



SMBC Nikko Bank (Luxembourg) S.A. having its registered office at 2, rue Hildegard von Bingen L-1282 Luxembourg RCSL B.11809 (“**SNBL**”)

Expalation relating to the compliance with Articles 38-11 of the Law of 5 April 1993 on the financial sector (the “**Law**”), as amended during the financial year from 1st April 2019 to 31 March 2020 (the “**Period**”)

### **Governance arrangements and Management body (Articles 38-1 & 38-2 of the Law)**

SNBL as a Luxembourg financial institution is supervised by the Commission du Secteur Financier, Luxembourg (“**CSSF**”) and is subject to all relevant Luxembourg legal and regulatory provisions relating to corporate governance.

The Board of Directors whose members are appointed by SNBL’s sole shareholder has the overall responsibility. It ensures execution of activities and preserves business continuity by way of sound central administration and “internal” governance arrangements.

The Board of Directors has delegated the daily management of SNBL to the Management Committee, which is chaired by the Managing Director.

The Management Committee is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management. This management is exercised in compliance with the strategies and guiding principles laid down by the Board of Directors and the existing regulations, taking into account and safeguarding SNBL’s long-term financial interests, solvency and liquidity situation.

External mandates of the members of the Board of Directors and the staff members are strictly regulated by relevant internal policies. SNBL qualifies as a less significant CRR institution and therefore restrictions of Article 38-2 paragraphs (2), (3), (5) & (6) of the Law do not apply to SNBL.

Internal procedures organize and define the requirements to ensure that the composition of the Board of Directors and the Management Committee and the criteria for its selection comply with article 38-2 (1), (7) & (8) of the Law. Management Committee and Board members are regularly assessed.

A Conflict of Interest Policy has been implemented to prevent conflicts of interest and a specific register listing potential conflict(s) of interest is reviewed and maintained on a regular basis.

### **Public disclosure of return on assets (Article 38-4 of the Law)**

SNBL discloses in its annual report among the key indicators its return on assets (ROA), calculated as its net profit divided by its total balance sheet (please refer to our latest annual report also available on our web site).

### **Remuneration aspects (Articles 38-5 & 38-6 of the Law)**

The Board of Directors has implemented a Remuneration Policy. The objectives of the Remuneration Policy are (i) to lay down the principles governing the remuneration of the SNBL's staff and (ii) to ensure that the Remuneration complies with applicable laws and regulations.

The Policy is in line with the SNBL's business strategy, objectives, long term interests and its values, its sustained growth, as well as the objectives of the SNBL's Code of Conduct. The Remuneration Policy also incorporates measures to avoid and prevent potential conflicts of interest.

The Policy promotes a sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the institution.

Significant remuneration decisions taken by the Board of Directors or the Management Committee, which might affect SNBL's risk profile, are subject to the approval of its sole shareholder SMBC Nikko Securities Inc. Other Staff members are not authorized to take significant remuneration decisions.

The Remuneration Policy of SNBL is subject to regular (at least once a year) central and independent review.

As per the provisions of Article 450 of the CRR the following information is provided:

- The Board of Directors is responsible for preparing significant remuneration decisions, in compliance with the Policy such decisions are also subject to the approval of the sole shareholder of SNBL. Based on the proportionality principle and in light of the regulatory guidance provided, SNBL has not set up a remuneration committee. During the Period the content of the mapping table of the Remuneration Policy has been reviewed.
- The total compensation employees receive has two elements: a fixed element, the base salary, and a discretionary variable element. The fixed component of the Employees' remuneration generally includes the monthly salary, 13th month salary, and all other remuneration stipulated in the Collective Bargaining Agreement for bank employees. The fixed element may also include specific benefits (including a complementary pension plan). The initial fixed remuneration is set following criteria such as the Employee's job description, skills and knowledge.
- The Board of Directors or the Management Committee determines the variable remuneration by taking into account a combination of the performance of the Employee, the business unit concerned and of the overall results of SNBL.

- When assessing the individual performance of an Employee, quantitative and qualitative criteria are taken into account on an equal basis. **Quantitative criteria** shall consist, without using specific qualitative metrics, in criteria which include his/her compliance with SNBL's Code of Conduct, policies and procedures as well the standards which govern the relation with Clients, his/her job description and his/her service seniority, skills and knowledge. Quantitative criteria shall be completed by **qualitative criteria** aiming at assessing the degree of achievement of the quantitative criteria established under the form of an evaluation scale.
- Performance evaluation of employee also takes into account the compliance with regulatory requirements and internal procedures, fair treatment of clients and their satisfaction.
- The variable remuneration is not a contractual right and is paid at the discretion of the Board of Directors.
- SNBL fulfils the criteria defined by the CSSF Circular 11/505 for the application of the principles of proportionality due to its size (balance sheet, total assets, number of employees), its internal organization, nature, scope and complexity of its activity (low to moderate risk inherent to its activities, types of clients and products). As a consequence, SNBL waived the below requirements as laid down in letters n), o) and p) of point 4-1 and in point 4-2 appearing in point (2) of section 12 of the so called CRD III Circulars also referred under point 5 of CSSF Circular 11/505 as follows:
  - Requirement to pay out a part of the variable remuneration in instruments and the related instruments retention obligation;
  - Requirement to pay out a part of the variable remuneration through a deferred scheme and the related ex-post risk adjustment obligations; and
  - Requirement to set up a Remuneration Committee.
- The variable component of the Employees Remuneration is a cash payment capped at a maximum value of 100% of the yearly fixed remuneration in line with applicable regulation. Such ratio was not exceeded during the Period.

**Remuneration by business area during the Period (in EUR)**

<b>Business area *</b>	<b>Number of beneficiaries in Full Time Equivalent</b>	<b>Fixed remuneration</b>	<b>Variable remuneration</b>	<b>Total remuneration</b>
Services to investment funds: Global Custody, Securities and Pricing, Fund Accounting and Financial Reporting, Money Forex.	48.3	3,557,543.18 €	292,500.00 €	3,850,043.18 €
Support and Control Functions:	33.40	3,110,274.97 €	421,195.36 €	3,531,410.33 €
<b>Total</b>	<b>81.7</b>	<b>6,667,818.15 €</b>	<b>713,695.36 €</b>	<b>7,381,513.51 €</b>

\* are excluded the members of the Authorized Management

- Based on the internal assessment, SNBL has identified those categories of staff whose professional activities have a material impact on the risk profile of SNBL (“Identified Staff or Material Risk Takers”).

<b>Number of beneficiaries in Full Time Equivalent</b>	<b>Fixed remuneration</b>	<b>Variable remuneration (cash only)</b>	<b>Total remuneration</b>
10.45	1,596,767.63 €	364,585.36 €	1,961,362.89 €

Variable remuneration refers to awards granted for the Period.

**Articles 38-3, 38-7, 38-8 and 38-9 of the Law do not apply to SNBL.**