the power to direct the relevant activities of an entity so as to obtain variable returns from its activities. In assessing control, the Group takes into consideration any potential voting rights that are currently exercisable.

Consolidation presents the financial position and results of operations of the group as those of a single economic entity. On consolidation, intercompany balances and transactions are eliminated in full; investments in subsidiaries are written off against pre-acquisition reserves, giving rise, if required, to goodwill and non-controlling interest.

**Going concern**

The Directors have undertaken an assessment of the Group’s ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Further information regarding this assessment is given in the Directors’ report. No material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern have arisen. Therefore, the financial statements continue to be prepared on the going concern basis.

**Statement of compliance**

Both the Group financial statements and the Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. Prior year reclassifications are recorded where applicable to conform to changes in current year presentation.

**Company profit and loss account**

On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The profit dealt with in the financial statements of the Company was \$31.8 million in the year ended 31 December 2018 and a profit of \$51.0 million in the year ended 31 December 2017.

**Functional and presentational currency**

The directors consider the functional currency of the Group’s activities to be US dollars since the majority of the Company’s income is generated in this currency. The directors have chosen to use US dollars as the presentational currency. All financial information is presented in US\$ millions and has been rounded to one decimal point unless indicated otherwise.

**New accounting standards**

On 1 January 2018, the Group adopted two new accounting standards: IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. The new standards have been applied in preparing the current year financial statements but, as permitted, comparative information for the previous year was not restated. The adoption of IFRS 9 and IFRS 15 did not have a material impact on the financial statements, either on transition or reporting date. Accordingly, the financial statements were not adjusted. The Group will continue to monitor the standards’ effect.

**SMBC NIKKO CAPITAL MARKETS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Foreign currency translation**

Foreign currency assets and liabilities are translated into US dollar equivalents at rates of exchange ruling at the balance sheet date. Gains and losses resulting from re-measurement into US dollar equivalents are reflected in the Group income statement within net trading profit.

**Segmental analysis**

Segmental analysis is mandatory for businesses whose debt or equity is publicly traded and optional for all others, including the Group. Accordingly, the Group has elected not to prepare such analysis.

**Interest income**

Interest income is earned on trading securities and cash at banks. Interest income is recorded at the effective interest rate, which exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

**Fee and commission income**

Fees and commissions income for services provided by the Group on securities transactions and advisory business is recognised on completion of the underlying transactions, when all or substantially all performance obligations are satisfied.

**Intermediation fees**

The Group receives intermediation fees from its affiliate SMBC Capital Markets, Inc. ("CM Inc.") for derivative transactions, which are recognised as the present value of estimated future cash flows on a trade date.

**Fees charged by affiliates**

The Group pays fees to related companies for support services, which include trade execution, product control, marketing, risk management, planning, system development and others. The fees are recognised as an expense when incurred.

**Financial instruments**

Financial instruments at the reporting date are accounted for under IFRS 9, adopted on 1 January 2018. As permitted by IFRS 9, comparative information for the previous reporting period has not been restated and presented under IAS 39, in force at that time. The transition to IFRS 9 is explained in more detail in note 24.

Financial instruments are also governed by IFRS 7, IFRS 13 and IAS 32 which define their disclosures, fair value measurement, classification as debt or equity and offsetting.

**i) Categories**

The following categories of financial instruments held by the Group are within the scope of IFRS 9 and IAS 39:

- Cash and cash equivalents;
- Trading securities;
- Derivative instruments, including credit guarantees;
- Other trading assets and liabilities;
- Securities purchased under agreements to resell and sold under agreements to repurchase;
- Trading securities sold, not yet purchased;
- Other debtors and creditors.

**SMBC NIKKO CAPITAL MARKETS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**ii) Classification and measurement**

Under IFRS 9, financial assets are classified into three categories, measured at:

- a) amortised cost;
- b) fair value through other comprehensive income; or
- c) fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other assets are classified as measured at fair value through profit or loss.

Under IAS 39, financial assets are classified as:

- a) loans and receivables;
- b) held to maturity;
- c) held for trading; or
- d) available for sale.

Loans and receivables and held-to-maturity assets are measured at amortised cost. Assets held for trading are measured at fair value through profit or loss and assets available for sale - at fair value through other comprehensive income.

Both standards permit designation of any financial assets at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch.

Under both standards, financial liabilities are classified as measured at:

- a) fair value through profit or loss (either designated or held for trading); or
- b) amortised cost.

At both reporting dates, financial instruments measured at amortised cost included:

- cash at banks;
- securities purchased under agreements to resell;
- securities sold under agreements to repurchase;
- other debtors; and
- other creditors.

Instruments measured at fair value through profit or loss comprised of

- trading securities;
- derivatives;
- other trading assets; and
- other trading liabilities.

Trading securities contain assets held for liquidity purposes which were designated, rather than mandatory classified, at fair value through profit or loss.

There were no assets measured at fair value through other comprehensive income.

**iii) Recognition and derecognition**

Under both IFRS9 and IAS 39, an entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

**SMBC NIKKO CAPITAL MARKETS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

The standards permit a choice between trade date and settlement date accounting for recording regular way transactions. When applying settlement date accounting it is still required that any movements in fair value between trade date and settlement date are reflected as they occur. The movement in fair value is taken to profit and loss or to other comprehensive income depending upon the classification of the asset. Settlement date is used for transactions with trading securities and derivatives. Trade date is used for repurchase transactions.

Assets are derecognised when the entity transfers its contractual rights to receive the cash flows and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation is either discharged or cancelled or expires.

**iv) Fair value**

The Group assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions either: (a) in the *principal market* for the asset or liability; or (b) in the absence of a principal market, in the *most advantageous market* for the asset or liability. That assumed transaction establishes a basis for determining the exit price.

The Group manages the credit and liquidity risks in their derivatives portfolio on a net basis. The Group provides fair value information on its derivative portfolio on a net basis to management. Therefore, the Group makes adjustments to the valuation of their derivatives by calculating credit and debit valuation adjustments consistent with IFRS 13 and measures the fair value of the derivative portfolio on a net basis (i.e. the unit of account is the entire portfolio).

**v) Impairment**

Assets carried at amortised cost and, under IFRS9 at fair value through other comprehensive income, are subject to impairment testing.

IFRS 9 changes impairment testing from an incurred loss model to expected credit loss approach. It establishes three categories of assets for impairment purposes:

- a) low risk assets (“stage 1”);
- b) instruments which credit risk has significantly increased since initial recognition (“stage 2”); and
- c) credit-impaired (“stage 3”).

Impairment provision of assets in stage 1 is measured as 12-month expected credit losses. Impairment provision for assets in stages 2 and 3 is calculated for their lifetime. IFRS 9 introduces criteria for classification as low, significantly increased risk and credit-impaired. They include rebuttable presumptions of a significant increase in credit risk for instruments over 30 days in arrears and credit impairment for instruments over 90 days in arrears.

Under IAS 39, impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. If any such evidence exists, the entity is required to do a detailed impairment calculation to determine whether an impairment loss should be recognised.

At the reporting date, the Group had no assets in stage 2 or 3. As most of the Group’s assets in scope have a life span of less than 12 months, the impairment provision was calculated for the shorter of the lifetime and 12 months.

**vi) Hedging**

Hedge accounting is broadly similar between IFRS 9 and IAS 39. Both standards require formal designation, documentation and ongoing effectiveness assessment of the hedging relationship. IFRS 9 requires an economic relationship between the hedged item and the hedging instrument and the effect of credit risk not dominating the value changes that result from that relationship. It also allows keeping IAS 39 hedge accounting for either portfolio fair value hedging or all hedges. IAS 39 requires hedge to be highly effective, within a range of 80% to 125%, at inception and, at a minimum, at each reporting date. For cash flow hedges, it also requires the hedged forecast transactions to be highly probable and ultimately affect profit or loss.

The Group uses derivatives to hedge its exposure to variability in forecast operating expenses expressed in foreign currencies. These derivatives are designated as cash flow hedges. The effective portion of the fair value changes of the hedging derivatives is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. The amounts accumulated in other comprehensive income are recycled to profit or loss when the hedged forecast transactions take place or are no longer expected to occur. As permitted by IFRS 9, the Group retained hedge accounting of IAS 39.

**vii) Securities sold under agreement to repurchase and securities purchase under agreement to resell**

In the ordinary course of business, the Group sells securities under agreements to repurchase them at a predetermined price (“repos” or “direct repos”). Since substantially all of the risks and rewards are retained by the Group, such transfers fail derecognition criteria. Therefore, the securities remain on the consolidated statement of financial position and a liability is recorded in respect of the consideration received. On the other hand, the Group buys securities under agreements to resell them at a predetermined price (“reverse repos”). Since the Group does not obtain substantially all of the risks and rewards of

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ownership, these transactions are treated as collateralised loans and the securities are not included in the Group statement of financial position. These collateralised loans are carried at amortised cost.

**viii) Credit guarantees**

The Group entered into an unconditional guarantee with its parent Sumitomo Mitsui Banking Corporation ("SMBC"), acting through its Cayman and Tokyo branches (the 'Guarantor'), which guarantees the prompt and complete payment when due of any net termination payment payable to the Group under any of the ISDA Master Agreements of specific guaranteed counterparties. Having such an agreement in place means that any required credit valuation adjustment is calculated based upon the probability of the double-default of both the Counterparty and the Guarantor. A monthly fee is payable based on the average value of the guaranteed transactions. The fee has been accounted for in line with the substance of the credit guarantee. It has been computed on a fair value basis, discounted to its present value and recorded as a derivative liability on the balance sheet.

**ix) Borrowed securities**

Securities borrowed or received as collateral are not recognised in the statement of financial position, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded at fair value as trading securities sold, not yet purchased. Any subsequent gains or losses are included in "Net trading profit" within profit or loss.

**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.

External expenditure on intangible assets is capitalised as incurred. Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Computer software	3 years
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**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any losses for impairment. Cost includes the original purchase price of the asset and the costs directly attributable to bringing the asset into its working condition.

Depreciation is provided on the depreciable amount of items of property plant and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount less the estimated residual value at the end of its useful economic life. The Group and the Company use the following annual rates in calculating depreciation:

*Leasehold assets:*

Leasehold property	Over the remaining life of the lease
Costs of adaption of leasehold property	Over the remaining life of the lease

*Other*

Computers and similar equipment	3 years
Fixtures, fittings and other equipment	5 years

When deciding on useful economic life the principal factors taken into consideration are the expected rate of technological change and the expected pattern of usage of the assets.

**Taxation**

Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income or directly in equity, consistently with the recognition of items it relates to.

Current tax is the expected tax charge or credit on the taxable income or loss in the period and any adjustments in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amounts

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of assets or liabilities for accounting purposes and carrying amounts for tax purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**Pensions**

The Group operates a defined benefit pension plan and a defined contribution plan, both of which require contributions to be made to separately administered funds.

Payments to the defined contribution pension scheme are recognised within staff costs in profit or loss as incurred.

Defined benefit scheme expenses recognised within staff costs consist of service costs attributable to the current and past periods, interest on plan liabilities and return on plan assets.

The obligation under the defined benefit plan at the reporting date is determined by independent actuarial valuation using the projected unit method.

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Any actuarial gains and losses are recognised net of tax in other comprehensive income.

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the interest rates of high quality corporate bonds, in this case AA rated. The mortality rate is based on publicly available mortality tables in the UK. Future salary increases and pension increases are based on expected future inflation rates in the UK. Further details about the assumptions are given in note 9. Due to the long term nature of this plan, such estimates are subject to significant uncertainty.

**Deferred compensation**

Deferred bonuses, further described in note 31, are accrued for as the employees render their services, taking into consideration expected attrition and time value of money over the vesting period. The estimated amounts of bonuses are reviewed on a regular basis; the effect of any remeasurements is taken to profit or loss.

**Leasing**

A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership. The Group classifies its office space rental as an operating lease since the risks and rewards mainly lie with the lessor. In addition, the lease term does not constitute a major part of the economic life of the building. Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Lease accounting will change due a new standard, IFRS 16 Leases, becoming effective from 1 January 2019.

**Significant accounting judgements and estimates**

In the process of applying the Group's accounting policies, management has exercised judgement and estimates, gauged in accordance with industry best practice, when determining the amounts recognised in the financial statements in relation to the fair value of derivative assets and liabilities and credit guarantees.

**i) Judgements**

Judgments do not usually directly address measurement. The management exercises judgements when accounting standards allow a range of possible measurement methods. A different judgement might lead to a materially different accounting treatment and valuation.

Judgement is exercised in respect of the methodology for valuing the Group's collateralised derivative contracts. The management has chosen to use, in line with market practice, the Overnight Indexed Swap curve ("OIS") in order to more consistently manage the associated interest rate and funding risks.

Judgement is exercised as to whether unobservable inputs constitute a significant part of the total value of derivative instruments and therefore the level at which the instruments should be classified in the fair value hierarchy.

**ii) Estimates**

Estimates use uncertain information and sometimes subjective assumptions to measure carrying values. As a result, estimates bear a risk of material adjustments to the carrying amounts in subsequent accounting periods.

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Estimates are used where the fair value of derivative assets and liabilities cannot be derived from active markets and is determined using a variety of valuation techniques that employ mathematical models. The inputs to these models use observable market data where possible but, where observable market data are not available, unobservable inputs are used. The estimates include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

Credit Valuation Adjustments (“CVA”) and Debit Valuation Adjustments (“DVA”) are incorporated into derivative valuations to reflect the value of counterparty and own credit risk. CVAs, calculated on a counterparty exposure basis across instrument type, are derived from market data and management estimates of exposure at default, probability of default and recovery rates. The DVA is an adjustment to the value of the Group’s derivative liabilities that seeks to reflect the Group’s own default risk and involves similar estimates of exposure at default, probability of default and recovery rates.

The funding fair value adjustment (“FVA”) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are wholly uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the company or the counterparty.

The present value of future fees payable for credit guarantees that Group has purchased from SMBC, is recognised on the balance sheet and calculated by reference to the expected exposure of the derivative transactions. As the valuation involves a number of estimates, actual results may materially differ from the reported values.

**Future accounting developments**

The following standard issued by the IASB and endorsed by the EU was not yet effective at the reporting date.

**IFRS 16 Leases**

IFRS 16 replaces the previous lease standard, IAS 17 leases, and related interpretations. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor).

IFRS 16 significantly changes accounting for lessees (customers). The standard requires the lessees to recognise most leases, except for short-term contracts and leases of low-value items, in the statement of financial position as right-of-use (“ROU”) assets and lease liabilities. Both are initially measured as the present value of the future lease payments discounted at the interest rate implicit in the lease or, if such rate cannot be readily determined, the lessee’s incremental borrowing rate. The lease assets are adjusted for any lease payments made at or before the commencement date, less any lease incentives received; any initial costs incurred; and expected costs to be incurred in dismantling, removing or restoring the underlying asset at the end of the lease.

Subsequent to initial recognition, the ROU assets are depreciated on a straight-line or another appropriate basis, in the same manner as owned fixed assets. The lease liabilities are remeasured for interest accruals and lease payments, similar to borrowings.

Lease modifications are recorded as equal and opposite adjustments to the lease liability and right-of-use asset, unless the right-of-use asset is written off to zero and there is a further reduction in the lease liability, in which case any remaining reduction is recognised in profit or loss.

Lessor accounting remains largely unchanged. The leases are still classified as either operating or finance, depending on whether the lease transfers substantially all the risks and rewards of ownership of an underlying asset.

Operating lease income is recognised on either a straight-line or another systematic basis. For finance leases, the lessor recognises a disposal of the leased assets and replaces them with a receivable at an amount equal to the net investment in the lease, equal to the fair value of the underlying asset and any initial direct costs. Subsequent to initial recognition, the lessor recognises finance income over the lease term at an effective interest rate, which discounts gross lease payments to the net investment in the lease.

The main change for lessors pertains to accounting for sub-leases. In classifying a sublease as finance or operating, the intermediate lessor makes the decision by reference to the ROU asset arising from the head lease, rather than by reference to the underlying asset that is the subject of the lease.

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IFRS 16 raises the importance of identification of leases within service agreements. Under IAS 17, such leases would only require a presentational adjustment between rent and other operating expenses. Under IFRS 16, reclassification of lease arrangements affects total assets, liabilities and results of operation.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers.

The Group has evaluated the effect of this new standard on its financial statements. As permitted by IFRS 16, the Group intends to apply the standard from 1 January 2019 without restating comparative information. The cumulative effect of adoption at the date of initial application will be recognised as an adjustment to retained earnings. On transition, it plans to use the exemptions of IFRS 16 and:

- Exclude from the scope leases of low-value items and leases maturing within 12 months of initial application;
- Use incremental borrowing rates to discount lease liabilities;
- Measure the ROU assets at the amount of lease liabilities, adjusted for prepaid or accrued payments; and
- Rely on its previous assessment of onerous leases under IAS 37 instead of an impairment review.

The Group estimates that the adoption of IFRS 16 will increase its assets and liabilities as at 1 January 2019 by USD 12.5 million with no material impact on retained earnings. The expected effect on profit or loss in 2019 includes replacing USD 4.0 million rental costs and USD 0.7 million other operating costs with a USD 4.8 million depreciation charge and USD 0.2 million lease interest expense, an overall additional expense of USD 0.3 million.



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**2. Net fees and trading income**

This comprises the following items of income and expense:

	2018 US\$m	2017 US\$m
Net gains on financial instruments held for trading	155.4	155.8
Underwriting and arrangement fees	73.5	72.4
Centralised activities	(0.6)	(0.6)
	<u>228.3</u>	<u>227.6</u>

**3. Other operating expenses**

Other operating expenses include

	2018 US\$m	2017 US\$m
Auditor remuneration		
audit fees to KPMG LLP	0.5	0.4
audit related service fees to KPMG LLP	0.2	0.2
credit rating assurance fees to KPMG LLP NY	0.4	0.3
	<u>1.1</u>	<u>0.9</u>
Operating lease rentals - land and buildings	<u>4.5</u>	<u>3.7</u>

Audit fees relate to the audit of the financial statements. Audit-related services include CASS assurance and quarterly financial reviews.

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**4. Interest income**

	2018 US\$m	2017 US\$m
Interest on collateral	47.0	28.6
Interest on repo transactions	6.0	21.3
Interest on securities	14.8	7.5
Interest on deposits	2.1	1.4
	69.9	58.8

**5. Interest expense**

	2018 US\$m	2017 US\$m
Interest on collateral	54.4	25.0
Interest on repo transactions	2.0	17.0
Interest on borrowings	8.6	10.8
	65.0	52.8

**6. Staff costs**

		2018 US\$m	2017 US\$m
Wages and salaries		75.0	61.9
Social security costs		7.2	5.5
Pension costs:	Defined benefit scheme	0.2	0.2
Pension costs:	Defined contribution scheme	5.8	3.9
Other staff costs		10.9	9.9
		99.1	81.4

The average monthly number of Group and Company employees during the year was 359 (2017: 289) and 346 (2017: 275) respectively.

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**7. Directors' emoluments**

	2018 US\$m	2017 US\$m
Emoluments *	4.4	3.2
Group pension contributions	-	-
<b>Total</b>	<b>4.4</b>	<b>3.2</b>

	2018 US\$m	2017 US\$m
Emoluments of highest paid director *	2.3	1.4
Group pension contributions	-	-
<b>Total</b>	<b>2.3</b>	<b>1.4</b>

\* The Group's performance evaluation year for remuneration runs from April to March, in line with the SMBC Group. As a result, directors' bonuses for the current performance year are finalised after the financial statements are authorised for issue. Therefore, the emoluments above contain directors' bonuses paid in the year in respect of the previous performance year.

The highest paid director belonged to the Group's defined benefit pension scheme with the Group's contribution of \$31 thousand (2017: one director with contribution of \$30 thousand) in the year. See note 9 for more details.

Four directors received a bonus (2017: four directors).

**8. Taxation**

	2018 US\$m	2017 US\$m
<b>Current tax</b>		
Current year	14.2	13.8
Adjustments for prior years	0.8	(2.7)
Foreign tax suffered	1.5	2.2
Double tax relief	(0.1)	(1.0)
<b>Current tax charge</b>	<b>16.4</b>	<b>12.3</b>
<b>Deferred tax</b>		
Origination and reversal of temporary difference	(0.2)	0.2
Adjustment for prior years	(0.5)	0.1
<b>Deferred tax charge / (credit)</b>	<b>(0.7)</b>	<b>0.3</b>
<b>Total tax charge in income statement</b>	<b>15.7</b>	<b>12.6</b>

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**Disclosure of tax in other comprehensive income**

	2018		2017	
	Before tax US\$m	Net of tax US\$m	Before tax US\$m	Net of tax US\$m
Actuarial (losses) on defined benefit pension plan	(1.4)	(1.1)	(0.1)	(0.1)
Cash flow hedges	(2.0)	(1.5)	2.5	1.9
	<u>(3.4)</u>	<u>(2.6)</u>	<u>2.4</u>	<u>1.8</u>

**Reconciliation of effective tax rate**

The tax charge on profit for the year differs from the nominal amount that would arise at the standard weighted average rate of corporation tax in the UK. The differences are explained below:

	2018		2017	
	US\$m	Effective tax rate	US\$m	Effective tax rate
Profit before taxation	<u>59.4</u>		<u>71.8</u>	
Tax using the UK weighted average corporation tax rate of 19% (2017: 19.25%)	11.3	19.0%	13.8	19.2%
Banking surcharge	3.9	6.6%	3.8	5.3%
APA adjustment	0.3	0.5%	(2.1)	(2.9)%
Adjustments for prior years	0.3	0.5%	(2.7)	(3.8)%
Other	(0.1)	(0.2)%	(0.2)	(0.3)%
	<u>15.7</u>	<u>26.4%</u>	<u>12.6</u>	<u>17.5%</u>

The Group is party to an Advance Pricing Agreement (“APA”) between its affiliates CM Inc and CM Asia and Her Majesty’s Revenue and Customs (“HMRC”) which defines the basis on which UK tax is charged on global derivative products group profits.

**Corporation tax rate**

The corporation tax rate remained at 19% throughout the year ended 31 December 2018 (2017: 19.25%). The government announced a further reduction to 17% effective from 1 April 2020. This reduction was substantively enacted at the reporting date.

In addition, the Finance (No. 2) Act 2015 introduced a bank surcharge of 8% on the profits of companies within banking groups, with effect from 1 January 2017. The Group has been allocated a portion of a £25m bank surcharge allowance that covers entities within the SMBC UK Group.

The deferred tax asset at 31 December 2018 has been calculated based on the above rates, including the bank surcharge. The effect of the bank surcharge is reflected in this year’s current tax charge.

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**Deferred tax assets (Group and Company)**

	2018 US\$m	2017 US\$m
Property, plant & equipment	0.9	0.5
Employee benefits	0.6	0.7
Deferred compensation	0.3	-
Cash flow hedges	0.5	(0.2)
Tax assets	2.3	1.0

**Movement in deferred tax (Group and Company)**

	1 January 2018	Recognised in income	Recognised in reserves	31 December 2018
Property, plant and equipment	0.5	0.4	-	0.9
Employee benefits	0.7	-	(0.1)	0.6
Deferred compensation	-	0.3	-	0.3
Cash flow hedges	(0.2)	-	0.7	0.5
Tax assets	1.0	0.7	0.6	2.3

	1 January 2017	Recognised in income	Recognised in reserves	31 December 2017
Property, plant and equipment	0.9	(0.4)	-	0.5
Employee benefits	0.5	0.2	-	0.7
Cash flow hedges	0.5	-	(0.7)	(0.2)
Tax assets	1.9	(0.2)	(0.7)	1.0

**9. Pension costs**

The Group operates two pension schemes in the UK: a contract-based defined contribution scheme, which covers all of the Group's local employees, with the exception of one employee, and an Executive Personal Pension Plan ("EPP"), which is a trust based scheme that provides benefits on a defined benefit basis to one UK employee. The Group incurred no pension costs in respect of its Japanese expatriate employees.

The contract based scheme, The SMBC Capital Markets Limited Group Personal Plan, is open to new entrants and future contributions. The pension cost for this scheme for the year was \$5.8 million (2017: \$3.9 million). The Company recognises expenses as employees render services.

The Group currently contributes to the EPP policy at the rate of 15% of the capped salary.

The defined benefit pension has the following features:

- Payable from the age of 60, at one-sixtieth of pensionable salary for each year of service, subject to the earnings cap;
- Guaranteed for 5 years once in payment;
- Increases at the lower of retail price index or 5% p.a.;

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- Attaches a 50% spouse's pension.

The principle assumptions in valuing the Defined Benefit Obligation of the EPP are:

	2018 %	2017 %
Rate of increase in salaries	4.7	4.8
Rate of increase in pension payment	3.2	3.3
Discount rate	2.8	2.4
Inflation assumption	3.2	3.3

Salary is set to increase at a rate of 1.5% per annum in excess of the inflation assumption. The assumption allows for both general increases in pay (due to inflation) and career progression. However, because the salary is capped, this assumption has no impact. The cap is assumed to increase in line with inflation (RPI).

The inflation assumption is set by having regard to the difference in yields between fixed-interest and index-linked investments. The difference is adjusted for an inflation risk premium of 0.2% per annum. There is no allowance for using CPI, rather than RPI.

The discount rate used to value scheme liabilities is set at the current rate of return on high quality corporate bonds, for this purpose AA rated.

Values of the EPP scheme assets and liabilities were as follows:

**Group and Company**

	2018 US\$m	2017 US\$m
Total fair value of assets	1.1	1.1
Present value of scheme liabilities	(3.7)	(4.1)
Pension scheme liability	(2.6)	(3.0)
Related deferred tax asset (Note 8)	0.6	0.7
Net pension liability	(2.0)	(2.3)

The table below lays out movements in the fair value of plan assets:

	2018 US\$m	2017 US\$m
Fair value of plan assets at the beginning of the year	1.1	1.0
Expected return on plan assets	-	-
Employer contributions	-	-
Actuarial gain on plan assets	-	0.1
Exchange differences on opening balance	-	-
Fair value of plan assets at the end of the year	1.1	1.1

The assets of the Scheme are invested in three Aegon funds: Mixed Fund, With Profits Endowment Fund and High Equity With Profits Fund. The Mixed Fund is diversified by investing in a variety of underlying funds. The with-profits funds invest in a wide

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range of bonds and equities but smooth the investment returns together with the use of underlying guarantees. The table below analyses the allocation of assets by instrument type:

	2018		2017	
	%	US\$m	%	US\$m
Quoted instruments	27.3	0.3	27.6	0.3
Unquoted instruments*	72.7	0.8	69.4	0.8
Cash	-	-	3.0	-
	<u>100.0</u>	<u>1.1</u>	<u>100.0</u>	<u>1.1</u>

\*Aegon With-Profit funds

Movements in the present value of the defined benefit obligation are below:

	2018 US\$m	2017 US\$m
Defined benefit obligations at the beginning of the year	4.1	3.5
Service cost / interest expense recognised in staff costs	0.2	0.2
Actuarial (gain) / loss on scheme liabilities	(0.4)	0.2
Exchange differences on opening balance	(0.2)	0.2
Present value of scheme liabilities at the end of the year	<u>3.7</u>	<u>4.1</u>

Actuarial loss movements are summarised in the following table:

	2018 US\$m	2017 US\$m
Cumulative actuarial loss at 1 January	(2.6)	(2.5)
Actuarial gain / (loss) for the year (Note 8)	<u>0.4</u>	<u>(0.1)</u>
Cumulative actuarial loss at 31 December	<u>(2.2)</u>	<u>(2.6)</u>
Actuarial gain / (loss) for the year, net of tax (Note 8)	0.3	(0.1)

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of the Company at 31 December 2018. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

The expected contributions to the plan for the next annual reporting period are expected to grow by 3.2%, in line with the principal assumptions described earlier.

The maturity profile of the defined benefit obligation assumes payments increasing at the lower of RPI or 5% per annum over the weighted averaged duration of the obligation. The average duration of the obligation represents the life expectancy of a male aged 60 at the time of retirement and at the reporting date equals 30 years (2017: 30 years)

### Sensitivity Analysis

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

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Assumption varied	2018		2017	
	Defined Benefit Obligation		Defined Benefit Obligation	
	%	US\$m	%	US\$m
Discount Rate 0.5% p.a. lower	12.0	0.4	13.0	0.5
Inflation Rate 0.5% p.a. lower	(10.0)	(0.4)	(11.0)	(0.5)
Minimum rate of improvement of mortality 0.5% p.a. lower	(3.0)	(0.1)	(3.0)	(0.1)

**10. Cash at banks**

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Current accounts	160.1	101.0	148.7	85.2
Short-term deposits	679.4	745.0	571.6	617.1
	<u>839.5</u>	<u>846.0</u>	<u>720.3</u>	<u>702.3</u>

At the reporting date, \$25.6 million of Group (2017: \$19.5 million), and \$20.2 million of Company (2017: \$9.1 million) current accounts were placed with related companies.

Short-term deposits placed with related companies amounted to \$272.6 million (2017: \$318.0 million) for the Group and \$271.1 million (2017: \$316.5) for the Company.

A detailed analysis of the Group's and Company's credit exposure on cash at banks is included in note 20.

**11. Trading securities**

Trading security assets ("long positions") represent short-term investments in debt and equity instruments, primarily aimed at generating income from value fluctuations, interest, dividends and coupons.

Trading security liabilities ("short positions") arise when the Group sells securities held as collateral under agreements to resell ("reverse repos") or borrowed in the market, with the expectation that their value will fall. They represent an obligation to return the underlying securities, measured at their market value, when the repo contracts mature or the lender recalls the collateral.



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<b>Fair value as at 31 December 2018</b>				
<b>Group</b>	Listed on London Stock Exchange US\$m	Listed on non UK Exchanges US\$m	Not listed US\$m	Total US\$m
<b>Assets</b>				
Floating rate notes	33.7	237.5	8.6	279.8
U.S. treasury securities	-	704.4	-	704.4
Foreign government securities	4.9	188.7	4.6	198.2
Corporate bonds	60.3	575.7	70.4	706.4
Equity securities	-	1.5	-	1.5
<b>Total</b>	<b>98.9</b>	<b>1,707.8</b>	<b>83.6</b>	<b>1,890.3</b>
<b>Liabilities</b>				
Floating rate notes	3.4	18.1	-	21.5
U.S. treasury securities	-	164.5	-	164.5
Foreign government securities	-	69.6	-	69.6
Corporate bonds	19.2	160.8	-	180.0
Equity securities	-	112.6	-	112.6
<b>Total</b>	<b>22.6</b>	<b>525.6</b>	<b>-</b>	<b>548.2</b>
<b>Fair value as at 31 December 2018</b>				
<b>Company</b>	Listed on London Stock Exchange US\$m	Listed on non UK Exchanges US\$m	Not listed US\$m	Total US\$m
<b>Assets</b>				
Floating rate notes	33.7	169.9	8.6	212.2
U.S. treasury securities	-	654.5	-	654.5
Foreign government securities	4.9	188.7	4.6	198.2
Corporate bonds	60.3	575.7	70.4	706.4
Equity securities	-	1.5	-	1.5
<b>Total</b>	<b>98.9</b>	<b>1,590.3</b>	<b>83.6</b>	<b>1,772.8</b>
<b>Liabilities</b>				
Floating rate notes	3.4	18.1	-	21.5
U.S. treasury securities	-	164.5	-	164.5
Foreign government securities	-	69.6	-	69.6
Corporate bonds	19.2	160.8	-	180.0
Equity securities	-	112.6	-	112.6
<b>Total</b>	<b>22.6</b>	<b>525.6</b>	<b>-</b>	<b>548.2</b>

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<b>Fair value as at 31 December 2017</b>	<b>Listed on</b>	<b>Listed on</b>	<b>Not</b>	<b>Total</b>
<b>Group</b>	<b>London Stock</b>	<b>non UK</b>	<b>listed</b>	<b>Total</b>
	<b>Exchange</b>	<b>Exchanges</b>	<b>US\$m</b>	<b>US\$m</b>
	<b>US\$m</b>	<b>US\$m</b>		
<b>Assets</b>				
Floating rate notes	9.3	186.5	-	195.8
U.S. treasury securities	-	455.9	-	455.9
Foreign government securities	1.0	161.8	-	162.8
Corporate bonds	27.4	485.3	49.0	561.7
<b>Total</b>	<b>37.7</b>	<b>1,289.5</b>	<b>49.0</b>	<b>1,376.2</b>
<b>Liabilities</b>				
Floating rate notes	-	3.8	-	3.8
U.S. treasury securities	-	377.2	-	377.2
Foreign government securities	-	20.9	-	20.9
Corporate bonds	33.6	131.6	-	165.2
Equity securities	-	114.7	-	114.7
<b>Total</b>	<b>33.6</b>	<b>648.2</b>	<b>-</b>	<b>681.8</b>
<b>Fair value as at 31 December 2017</b>	<b>Listed on</b>	<b>Listed on</b>	<b>Not</b>	<b>Total</b>
<b>Company</b>	<b>London Stock</b>	<b>non UK</b>	<b>listed</b>	<b>Total</b>
	<b>Exchange</b>	<b>Exchanges</b>	<b>US\$m</b>	<b>US\$m</b>
	<b>US\$m</b>	<b>US\$m</b>		
<b>Assets</b>				
Floating rate notes	9.3	144.5	-	153.8
U.S. treasury securities	-	406.0	-	406.0
Foreign government securities	1.0	161.8	-	162.8
Corporate bonds	27.4	485.3	49.0	561.7
<b>Total</b>	<b>37.7</b>	<b>1,197.6</b>	<b>49.0</b>	<b>1,284.3</b>
<b>Liabilities</b>				
Floating rate notes	-	3.8	-	3.8
U.S. treasury securities	-	377.2	-	377.2
Foreign government securities	-	20.9	-	20.9
Corporate bonds	33.6	131.6	-	165.2
Equity securities	-	114.7	-	114.7
<b>Total</b>	<b>33.6</b>	<b>648.2</b>	<b>-</b>	<b>681.8</b>

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**12. Derivative assets and liabilities**

Derivatives are financial instruments which derive their value from other assets, rates, prices, indices or other variables and which settlement does not usually involve the delivery of the underlying instrument. Derivative assets represent contracts with positive fair values and liabilities represent those with negative values.

In line with the requirements of IFRS 13, the Group booked a Debit Value Adjustment (“DVA”), Credit Value Adjustment (“CVA”) and Funding Value Adjustment (“FVA”) when calculating the fair value of its derivatives. These are all classified as derivative reserves.

The tables below provide an analysis of carrying values and principal amounts by type of contract:

Group	Carrying value		Notional principal	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Interest rate and currency swaps	6,824.0	6,963.3	150,103.5	141,872.6
Options	103.8	72.8	10,424.2	8,463.1
Forward contracts	20.0	17.5	1,328.1	728.5
Commodity swaps	12.0	9.8	194.4	763.6
Derivative reserves	(22.4)	(26.7)	-	-
<b>Derivative assets</b>	<b>6,937.4</b>	<b>7,036.7</b>	<b>162,050.2</b>	<b>151,827.8</b>
Interest rate and currency swaps	6,777.9	6,870.0	151,689.2	144,029.1
Options	80.6	72.6	8,674.0	8,463.1
Forward contracts	38.0	25.0	2,258.4	1,173.6
Commodity swaps	11.9	8.0	198.6	758.9
Credit guarantees (see Note 30)	54.3	62.4	-	-
Derivative reserves	(41.7)	(32.8)	-	-
<b>Derivative liabilities</b>	<b>6,921.0</b>	<b>7,005.2</b>	<b>162,820.2</b>	<b>154,424.7</b>

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Company	Carrying value		Notional principal	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Interest rate and currency swaps	6,809.5	6,950.8	150,046.6	141,813.1
Options	103.1	71.6	7,857.5	5,621.4
Forward contracts	20.0	17.5	1,328.1	728.5
Commodity swaps	12.0	9.8	194.4	763.6
Derivative reserves	(22.4)	(26.7)	-	-
<b>Derivative assets</b>	<b>6,922.2</b>	<b>7,023.0</b>	<b>159,426.6</b>	<b>148,926.6</b>
Interest rate and currency swaps	6,763.8	6,857.8	151,625.1	143,967.1
Options	79.8	71.4	7,113.4	5,621.4
Forward contracts	38.0	25.0	2,258.4	1,173.6
Commodity swaps	11.9	8.0	198.6	758.9
Credit guarantees (see Note 30)	54.3	62.4	-	-
Derivative reserves	(40.8)	(32.1)	-	-
<b>Derivative liabilities</b>	<b>6,907.0</b>	<b>6,992.5</b>	<b>161,195.5</b>	<b>151,521.0</b>

The tables below analyse the carrying values of derivatives, excluding reserves and credit guarantees, by contractual maturities:

Carrying values	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Due within 1 year	555.3	451.4	555.3	451.4
Due within 1 to 5 years	2,100.2	2,268.5	2,097.7	2,266.4
Due within 5 to 10 years	1,993.2	1,712.1	1,993.2	1,712.1
Due within 10 to 15 years	772.8	691.5	760.0	679.9
Due in more than 15 years	1,538.3	1,939.9	1,538.4	1,939.9
<b>Derivative assets</b>	<b>6,959.8</b>	<b>7,063.4</b>	<b>6,944.6</b>	<b>7,049.7</b>
Due within 1 year	566.1	456.0	566.1	456.0
Due within 1 to 5 years	2,088.6	2,267.2	2,086.2	2,265.0
Due within 5 to 10 years	1,988.4	1,701.9	1,988.4	1,701.9
Due within 10 to 15 years	739.1	658.2	726.6	646.9
Due in more than 15 years	1,526.2	1,892.3	1,526.2	1,892.4
<b>Derivative liabilities</b>	<b>6,908.4</b>	<b>6,975.6</b>	<b>6,893.5</b>	<b>6,962.2</b>

Derivatives are usually used by market participants to hedge risks in non-derivative financial or non-financial contracts. When the host contracts expire, the related derivatives are settled as well. Due to that, contractual maturities represent the maximum expected duration of derivative instruments.

The derivative instruments above include those held to hedge expenses expressed in foreign currencies and designated as cash flow hedges:

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Group and Company	Carrying value		Notional principal	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Forward contracts	-	0.6	-	13.6
Derivative assets	-	0.6	-	13.6
Forward contracts	2.0	-	25.0	-
Derivative liabilities	2.0	-	25.0	-

During the reported periods, there were no hedged forecast transactions which were no longer expected to occur.

Gains or losses transferred during the year from the cash flow hedging reserve to operating expenses were as follows:

Group and Company	2018 US\$m	2017 US\$m
Gain / (loss)	(2.8)	(1.1)

The paragraphs below provide additional information on interest rate, foreign exchange, commodity, credit and equity index derivatives contracts:

**Interest rate contracts**

Interest rate swaps are one of the primary derivative instruments used by the Group. The two parties to an interest rate swap agree to exchange, at particular intervals, payment streams calculated on a specified notional amount with at least one stream based on a floating interest rate. Basis swaps involve two floating rates, such as prime and LIBOR. Inflation swaps are included in this category.

Forward rate agreements are settled in cash at a specified future date based on the differential between agreed upon interest rates and an index applied to a notional amount.

Interest rate caps and floors require the writer to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The cap or floor writer receives a premium for bearing the risk of unfavourable interest rate changes.

**Currency swaps and foreign exchange contracts**

The Group is involved in a variety of currency swaps and foreign exchange contracts in its trading activities. The parties to a currency swap generally agree to the exchange of principal amounts and/or interest in two currencies, agreeing to re-exchange any principal amounts at a future date and agreed upon exchange rate. These currency swaps primarily relate to major foreign currencies such as Yen, Canadian dollars, Sterling and Euros.

**Options**

The Group holds a number of positions in options, which give the holder the right, but not an obligation, to execute a transaction at pre-agreed terms. Currency options allow the holder to buy or sell principals at the contractual exchange rates. Interest rate options – floors and caps – fix respectively the lowest and highest interest rates on deposits and borrowings. Equity index options involve payments determined by reference to the movement in an equity index.

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**Forward contracts**

Forward contracts, mainly in respect of currency exchanges, are agreements to exchange amounts in different currencies in the future at the rates determined at the time of the agreement.

**Commodity derivatives**

The Group has undertaken a series of commodity index swaps and options whereby it receives a fixed rate per contract and guarantees to deliver the average index price to the counterparty or, alternatively, where it guarantees a fixed payment in return for the floating average index price from the counterparty. All counterparty positions are fully hedged with a market maker.

As of 31 December 2018, most of the Group's interest rate and currency swaps, interest rate and currency options back-to-back transactions were made with CM Inc. For commodity and equity and other index trades back-to-back transactions were made with other market counterparties. Note 20 describes the risks associated with derivative products.

**13. Other trading assets and liabilities**

Other trading assets and liabilities comprise derivative contracts or their components which do not meet the accounting definition of a derivative, with either positive or negative carrying values.

The contractual maturity analysis of other trading assets and liabilities is presented below.

	2018 US\$m	2017 US\$m
<b>Group and Company</b>		
Due within 1 year	4.8	0.8
Due within 1 to 5 years	14.3	13.7
Due within 5 to 10 years	14.8	16.0
Due within 10 to 15 years	0.8	-
Due in more than 15 years	85.2	46.1
Other trading assets	119.9	76.6
Due within 1 year	1.0	0.4
Due within 1 to 5 years	14.2	13.8
Due within 5 to 10 years	20.9	26.4
Due within 10 to 15 years	37.3	34.5
Due in more than 15 years	119.4	100.9
Other trading liabilities	192.8	176.0

**14. Repurchase agreements**

Repurchase agreements represent purchases or sales of securities with a condition to resell or repurchase at a pre-determined price. As such, repurchase transactions are treated as collateralised lending or borrowing, supported by the underlying securities and, if required, additional collateral.

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	2018 US\$m	2017 US\$m
<b>Group and Company</b>		
Amounts due from related parties	2,426.9	3,157.4
Amounts due from external parties	440.3	493.5
	<hr/>	<hr/>
Securities purchased under agreements to resell	2,867.2	3,650.9
	<hr/>	<hr/>
Amounts due to related parties	158.6	11.6
Amounts due to external parties	2,129.2	2,986.4
	<hr/>	<hr/>
Securities sold under agreements to repurchase	2,287.8	2,998.0

The contractual maturity profile of repurchase agreements is as follows:

	2018 US\$m	2017 US\$m
<b>Group and Company</b>		
Due on demand	258.7	218.8
Due within one month	1,923.0	2,793.0
Due within one to three months	674.4	639.1
Due within three to six months	11.1	-
	<hr/>	<hr/>
Securities purchased under agreements to resell	2,867.2	3,650.9
	<hr/>	<hr/>
Due on demand	-	-
Due within one month	1,675.3	2,369.6
Due within one to three months	601.4	628.4
Due within three to six months	11.1	-
	<hr/>	<hr/>
Securities sold under agreements to repurchase	2,287.8	2,998.0

Most repurchase agreements are renewed on maturity. Therefore, contractual maturities represent the minimum expected duration of these instruments.

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**15. Other debtors**

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Collateral placed with related parties	1,818.0	2,495.6	1,818.0	2,495.6
Collateral placed with external parties	639.5	569.4	639.5	569.4
Prepayments	9.4	6.6	9.1	6.3
Corporation tax	-	-	(1.8)	-
Other related party debtors	7.3	4.8	(0.9)	7.2
Other external debtors	11.3	10.8	10.7	10.6
	<u>2,485.5</u>	<u>3,087.2</u>	<u>2,474.6</u>	<u>3,089.1</u>

Placed collateral represents cash deposits in respect of derivative and repo transactions required under Collateral Support Annexes ('CSAs').

Included within collateral with related parties is a payable balance of \$310.0 million (2017: \$310.0 million). This relates to an Independent Amount received from an affiliate, and is offset against collateral placed within the same CSA.

**16. Intangible assets**

	Computer software US\$m
<b>Group and Company</b>	
<b>Cost</b>	
Balance at 1st January 2017	-
Additions	2.1
Balance at 31st December 2017	2.1
Balance at 1st January 2018	2.1
Additions	5.3
Balance at 31st December 2018	<u>7.4</u>
<b>Accumulated amortisation and impairment losses</b>	
Balance at 1st January 2017	-
Charge for the year	0.1
Balance at 31st December 2017	<u>0.1</u>
Balance at 1st January 2018	0.1
Charge for the year	0.1
Balance at 31st December 2018	<u>0.2</u>
<b>Carrying amounts</b>	
Balance at 31st December 2017	<u>2.0</u>
Balance at 31st December 2018	<u>7.2</u>

No internal development costs were capitalised during the period.



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**17. Property, plant and equipment**

<b>Group</b>	<b>Leasehold property US\$m</b>	<b>Personal computers US\$m</b>	<b>Furniture and fixtures US\$m</b>	<b>Total US\$m</b>
<b>Cost</b>				
Balance at 1st January 2017	21.9	6.0	0.3	28.2
Additions	1.1	2.1	0.1	3.3
Balance at 31st December 2017	23.0	8.1	0.4	31.5
Balance at 1st January 2018	23.0	8.1	0.4	31.5
Additions	-	6.4	-	6.4
Balance at 31st December 2018	23.0	14.5	0.4	37.9
<b>Accumulated depreciation and impairment losses</b>				
Balance at 1st January 2017	11.8	5.2	0.2	17.2
Depreciation for the year	2.4	0.9	0.1	3.4
Balance at 31st December 2017	14.2	6.1	0.3	20.6
Balance at 1st January 2018	14.2	6.1	0.3	20.6
Depreciation for the year	2.7	1.1	0.1	3.9
Balance at 31st December 2018	16.9	7.2	0.4	24.5
<b>Carrying amounts</b>				
Balance at 31st December 2017	8.8	2.0	0.1	10.9
Balance at 31st December 2018	6.1	7.3	-	13.4

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	Leasehold property US\$m	Personal computers US\$m	Furniture and fixtures US\$m	Total US\$m
<b>Company</b>				
<b>Cost</b>				
Balance at 1st January 2017	21.9	5.9	0.3	28.1
Additions	1.1	2.1	-	3.2
Balance at 31st December 2017	23.0	8.0	0.3	31.3
Balance at 1st January 2018	23.0	8.0	0.3	31.3
Additions	-	6.3	-	6.3
Balance at 31st December 2018	23.0	14.3	0.3	37.6
<b>Accumulated depreciation and impairment losses</b>				
Balance at 1st January 2017	11.8	5.2	0.2	17.2
Depreciation for the year	2.4	0.8	0.1	3.3
Balance at 31st December 2017	14.2	6.0	0.3	20.5
Balance at 1st January 2018	14.2	6.0	0.3	20.5
Depreciation for the year	2.7	1.1	-	3.8
Balance at 31st December 2018	16.9	7.1	0.3	24.3
<b>Carrying amounts</b>				
Balance at 31st December 2017	8.8	2.0	-	10.8
Balance at 31st December 2018	6.1	7.2	-	13.3

**18. Other creditors**

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Collateral received from related parties	2,719.3	2,804.7	2,719.3	2,804.7
Collateral received from external parties	158.1	139.3	158.1	139.3
Funding loans from related parties	528.5	510.3	528.5	510.3
Corporation tax	1.7	3.0	0.1	1.7
Other related party creditors	29.2	20.8	27.2	20.4
Other external creditors	46.2	60.1	44.5	58.7
	3,483.0	3,538.2	3,477.7	3,535.1

Received collateral represents cash deposits in respect of derivative and repo transactions required under Collateral Support Annexes ("CSAs"). Collateral is transferred with full re-hypothecation rights.

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**19. Called up share capital**

	Allotted, called up and fully paid 2018 US\$m	Allotted, called up and fully paid 2017 US\$m
779 million ordinary shares of \$1 each	779.0	779.0
360 million preference shares of \$1 each	360.0	360.0
	1,139.0	1,139.0

**20. Risk management**

**i) Strategy in using financial instruments**

The principal activities of the Group include customer facilitation, brokering and trading in primary and secondary debt and equity securities and an extensive range of over-the-counter derivative contracts.

The Group and the Company undertake their derivative business on either an agency basis or back-to-back basis where the market risk arising from customer trades is hedged either with CM Inc, or a market counterparty.

The Group's business model is subject to a number of risks which are specific to the Group and generic to the sector.

**ii) Cash flow and fair value risk**

As the Group and the Company operates a primarily balanced derivative portfolio (subject to appropriate credit adjustments) and invests in floating rate assets funded through floating rate liabilities or capital there is no significant exposure in the derivative portfolio to changes in cash flow or fair value due to interest rate risk.

**iii) Credit risk**

**a) Credit quality and collateral**

Credit risk represents the potential losses that the Group would incur if a counterparty failed to perform its obligations under contractual terms and collateral held was not sufficient to cover them.

**Cash at banks**

Credit risk of cash at banks, appropriate to its maturity profile, is characterised by the short-term ratings of the financial institutions it was held at:

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	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
S&P rating				
A-1+	182.9	156.6	91.5	45.0
A-1	613.6	653.0	591.8	626.2
A-2	43.0	36.4	37.0	31.1
	<u>839.5</u>	<u>846.0</u>	<u>720.3</u>	<u>702.3</u>

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Moody's rating				
P-1	749.3	764.5	631.3	626.1
P-2	1.2	36.4	-	31.1
Not Rated	89.0	45.1	89.0	45.1
	<u>839.5</u>	<u>846.0</u>	<u>720.3</u>	<u>702.3</u>

**Trading securities**

Credit risk of trading securities is characterised by their long-term ratings:

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
S&P rating				
AAA	128.7	119.8	128.7	119.8
AA+	706.4	466.7	656.6	416.8
AA	85.2	0.6	85.2	0.6
AA-	46.3	35.8	24.2	21.8
A+	90.8	109.4	60.2	101.4
A	89.0	209.6	84.0	189.6
A-	235.3	135.7	225.2	135.7
BBB+	137.3	34.8	137.3	34.8
BBB	34.9	40.1	34.9	40.1
BBB-	8.6	35.9	8.6	35.9
BB+	1.5	0.8	1.5	0.8
B+	0.3	-	0.3	-
Not rated	326.0	187.0	326.1	187.0
	<u>1,890.3</u>	<u>1,376.2</u>	<u>1,772.8</u>	<u>1,284.3</u>

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<i>Moody's rating</i>	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
Aaa	835.1	575.8	785.3	525.9
Aa1	-	21.6	-	21.6
Aa2	92.0	9.9	82.0	9.9
Aa3	86.8	58.7	46.7	22.0
A1	319.1	351.6	311.5	346.3
A2	22.7	28.3	22.7	28.3
A3	138.4	20.1	128.4	20.1
Baa1	85.5	69.5	85.5	69.5
Baa2	61.5	52.6	61.5	52.6
Baa3	42.7	24.0	42.7	24.0
Ba1	1.5	0.9	1.5	0.9
Ba2	0.1	-	0.1	-
Not rated	204.9	163.2	204.9	163.2
	<u>1,890.3</u>	<u>1,376.2</u>	<u>1,772.8</u>	<u>1,284.3</u>

**Reverse repos**

Credit risk on securities purchased under agreements to resell ("reverse repos") arises from a potential inability of customers to fully repay the amounts they received in exchange for the underlying securities. This risk is mitigated by the quality and current value of purchased securities which serve as collateral.

The table below summarises short-term credit ratings of customers in reverse repo agreements, which corresponds to the maturity profile of these agreements:

<i>Group and Company</i> <i>S&amp;P rating</i>	2018 US\$m	2017 US\$m
<i>Related parties</i>		
A-1	2,426.9	3,157.4
<i>External parties</i>		
A-1+	4.9	28.2
A-1	5.9	413.1
A-2	429.5	52.2
	<u>440.3</u>	<u>493.5</u>
	<u>2,867.2</u>	<u>3,650.9</u>

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<i>Group and Company</i>	2018	2017
<i>Moody's rating</i>	US\$m	US\$m
<i>Related parties</i>		
P-1	2,426.9	3,157.4
<i>External parties</i>		
P-1	319.4	441.4
P-2	84.3	52.1
P-3	31.7	-
Not rated	4.9	-
	440.3	493.5
	2,867.2	3,650.9

The table below analyses the types and fair value of securities purchased under reverse repo agreements:

	2018	2018	2018	2017	2017	2017
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
	Related parties	External parties	Total	Related parties	External parties	Total
USD Treasury bills	69.7	149.3	219.0	1,807.1	242.2	2,049.3
European government bonds	2,121.0	32.9	2,153.9	905.2	27.3	932.5
Japanese government bonds	228.7	-	228.7	423.6	-	423.6
USD corporate bonds	-	96.6	96.6	-	66.4	66.4
European corporate bonds	-	132.5	132.5	-	124.7	124.7
Japanese corporate equity	-	22.6	22.6	-	27.7	27.7
	2,419.4	433.9	2,853.3	3,135.9	488.3	3,624.2
Carrying value	2,426.9	440.3	2,867.2	3,157.4	493.5	3,650.9
Over/(under)collateralised	(7.5)	(6.4)	(13.9)	(21.5)	(5.2)	(26.7)

In order to cover the residual credit risk, the Group held additional cash collateral from external customers amounting to \$6.3m (2017: \$nil)

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These underlying securities had the following long-term ratings at the reporting date:

<i>Group and Company</i> <i>S&amp;P rating</i>	2018 US\$m Related parties	2018 US\$m External parties	2018 US\$m Total	2017 US\$m Related parties	2017 US\$m External parties	2017 US\$m Total
AAA	826.6	17.4	844.0	547.8	31.2	579.0
AA+	69.7	147.6	217.3	1,807.1	242.6	2,049.7
AA	1,294.4	19.8	1,314.2	357.4	-	357.4
AA-	-	12.1	12.1	-	6.0	6.0
A+	228.7	18.8	247.5	423.6	15.8	439.4
A	-	21.9	21.9	-	24.4	24.4
A-	-	108.9	108.9	-	70.5	70.5
BBB+	-	47.8	47.8	-	20.9	20.9
BBB	-	4.9	4.9	-	20.8	20.8
BBB-	-	1.8	1.8	-	9.0	9.0
Not rated	-	32.9	32.9	-	47.1	47.1
	<u>2,419.4</u>	<u>433.9</u>	<u>2,853.3</u>	<u>3,135.9</u>	<u>488.3</u>	<u>3,624.2</u>

<i>Group and Company</i> <i>Moody's rating</i>	2018 US\$m Related parties	2018 US\$m External parties	2018 US\$m Total	2017 US\$m Related parties	2017 US\$m External parties	2017 US\$m Total
Aaa	896.3	165.0	1,061.3	2,354.9	273.8	2,628.7
Aa2	1,220.0	28.5	1,248.5	357.4	2.2	359.6
Aa3	74.4	3.2	77.6	-	6.0	6.0
A1	228.7	118.0	346.7	423.6	80.9	504.5
A2	-	7.5	7.5	-	5.3	5.3
A3	-	35.8	35.8	-	11.2	11.2
Baa1	-	35.4	35.4	-	19.7	19.7
Baa2	-	13.6	13.6	-	16.6	16.6
Baa3	-	2.9	2.9	-	13.9	13.9
Not rated	-	24.0	24.0	-	58.7	58.7
	<u>2,419.4</u>	<u>433.9</u>	<u>2,853.3</u>	<u>3,135.9</u>	<u>488.3</u>	<u>3,624.2</u>

**Derivatives**

The Group's credit exposure on derivatives arises from the risk of non-performance of its counterparties in fulfilling their contractual obligations pursuant to its derivative transactions. The risk of non-performance can be directly impacted by volatile or illiquid trading markets, which may impair the counterparties' abilities to satisfy their obligations. The notional or contractual values of agreements do not represent exposure to credit risk, which is limited to the current cost of replacing the contracts with a positive market value.

The tables below analyse the carrying value of derivative assets before reserves by long-term credit rating, in line with long-term contractual durations of these instruments:

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<i>ScP</i>	Group		Company	
	2018 US\$m	2017 US\$m (restated)	2018 US\$m	2017 US\$m (restated)
<i>Related parties</i>				
A	4,685.8	4,779.1	4,670.6	4,766.4
Unrated	4.1	2.5	4.1	2.5
	<u>4,689.9</u>	<u>4,781.6</u>	<u>4,674.7</u>	<u>4,768.9</u>
<i>External parties</i>				
AAA	0.2	73.1	0.2	73.1
AA+	0.7	1.0	0.7	-
AA-	37.6	107.0	37.6	107.0
A+	98.2	142.8	98.2	142.8
A	121.2	99.2	121.2	99.2
A-	67.5	95.4	67.5	95.4
BBB+	633.3	155.3	633.3	155.3
BBB	-	21.5	-	21.5
BBB-	0.2	0.7	0.2	0.7
BB+	1.4	4.3	1.4	4.3
BB	0.4	1.7	0.4	1.7
BB-	0.3	-	0.3	-
Unrated	1,308.9	1,579.8	1,308.9	1,579.8
	<u>2,269.9</u>	<u>2,281.8</u>	<u>2,269.9</u>	<u>2,280.8</u>
	<u>6,959.8</u>	<u>7,063.4</u>	<u>6,944.6</u>	<u>7,049.7</u>



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	Group		Company	
	2018 US\$m	2017 US\$m (restated)	2018 US\$m	2017 US\$m (restated)
<i>Moody's</i>				
<i>Related parties</i>				
A1	4,685.8	4,779.1	4,670.6	4,766.4
Unrated	4.1	2.5	4.1	2.5
	<u>4,689.9</u>	<u>4,781.6</u>	<u>4,674.7</u>	<u>4,768.9</u>
<i>External parties</i>				
Aaa	0.2	73.1	0.2	73.1
Aa1	1.4	1.0	1.4	-
Aa2	89.5	8.9	89.5	8.9
Aa3	26.9	191.6	26.9	191.6
A1	113.4	134.3	113.4	134.3
A2	137.6	34.2	137.6	34.2
A3	196.9	211.6	196.9	211.6
Baa1	26.9	27.3	26.9	27.3
Baa2	63.3	21.1	63.3	21.1
Baa3	0.3	2.5	0.3	2.5
Ba1	384.0	6.0	384.0	6.0
Ba2	0.4	-	0.4	-
Ba3	0.3	-	0.3	-
Unrated	1,228.8	1,570.2	1,228.8	1,570.2
	<u>2,269.9</u>	<u>2,281.8</u>	<u>2,269.9</u>	<u>2,280.8</u>
	<u>6,959.8</u>	<u>7,063.4</u>	<u>6,944.6</u>	<u>7,049.7</u>

As of 31 December 2018, the Group held cash collateral from SMBC's branches amounting to \$2,718.9 million (2017: \$2,738.0 million), SMBC Europe amounting to \$nil (2017: \$66.0 million) and SMBC Malaysia Berhad amounting to \$0.4 million (2017: \$0.7 million). Cash collateral from unaffiliated counterparties amounted to \$158.1 million (2017: \$139.3 million).

**Other trading assets**

Other trading assets include an exposure to external counterparties rated BBB and lower by S&P or unrated amounting as at 31 December 2018 to \$53.3 million (2017: \$53.0 million).

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**b) Credit risk concentration**

Management determines concentrations of counterparty credit risk in accordance with Bank for International Settlements guidance ('BIS Rules'). Management does not believe that the Group is exposed to significant concentrations of risk identified by currency or product. The notes below analyse concentration of credit risk by geographical areas.

**Geographical analysis**

Below is a geographical analysis of cash at banks by their countries of operation:

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
UK	93.9	47.4	93.9	47.4
Japan	603.4	640.2	586.9	623.8
USA	44.2	36.1	39.4	31.1
Other	98.0	122.3	0.1	-
	<u>839.5</u>	<u>846.0</u>	<u>720.3</u>	<u>702.3</u>

Geographical analysis of trading securities is based on the countries of the issuers:

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
UK	33.6	22.0	11.1	7.3
France	77.8	18.5	77.8	18.5
Germany	128.9	68.5	128.9	68.5
Japan	442.0	506.4	442.0	501.1
Netherlands	55.3	81.3	50.3	73.3
USA	808.8	91.4	745.9	41.4
Other	343.9	588.1	316.8	574.2
	<u>1,890.3</u>	<u>1,376.2</u>	<u>1,772.8</u>	<u>1,284.3</u>

Geographical analysis of reverse repos is based on the countries of the customers:

Group and Company	2018 US\$m	2017 US\$m
UK	285.0	192.0
Japan	2,400.6	3,163.5
USA	175.9	295.3
Other	5.7	0.1
	<u>2,867.2</u>	<u>3,650.9</u>

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Derivative assets before reserves are analysed by reference to the countries of the customers:

	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
UK	1,540.1	1,447.0	1,540.1	1,447.0
Japan	2,487.2	2,629.4	2,487.2	2,629.4
USA	2,211.7	2,122.2	2,196.4	2,109.5
Other	720.8	864.8	720.9	863.8
	<u>6,959.8</u>	<u>7,063.4</u>	<u>6,944.6</u>	<u>7,049.7</u>

**c) Impairment**

At the reporting date, the Group had no financial assets which were credit-impaired or which credit risk had significantly increased since initial recognition.

**iv) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities, at a reasonable cost. The Group and the Company have no unfunded forward commitments in the one year period.

The tables below show maturities of undiscounted contractual cash flows in respect of financial liabilities of the Group and Company.

As at 31 December 2018	Carrying value	On demand	Less than 1 year	1-5 years	More than 5 years	Total
<b>Group</b>						
<b>Non-derivative financial liabilities</b>						
Trading securities sold, not yet purchased <sup>1</sup>	548.2	338.5	210.1	-	-	548.6
Trading liabilities, at fair value <sup>2</sup>	192.8	-	1.0	14.2	177.6	192.8
Securities sold under agreement to repurchase	2,287.8	1,674.6	610.4	-	-	2,285.0
Other creditors	3,483.0	4.9	629.2	1,494.5	1,360.3	3,488.9
	<u>6,511.8</u>	<u>2,018.0</u>	<u>1,450.7</u>	<u>1,508.7</u>	<u>1,537.9</u>	<u>6,515.3</u>
<b>Derivative financial liabilities</b>						
Derivative liabilities (excluding reserves and guarantee liabilities) <sup>2</sup>	6,908.4	-	566.1	2,088.6	4,253.7	6,908.4

<sup>1</sup>The maturities of trading security liabilities were derived from the respective reverse repo contracts which provided the securities to sell.

<sup>2</sup>The maturities of trading liabilities and derivative liabilities were prepared using their present values rather than undiscounted cash flows.

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As at 31 December 2018	Carrying value	On demand	Less than 1 year	1-5 years	More than 5 years	Total
<b>Company</b>						
<b>Non-derivative financial liabilities</b>						
Trading securities sold, not yet purchased <sup>1</sup>	548.2	338.5	210.1	-	-	548.6
Trading liabilities, at fair value <sup>2</sup>	192.8	-	1.0	14.2	177.6	192.8
Securities sold under agreement to repurchase	2,287.8	1,674.6	610.4	-	-	2,285.0
Other creditors	3,477.7	4.9	625.7	1,494.5	1,360.3	3,485.4
	6,506.5	2,018.0	1,447.2	1,508.7	1,537.9	6,511.8
<b>Derivative financial liabilities</b>						
Derivative liabilities (excluding reserves and guarantee liabilities) <sup>2</sup>	6,893.5	-	566.1	2,086.2	4,241.2	6,893.5

As at 31 December 2017	Carrying value	On demand	Less than 1 year	1-5 years	More than 5 years	Total
<b>Group</b>						
<b>Non-derivative financial liabilities</b>						
Trading securities sold, not yet purchased <sup>1</sup>	681.8	283.8	398.0	-	-	681.8
Trading liabilities, at fair value <sup>2</sup>	176.0	-	0.4	13.8	161.8	176.0
Securities sold under agreement to repurchase	2,998.0	-	3,004.4	-	-	3,004.4
Other creditors	3,538.2	22.0	655.4	1,258.2	1,606.6	3,542.2
	7,394.0	305.8	4,058.2	1,272.0	1,768.4	7,404.4
<b>Derivative financial liabilities</b>						
Derivative liabilities (excluding reserves and guarantee liabilities) <sup>2</sup>	6,975.6	-	456.0	2,267.2	4,252.4	6,975.6

<sup>1</sup>The maturities of trading security liabilities were derived from the respective reverse repo contracts which provided the securities to sell.

<sup>2</sup>The maturities of trading liabilities and derivative liabilities were prepared using their present values rather than undiscounted cash flows.

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As at 31 December 2017	Carrying value	On demand	Less than 1 year	1-5 years	More than 5 years	Total
<b>Company</b>						
<b>Non-derivative financial liabilities</b>						
Trading securities sold, not yet purchased <sup>1</sup>	681.8	283.8	398.0	-	-	681.8
Trading liabilities, at fair value <sup>2</sup>	176.0	-	0.4	13.8	161.8	176.0
Securities sold under agreement to repurchase	2,998.0	-	3,004.4	-	-	3,004.4
Other creditors	3,535.1	22.0	651.8	1,258.2	1,606.6	3,538.6
	7,390.9	305.8	4,054.6	1,272.0	1,768.4	7,400.8
<b>Derivative financial liabilities</b>						
Derivative liabilities (excluding reserves and guarantee liabilities) <sup>2</sup>	6,962.2	-	456.0	2,265.0	4,241.2	6,962.2

<sup>1</sup>The maturities of trading security liabilities were derived from the respective reverse repo contracts which provided the securities to sell.

<sup>2</sup>The maturities of trading liabilities and derivative liabilities were prepared using their present values rather than undiscounted cash flows.

**v) Market risk**

All trading instruments are subject to market risk, the potential that future changes in market conditions and other factors may create variation in the value of instruments, due to fluctuations in security prices, as well as interest and foreign exchange rates. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying assets are traded. As the instruments are recognised at fair value, those changes directly affect reported income.

The Group and the Company undertake their derivative business on either an agency basis or back-to-back basis where the market risk arising from customer trades is hedged either with CM Inc, or a market counterparty. Market risk arises in both the primary and the secondary securities business. It is mitigated through the monitoring and enforcing position limits with short unwind periods. Businesses that are subject to market risk limits have these approved annually by the board and these are set out in an official risk appetite statement.

The Group invests its capital in cash deposits, treasury bills, and a portfolio of high quality floating rate notes; through the latter it seeks to earn an interest margin and, when the opportunity arises, to realise a trading profit. In addition, the Group places cash collateral with derivative trading counterparts, upon which it earns overnight interest. The Group has interest-bearing liabilities of cash collateral held on behalf of derivative trading counterparts and inter-group borrowings.

The weighted average yield on the cash deposits was 0.24% as of 31 December 2018 (2017: 0.18%). The weighted average yields as of 31 December 2018 on floating rate notes and U.S. treasury securities were 2.77% and 1.79% (2017: 1.71% and 0.83%) respectively. The Group's sensitivity to interest rates is such that a parallel shift of +/-100bp from year end rates would decrease net assets by \$2.6 million (2017: \$7.1 million) and increase net assets by \$2.6 million (2017: \$7.1 million) respectively.

**vi) Foreign currency risk**

The Group hedges its foreign exchange exposures including GBP expenses and its GBP tax position using forward exchange contracts. Further details of those contracts are disclosed in note 12.

**vii) Operational risk**

Operational risk is the "risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events".

The primary objective of the Group's and the Company's operational risk management framework is to minimise the occurrence and impact of operational risk events, in particular avoiding extreme events, in order to support the Group's achievement of its strategic objectives.

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Operational Risk encompasses areas such as transaction operations, premises and security, external suppliers, payment processes, information, data quality and records management. In accordance with market practice, the Group also recognises the importance of ramifications of the way in which the Group operates its business, which might potentially lead to conduct risk failures. Consequences could be regulatory actions including fines, public reprimands, damage to reputation, increased prudential requirements, enforced temporary or permanent suspension of operations and, in extreme cases, withdrawal of authorisation to operate.

The Group has a number of operational risk management specific processes in place, including use of KRIs. The Group recognises the benefits of using scenario analysis to assess and manage the exposure to high severity, low frequency events in order to determine the nature of operational risk losses which could potentially arise in the future.

**21. Offsetting financial assets and financial liabilities**

The disclosure set out in the following tables include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The tables below disclose the potential effect of netting arrangements on financial assets and liabilities that do not meet the offsetting criteria and related collateral. The offset amounts have been capped for each counterparty as follows:

- Trading balances: at the lower of assets and liabilities;
- Cash collateral: at the net balance after offsetting assets and liabilities;
- Non-cash collateral: at the residual balance after offsetting assets, liabilities and cash collateral.

At 31 December 2018	Amounts of recognised financial assets / liabilities US\$m	Amounts that do not meet the offsetting criteria US\$m	Capped cash collateral US\$m	Capped non-cash collateral US\$m	Net amount US\$m
<b>Group</b>					
Derivative assets (excluding reserves)	6,959.8	(3,720.9)	(1,125.8)	(630.6)	1,482.5
Reverse repurchase agreements	2,869.0	(321.1)	-	(2,534.7)	13.2
	<u>9,828.8</u>	<u>(4,042.0)</u>	<u>(1,125.8)</u>	<u>(3,165.3)</u>	<u>1,495.7</u>
Derivative liabilities (excluding reserves and guarantees)	6,908.4	(3,720.9)	(2,231.0)	-	956.5
Repurchase agreements	2,289.6	(321.1)	(0.1)	(1,960.0)	8.4
	<u>9,198.0</u>	<u>(4,042.0)</u>	<u>(2,231.1)</u>	<u>(1,960.0)</u>	<u>964.9</u>

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**Company**

Derivative assets (excluding reserves)	6,944.6	(3,705.7)	(1,125.8)	(630.6)	1,482.5
Reverse repurchase agreements	2,869.0	(321.1)	-	(2,534.7)	13.2
	9,813.6	(4,026.8)	(1,125.8)	(3,165.3)	1,495.7

Derivative liabilities (excluding reserves and guarantees)	6,893.5	(3,705.7)	(2,231.0)	-	956.8
Repurchase agreements	2,289.6	(321.1)	(0.1)	(1,960.0)	8.4
	9,183.1	(4,026.8)	(2,231.1)	(1,960.0)	965.2

**As at 31 December 2017**

Amounts of recognised financial assets / liabilities US\$m	Amounts that do not meet the offsetting criteria US\$m	Capped cash collateral US\$m	Capped non-cash collateral US\$m	Net amount US\$m
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**Group**

Derivative assets (excluding reserves)	7,063.4	(3,528.6)	(1,351.3)	(404.4)	1,779.1
Reverse repurchase agreements	3,650.9	(434.4)	-	(3,189.0)	27.5
	10,714.3	(3,963.0)	(1,351.3)	(3,593.4)	1,806.6

Derivative liabilities (excluding reserves and guarantees)	6,975.6	(3,528.6)	(2,913.9)	-	533.1
Repurchase agreements	2,998.0	(434.4)	(18.7)	(2,538.5)	6.4
	9,973.6	(3,963.0)	(2,932.6)	(2,538.5)	539.5

**Company**

Derivative assets (excluding reserves)	7,049.7	(3,515.8)	(1,351.3)	(404.4)	1,778.2
Reverse repurchase agreements	3,650.9	(434.4)	-	(3,189.0)	27.5
	10,700.6	(3,950.2)	(1,351.3)	(3,593.4)	1,805.7

Derivative liabilities (excluding reserves and guarantees)	6,962.2	(3,515.8)	(2,913.9)	-	532.5
Repurchase agreements	2,998.0	(434.4)	(18.7)	(2,538.5)	6.4
	9,960.2	(3,950.2)	(2,932.6)	(2,538.5)	538.9

**22. Fair value hierarchy**

When available, the Group uses quoted market prices to determine fair value, and classifies such items within Level 1. Trading securities are classified in Level 1 of the fair value hierarchy since they are valued using quoted market prices.

In some cases where no market price is available the Group will make use of acceptable practical expedients such as matrix pricing to calculate fair value, in which case the items are classified within Level 2.

If quoted market prices are not available, fair value is based upon internally developed models that use current independently sourced market parameters such as interest rates, exchange rates and option volatilities, the valuation model used depends upon the specific asset or liability being valued. The determination of fair value considers various factors, including interest rate yield curves, time value and volatility factors, underlying options and derivatives and price activity for equivalent synthetic instruments.

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The majority of derivative transactions entered into by the Group are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying reference instrument. The principal techniques used to value these instruments are discounted cash flows, Black-Scholes and Monte Carlo simulation.

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, exchange rates, the spot price of the underlying instrument and volatility. A given position is categorised as Level 2 or Level 3 depending on the observability of the significant inputs to the model. Where a valuation incorporates material inputs that are not based on observable market data, it will be classified as Level 3. Unobservable inputs are determined with reference to observable inputs, historical observations (of, for example, correlations) or the use of other analytical techniques.

Fair values of financial instruments measured at amortised cost approximate their carrying values.

The following tables present the fair value hierarchy of financial assets and liabilities, measured at fair value in the statement of financial position, at 31 December 2018 and 31 December 2017:

At 31 December 2018	Level 1 US\$m	Level 2 US\$m	Level 3 <sup>*</sup> US\$m	Total US\$m
<b>Group</b>				
<b>Financial assets</b>				
Trading securities	1,890.3	-	-	1,890.3
Derivative assets	-	6,934.0	3.4	6,937.4
Other trading assets	-	116.7	3.2	119.9
	1,890.3	7,050.7	6.6	8,947.6
<b>Financial liabilities</b>				
Trading securities	548.2	-	-	548.2
Derivative liabilities	-	6,917.6	3.4	6,921.0
Other trading liabilities	-	189.7	3.1	192.8
	548.2	7,107.3	6.5	7,662.0
<b>Company</b>				
<b>Financial assets</b>				
Trading securities	1,772.8	-	-	1,772.8
Derivative assets	-	6,918.8	3.4	6,922.2
Other trading assets	-	116.7	3.2	119.9
	1,772.8	7,035.5	6.6	8,814.9
<b>Financial liabilities</b>				
Trading securities	548.2	-	-	548.2
Derivative liabilities	-	6,903.6	3.4	6,907.0
Other trading liabilities	-	189.7	3.1	192.8
	548.2	7,093.3	6.5	7,648.0

*\* At 31 December 2018, amounts classified as Level 3 comprised vanilla derivative trades whose notional size is expected to be reduced before the maturity date (e.g. through syndication of the trade). A reserve has therefore been created in respect of the future cash flows that are not expected to occur as a result of the reduction to the notional trade size. The derivative trades are vanilla swaps valued using inputs that are readily observable in the market, except only for the expected notional size reduction which is an internally known factor and is not therefore an externally 'observable' factor. Under IFRS 13, the value of the 'unobservable' reserve and the observable mark-to-market valuation of the underlying trade are considered as one accounting 'unit', and, where the reserve represents a significant portion of the total value of the unit, the entire unit is classified as Level 3.*



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At 31 December 2017	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
<b>Group</b>				
<b>Financial assets</b>				
Trading securities	1,376.2	-	-	1,376.2
Derivative assets	-	6,971.0	65.7	7,036.7
Other trading assets	-	76.6	-	76.6
	1,376.2	7,047.6	65.7	8,489.5
<b>Financial liabilities</b>				
Trading securities	681.8	-	-	681.8
Derivative liabilities	-	7,005.2	-	7,005.2
Other trading liabilities	-	176.0	-	176.0
	681.8	7,181.2	-	7,863.0
<b>Company</b>				
<b>Financial assets</b>				
Trading securities	1,284.3	-	-	1,284.3
Derivative assets	-	6,957.3	65.7	7,023.0
Other trading assets	-	76.6	-	76.6
	1,284.3	7,033.9	65.7	8,383.9
<b>Financial liabilities</b>				
Trading securities	681.8	-	-	681.8
Derivative liabilities	-	6,992.5	-	6,992.5
Other trading liabilities	-	176.0	-	176.0
	681.8	7,168.5	-	7,850.3

Transfers between levels are effective as at the end of the reporting period in which they occur. The following table provides a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the years ended 31 December 2018 and 31 December 2017.

Year ended 31 December 2018	January 1, 2018 US\$m	Transfers in/(out) US\$m	Settlements US\$m	Realised gains/(losses) US\$m	Unrealised gains/(losses) US\$m	December 31, 2018 US\$m
<b>Assets:</b>						
Interest rate swaps	65.7	3.4	(64.6)	(1.1)	-	3.4
Other trading instruments	-	3.2	-	-	-	3.2
Total assets at fair value	65.7	6.6	(64.6)	(1.1)	-	6.6
<b>Liabilities:</b>						
Interest rate swaps	-	3.4	-	-	-	3.4
Other trading instruments	-	3.1	-	-	-	3.1
Total liabilities at fair value	-	6.5	-	-	-	6.5

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Year ended 31 December 2017	January 1, 2017 US\$m	Transfers in/(out) US\$m	Settlements US\$m	Realised gains/(losses) US\$m	Unrealised gains/(losses) US\$m	December 31, 2017 US\$m
Assets:						
Interest rate swaps	78.7	78.7	-	-	(13.0)	65.7
Total assets at fair value	78.7	78.7	-	-	(13.0)	65.7

The following table provides information about significant unobservable inputs for Level 3 fair value measurements:

Instrument	Valuation techniques	Unobservable inputs
Interest rate swaps	Internal swap model	2018: Expected reduction to notional size before maturity 2017: Amortisation schedule of reference bonds
Other trading instruments	Internal swap model	Expected reduction to notional size before maturity

The Product Control department is responsible for the valuation policies and procedures. This department is responsible for running daily valuations and risks on the Company's derivatives portfolio, and reports into the Chief Financial Officer. The Company's Risk Management department is responsible for managing model risk and its related policies and procedures. It reports into the Chief Risk Officer. As all models are owned by the front office under supervision and reporting lines of the Head Trader, independence in the validation process is maintained. All changes in existing models are reported to the Risk Management department and approved by the Model Validation Group ("MVG"). Model use and changes to models are approved by Global Risk Management Committee ("GRMC"), to which the MVG makes its recommendations. The GRMC broader membership extends to include representatives from the Group, which also supports independence within the validation process. Pricing models are validated based on assigned tiers. Tier 1 models are validated annually, Tier 2 models are validated every 2 years and Tier 3 models are validated every 3 years. Stress tests are run on a weekly/monthly basis.

### 23. Classification of financial assets and financial liabilities

Classification of financial instruments at the reporting date is done in accordance with the categories of IFRS 9 Financial Instruments.

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**Group**

**As at 31 December 2018**

	Amortised cost US\$m	FVTPL* US\$m	Total US\$m
<b>Assets</b>			
Cash at banks	839.5	-	839.5
Trading securities	-	1,890.3	1,890.3
Other trading assets, at fair value	-	119.9	119.9
Derivative assets	-	6,937.4	6,937.4
Securities purchased under agreements to resell	2,867.2	-	2,867.2
Other debtors	2,485.5	-	2,485.5
<b>Total assets</b>	<b>6,192.2</b>	<b>8,947.6</b>	<b>15,139.8</b>
<b>Liabilities</b>			
Derivative liabilities	-	6,921.0	6,921.0
Other trading liabilities, at fair value	-	192.8	192.8
Trading securities sold, not yet purchased	-	548.2	548.2
Securities sold under agreements to repurchase	2,287.8	-	2,287.8
Other creditors	3,483.0	-	3,483.0
<b>Total liabilities</b>	<b>5,770.8</b>	<b>7,662.0</b>	<b>13,432.8</b>

**Company**

**As at 31 December 2018**

	Amortised cost US\$m	FVTPL* US\$m	Total US\$m
<b>Assets</b>			
Cash at banks	720.3	-	720.3
Trading securities	-	1,772.8	1,772.8
Other trading assets, at fair value	-	119.9	119.9
Derivative assets	-	6,922.2	6,922.2
Securities purchased under agreements to resell	2,867.2	-	2,867.2
Other debtors	2,474.6	-	2,474.6
<b>Total assets</b>	<b>6,062.1</b>	<b>8,814.9</b>	<b>14,877.0</b>
<b>Liabilities</b>			
Derivative liabilities	-	6,907.0	6,907.0
Other trading liabilities, at fair value	-	192.8	192.8
Trading securities sold, not yet purchased	-	548.2	548.2
Securities sold under agreements to repurchase	2,287.8	-	2,287.8
Other creditors	3,477.7	-	3,477.7
<b>Total liabilities</b>	<b>5,765.5</b>	<b>7,648.0</b>	<b>13,413.5</b>

\* Fair value through profit or loss

As permitted by IFRS 9, classification of financial instruments at the previous reporting date is prepared in accordance with IAS 39 Financial Instruments.

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<b>Group</b>	<b>Loans and receivables</b>	<b>Held for trading</b>	<b>Other financial liabilities</b>	<b>Total</b>
<b>As at 31 December 2017</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Financial assets measured at fair value</b>				
Trading securities	-	1,376.2	-	1,376.2
Derivative assets	-	7,036.7	-	7,036.7
Other trading assets, at fair value	-	76.6	-	76.6
	-	8,489.5	-	8,489.5
<b>Financial assets not measured at fair value</b>				
Cash at banks	846.0	-	-	846.0
Securities purchased under agreements to resell	3,650.9	-	-	3,650.9
Other debtors	3,087.2	-	-	3,087.2
	7,584.1	-	-	7,584.1
<b>Financial liabilities measured at fair value</b>				
Derivative liabilities	-	7,005.2	-	7,005.2
Trading liabilities, at fair value	-	176.0	-	176.0
Trading securities sold, not yet purchased	-	681.8	-	681.8
	-	7,863.0	-	7,863.0
<b>Financial liabilities not measured at fair value</b>				
Securities sold under agreements to repurchase	-	-	2,998.0	2,998.0
Other creditors	-	-	3,538.2	3,538.2
	-	-	6,536.2	6,536.2

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Company	Loans and receivables	Held for trading	Other financial liabilities	Total
As at 31 December 2017	US\$m	US\$m	US\$m	US\$m
Financial assets measured at fair value				
Trading securities	-	1,284.3	-	1,284.3
Derivative assets	-	7,023.0	-	7,023.0
Other trading assets, at fair value	-	76.6	-	76.6
	-	8,383.9	-	8,383.9
Financial assets not measured at fair value				
Cash at banks	702.3	-	-	702.3
Securities purchased under agreements to resell	3,650.9	-	-	3,650.9
Other debtors	3,089.1	-	-	3,089.1
	7,442.3	-	-	7,442.3
Financial liabilities measured at fair value				
Derivative liabilities	-	6,992.5	-	6,992.5
Trading liabilities, at fair value	-	176.0	-	176.0
Trading securities sold, not yet purchased	-	681.8	-	681.8
	-	7,850.3	-	7,850.3
Financial liabilities not measured at fair value				
Securities sold under agreements to repurchase	-	-	2,998.0	2,998.0
Other creditors	-	-	3,535.1	3,535.1
	-	-	6,533.1	6,533.1

**24. Transition to IFRS 9**

As explained in note 1 Accounting policies, the Group adopted IFRS 9 Financial Instruments on 1 January 2018. The adoption did not result in reclassifications of financial instruments between measurement categories, i.e. amortised cost, fair value through profit or loss and fair value through other comprehensive income. The impairment provision on transition, amounting to less than \$0.1 million, was considered immaterial and not adjusted for.

As permitted by IFRS 9, the Group did not restate its comparative information. Accordingly, financial instrument at the reporting date are presented under IFRS 9 and at the previous reporting date under IAS 39.

The tables below reconcile the categories and amounts on transition date between IAS 39 and IFRS 9.

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Group As at 1 January 2018	IAS 39 value US\$m	IFRS 9 category		
		Amortised cost US\$m	FVTPL* US\$m	Total US\$m
IAS 39 category				
Financial assets				
Loans and receivables				
Cash at banks	846.0	846.0	-	846.0
Securities purchased under agreements to resell	3,650.9	3,650.9	-	3,650.9
Other debtors	3,087.2	3,087.2	-	3,087.2
	<u>7,584.1</u>	<u>7,584.1</u>	-	<u>7,584.1</u>
Held for trading				
Trading securities	1,376.2	-	1,376.2	1,376.2
Other trading assets, at fair value	76.6	-	76.6	76.6
Derivative assets	7,036.7	-	7,036.7	7,036.7
	<u>8,489.5</u>	-	<u>8,489.5</u>	<u>8,489.5</u>
	<u>16,073.6</u>	<u>7,584.1</u>	<u>8,489.5</u>	<u>16,073.6</u>
Financial liabilities				
Measured at amortised cost				
Securities sold under agreements to repurchase	2,998.0	2,998.0	-	2,998.0
Other creditors	3,538.2	3,538.2	-	3,538.2
	<u>6,536.2</u>	<u>6,536.2</u>	-	<u>6,536.2</u>
Held for trading				
Derivative liabilities	7,005.2	-	7,005.2	7,005.2
Other trading liabilities, at fair value	176.0	-	176.0	176.0
Trading securities sold, not yet purchased	681.8	-	681.8	681.8
	<u>7,863.0</u>	-	<u>7,863.0</u>	<u>7,863.0</u>
	<u>14,399.2</u>	<u>6,536.2</u>	<u>7,863.0</u>	<u>14,399.2</u>

\* Fair value through profit or loss

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Company	IAS 39 value US\$m	IFRS 9 category		
		Amortised cost US\$m	FVTPL* US\$m	Total US\$m
<b>As at 1 January 2018</b>				
IAS 39 category				
Financial assets				
Loans and receivables				
Cash at banks	702.3	702.3	-	702.3
Securities purchased under agreements to resell	3,650.9	3,650.9	-	3,650.9
Other debtors	3,089.1	3,089.1	-	3,089.1
	<u>7,442.3</u>	<u>7,442.3</u>	<u>-</u>	<u>7,442.3</u>
Held for trading				
Trading securities	1,284.3	-	1,284.3	1,284.3
Other trading assets, at fair value	76.6	-	76.6	76.6
Derivative assets	7,023.0	-	7,023.0	7,023.0
	<u>8,383.9</u>	<u>-</u>	<u>8,383.9</u>	<u>8,383.9</u>
	<u>15,826.2</u>	<u>7,442.3</u>	<u>8,383.9</u>	<u>15,826.2</u>
Financial liabilities				
Measured at amortised cost				
Securities sold under agreements to repurchase	2,998.0	2,998.0	-	2,998.0
Other creditors	3,535.1	3,535.1	-	3,535.1
	<u>6,533.1</u>	<u>6,533.1</u>	<u>-</u>	<u>6,533.1</u>
Held for trading				
Derivative liabilities	6,992.5	-	6,992.5	6,992.5
Other trading liabilities, at fair value	176.0	-	176.0	176.0
Trading securities sold, not yet purchased	681.8	-	681.8	681.8
	<u>7,850.3</u>	<u>-</u>	<u>7,850.3</u>	<u>7,850.3</u>
	<u>14,383.4</u>	<u>6,533.1</u>	<u>7,850.3</u>	<u>14,383.4</u>

\* Fair value through profit or loss

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**25. Obligations under operating leases**

Annual commitments under non-cancellable operating leases at the reporting date are as follows:

Group	Land and buildings	Other	Land and buildings	Other
	2018 US\$m	2018 US\$m	2017 US\$m	2017 US\$m
Operating leases which expire:				
Within one year	6.4	0.1	4.8	0.1
Between two and five years	8.1	0.1	8.3	0.2
Over five years	0.1	-	0.5	-
	<u>14.6</u>	<u>0.2</u>	<u>13.6</u>	<u>0.3</u>
<b>Company</b>				
	Land and buildings	Other	Land and buildings	Other
	2018 US\$m	2018 US\$m	2017 US\$m	2017 US\$m
Operating leases which expire:				
Within one year	5.1	0.1	4.1	0.1
Between two and five years	6.4	0.1	6.5	0.2
Over five years	-	-	-	-
	<u>11.5</u>	<u>0.2</u>	<u>10.6</u>	<u>0.3</u>

As disclosed in note 1, some operating leases will be recognised in the statement of financial position from 1 January 2019 due to the adoption of IFRS 16.

**26. Regulatory capital**

The primary objective of the Group's and the Company's capital management is to ensure compliance with capital requirements imposed by external regulators. Regulatory capital comprises ordinary share capital, share premium, retained earnings (including externally verified interim profits) as common equity tier 1 capital ("CET1") and perpetual non-cumulative preference shares qualifying as additional tier 1 capital ("AT1"). Balance sheet assets and some off-balance sheet items are assigned regulatory risk weights to arrive at the total risk exposure. The business must maintain capital ratios, a proportion of relevant capital to total risk weighted assets ("RWA"), above minimum thresholds.

Regulatory capital, risk weighted assets and capital ratios are summarised below:



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	Group		Company	
	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
<i>Common equity tier 1 (CET1) capital</i>				
Called up share capital	779.0	779.0	779.0	779.0
Share premium	165.0	165.0	165.0	165.0
Retained earnings	425.9	382.2	384.3	352.5
Other reserves	(2.6)	(0.9)	(2.6)	(0.9)
	<u>1,367.3</u>	<u>1,325.3</u>	<u>1,325.7</u>	<u>1,295.6</u>
<i>CET1 regulatory adjustments</i>				
Intangible assets	(7.2)	(2.0)	(7.2)	(2.0)
Cash flow hedges	1.5	(0.5)	1.5	(0.5)
Other	(44.3)	(28.5)	(43.3)	(27.8)
CET1 instruments of financial sector entities where the institution has a significant investment	-	-	(73.6)	(38.1)
	<u>(50.0)</u>	<u>(31.0)</u>	<u>(122.6)</u>	<u>(68.4)</u>
<i>Total CET1 capital</i>	<u>1,317.3</u>	<u>1,294.3</u>	<u>1,203.1</u>	<u>1,227.2</u>
<i>Additional tier 1 (AT1) capital</i>				
Perpetual non-cumulative preference shares	360.0	360.0	360.0	360.0
Other adjustments	-	-	-	(38.1)
	<u>360.0</u>	<u>360.0</u>	<u>360.0</u>	<u>321.9</u>
<i>Total regulatory capital</i>	<u>1,677.3</u>	<u>1,654.3</u>	<u>1,563.1</u>	<u>1,549.1</u>
Risk-weighted assets (unaudited)	4,100.1	3,940.9	4,228.2	4,004.0
CET1 capital ratio (unaudited)	32.1%	32.8%	28.5%	30.6%
Total capital ratio (unaudited)	40.9%	42.0%	37.0%	38.7%

The capital adequacy is monitored daily using the rules and ratios established by the BIS rules and enacted through the European Union's Capital Requirement Regulation ("CRR").

The CRR, enacted to codify the Basel III Accord, was designed to promote safety and soundness in the European financial system. It requires authorised and regulated financial institutions to maintain appropriate levels of capital to cover the risks inherent in their business model. Basel III is a supervisory framework for risk and capital management and is structured on the basis of three pillars.

Pillar 1 specifies minimum capital requirements.

Pillar 2 describes the supervisory review process by the regulators and outlines the internal capital adequacy assessment process ("ICAAP") required of firms applying methodologies that are deemed appropriate by firms to assess capital adequacy.

Pillar 3 requires disclosure of risk and capital information to the market. These disclosures can be found on the SMBC Capital Markets website.

Management believe that the Group and the Company have been in compliance with externally imposed capital requirements throughout the year.

In order to maintain or adjust the capital structure the Group and the Company may adjust its dividend policy or the structure and liquidity of its trading assets and liabilities.

The Group and the Company manages capital so as to ensure that the capital ratio does not fall below 30%.

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**27. Country-by-country reporting**

The table below shows that the majority of the Groups profits are recorded in the United Kingdom, and therefore a higher amount of corporation tax is paid in the United Kingdom. The Group recorded \$59.4 million in profit for 2018 (2017: \$71.8 million) and paid \$18.7 million of corporation tax (2017: \$5.6 million), producing the global cash tax rate (corporation tax paid in the year divided by total profit before tax) of 31% (2017: 8%). The cash tax rate is usually lower than the UK nominal corporation tax rate because the Advanced Pricing Agreement generates a reduction in the tax charge (see note 8 for details). In 2018, the Company made payments in respect of prior years which increased the cash tax rate.

The basis of preparation is as follows:

*Country:* The geographical location of the Group considers the country of incorporation or residence as well as the relevant tax jurisdiction. In this context, the countries applicable will be:

- United Kingdom, where the Company is a majority owned subsidiary of SMBC Tokyo. The profit of the business is generated from trading securities and derivatives and business advisory activities
- Australia, the branch acts as an agent for the Company in the Australian market.
- Hong Kong, CM Asia acts as an agent and intermediary for the Company and its affiliated entities in Asian markets outside of Japan and in Australia

*Turnover:* The Group defines turnover as the sum of the following consolidated income statement items:

- Net trading income
- Interest income
- Interest expense

*Profit before tax:* The definition of profit or loss before tax is consistent with that in the Group's financial statements.

*Corporation Tax Paid:* The cash amount of corporation tax paid in each country in the year.

*Public Subsidies Received:* In the context of CBCR, this is interpreted as direct support by the government. There were no subsidies received by the Group in 2018 (2017: nil).

*Number of Employees:* Employee numbers reported reflect the number of employees on a full time equivalent basis.

*Accounting Framework:* Amounts reported are based on local statutory financial statements, in accordance with applicable law and IFRS (International Financial Reporting Standards), unless another basis has been stated.

**2018:**

<i>Country</i>	Turnover US\$m	Profit/(Loss) before tax US\$m	Corporation tax paid /(refunded) US\$m	Average number of employees
United Kingdom	216.2	50.7	16.4	343
Australia	1.4	0.5	(0.1)	2
Hong Kong	15.6	8.2	2.4	14
	<u>233.2</u>	<u>59.4</u>	<u>18.7</u>	<u>359</u>

**2017:**

<i>Country</i>	Turnover US\$m	Profit/(Loss) before tax US\$m	Corporation tax paid US\$m	Average number of employees
United Kingdom	216.9	62.9	5.6	273
Australia	2.3	1.5	-	2
Hong Kong	14.4	7.4	-	14
	<u>233.6</u>	<u>71.8</u>	<u>5.6</u>	<u>289</u>

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**28. Related party transactions**

	2018 US\$m	2017 US\$m
<b>SMBC - Parent</b>		
Cash at banks	293.6	335.4
Net derivative assets	1,149.5	1,472.0
Trading instruments	33.4	-
Securities collateral received	1,564.5	1,435.5
Cash collateral received	2,713.2	2,738.0
Funding loans	528.5	510.3
Accrued interest payable	5.7	3.0
Accrued expenses payable - credit service fee	0.4	0.5
Other liabilities	0.9	1.2
Guaranteed liabilities	421.2	372.6
(Loss) /gain on derivative instruments	(395.0)	504.8
Interest income	5.0	2.3
Other income	31.4	3.5
Fees and commission on securities trading	0.3	-
Interest expense	66.4	36.3
Fees and commissions paid	9.8	12.0
Other expenses	5.3	3.6
<b>SMBC Nikko Securities - Parent</b>		
Securities purchased under resale agreements	2,401.9	3,157.4
Accrued income receivable	7.6	2.5
Net interest receivable / (payable)	(6.7)	(4.1)
Other receivables - reimbursements	6.5	5.8
Collateral placed	1.0	-
Other payables - securities trading fees	0.2	0.2
Net derivative liabilities	0.7	-
Accrued interest payable	0.7	-
Interest on securities under resale agreements	0.2	19.8
Fees and commission on securities trading	13.3	11.2
Reimbursements	4.0	3.8
Expenses on securities trading	49.8	74.6
Other fees and commissions paid	6.3	5.5
Other expenses	1.2	1.4

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	2018 US\$m	2017 US\$m
<b>SMBC Capital Markets Inc</b>		
Securities purchased under resale agreements	26.5	-
Collateral placed	2,088.9	2,802.9
Independent amount	(310.0)	(310.0)
Accrued interest receivable	3.8	2.7
Other assets - agency fees	0.9	6.3
Trading instruments	23.1	19.8
Net derivative instrument liabilities	1,934.4	2,659.8
Trading loans	17.6	1.3
Securities sold under repurchase agreements	158.5	11.6
Trading instruments liabilities	106.3	112.1
Accrued expenses payable - guarantee fees / agency fees	6.5	16.7
Derivative liabilities	2.0	
Securities pledged by CM Inc.*	180.6	108.9
Interest income	40.5	26.4
Fees and commissions on agency trading	3.7	3.7
Other operating income - guarantee termination / intermediation fees	13.3	39.4
Fees and commissions on securities trading	2.2	-
Gain / (loss) on derivative instruments	596.8	(573.8)
Interest expense	-	2.0
Other fees and commissions paid	0.2	0.2
Other operating expenses	13.2	39.0
<b>SMBC Nikko Securities America Inc.</b>		
Accrued income receivable	0.3	0.8
Other assets	0.8	(0.2)
Accrued expenses payable - securities trading fees / agency fees	(0.4)	0.2
Other liabilities	8.7	1.0
Fees and commission on securities trading	5.3	0.8
Other fees and commissions paid on securities trading	1.3	0.8
Interest expense on securities sold under repurchase agreements	-	0.2
Other operating expenses	0.4	0.5

*\*In the ordinary course of business SMBC DP guarantees the performance of its affiliate, CM Inc, in relation to interest rate caps sold to third parties. To protect itself against the risk, SMBC DP has obtained an indemnity from CM Inc. To support this indemnity CM Inc pledges securities collateral in the form of US Treasury bills. At 31 December 2018, the termination value of guaranteed interest rate cap transactions, against which collateral was held, was \$89.2 million (2017: \$45.7 million). The guarantees are accounted for as financial guarantees.*

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	2018 US\$m	2017 US\$m
<b>Sumitomo Mitsui Banking Corporation Europe Limited</b>		
Cash at banks	4.8	2.3
Collateral placed	34.3	-
Net derivative instrument assets / (liabilities)	(34.7)	58.7
Other liabilities	1.6	1.6
Gain / (loss) on derivative instruments	(69.7)	118.3
Interest income	0.1	-
Other fees and commissions paid	0.6	1.2
Other operating expenses	1.8	1.8
Interest expense	0.1	-
<b>Sumitomo Mitsui Banking Corporation (China) Limited</b>		
Net derivative instrument assets	-	(0.1)
Gain on derivative instruments	-	-
<b>Sumitomo Mitsui Banking Corporation Malaysia Berhad</b>		
Net derivative instrument assets	0.3	0.4
Cash collateral received	0.4	0.7
Gain on derivative instruments	0.1	0.4
<b>SMBC Nikko Securities (Hong Kong) Limited</b>		
Accrued income receivable	1.0	-
Other receivables / (payables)	(0.2)	-
Accrued expenses payable	1.4	-
Other liabilities	0.1	2.4
Fees and commission on securities trading	1.3	-
Other non-personnel expenses	4.5	7.3
Other fees and commissions paid	0.4	-
<b>Nikko Systems Solutions, Ltd.</b>		
Other non-personnel expenses	1.8	1.4

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2018 US\$m	2017 US\$m
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**SMBC Friend Securities**

Expenses on securities trading	-	1.8
Other fees and commissions paid	-	0.1

**SMBC Nikko Securities (Singapore) Pte. Ltd**

Accrued income payable	0.1	-
Other non-personnel expenses	0.4	-

**SMBC Nikko Capital Markets Europe GmbH**

Accrued income receivable	1.7	-
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**DMG MORI Finance GmbH**

Derivative assets	4.0	2.5
Gain / (loss) on derivative instruments	4.1	1.6

**The Bank of East Asia, Limited**

Cash at banks	1.2	0.3
Derivative assets	0.1	-
Gain / (loss) on derivative instruments	0.1	-

Other related parties include a number of unconsolidated structured entities income from which is disclosed in note 33 and the Group's directors which emoluments are disclosed in note 7.

**29. Credit guarantee**

The Group has entered into unconditional guarantee arrangements with SMBC, acting through its Cayman and Tokyo branches, under which SMBC is obliged to make the full and prompt payment of any net termination payment payable to the Group under any of the ISDA Master Agreements with specific guaranteed counterparties.

Fees are payable monthly based on the average value of the guaranteed transactions. The fee has been computed on a fair value basis, discounted to its present value and recorded as a derivative liability on the balance sheet. The present value of these credit guarantees, and the associated fee expense in profit and loss, are set out in the table below:

	2018 US\$m	2017 US\$m	2018 US\$m	2017 US\$m
	Credit guarantee liability	Credit guarantee liability	Fees	Fees
SMBC	54.3	62.4	8.9	10.6

In the case of an agreed termination of an existing guarantee the Group records a CVA reserve to ensure that the value of derivative contracts reflects counterparty credit risk. Consequently the Group will charge a termination fee equating to the CVA for any guarantees cancelled. The APA ensures that these guarantee arrangements are treated as arm's length transactions.

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**30. Financial and other commitments**

In 2017, SMBC and the Group signed an agreement to provide the Group with a \$2.0 billion multi-currency uncommitted facility. At 31 December 2018, \$504.7 million (2017: \$500.1 million) of the facility was utilised.

In 2017, SMBC and the Group also signed an agreement to provide the Group with a JPY300.0 billion uncommitted facility. At 31 December 2018, \$23.7 million (2017: \$10.2 million) of the facility was utilised.

The Group has an earlier agreement with SMBC made in 2010 to provide the Group with a \$250.0 million multi-currency revolving committed facility which can be terminated by either party at six months' notice. For this the Group pays a fee of 0.05% per annum on the undrawn amount of the facility. The facility was not utilised during the current or prior year.

SMBC acts as guarantor for some of the Group's transactions. For this the Group pays a fee based on the notional amount, maturity and deal type for each transaction, as detailed in note 29.

Under a loan agreement dated 18 April 2016, CM Inc. has committed to providing SMBC DP with a \$200.0 million revolving credit facility for a five year period. A commitment fee on the amount of the undrawn facility is payable to CM Inc. until the maturity date of the agreement. At 31 December 2018 and 31 December 2017, the entire facility was unused.

As described in note 28, SMBC DP guarantees interest rate caps of CM Inc. In return, CM Inc. provides an indemnity to SMBC DP supported by collateral in the form of US Treasury bills.

SMBC DP, as an AA-/Aa1 derivative product company, is required by Moody's and S&P to have a Contingent Manager. Under such an agreement, an unaffiliated derivatives dealer would provide portfolio management and other general services to the firm in the event that the long term senior rating of Sumitomo Mitsui Banking Corporation ('the bank') is downgraded to Baa3 or below by Moody's, or the event that the bank's short term rating is downgraded to P-3 or below by Moody's, or the event that the long term senior rating of the bank is downgraded to BB or below by S&P, or the event that the bank's short term rating is downgraded to B or below by S&P. On 7th December 2018, the Contingent Manager Agreement with Blackrock Financial Management, Inc. rolled for twelve months as no notice to terminate was issued by SMBC DP.

**31. Deferred compensation**

During the year, the Company implemented a new remuneration policy in respect of bonus deferrals, in order to prepare for a possible transition to stricter regulations. 20% of the 2018 bonuses of senior employees at Executive Director level and above, whose bonus exceeds 100% of the fixed pay and £100,000 in value, were deferred for a period of two years.

**32. Investment in subsidiary undertakings**

The Company has invested \$200.0 million in the ordinary shares of SMBC Derivative Products Limited, a 100% subsidiary, incorporated in England and Wales, registered office One New Change, London EC4M 9AF, and \$2.0 million in the ordinary shares of SMBC Capital Markets Asia Limited, a 100% subsidiary, incorporated in Hong Kong, registered office 7/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, the results of both of which have been included in these Group financial statements. There were no changes in investments in subsidiary undertakings in the year.

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**33. Sponsored unconsolidated structured entities**

The Group sponsors certain structured entities in which it has no interest. The Group is deemed to be a sponsor of a structured entity when it takes a leading role in determining its purpose and design and provides operational support to ensure its continued operation.

Income from sponsored unconsolidated structured entities, where the Group did not have an interest at the end of the year, amounted to \$5.3 million (2017 – loss of \$0.2 million).

**34. Ultimate parent undertaking and controlling party**

The Company's immediate parent is Sumitomo Mitsui Banking Corporation ("SMBC"). The Company's ultimate parent is Sumitomo Mitsui Financial Group Inc ("SMFG"), incorporated in Japan. It is the largest Group of which this Company is a member and which has included this Company in its Group financial statements. Copies of these financial statements can be obtained from the following address:

1-2 Marunouchi  
1-chome  
Chiyoda-ku  
Tokyo, Japan