SMBC Nikko Bank (Luxembourg) S.A.

Disclosure Report of SMBC Nikko Bank (Luxembourg) S.A. ("SNBL") for the period from April 1, 2020 to March 31, 2021 (the "Period") according to Part eight of the EU Regulation n°575/2013 (CRR) as amended by EU Regulation 2019/876.

Table of content

1 Introduction

The purpose of this disclosure report is to provide the information in accordance with Part Eight "disclosure by credit institutions" of the EU Regulation 575/2013 (CRR) as amended by EU Regulation 2019/876.

The EU Regulations N°575/2013 (the "CRR"), EU Regulation 2019/876 and N°680/2014 define capital ratios pursuant to article 56 of the law of April 5, 1993 as amended, on the financial sector. CRDIV/CRR enlarges and reinforces the scope of the banking sector supervision implemented by the Basel II Pillars I, II & III framework.

SNBL is a Luxembourg based company incorporated under the laws of the Grand Duchy of Luxembourg and subject to the supervision of the *Commission de Surveillance du Secteur Financier* (the "CSSF"), the supervisory authority of the Luxembourg financial sector. SNBL is a wholly-owned subsidiary of SMBC Nikko Securities Inc., ("SNS" or the "Parent Company"). SMBC Nikko Securities Inc., Tokyo is a fully owned subsidiary of Sumitomo Mitsui Financial Group, Inc. ("SMFG").

SNBL does not have any branches, representative offices, foreign subsidiaries, direct banking and call center operations in the operating networks.

SNBL is the sole shareholder of SMBC Nikko Investment Fund Management Company S.A. ("SNIFMC"), a company authorized to act either as management company in accordance of the Chapter 16 of the Law of 17 December 2010 relating to undertakings for collective investment and as alternative investment fund manager in accordance of the Article 5 of the law of 12 July 2013 relating on alternative investment fund managers, which has its registered office at 2, rue Hildegard von Bingen, L-1282 Luxembourg.

The annual accounts of SNIFMC are not consolidated by SNBL and its shares are not quoted.

Within SMBC group, SNBL's core business of fund administration and custody services continues to play a key role in the group's Japanese offshore investment fund product offering.

For additional information on SNBL results, please refer to the annual financial statements available on SNBL's website: www.smbcnikko-lu.com.

SNBL did not use the ability to omit one or more of the required disclosures under this report as provided under Part Eight of the EU Regulation 575/2013 (CRR) as amended by EU Regulation 2019/876.

EBA tables and templates

Reference	Name	CRR regulation	Disclosure
EU OV1	Overview of RWAs	Article 438 (c) - (f)	3.1.3 Risk Weighted assets
EU CRB-B	Total and average net amount of exposures	Article 442 (c)	3.3.1 Credit risk exposure
EU CRB-C	Geographical breakdown of exposures	Article 442 (d)	3.3.1 Credit risk exposure
EU CRB-D	Concentration of exposures by industry or counterparty types	Article 442 (e)	3.3.1 Credit risk exposure
EU CRB-E	Maturity of exposures	Article 442 (f)	3.3.1 Credit risk exposure
EU CR1-A	Credit quality of exposures by exposure class and instrument	Article 442 (g)-(f)	3.3.1 Credit risk exposure
EU CR1-B	Credit quality of exposures by industry or counterparty types	Article 442 (g)	3.3.1 Credit risk exposure
EU CR1-C	Credit quality of exposures by geography	Article 442 (g)	3.3.1 Credit risk exposure
EU CR4	Credit risk exposure and CRM effects	Article 453 (f)-(g)	3.3.2 Credit risk mitigation effects
EU CR5	Standardised approach	Article 444 (e)	3.3.2 Credit risk mitigation effects
EU CCR1	Analysis of CCR exposure by approach	Article 439 (e)-(f)	3.3.3 Counterparty credit risk
EU CCR2	CVA capital charge	Article 439 (e)-(f) & (i)	3.3.3 Counterparty credit risk
EU CVA3	The standardised approach for CVA (SA-CVA)	Article 439 (e)-(f)	3.3.3 Counterparty credit risk
EU CVA4	RWA cash flow statements of CVA risk exposures under SA-CVA	Article 439 (e)-(f)	3.3.3 Counterparty credit risk
EU CCR5-A	Impact of netting and collateral held on exposures values	Article 439 €	3.3.3 Counterparty credit risk
EU MR1	Market risk under the standardised approach	Article 445	3.4 Market risk

2 Governance

In order to achieve a sound and prudent business management, including the underlying risks inherent in them, the Bank establishes internal governance arrangements, which are consistent with the three-lines-of-defense model, in accordance with CSSF Circular 12/552 as amended.

Within SNBL, the BoD is the highest decision making body, both in strategic but also in risk related matters. The BoD entrust the Authorized Management (AM) with the daily management of the Bank.

SNBL structures its internal governance in the spirit of the so-called "three-line of defense" model for risk governance.

- First line: Front office units, responsible for managing risks within the established set of RAF targets and limits;
- Second line: Risk Management and Fund Compliance department and the Compliance Function, responsible for the maintenance and development of the risk management and controls framework. The second line includes also the support functions, such as the Accounting department and the IT department;
- Third line: Internal Audit function, providing an independent review of the risk management practices and internal control framework.

2.1 Board of Directors

The BoD is responsible for all strategic decisions as well as for defining the strategies and guiding principles of a clear and consistent organizational and operational structure.

With regards to risk management, the BoD is responsible for defining the guidelines and key principles of SNBL's risk management and entrusts the AM to establish a risk management framework to implement these risk management guidelines and principles. The BoD remains responsible for supervising the proper implementation of these guidelines and principles.

The BoD is responsible for determining the risk tolerance and risk appetite taking into consideration the specificities of SNBL activities and ensuring the effectiveness and comprehensiveness of SNBL's risk assessment process. This responsibility is materialized by the BoD's approval of the ICAAP, ILAAP, RAF and any other risk-related strategies and policies.

Regarding capital adequacy, the BoD is responsible for:

- Establishing and approving the key principles for risk management;
- Defining and approving the risk appetite metrics and their respective limits, as part of the RAF scope;
- Assessing and validating SNBL's Capital adequacy in respect of the limits proportionate to SNBL's risk appetite.

2.2 Authorized Management

As mentioned above, the AM has been assigned with the charge of the effective, sound and prudent day-to-day business and inherent risk management. This management shall be exercised in compliance with the strategies and guiding principles laid down by the BoD.

With regards to risk management, the AM has to ensure the proper development and implementation of the risk management framework within the Bank. Among other responsibilities, the AM is responsible for:

- Developing and implementing internal written policies, procedures and systems for managing risks in accordance with the strategies and guiding principles defined by the BoD;
- Implementing an effective internal control system and providing the necessary mechanisms, technical infrastructures and human resources to ensure the sound and prudent risk management (including liquidity risk);
- Verifying the compliance with the procedures, policies and systems;
- Determining the appropriateness of all risk reports and ensuring a proper communication on the Bank's risk situation to the Risk Committee and the BoD;
- Ensuring that all risks are correctly identified, managed, monitored, reported and every exposure covered, via various risk management processes (i.e. Risk Appetite Statement, ICAAP, ILAAP and Recovery Plan).

3 Risk framework

The Bank defines the risk appetite as the level of risk that the organisation is prepared to accept in the pursuit of its strategic objectives.

SNBL's business strategy is focused on providing custodian banking services to investment funds.

SNBL adapts its risk strategy to the size of the Bank and to the degree of complexity of its activities:
- Identification of risks, i.e. the process of identifying all risks for SNBL;
- Assessment of risks, i.e. once the risks are identified they need to be assessed and classified as material risk or non-material risk;
- Measurement of risks, i.e. the process and quantification of the risks;
- Controlling the risks, i.e. how the risks are controlled in the daily operations; and
- Monitoring the risks, i.e. the process and controls that are in place in order to manage the risks.

The following risks were identified and monitored:
- Credit and counterparty risk;
- Concentration risk;
- Country risk;
- Market risk for FX positions;
- Interest rate risk;
- Liquidity risk;
- Operational risk, including the IT risk and the risk linked to outsourced processes as well as risks linked to new / complex activities or products;
- Clearing and settlement risk;
- Legal and reputation risk;
- Compliance risk, risk of fraud included;
- Business risk and strategic risk;
- Depositary Risk;
- Bank's subsidiary Risk.

According to the principle of proportionality, the Bank has assessed the risks requiring minimum prudential own funds ("Pillar 1"). But also the risks which are not covered or not fully captured by the minimum prudential own funds requirements which have been subject to a separate assessment and were added to the risks of the first pillar in order to define the overall internal capital requirement.("Pillar2").

Main Risk key figures are as follow :

Risk	KRI	31-03-21
Liquidity Risk	Liquidity Coverage Ratio	142,59%
Capital Adequacy Risk	Total Capital Ratio	57,81%
Market Risk	Overall net foreign exchange position	580.766
Operational Risk	RWA	53.229.092

4 Declaration of Management

SNBL Management confirms, for the purpose of Article 435 of the CRR, that the Bank’s risk management arrangements are adequate with regard to its risk profile and strategy.

5 Own Funds and capital adequacy

SNBL approach to capital management is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment.

5.1 Regulatory capital adequacy

5.1.1 Own funds overview

Own funds are calculated pursuant to Art 72 CRR: own funds consist of the sum of Tier 1 capital (Common Equity Tier 1 (CET1) + Additional Tier 1 capital) and Tier 2 capital.

The nature and amounts of prudential filters, deductions, restrictions applied to the calculation of own funds in accordance with Art. 437 of the CRR.

Capital Tier 1 consists of subscribed capital, reserves (profit brought forward included) and accumulated other comprehensive income.

Own funds disclosure		**31.03.2021**
	Common equity Tier 1 capital : instruments and reserves	
1	Capital instruments and the related share premium accounts	90,154,448
2	Retained earnings	3,366,127
3	Accumulated other comprehensive income (and other reserves)	76,511,662
6	***Common Equity Tier 1 (CET1) capital before regulatory adjustments***	***170,032,237***
	Common equity Tier 1 (CET1) capital : regulatory adjustments	
8	Intangible assets (net of related tax liabilities) (negative amounts)	-996,538
28	***Total regulatory adjustments to common equity Tier 1 (CET1)***	***-996,538***
29	**Common Equity Tier 1 (CET1) capital**	**169,035,699**
	Additional Tier 1 (AT1) capital : instruments	
36	***Additional Tier 1 (AT1) capital before regulatory adjustments***	-
	Additional Tier 1 (AT1) capital : regulatory adjustments	
43	***Total regulatory adjustments to additional Tier 1 (AT1) capital***	-
44	**Additional Tier 1 (AT1) capital**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**169,035,699**
	Tier 2 (T2) capital : instruments and provisions	-
51	***Tier 2 (T2) capital before regulatory adjustments***	-
	Tier 2 (T2) capital : regulatory adjustments	-
57	***Total regulatory adjustments to Tier 2 (T2) capital***	-
58	**Tier 2 (T2) capital**	-
59	**Total capital (TC = T1 + T2)**	**169,035,699**
60	**Total risk weighted assets**	**292,388,570**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	57.81%
62	Tier 1 (as a percentage of risk exposure amount)	57.81%
63	Total capital (as a percentage of risk exposure amount)	57.81%
64	Institution specific specific buffer requirement (CET1 requirement in accordance with article 92(1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic rick buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.51%
65	of which : capital conservation buffer requirement	2.50%
66	of which : countercyclical buffer requirement	0.01%
67	of which : systemic risk buffer requirement	-
67a	of which : global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-
68	Available Common Equity Tier 1 for the buffers (as a percentage of the risk exposure amount)	55.30%
	Amounts below the thresholds for the deduction (before risk weighting)	
72	Direct and indirect positions of the bank in capital instruments of companies in the financial sector in which the institute holds no significant invesment (less than 10% and less eligible sales positions)	-

73	Direct and indirect positions of the bank in instruments of Common Equity Tier 1 of companies in the financial sector in which the institute holds no significant invesment (less than 10% and less eligible sales positions)	-
75	Deffered tax assets dependent on future profitability resulting from temporary differences (below the threshold of 10%, less corresponding tax liabilities if th consitions of Art; 38 (3) are met)	-
	Capital caps for the inclusion of valuation allowances in the tier 2 capital	
80	Current cap on CET1 instruments subjct to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subjct to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subjct to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-
		8.00

5.1.2 Main features of the Capital instruments

Main features of the capital instruments		**31.03.2021**
	Capital instruments main feaatures template	**Capital instrument 1**
1	Issuer	SMBC Nikko Bank Luxembourg S.A.
2	Standard identifier	Not applicable
3	Governing law(s) of the instrument	Luxembourgish law
	Regulatory treatment	
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/solo&(sub-)consolidated	Solo
7	Instrument type	Share capital
8	Amount eligible for regulatory capital	90.154.448
9	Nominal amount of instrument	90.154.448
9a	Issue price	248
9b	Redemption price	Not applicable
10	Accounting classification	Subscribed capital
11	Original issue date	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contigent call dates and redemption amount	Not applicable
16	Later termination dates, if applicable	Not applicable
	Coupons/dividends	***Not applicable***

5.2 Risk Weighted Assets

In accordance with the Article 138(c) to (f) of the CRR, the following table shows Risk Weighted Assets (RWA) and regulatory capital requirements distributed by risk types compared to the previous period on an annual basis.

The capital requirements have been obtained by applying 8% to the corresponding RWA.

Disclosure requirements on overview of RWA		RWA		Minimum capital requirements 31.03.2021 Euro
		31.03.2021 Euro	31.03.2020 Euro	
1	Credit risk (excluding counterparty credit risk)	226.175.288	311.590.934	18.094.023
2	Of which : standardised approach (SA)	226.175.288	311.590.934	18.094.023
3	Of which : foundation internal ratings-based (F-IRB) approach			
4	Of which : supervisory slotting approach			
5	Of which : advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)			
7	Of which : standardised approach for counterparty credit risk			
8	Of which : IMM			
9	Of which : other CCR			
10	Credit valuation adjustment (CVA)	12.233.543	11.905.037	978.683
11	Equity positions under the simple risk weight approach and the internal model method during the five-year linear phase-in period			
12	Equity investments in funds - look-through approach			
13	Equity investments in funds - mandate-based approach			
14	Equity investments in funds - fall-back approach			
15	Settlement risk	0	0	0
16	Securitisation exposures in banking book			
17	Of which : securitisation IRB approach (SEC-IRBA)			
18	Of which : securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which : securitisation standardised approach (SEC-SA)			
20	Market risk	551.725	497.020	44.138
21	Of which : standardised approach (SA)	551.725	497.020	44.138
22	Of which : internal model approach (IMA)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	53.428.016	48.912.814	4.274.241
25	Amounts below the thresholds for deduction (subject to 250% risk weight)			
26	Aggregate capital floor applied			
27	Floor adjustment (before application of transitional cap)			
28	Floor adjustment (after application of transitional cap)			
29	**Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 28)**	**292.388.570**	**372.905.805**	**23.391.086**

The decrease of the Risk Weighted Assets is mainly reflected on the credit risk and is linked to the volume of the credit institutions deposits induced by the level of clients'cash balances..

The schedule above provides the own funds requirement to cover the credit risk, market risk, settlement risk, credit valuation adjustment risk and operational risk as at March 31, 2021.

Approaches applied to calculate the own funds requirements are the following:

- Credit risk: standardised approach
- Market risk: standardised approach
- Credit valuation adjustment: standardised approach
- Operational risk: basic indicator approach

Regarding the credit risk, the capital requirements are assigned by exposure classes as defined in the EU regulation N° 575/2013 of the European Parliament and of the Council, namely:

- Exposures to central governments and central banks;
- Exposures to regional governments or local authorities;
- Exposures to public sector entities;
- Exposures to multilateral development banks;
- Exposures to international organizations;
- Exposures to institutions;
- Exposures to corporates;
- Retail exposures;
- Exposures secured by mortgages on immovable property;
- Exposures in default;
- Exposures associated with particularly high risk;
- Exposures in the form of covered bonds;
- Items representing securitization positions;
- Exposures to institutions and corporate with a short-term credit assessment;
- Exposures in the form of units or shares in collective investment undertakings;
- Equity exposures; and
- Other items.

5.3 Leverage ratio

The leverage ratio (LR) was introduced by the Basel Committee to serve as a simple and non-risk-based ratio to complete the existing risk-based capital requirements.

The Basel III leverage ratio is defined as the capital measure divided by the total exposure, with this ratio expressed as a percentage and having to exceed a minimum of 3%.

The capital measure for the leverage ratio is the Tier 1 capital taking account of transitional arrangements. The total exposure corresponds to the sum of the following exposures:

- On-balance sheet exposures;
- Derivatives exposures
- Securities financing transaction (SFT) exposures; and
- Off-balance sheet (OBS) items.

As of March 31, 2021, SNBL's leverage ratio stood at 22.38%, showing an increase compared to year-end 2020 level of 13.07%. The composition of SNBL's exposure reflects its business model, based on a custodian bank orientation.

SNBL leverage ratio is depicted as follows:

	Leverage ratio common disclosure template	31.03.2021 Euro	31.03.2020 Euro
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	677.828.302	1.129.551.493
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)		
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Basel III Tier 1 capital)		
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)		
7	***Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 6)***	***677.828.302***	***1.129.551.493***
Derivatives exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)		
9	Add-on amounts for potential future exposure associated with all derivatives transactions		
10	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	77.485.399	73.536.968
11	Adjusted effective notional amount of written credit derivatives		
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13	***Total derivative exposures (sum of rows 8 to 12)***	77.485.399	73.536.968
Securities financing transaction exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions		
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
16	Counterparty credit risk exposure for SFT assets		
17	Agent transaction exposures		
18	***Total securities financing transaction exposures (sum of the rows 14 to 17)***	0	0
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount		
20	(Adjustments for conversion to credit equivalent amounts)		
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	***Off-balance sheet items (sum of rows 19 to 21)***	0	0
Capital and total exposures			
23	***Tier 1 capital***	157.210.595	157.210.595
24	***Total exposures (sum of rows 7,13,18 and 22)***	755.313.701	1.203.088.461
Leverage ratio			
25	***Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)***	20,81%	13,07%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	20,81%	13,07%
26	**National minimum leverage ratio requirement**	3%	3%
27	**Applicable leverage buffers**	0	0

5.4 Summary reconciliation of accounting assets and leverage ratio exposures

	Summary comparison of accounting assets vs leverage ratio exposure measure	Applicable values 31.03.2021 Euro
1	Total consolidated assets as per published financial statements	677.828.302
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	
4	Adjustments for temporary exemption of central bank reserves (if applicable)	
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustments for eligible cash pooling transactions	
8	Adjustments for derivatives financial instruments	77.485.399
9	Adjustments for securities financing transactions (ie repurchase agreements and similar secured lending)	
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	
12	Other adjustments	0
13	**Total Leverage ratio exposure measure**	**755.313.701**

The table below shows the breakdown of the total exposure as of March 2021:

Exposures values by classes of exposure	31.03.2021 Euro	
	On-balance sheet exposures (SA exposures)	**Off-balance sheet exposures (SA exposures)**
= 0 %	115.967.065	0
> 0 and ≤ 12%	-	0
> 12 and ≤ 20%	460.235.936	0
> 20 and ≤ 50%	118.290.763	0
> 50 and ≤ 75%	27.181	0
> 75 and ≤ 100%	51.346.373	0
> 100 and ≤ 425%	9.446.384	0
> 425 and ≤ 1250%	-	0
Total	**755.313.701**	**0**

5.5 Capital buffers

5.5.1 Countercyclical buffer

As defined in the Art 440 (a) & (b) of the CRR, the table below shows the geographical breakdown of the main credit exposures relevant for the countercyclical capital buffer.

Geographical distribution of credit exposures				31.03.2021 Euro
	Exposures	Own funds requirements	Own funds requirement weights	CCB rates
Australia	355.070	0	0,00	0,00%
Belgium	15.452.337	0	0,00	0,00%
Caymans	39.886.762	0	0,00	0,00%
France	33.555.466	0	0,00	0,00%
Hong Kong	472.891	7.566	0,0013	0,00%
Italy	53.794.912	0	0,00	0,00%
Japan	221.024.681	0	0,00	0,00%
Luxembourg	188.022.739	5.708.037	1,00	0,25%
United-Kingdom	199.889.778	0	0,00	0,00%
United States	1.899.318	0	0,00	0,00%
TOTAL	754.353.954	5.715.603	1,00	0,25%

Total risk exposure amount	755.313.701
Institution specific countercyclical buffer rate	0,01%
Institution specific countercyclical buffer requirement	57.168

As at March 31 2021, SNBL countercyclical capital buffer was Eur 57,168 as the add-ons of the listed exposure RWA were 0% except for the Luxembourg exposure (1%).

5.6 Credit risk

Credit risk represents the potential loss that the Bank may incur as a result of a deterioration in the solvency on any counterparty.

5.6.1 Credit risk exposure

SNBL's exposure to counterparties, for interbank lending, nostro accounts and foreign exchange transactions, is subject to SNBL's limits regularly reviewed by the risk management function and the Credit Committee. These limits are monitored on a daily basis by the Risk Management and Fund Compliance department, which immediately reports any breach to the Management Committee of SNBL and to the Parent Company.

SNBL furthermore restricts its exposure to credit risk losses by entering into master netting arrangements with counterparties with which it undertakes significant volumes of transactions. Master netting arrangements do not generally result in offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with the settlements of favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. SNBL's overall exposures are driven by its daily financial operations and fluctuate substantially from time to time.
Considering the Bank's business model, the internal capital allocation for credit and counterparty risk is set equivalent to the prudential capital requirements.

5.6.2 Total and average amount of credit exposure by exposure classes

In the application of Article 442 (c) in the CRR, the table below represents the year-end total and annual average exposure expressed in net values. For on-balance sheet items the "Net value of exposure" is calculated by deducting allowances/ impairments from the gross amount.
The year-end total exposure includes figures obtained using both the standardised approach. The average credit exposure is computed as the average of the net exposure values observed at the end of each quarter of the year 2020 (from June to December) and end of March 2021.

Total and average net amount of exposures		31.03.2021 Euro
	Net value of exposures at the end of the period	**Average net exposures over the period**
Exposures to central governments or central banks	52.842.127	53.935.656
Regional governments or local authorities	-	-
Public sector entities	10.470.478	10.527.950
International organisations	26.607.172	26.905.642
International organisations	26.047.289	33.684.907
Institutions	578.526.699	622.639.659
Corporates	39.887.644	37.755.012
Of which SMEs	-	-
Retail	27.181	15.637
Of which SMEs	-	-
Secured by mortgages on immovable property	-	-
Of which SMEs	-	-
Exposures in default	-	-
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	9.443.182	8.820.106
Other exposures	11.461.931	12.237.706
Total standardised approach	**755.313.701**	**806.522.274**

5.6.4 Distribution by class and instrument

In the application of Article 442 (e) of the CRR, the table below shows the net value of exposure broken down by exposure class and industry at year-end 2021. The industry classification is based on NACE codes which is European industry standard classification system for classifying business activities).

The exposures by economical sector are as follows:

Concentration of exposures by industry or counterparty types						**31.03.2021 Euro**
	Financial and insurance activities	Public administration	Wholesale and retail trade	Information and communication communication	Other services	Total
Exposures to central governments or central banks	52.842.127					52.842.127
Regional governments or local authorities						0
Public sector entities		10.470.478				10.470.478
Multilateral developments banks		52.654.461				52.654.461
International organisations						0
Institutions	578.526.699					578.526.699
Corporates	39.887.644					39.887.644
Of which SMEs						0
Retail			27.181			27.181
Of which SMEs						0
Secured by mortgages on immovable property						0
Of which SMEs						0
Exposures in default						0
Items associated with particularly high risk						0
Covered bonds						0
Claims on institutions and corporates with a short-term credit assessment						0
Collective investments undertakings						0
Equity exposures	9.443.182					9.443.182
Other exposures	11.461.931					11.461.931
Total standardised approach	**692.161.583**	**63.124.939**	**27.181**	**0**	**0**	**755.313.701**

As at 31 March 2021, the sectors “Financial and insurances activities” and “Public administration” represented almost the global amount of exposure with respectively 91% and 8% of the total exposures.

5.6.5 Geographic distribution of the exposures

The table below shows the risk concentration arising from the exposures by geographic location as at March 31, 2021 as defined in the Art 442 (d) in the CRR.

Geographical breakdown of exposures							**31.03.2021 Euro**
	Luxembourg	**Europe** (Other than Luxembourg)	**North America**	**Japan**	**Oceania** (Australia//New Zealand)	**Others**	**Total**
Exposures to central governments or central banks	40.384.008	12.458.119	0	-	-	-	52.842.127
Regional governments or local authorities	-	-	-	-	-	-	0
Public sector entities	-	10.470.478	-	-	-	-	10.470.478
Multilateral developments banks	16.023.816	10.583.356	-	-	-	-	26.607.172
International organisations	26047289	-	-	-	-	-	26.047.289
Institutions	84.661.304	269.565.656	2.187.682	221.023.574	487.690	600.793	578.526.699
Corporates	-	-	-	915	-	39.886.729	39.887.644
Of which SMEs	-	-	-	-	-	-	0
Retail	23.569	3.611	-	-	-	-	27.180
Of which SMEs	-	-	-	-	-	-	0
Secured by mortgages on immovable property	-	-	-	-	-	-	0
Of which SMEs	-	-	-	-	-	-	0
Exposures in default	-	-	-	-	-	-	0
Items associated with particularly high risk	-	-	-	-	-	-	0
Covered bonds	-	-	-	-	-	-	0
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	0
Collective investments undertakings	-	-	-	-	-	-	0
Equity exposures	9.420.362	22.820	-	-	-	-	9.443.182
Other exposures	11.461.931	-	-	-	-	-	11.461.931
Total standardised approach	**188.022.279**	**303.104.040**	**2.187.682**	**221.024.489**	**487.690**	**40.487.522**	**755.313.701**

The major part of the exposures is concentrated in Europe (65.02%), Japan (29.26%).

Country ratings are reviewed daily by the Risk Management and Fund Compliance department. Any downgrade below the allowed ratings is immediately reported to the Management Committee and internal control functions. The country risk policy is defined by the Board of Directors of SNBL with respect to risk ratings applicable to countries in which the counterparty, sub-custodian and/or prime brokers (debtor) and its final parent company are located.

5.6.6 Distribution by residual maturity

As defined in the article 442 (f) of the CRR, the table below analyses the exposures in terms of maturity groups based on their remaining lives as at March 31, 2021:

Maturity of exposures						31.03.2021 Euro
	Net exposure value					
	On demand	< = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Net values
Exposures to central governments or central banks	-	40.384.265	-	-	-	40.384.265
Regional governments or local authorities	-	-	-	-	-	0
Public sector entities	-		22.928.596		-	22.928.596
Multilateral develoments banks	-		20.753.014	31.901.447	-	52.654.461
International organisations	-	-	-	-	-	0
Institutions	537.811.053	806	-	-	-	537.811.859
Corporates	-	3.117.676	-	-	-	3.117.676
Of which SMEs	-	-	-	-	-	0
Retail	-	21.668	5.555	-	-	27.224
Of which SMEs	-	-	-	-	-	0
Secured by mortgages on immovable property	-	-	-	-	-	0
Of which SMEs	-	-	-	-	-	0
Exposures in default	-	-	-	-	-	0
Items associated with particularly high risk	-	-	-	-	-	0
Covered bonds	-	-	-	-	-	0
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	0
Collective investments undertakings	-	-	-	-	-	0
Equity exposures	-	-	-	-	9.443.182	9.443.182
Other exposures	-	4.748.539	-	-	6.713.392	11.461.931
Total standardised approach	**537.811.053**	**48.272.953**	**43.687.166**	**31.901.447**	**16.156.574**	**677.829.193**

The exposures with a residual maturity "on demand" or less than 1 year represent 86.46% of the total exposure and 91.76% of exposures with residual maturity "on demand" or of less than 1 year are exposures to financial institutions.

5.6.7 Credit quality of exposures by exposure class and instrument

Credit quality of exposures by exposure class and instrument							31.03.2021 Euro
	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjusmtent	Accumulated write-off	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Exposures to central governments or central banks	-	52.842.384	-257	-	-	-	52.842.127
Regional governments or local authorities	-	10.470.478	-	-	-	-	10.470.478
Banks	-	52.654.461	-	-	-	-	52.654.461
Corporates	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	-	578.527.257	-557	-	-	-	578.526.699
Corporates	-	39.887.678	-34	-	-	-	39.887.644
Of which SMEs	-	-	-	-	-	-	-
Retail	-	27.224	-43	-	-	-	27.181
Of which SMEs	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Of which SMEs	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	9.443.182	-	-	-	-	9.443.182
Other exposures	-	11.461.931	-	-	-	-	11.461.931
Total standardised approach	**0**	**755.314.593**	**-892**	**0**	**0**	**0**	**755.313.701**

As of March 31 2021, the Bank has no defaulted exposures.

The banking sector represents almost than 77% of the total exposure.

The exposures to banks are subject to counterparty limits approved by the Board of Directors of SNBL and monitored by the risk management function.

Exceptions are allowed by the Board of Directors on a case-by-case basis and in consultation with the risk management department of the Parent Company.

Retail exposures are assigned a weight of 75% as they meet the EU regulation conditions. They relate to individual persons, have similar characteristics and the total amount of the exposure does not exceed 1 million. Exposures to corporates are assigned a 100% risk weight as these corporates are unrated. Other exposures weighted at 100% are mainly tangible assets, prepayments and accrued income.

SNBL places its cash with SMBC, SNBL's group company and wholly owned subsidiary of SMFG, the ultimate parent company of SNBL, and with certain other third party banks with credit quality rating not lower than investment grade. A daily report of ratings and limits is reviewed by the Risk Management and Fund Compliance department and any downgrade is immediately escalated to the Management Committee and Internal Control function.

In principle, SNBL does not undertake traditional credit activity. On exceptional circumstances and subject to the Credit Committee pre-approval, SNBL allows temporary overdrafts on Funds' current accounts to face cash shortage deriving from transactions' value date mismatch. SNBL potential risk of losses deriving from overdraft amounts can be mitigated by SNBL's General Terms and Conditions that the customer is asked to sign and which includes the possibility of pledging the customer's assets. Such lending is checked daily by the Risk Management and Fund Compliance department. For granting short term personal loans to SNBL employees, the total outstanding loan amount at any time represents not more than the concerned employee's net salary of 2 months.

5.6.8 Credit quality of exposures by industry or counterparty types

In the application of Article 442 (g) of the CRR, the tables below provide a breakdown of defaulted and non-defaulted exposures by regulatory exposure classes and industries respectively. The bank books specific credit risk adjustment and general credit risk adjustment.

Credit quality of exposures by industry or counterparty types							**31.03.2021 Euro**
	A	**b**	**c**	**d**	**e**	**f**	**g**
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-off	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Financial and insurance activities	-	640.624.900	557	-	-	-	640.624.343
Public administration	-	63.312.861	257	-	-	-	63.312.604
Wholesale and retail trade	-	39.914.901	77	-	-	-	39.914.824
Information and communication	-	-	-	-	-	-	-
Other services	-	11.461.931	-	-	-	-	11.461.931
Total standardised approach	**0**	**755.314.593**	**891**	**0**	**0**	**0**	**755.313.701**

5.6.9 Credit quality of exposures by geography

In the application of Article 442 (h) of the CRR, the table below provides a breakdown of defaulted and non-defaulted exposures by geographical areas. The geographical distribution is based on the legal residence of the counterparty or issuer.

Credit quality of exposures by geographical area							**31.03.2021 Euro**
	A	**b**	**c**	**d**	**e**	**f**	**g**
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-off	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Europe	-	491.126.981	663	-	-	-	491.126.318
Of which Luxembourg	-	188.022.739	461	-	-	-	188.022.278
United States and Canada	-	2.187.683	1	-	-	-	2.187.682
South and Central America	-	-	-	-	-	-	-
Asia	-	221.625.654	192	-	-	-	221.625.463
Of which Japan	-	221.024.681	192	-	-	-	221.024.489
Other geographical areas	-	40.374.276	37	-	-	-	40.374.239
Total standardised approach	**0**	**755.314.593**	**1546**	**0**	**0**	**0**	**755.313.701**

5.6.10 Distribution by exposure classes and credit quality step

Standard & Poors and Moody's have been chosen as nominated External Credit Assessment Institutions (ECAI) to calculate the risk-weighted amounts of the exposure to central banks and institutions. SNBL complies with the mapping established by the CSSF in annex 1 to the CSSF Circular for the associations of the external ratings of each nominated ECAI and Export Credit Agency (ECA) with the credit quality step prescribed in part VII thereof.

Retail exposures are assigned a weight of 75% as they meet the EU regulation conditions. They relate to individual persons, have similar characteristics and the total amount of the exposure does not exceed 1 million.

Exposures to corporates are assigned a 100% risk weight as these corporates are unrated.

Equity exposure relates mainly to a participation in SNIFMC. The participation is fair-valued and is assigned a 250% risk weight as stated in Part Two Title I Chapter I Art 48 of the EU regulation.

Other exposures weighted at 100% are mainly tangible assets, prepayment and accrued income.

Exposure by exposure classes / ECAI	
Exposures to central governments and central banks	Moody's / Standard & poors
Exposures to public sector entities	Moody's / Standard & poors
Exposure to multilateral development banks	Moody's / Standard & poors
Exposures to institutions	Moody's / Standard & poors
Exposures to corporates	Not applicable
Retail exposure	Not applicable
Equity exposure	Not applicable
Other exposure	Not applicable

5.7 Credit risk mitigation effects

The Bank defines its non-performing exposures based on the EBA regulation.

An exposure is considered as non-performing whether:

- The exposure is “defaulted” under the Basel framework
- The exposure is credit-impaired (in the meaning of an exposure having experienced a downward adjustment to its valuation due to deterioration of its creditworthiness)
- The exposure is not defaulted or impaired but nevertheless:
  - is a material exposure that is more than 90 days past due; or
  - where there is evidence that full repayment based on the contractual terms, original or, when applicable, modified (eg repayment of principal and interest) is unlikely without the bank’s realisation of collateral, whether or not the exposure is current and regardless of the number of days the exposure is past due.

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

At SNBL, the risk of past due or impaired exposures is considered minimal. As of March, 31 2021 SNBL does not recognized nor past-due exposures neither non-performing exposures.

In principle, specific provisions are made against loans and advances when, in the opinion of the Management Committee, recovery in full is doubtful. A general provision would be made to cover bad debts that were not separately identified at the balance sheet date, but were known to be present in client receivables. Specific and general statistical provisions would be deducted from loans and advances. Loans and advances and suspended interest would be written off in part or in whole when there would be no realistic prospect of recovery.

In addition, to monitor the quality of the exposures, an impairment model which allocates the assets under scope across the 3 stages (from Performing to Impaired) under the Standardized Approach has been put in place by the Risk Management and Fund Compliance Department. This model is updated on a regular basis in order to reflect the current risk faced by the Bank, is reviewed at least once year and presented to the Credit Committee

As described in the table below, the Bank did not apply any credit risk mitigation effects as at March, 31 2021.

Credit risk exposure & credit risk mitigation effects							31.03.2021
		Exposure before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Assets classes	On-balance sheet amount Euro	Off-balance sheet amount Euro	On-balance sheet amount Euro	Off-balance sheet amount Euro	RWA Euro	RWA density
1	Sovereigns and their central banks	52.842.127	0	52.842.127	0	0	0%
2	Non-central government public sector entities	10.470.478	0	10.470.478	0	0	0%
3	Multilateral development banks	52.654.461	0	52.654.461	0	0	0%
4	Banks	578.526.699	0	578.526.699	0	151.192.569	26%
	Of which : securities firms and other financial institutions	0	0	0	0	0	0%
5	Covered bonds	0	0	0	0	0	0%
6	Corporates	39.887.644	0	39.887.644	0	39.887.644	100%
	Of which : securities firms and other financial institutions	0	0	0	0	0	0%
	Of which : specialised lending	0	0	0	0	0	0%
7	Subordinated debt, equity and other capital	9.443.182	0	9.443.182	0	23.573.725	250%
8	Retail	27.181	0	27.181	0	20.386	75%
9	Real estate	0	0	0	0	0	0%
	Of which : general RRE	0	0	0	0	0	0%
	Of which : IPRRE	0	0	0	0	0	0%
	Of which : general CRE	0	0	0	0	0	0%
	Of which : IPCRE	0	0	0	0	0	0%
	Of which : land acquisition, development and construction	0	0	0	0	0	0%
10	Defaulted exposures	0	0	0	0	0	0%
11	Other assets	11.461.931	0	11.461.931	0	11.500.964	100%
12	Total	755.313.701	-	755.313.701	-	226.175.286	30%

The exposures reported in the table hereafter are the exposures at default, namely the exposure in case of counterparty default for the various financial products as at March 31, 2021.

The main purpose of the following tables is to describe a breakdown of the credit risk exposures under Standardised approach by asset class and risk weight as defined by the EU regulation.

Credit risk exposure & credit risk mitigation effects									31.03.2021 Euro
		0%	20%	50%	75%	100%	250%	Other	Total credit exposure amount (post-CCF & post-CRM)
1	Sovereigns and their central banks	52.842.127	-	-		-		-	52.842.127
2	Non-central government public sector entities	10.470.478	-	-		-		-	10.470.478
3	Multilateral development banks	52.654.461	-	-		-		-	52.654.461
4	Banks		460.235.936	118.290.763	-	-		-	578.526.699
	Of which : securities firms and other financial institutions				-	-		-	-
6	Corporates		-	-	-	39.887.644		-	39.887.644
	Of which : securities firms and other financial institutions		-	-	-	-		-	-
	Of which : specialised lending		-	-	-	-		-	-
7	Subordinated debt, equity and other capital					22.820	9.420.362	-	9.443.182
8	Retail				27.181	-		-	27.181
11	Other assets	-	-			11.435.909	26.022	-	11.461.931

Exposure amounts and CCFs applied to off-balance sheet exposures, categorised based on risk bucket of converted exposures					
	Risk weight	On-balance sheet exposure Euro	Off-balance sheet exposure (pre-CCF) Euro	Weighted average CCF	Exposure (post-CCF and post-CRM) Euro
1	Less than 40%	576.203.001	0	-	576.203.000,58
2	40 - 70%	118.290.763	0	-	118.290.763
3	75%	27.181	0	-	27.181
4	85%	-	0	-	-
5	90 - 100%	51.346.373	0	-	51.346.373
6	105 - 130%	-	0	-	-
7	150%	-	0	-	-
8	250%	9.446.384	0	-	9.446.384
9	400%	-	0	-	-
10	1250%	-	0	-	-
11	**Total exposures**	**755.313.701**	**0**	**-**	**755.313.701**

5.8 Counterparty credit risk

5.8.1 Counterparty credit risk management

Counterparty credit risk ('CCR') arises for derivatives and SFTs. It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction. Four approaches may be used under CRD IV to calculate exposure values for CCR: mark-to-market, original exposure, standardized and IMM. Exposure values calculated under these approaches are used to determine RWAs. SNBL uses the OEM approach. This approach has been changed by the SA-CRR simplified method in June 2021 following adoption of CRR II.

Analysis of CCR exposure by approach							**31.03.2021 Eur**
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure	4.343.530.332					77.485.400	46.318.180
Standardised approach							
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions							
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total	**4.343.530.332**	**-**	**-**	**-**	**-**	**77.485.400**	**46.318.180**

5.8.2 Credit value adjustment

Credit valuation adjustment ('CVA') risk is the risk of adverse moves in the CVAs taken for expected credit losses on derivative transactions. In the application of Article 439 (f) in the CRR, the following tables provides the exposure value and risk exposure amount of transactions subject to capital requirements for credit valuation adjustment. The standardised approach has been applied for all transactions.

CVA capital charge		31.03.2021 Euro
	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)	-	-
(ii) SVaR component (including the 3× multiplier)	-	-
All portfolios subject to the standardised method	77.485.400	12.233.543
Based on the original exposure method	-	-
Total subject to the CVA capital charge	**77.485.400**	**12.233.543**

	The standardised approach for CVA (SA-CVA)	-	31.03.2021 Euro
		SA-CVA RWA	**Number of counterparties**
1	Interest rate risk	-	-
2	Foreign exchange risk	12.233.543	33
3	Reference credit spread risk	-	-
4	Equity risk	-	-
5	Commodity risk	-	-
6	Counterparty credit spread risk	-	-
7	**Total (Sum of rows 1 to 6)**	**12.233.543**	**33**

	RWA flow statements of CVA risk exposures under SA-CVA	31.03.2021 Euro
1	Total RWA for CVA at previous quarter-end	12.213.170
2	Total RWA for CVA at end of reporting period	12.233.543

5.8.4 Impact of netting and collateral held on exposure value for derivatives and SFTs

In the application of Article 439 (e) in the CRR, the following tables present information on counterparty credit risk exposure and the impact of netting in derivatives transactions.
The table below provides the gross positive fair values before any impact of legally enforceable master netting agreements.

Impact of netting and collateral held on exposure values					**31.03.2021 Euro**
	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	77.485.400	0	77.485.400	-	77.485.400
SFTs	-	-	-	-	-
Cross-product netting	-	-	-	-	-
Total	**77.485.400**		**77.485.400**		**77.485.400**

5.9 Market risk

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the income or the value of the portfolios. The own funds requirement for the market risk is calculated in accordance with the standardized method principles.

As shown in the table below, SNBL has no trading book position and is not involved in short sales as at March 31, 2021. The portfolio of SNBL is mainly represented by long-term investments in debt securities (mainly fixed income securities issued by public sector entities and multilateral development banks established in zone A and rated "AAA" or equivalent as of the date of purchase of the investment by at least one major credit-rating agencies (Moody's, S&P and Fitch)) for interest yield purpose.
The market risk arises from foreign exchange positions which are monitored on a daily basis. In this regard, the management's policy is to minimize significant foreign exchange exposures.

Market risk under the standardised approach		**31.03.2021 Euro**
	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	-	-
Equity risk (general and specific)	-	-
Foreign exchange risk	551.725	44.138
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	**551.725**	**44.138**

5.10 Liquidity risk

In addition to the capital requirements, Basel III contains a quantitative (minimum) ratio for the management of liquidity risk.

Two liquidity standards, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), were introduced to achieve this objective. Both ratios reflect the minimum level of liquidity banks must provide to meet the liquidity risks they face from a regulatory perspective either short-term (LCR) or mid-term (NSFR).

5.10.1 Liquidity coverage ratio

As the main short-term liquidity reference indicator, the LCR requires SNBL to hold sufficient High Quality Liquid Assets (HQLA) to cover its total net cash outflows over 30 days. It has been fully implemented in 2014 to comply with the CRR (Delegated Act based on art. 462 of the CRR). For the calculation of the LCR, SNBL follows the guidelines set by the European Commission.

$$\frac{\text{Stock of high quality liquid assets}}{\text{Total net cash outflows next 30 days}} \geq 100\%$$

SNBL aims at monitoring and mitigating its risks with qualitative and quantitative measures as well as the establishment of internal governance arrangements.

As required by the regulator, SNBL prepares an internal liquidity adequacy assessment ('ILAA') document, in order to ensure that:

- liquidity resources are adequate, both as to the amount and quality;
- there is no significant risk that liabilities cannot be met as they fall due;
- a prudent structural funding profile is maintained;
- adequate liquidity resources continue to be maintained; and
- the operating entity's liquidity risk framework is adequate and robust.

The main objectives of this document are to:

- demonstrate that all material liquidity and funding risks are accurately monitored;
- validate the operating entity's risk tolerance/appetite
- acceptably remote and vulnerabilities have been assessed through the use of severe stress scenarios

Liquidity risk		Euro
	31.03.2021	31.03.2020
Stock of HQLA	110.166.289	168.720.460
Net Cash Outflows	77.263.373	142.117.777
LCR ratio	142,59%	118,72%
Regulatory limit	100%	
Internal limits		
Risk Appetit	> 120%	
Risk tolerance	110% - 120%	
Risk capacity	< 110%	

The LCR increased from 118.72% as at March 31, 2020 to 142.59% as at March 31, 2021.

5.10.2 Net stable funding ratio

The NSFR, reflecting the longer-term liquidity position of an institution, requires the available amount of stable funding to exceed the required amount of stable funding over a one-year period of extended stress. The rules regarding the liquidity reporting have been set out in Regulation (EU) No 575/2013 (CRR). As at March 31, 2021, there is no maintenance of a minimum ratio required by the CSSF.

Net Stable funding		Euro
	31.03.2021	31.03.2020
Total Available Stable Funding	721.978.838	1.160.582.135
Total Required Stable Funding	709.149.060	1.106.997.048

5.11 Interest rate risk exposures in the banking book

Interest rate risk in the banking book (‘IRRBB’) is the potential adverse impact of changes in interest rates on earnings and capital.

SNBL applies the CSSF circular 08/338 regarding the implementation of a stress test in order to assess the interest rate risk arising from non-trading book activities.

The purpose of the stress test on interest rate is to assess a variation of the economic value of the wealth assuming an increase or a decrease by 200 points of all interest rates.

The stress-test scenario is applied internally on a monthly basis.

The results of the stress tests done during the financial year ended March 31, 2021 are as follows:

Period	Scenario	Capital requirement
April 2020	+ 2%	-8.587.642
	- 2%	-115
May 2020	+ 2%	-8.470.193
	- 2%	-53
June 2020	+ 2%	-8.363.860
	- 2%	-56
July 2020	+ 2%	-8.226.806
	- 2%	791.472
August 2020	+ 2%	-8.025.136
	- 2%	72
September 2020	+ 2%	-7.929.335
	- 2%	-24
October 2020	+ 2%	-7.832.825
	- 2%	-198
November 2020	+ 2%	-7.690.258
	- 2%	-180
December 2020	+ 2%	-7.561.480
	- 2%	4.339.595
January 2021	+ 2%	-7.426.400
	- 2%	4.250.087
February 2021	+ 2%	-7.232.814
	- 2%	4.136.434
March 2021	+ 2%	-7.123.126
	- 2%	4.068.577

The Bank decides to allocate an amount Eur 8,000,000 corresponding to the rounded result of the Stress Testing as Internal Capital Allocation.

5.12 Operational risk

As indicated in the tables below, the basic indicator approach is applied to calculate the capital requirement for operational risk (31.03.21: Eur 53,229,092).

Operational risk				**31.03.2021 Euro**
	BI and its subcomponent	**31-03-20**	**31-03-19**	**31-03-18**
1	Interest, lease and dividend component	1.168.044	655.683	582.622
1a	Interest and lease income	7.692.322	8.834.722	7.091.073
1b	Interest and lease expense	-6.524.278	-8.179.039	-6.508.451
1c	Interest earning assets	0	0	0
1d	Dividend income	0	0	0
2	Services component	24.254.003	24.315.908	22.173.031
2a	Fee and commission income	24.697.857	24.291.998	22.150.505
2b	Fee and commission expense	-401.734	-382.256	-374.439
2c	Other operating income	276.159	406.166	396.965
2d	Other operating expense	-318.278		0
3	Financial component	4.346.687	3.717.680	3.952.889
3a	Net P&L on the trading book	4.346.687	3.717.680	3.952.889
3b	Net P&L on the banking book	0	0	0
4	BI	29.768.735	28.689.271	26.708.542
5	Business indicator component (BIC)	4.465.310	4.303.391	4.006.281
	Disclosure on the BI :			
6a	BI gross of excluded divested activities	Not applicable		
6b	Reduction in BI due to excluded divested activities	Not applicable		

	Minimum required operational risk capital	**31.03.2021 Euro**
1	Business indicator component (BIC)	4.258.327
2	Internal loss multiplier (ILM)	1
3	Minimum required operational risk capital (ORC)	4.258.327
4	Operational risk RWA	53.229.092

As defined in the EU 575/2013 regulation Part Three Title III Chapter 2 the calculation of the basic indicator is based on the arithmetic average over three years of the sum on the net interest income and net non-interest income and is based on the accounting figures from the financial reporting based on IAS standards (FINREP).

The increase of the business indicator component over the past 3 years is in line with the constant development of the funds business activity. On the other hand, the net P/L on trading book shows a constant decrease which is linked to the level of the foreign exchange activity. Indeed, in June 2016 it has been decided to transfer the execution of a part of the foreign exchange transactions related to two specific sub-funds to SMBCE London in order to avoid large exposure issue.

In addition, in order to manage SNBL's residual operational risk, SNBL has set up an overall organizational process that includes senior managers at the head of each department, policies and procedures applicable within each department and a data processing system among others aimed at ensuring proper segregation of duties.

5.13 Concentration Risk

The main assets concentration, which SNBL is exposed to, is managed within the credit risk category both for the own fund investments and the interbank dealing activity. Credit limits are regularly reviewed by the Risk management function and the Parent Company's Risk Management department to ensure adequate diversification of borrowing banks.

In respect of SNBL's business concentration on a limited number of clients, a detailed analysis by client of Funds' administration / custodian bank commissions received is performed every quarter by the Bank Accounting department.

5.14 Unencumbered assets information

The EBA specified the disclosure of information on asset encumbrance under Article 443 CRR with the EBA guidelines on the disclosure of encumbered and unencumbered assets on 26 June 2014.

An asset is encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn. The level of encumbered assets shows the Bank's ability to provide liquidity based on the current balance sheet and the Bank is required to monitor report and disclose asset encumbrance.

Given the Bank's activities, SNBL has a limit level of encumbered assets as described below:

Table 11 : Asset encumbrance			31.03.2021 Euro
	Encumbered assets	Unencumbered assets	Total
Loans on demand	40.384.008	537.810.495	578.194.503
Equity instruments	-	9.443.182	9.443.182
Debt securities	-	75.583.057	75.583.057
Loans and advances other than loans on demand	-	3.135.144	3.135.144
Other assets	-	44.430.415	44.430.415

The primary source of encumbrance is the reserve amount at the BCL.

5.15 Indicators of global systemic importance

Not applicable as SNBL is currently not identified as G-SIIs in accordance with article 131 of Directive 2013/36/EU.

6 Remuneration

Ref: Art 450 of the CRR

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 by SNBL.

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.

This Policy 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 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, 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 CRD III Circulars 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 reached or exceeded during the Period by any employee.

Remuneration by business area:

<u>Remuneration by business area during the Period (in EUR)</u>

Business area *	Number of beneficiaries in Full Time Equivalent	Fixed remuneration	Variable remuneration	Total remuneration
Services to investment funds: Global Custody, Securities and Pricing, Fund Accounting and Financial Reporting, Money Forex.	52.84	4,888,401.38 €	369,500.00 €	5,257,901.38 €
Support and Control Functions:	23.94	2,759,582.75 €	193,706.46 €	2,953,289.21 €
Total	**76.78**	**7,647,984.13 €**	**563,206.46 €**	**8,211,190.59 €**

* 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 ("Material Risk Takers").

6.1 Remuneration of Material Risk Takers during the Period (in EUR)

Number of beneficiaries in Full Time Equivalent	Fixed remuneration	Variable remuneration (cash only)	Total remuneration
12.7	2,451,711.01€	332,832.13 €	2,784,543.14 €

Variable remuneration refers to awards granted for the Period.

7 Other key elements of internal governance arrangements

SNBL internal governance ensures sound and prudent business management by establishing internal governance arrangements which are consistent with the three-lines-of-defense model.

The first line of defence consists of the business departments that take or acquire risks under defined policies and carry out controls.

SNBL procedures provide that the operating staff control, on a day-to-day basis, the transactions they carry out in order to identify as soon as possible the errors and omissions that occurred during the processing of the current transactions.

The second line is formed by the support functions under the responsibility of the Head of the Bank Accounting department, the IT Officer, the Chief Compliance Officer and the Chief Risk Officer which contribute to the independent risk control.

The third line consists of the internal audit function.

7.1 Levels of controls

SNBL internal control environment is based on the implementation of the following controls:

- day-to-day controls carried out by the operating staff;
- ongoing critical controls carried out by the staff in charge of the administrative processing of transactions;
- controls performed by the management; and
- controls carried out by internal control functions;

The day-to-day business of SNBL is run by the Management Committee.

The Management Committee determines and monitors in cooperation with the concerned department managers (i.e. Heads of business and administrative functions, the necessary human resources and trainings of SNBL employees in such a way as to enable them to carry out their responsibilities in an adequate and permanent manner.

7.2 The other committees and the corporate handbook

In addition to the previous mentioned control structures, SNBL has implemented among others the following bodies, roles and rules to make the control environment more efficient:

- Risk Committee;
- Credit Committee;
- Compliance Committee;
- New Product Committee;

- Business Continuity Committee;
- IT Committee;
- Information Security Officer;
- IT Officer;
- subsidiaries monitoring policy;
- non-standard and non-transparent activities rules;
- Disaster Recovery Plan / Business Continuity Plan;
- Outsourcing policy /in sourcing rules.
- Third party supplier policy and procedure for the relationship with third parties;

8 ISAE 3402 reporting

Since 2003, SNBL has engaged the accounting and auditing firm Deloitte Luxembourg, to conduct a former Statement on Auditing Standards (SAS) No. 70 (commonly referred to as "SAS 70") and current combined report including International Standard on Assurance Engagements (ISAE) 3402 and Statement on Service Organization Controls (SOC) No. 1. Both the former SAS 70 reports and the ISAE 3402/SOC 1 report is a Type 2 examination covering the period from 1 January to 31 December. ISAE 3402 and SOC 1 are internationally recognized assurance/attestation standards developed by the International Federation of Accountants (IFAC) and The American Institute of Certified Public Accountants (AICPA) respectively and are used as the standard for auditors to examine a service organization's controls related to their user entities' internal control over financial reporting.

The examination report covers an examination of the description of the system, the design of controls and the operating effectiveness of controls over a period of time.

The latest ISAE 3402/SOC 1 Report covered the period from January 1, 2020 to December 31, 2020 and no significant exceptions in the control objectives were revealed by Deloitte.

Disclaimer

Certain of the statements contained herein may be partial information and involve a certain degree of risk and uncertainty that could cause actual results or performance to differ materially from those expressed or implied in such statements. Actual results or performance may differ materially from those contained in such statements due to general economic conditions, market conditions, changes in laws and regulations, general competitive factors and other factors not specified here.