SMBC NIKKO

Sumitomo Mitsui Financial Group

SMBC NIKKO

SMBC NIKKO CAPITAL MARKETS LIMITED

Pillar 3 Disclosures

31 December 2017

Contents

Document disclaimer

- SMBC Nikko Capital Markets Limited and its subsidiaries ("CM-UK" or the "Group") are subject to consolidated supervision by the Financial Conduct Authority ("FCA"). The disclosures set out in this document have been provided in accordance with the disclosure requirements ("Pillar 3 disclosures") established under the 4th Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR"), hereinafter CRD IV package, which came into effect on 1 January 2014.
- The purpose of the Pillar 3 disclosures, as contained within this document, is to provide sufficient information to enable market participants to assess the risks within the Group.
- This document does not constitute any form of financial statement on behalf of CM-UK.
- This document reflects, where appropriate, information which is contained within the Consolidated Annual Report & Financial Statements of CM-UK.
- The information contained herein has been subject to internal review but has not been audited by CM-UK's external auditors.
- Although Pillar 3 disclosures are designed to provide transparent capital disclosure by banks and investment firms on a common basis, the information contained in this particular document may not be directly comparable with that made available by other firms. This may be due to a number of factors such as:
    - The mix of approaches allowed under the CRR;
    - The mix of exposure types;
    - The different risk appetites and risk profiles of firms; and/or
    - The different waivers and modifications granted by the FCA or the Prudential Regulation Authority ("PRA").

1. Overview

1.1 Background and scope

The CRD IV package is the latest regulatory framework across the European Union governing the management of risks and capital requirements for banks and investment firms.

The objective of CRD IV is to promote the safety and soundness of the financial system by requiring banks and investment firms to hold a level of capital appropriate to the risks inherent in their business model. CRR disclosure requirements ("Pillar 3") aim to complement the minimum capital requirements ("Pillar 1") and the supervisory review and evaluation process ("Pillar 2").

The Pillar 3 disclosures herein have been prepared in accordance with the disclosure requirements of CRR. These requirements are designed to promote market discipline by providing market participants with key information on the Group's risk exposures, risk management processes and, hence, capital adequacy. Improved public disclosures of such information leads to increased transparency and should lead directly to more effective market discipline.

Article 432 of the CRR allows the Group to omit any of the required disclosures that are deemed to be immaterial in that such an omission would not change the understanding of a reader relying on this information. In addition the Group may omit any disclosures where it believes that the information is proprietary or confidential. Information is deemed to be proprietary where we consider that, if shared, it would undermine our competitive position. Information is deemed to be confidential where there are obligations binding us to confidentiality with our counterparties and suppliers.

The Group has not omitted any disclosures on the grounds of being proprietary and/or confidential information.

1.2 Basis of Disclosure

The CRD IV disclosure requirements apply to CM-UK on a consolidated basis, consequently the disclosures below are presented on a consolidated basis. Unless otherwise stated all figures in this document are denominated in millions of United States dollars, and are as at 31 December 2017 (and 31 December 2016 where comparative figures are provided).

All the members within CM-UK are fully consolidated in the Group and there are no differences in the basis of consolidation for accounting and prudential purposes.

The Group does not have any significant subsidiaries (as defined under CRR Article 13 second paragraph) that require additional disclosures on an individual or sub-consolidated basis.

1.3 Frequency of Disclosure

After due consideration of the size and complexity of the operations, the Group has determined that this Disclosure Document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. However, the Group may decide to publish some or all disclosures more frequently than annually if there are future changes in the business that are deemed to be material by the Group's Board of Directors.

1.4 Location and Verification

This Disclosure Document has been reviewed and approved by the Group's Board of Directors but has not been subject to external audit. However, where data is equivalent to that included in the Annual Report and Financial Statements, such data has been subject to external audit during the formal review and verification process of the financial statements.

This report is published on the corporate website of SMBC Nikko Capital Markets Limited (www.smbcnikko-cm.com).

2. Corporate Structure and business activities

The Group is an investment business with derivatives and securities including business advisory divisions. It is part of a wider Sumitomo Mitsui Banking Corporation Group ("SMBC Group").

The Group consolidates the following legal entities:

- SMBC Nikko Capital Markets Limited ("the Company" or "CM Ltd"), company number 02418137 incorporated in England and Wales, a full scope investment firm authorised and regulated by the 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"), a wholly owned subsidiary of CM Ltd and a full scope investment firm incorporated in England and Wales, 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 of its affiliates.

- SMBC Capital Markets (Asia) Limited ("CM Asia"), incorporated in Hong Kong and authorised and regulated by the Hong Kong 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.

The Group's derivatives business provides interest rate and foreign exchange hedging products to customers and the members of the wider SMBC Group. The securities activities are focussed on customer facilitation and maximising order flow in the primary and secondary debt and equity markets, with a particular focus on Japan. The repo business is primarily a customer service rather than a source of funding. The business advisory group provides advice and support to SMBC Group customers seeking new business opportunities.

3. Risk Management objectives and policies

The Board ensures that risk management is embedded throughout the organisation by way of:

- 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.

Risk management is underpinned by SMBC's values driven culture.

3.1 Risk Management Framework

The Board has established an Enterprise Wide Risk Management Framework Policy that sets out the Group's objectives and defines how the risks it faces are managed. The framework covers governance arrangements, roles and responsibilities, risk appetites 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 Risk Management Framework Policy covers seven key components, which in summary are the following:

- Risk Governance Structure – who is responsible for the Group's risk management and what authorities are given,
- Risk Identification and Assessment – what risks the Group is faced by and how important each risk is,
- Risk Appetite – what level of risk for each risk type and on an aggregate basis the Group is prepared to take in the pursuit of strategic objectives of the Group,
- Risk Measurement – how risks are individually and collectively measured and recognised,
- Risk Monitoring and Reporting – how risks are monitored, controlled and reported to the Board, executive management and business owners,

- Stress Testing – Scenario analysis of potential downside risks, and
- Capital, liquidity and funding Planning and Management – how the Group's capital and liquidity resources should be managed.

3.2 Risk Governance

The Group recognises that well-defined and transparent risk governance arrangements are imperative to ensure effective overall management and oversight of risk management.

The Board retains all decision making powers, though it has delegated some of these to either committees or individuals.

The Group's risk management governance arrangements are comprised 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, and 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.

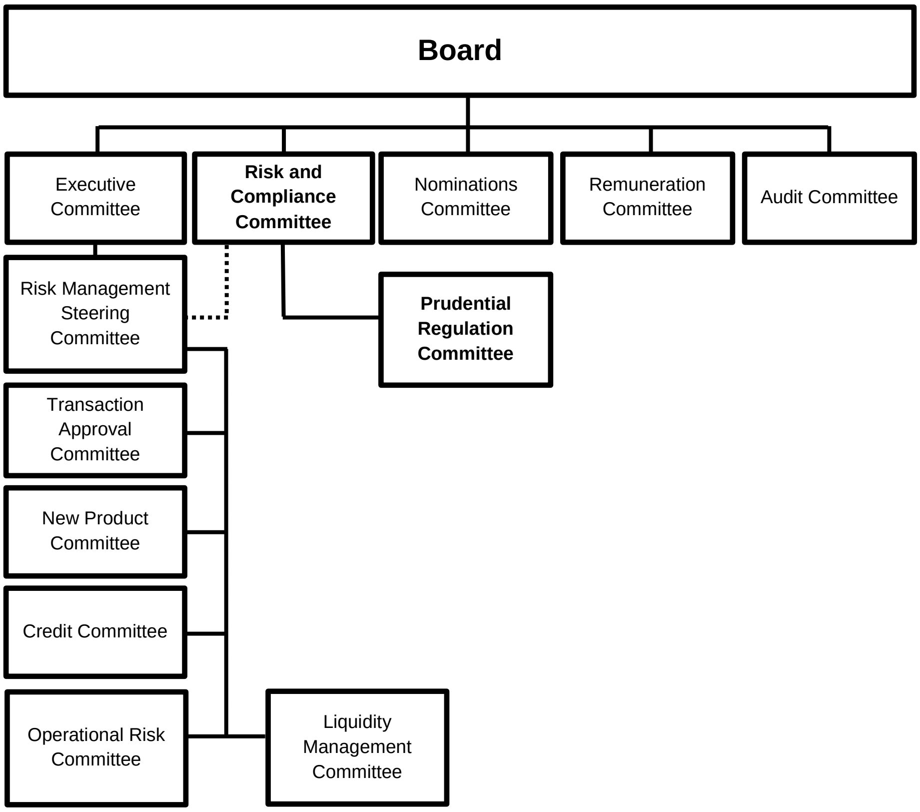
3.3 Risk Management Committee Structure

The Board has established the Board Risk and Compliance Committee (BRCC) with responsibility for providing oversight and advice to the Board on the current risk profile of the Group, its risk appetite and tolerance, the risk strategy, and the establishment and maintenance of an appropriate risk control framework. The BRCC includes independent non-executive directors as members and meets at least quarterly. It is responsible for providing oversight of:

- Adherence to the risk appetite,
- Implementation of risk strategy,
- Monitoring of current risk exposures,
- Stress and scenario testing,
- Capital management,
- Liquidity management, and
- Management of large exposures.

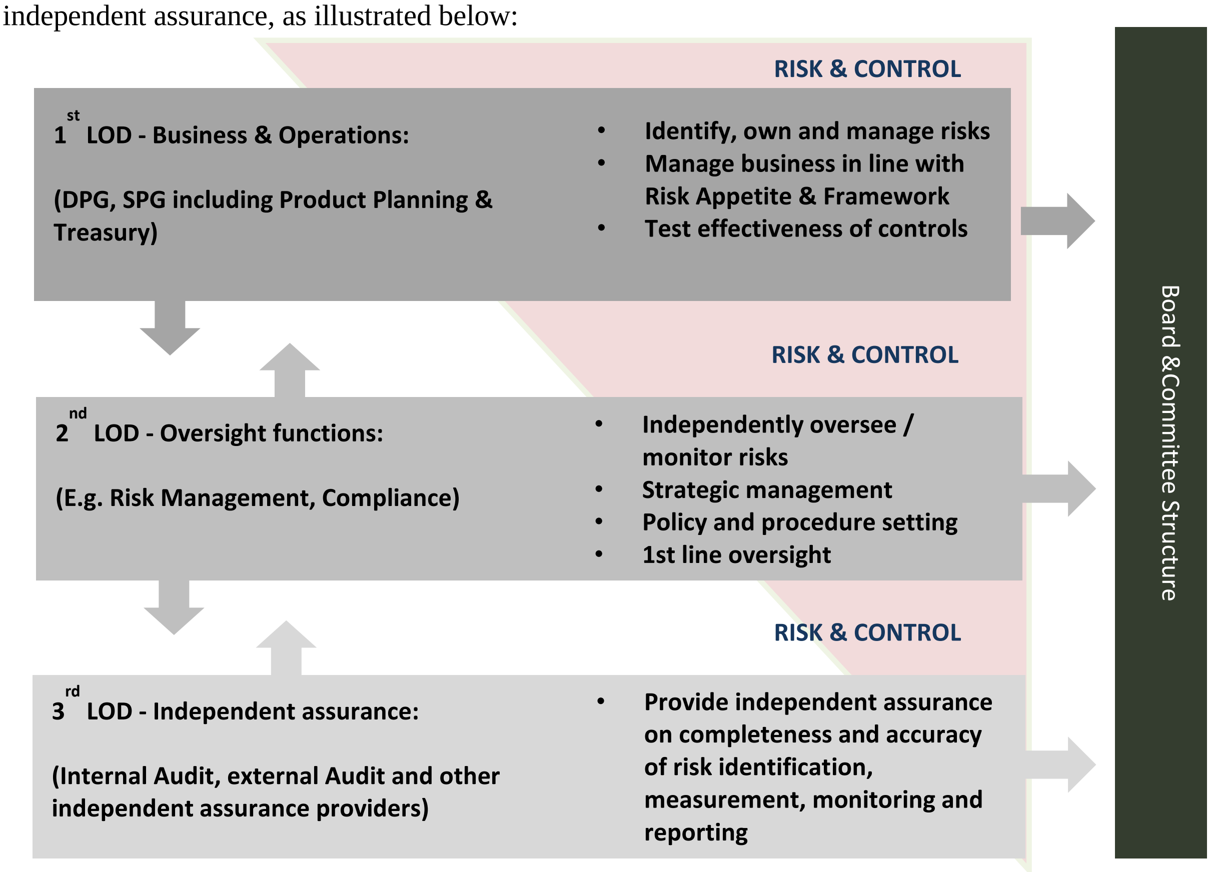
The Board delegates day-to-day management of the Group to the CEO who is further supported by a management committee framework including an Executive Committee, a Prudential Regulatory Committee, a Management Risk Committee (the Risk Management Steering Committee) and its sub-committees.

CM-UK's committee structure is illustrated below:



3.4 Three Lines of Defence ("3LOD")

The Group has adopted a 3 LOD approach to 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/management of risk from the functions that oversee risk and the function that provides independent assurance, as illustrated below:



3.4.1 First Line of Defence

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 objectives and risk appetite. The business functions constitute the first line of defence ("1st LOD") and are responsible for identifying and managing risks directly and are accountable for both upside and downside outcomes. Each business function undertakes a regular risk self-assessment that is presented for executive management scrutiny.

3.4.2 Second Line of Defence

The Risk and Compliance functions all report to the Board, and make up the second line of defence ("2nd LOD") responsible for day-to-day risk identification, assessment and monitoring. This provides oversight and guidance as well as advising, facilitating and challenging the 1st 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.

3.4.3 Third Line of Defence

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

3.5 Risk Identification and Assessment

The risk identification and assessment is based on the following principles, objectives and processes:

3.5.1 Key Principles and Objectives

The key principles for effective risk identification and assessment are:

- To identify the major risks that could impact the Group's long term sustainability,
- To assess the likelihood and impact of the risks materialising,
- To assess the robustness of the controls that mitigate the risks, and
- To ensure that identified risks are recorded on the Group's Risk Register.

The main objectives of the risk identification and assessment are:

- To help the Board with understanding the nature and size of the risks that the Group faces,
- To determine adequate capital and liquidity requirements on a forward looking horizon through ICAAP (Internal Capital Adequacy Assessment Process), ILAA (Internal Liquidity Adequacy Assessment) and RRP (Recovery and Resolution Plans) processes,
- To ensure effective controls are implemented and maintained, and
- To help the executive management with day-to-day decision making in the Group's business so such decisions will be in line with the strategic objectives and the risk appetite of the Firm.

3.5.2 Required Processes

The Group has a number of processes to ensure its risks are correctly identified and properly assessed, which include, but are not limited to:

- A risk identification process, which is on-going but also formally reviewed during the ICAAP process, through assessment and challenge of the Group's risk register and then presented to the BRCC for challenge, review and approval.
- An emerging risk identification process where contemporary and developing risks are identified, their potential impact evaluated, and mitigation actions are contemplated and reviewed and then presented to the BRCC for challenge, review and approval.

3.5.3 Responsibilities

The Risk Management Department is responsible for identifying such risks and preparing the explanation and assessment of such risks. The First Line of Defence must also continually seek to identify and assess the risks within its business activities.

3.6 Risk Appetite

Based on the risks that have been identified and assessed, the Board considers and sets out the Group's Risk Appetite in the context of the Group's strategic objectives. This is reviewed at minimum on an annual basis or in the event of a material change to the nature or size of risk faced by CM-UK.

The Group'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 fully documented in the Group's ICAAP.

The Board-approved risk appetite statement sets out a series of metrics that are monitored through a risk appetite dashboard. This dashboard addresses a series of risk categories:

- Solvency,
- Liquidity,
- Credit and concentration risk,
- Market risk,
- Operational risk,
- Conduct, compliance and reputational risk, and
- Earnings.

The current status of the Group's risk appetite metrics is reported to appropriate management committees on a monthly basis and to the BRCC quarterly. These results are displayed alongside the trigger and thresholds established by the Board. Defined procedures are set out for the escalation of any breaches of risk appetite to senior management and the Board.

As at 31 December 2017, the Group's risk exposures were within risk tolerance.

3.7 Material risks

A comprehensive risk assessment process is undertaken annually and is fully documented in the Group's ICAAP. From the ICAAP, CM-UK's material risks are identified as below which the Group has allocated appropriate capital against:

3.7.1 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.

Further details on the management of credit risk are contained in Chapter 7 below.

3.7.2 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 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. 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.

3.7.3 Concentration risk

Concentration risk is the risk of losses arising as a result of concentrations of exposures amongst individual counterparties, economic sectors or geographical regions due to imperfect portfolio diversification.

3.7.4 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 in matters of client interaction, Conduct Risk.

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 concerns potential detriment to the business, counterparties or employees caused by inappropriate judgements made in the course of business.

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.

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.

In 2017 and early 2018, regulatory compliance was enhanced by a number of measures, including the appointment of two independent non-executive directors to the Board; strengthening teams and processes in relation to regulatory reporting, risk management and compliance; and establishing an internal Prudential Regulation Committee to embed and better integrate processes such as ICAAP and the ILAA Process within the Group's overall governance framework.

3.7.5 Pension obligation risk

This is the risk to a firm caused by its contractual or other liabilities to or with respect to a pension scheme.

3.7.6 Other risks

The Group's Risk Register also analyses risks for which capitalisation is not considered to be an appropriate mitigant.

- **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.

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 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.

- **Collateral requirements in the event of a rating downgrade**

This is the risk that a downgrade of SMBC's credit rating requires the posting of additional collateral or payment of a termination fee on the client side of the trade flow. In the stress testing, it is assumed that a 2-notch downgrade takes place in the first two weeks of this stress and a 4-notch downgrade takes place in the remaining stress period out to 3 months. Stress testing results indicates that CM-UK has sufficient available liquidity resources to manage the cash requirements which may arise in such a situation.

- **Other non-financial risks**

The Group considers other potential risk impacts such as reputational and others which it manages within the overall policy framework.

- **Wrong way risk**

This is the risk that an exposure increases as the probability of the counterparty failure increases. A counterparty default typically coincides with increased exposure to that counterparty which subsequently results in increased losses. Wrong way risk can be caused by trade specific (idiosyncratic) or market general (systemic) reasons. Specific wrong way risk arises through poorly structured transactions, i.e. trades collateralized by own or related party shares. General wrong way risk arises where the credit quality of the counterparty may be correlated with a macroeconomic factor that also affects the value of the derivative transactions.

CM-UK has a strong preference to collateralise transactions with (normally US dollar) cash, but potentially may take government debt as collateral. Wrong way risk does not arise in normal market conditions given this preference for cash collateral or high grade government bonds, while wrong way risk in stressed market conditions is considered in the context of Pillar 2a counterparty credit risk requirement.

CM-UK does not have a public rating, however, in the event of a credit downgrade in the public rating of either SMBC or of the publicly rated, bankruptcy remote subsidiary SMBC DP there will be the potential for various liquidity events such as collateral calls or terminations upon downgrade. CM-UK therefore continuously monitors this position.

- **Interest Rate Risk in the Banking Book (IRRBB)**

The impact of IRRBB in CM-UK is not material as CM-UK's businesses are primarily trading book.

- **Macro-Economic Risks**

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 increasingly unstable geopolitical environment, and changes to the level and volatility of prices such as foreign exchange rates, credit spreads, commodity, equity prices or interest rates.

3.8 Directorships

Below is a list of CM-UK's directors and the number of both internal and external directorships they each serve.

Director	Internal directorships	External directorships
Mitsuhiro Akiyama	**8**	**0**
Tetsuro Imaeda	**6**	**0**
Bungo Miura	**1**	**0**
Keiichiro Nakamura	**4**	**0**
John David Thomas	**4**	**1**
Antony Yates	**6**	**0**
Patricia Jackson	**1**	**5**
Takahiro Yazawa	**3**	**0**
Naoki Okubo	**2**	**0**

All internal directorships are appointments within the SMBC Group.

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.

4. Own funds

Table 1 provides a summary of the own funds, capital requirements and capital ratios of CM-UK:

	2017	*2016*
	US$m	*US$m*
Common equity tier 1 (CET1) capital		
Called up share capital	779.0	779.0
Share premium	165.0	165.0
Retained earnings	382.2	323.0
Other reserves	(0.9)	(2.7)
	1,325.3	1,264.3
CET1 regulatory adjustments		
Intangible assets	(2.0)	-
Cash flow hedges	(0.5)	-
Changes in the value of own liabilities	(26.3)	(23.3)
Additional value adjustments	(2.2)	(1.5)
	(31.0)	(24.8)
Total CET1 capital	1,294.3	1,239.5
Additional tier 1 (AT1) capital		
Perpetual non-cumulative preference shares	360.0	360.0
	360.0	360.0
Total own funds	1,654.3	1,599.5

Risk weighted assets ("RWA")		
Credit risk	1,813.0	2,482.0
Operational risk	426.4	425.6
Market risk	702.5	200.2
Concentration risk	713.5	879.0
Credit Valuation Adjustment risk	285.5	202.7
Total risk weighted assets	3,940.9	4,189.5
CET1 capital ratio	32.8%	29.7%
Total capital ratio	42.0%	38.4%

Table 2 shows the reconciliation of total capital to shareholders' equity.

Table 2

	2017	***2016***
	US$m	***US$m***
Shareholders' equity per financial statements	1,685.3	1,624.3
Less Tier 1 deductions:		
Capital deductions	(31.0)	(24.8)
Tier 1 capital after deductions	1,654.3	1,599.5

4.1 Common Equity Tier 1 ("CET1") Capital

CM-UK's Common Equity Tier 1 capital is made up of

- $779 million of fully paid-up ordinary share capital,
- $165 million share premium, and
- audited reserves and other reserves.

Ordinary shares carry voting rights and are wholly owned by SMBC.

4.2 Additional Tier 1 Capital ("AT1")

Additional Tier 1 Capital consists of $360 million of perpetual, non-cumulative preference shares, fully paid-up and qualifies as AT1.

4.3 Capital deductions

CM-UK's own funds are subject to the following deductions from CET1:

- Deduction of intangible assets
- Prudential filters, which include:
    - Reversal of the fair value reserves related to gains or losses on cash flow hedges on projected cash flows,
    - Reversal of the gain or losses on liabilities that result from changes in the own credit standing of the firm, and
    - Application of the additional value adjustments.

5. Capital Requirements

CM-UK determines its Pillar 1 capital requirements on a daily basis in accordance with the relevant CRR rules. A summary report, which includes a variance analysis and highlights points of note, is then distributed to the Group's Capital Management Committee, which consists of senior management, heads of businesses, risk management, and finance.

Table 3 provides a summary of the RWA and the Pillar 1 capital requirements by risk category.

Table 3

	RWA		**Capital Requirements**	
	2017 US$m	2016 US$m	2017 US$m	2016 US$m
Credit risk	1,813.0	2,482.0	145.0	198.6
Operational risk	426.4	425.6	34.1	34.0
Market risk	702.5	200.2	56.2	16.0
Concentration risk	713.5	879.0	57.1	70.3
Credit Valuation Adjustment risk	285.5	202.7	22.8	16.2
Total	3,940.9	4,189.5	315.3	335.2

5.1 Pillar 1 approach

CM-UK adopts the following approaches to calculating Pillar 1 capital requirements:

Risk category	**Pillar 1 approach**
Credit risk	Standardised approach under Chapter 2, Title II, Part Three of CRR
Market risk	
- Interest rate general market risk	Maturity based approach under CRR Article 339
- Interest rate specific risk	Standardised approach under CRR Article 336
- Equity risk	Standardised approach under Section 3, Chapter 2, Title IV, Part Three of CRR
- Foreign-exchange risk	Standardised approach under CRR Article 352
Operational risk	Basic Indicator Approach under Chapter 2, Title III, Part Three of CRR.
Credit Valuation Adjustment risk	Standardised method under CRR Article 384
Concentration risk	Additional own funds requirements for large exposures in the trading book under Article 397
Settlement risk	CRR Article 378

5.2 Settlement risk

The credit risk RWA and Pillar 1 capital requirement in Table 3 above includes settlement risk RWA and capital requirements, which were $0.2m and $0.01m, respectively, as at 31 December 2017.

6. Capital Buffers

The Group is required to hold the following capital buffers under CRD IV.

6.1 Capital conservation buffer ("CCoB")

The CCoB is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. The requirement is 2.5% of RWA but has been phased in from 2016 in steps of 0.625% per annum to the full value in 2019. The CCoB rate for 2017 is 1.25%.

6.2 Countercyclical capital buffer ("CCyB")

The CCyB is designed to require financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

Table 4 shows the amount of institution-specific countercyclical capital buffer as at 31 December 2017.

Table 4

	Total
Total risk-weighted assets (US$m)	3,940.9
Institution specific countercyclical capital buffer rate	0.004%
Institution specific countercyclical capital buffer requirement (US$m)	0.2

As at 31 December 2017, the Group had relevant credit exposures to Norway and Hong Kong (with insignificant amount) which have set their individual CCyB rate as 1.50% and 1.25% respectively.

7. Credit risk

7.1 Credit risk adjustments

Credit risk represents the potential losses that CM-UK would incur if counterparty failed to perform its obligations under contractual terms.

A financial asset (loan and receivable) is defined as past due when a counterparty has failed to make a payment when contractually due.

A financial asset (loan and receivable or available for sale investment) is impaired if its recoverable amount is less than its carrying amount on the balance sheet.

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 2017, no adjustments in respect of asset impairments were made (31 December 2016: $nil).

7.2 Fair value reserve

Another element of CM-UK's 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.

The sections below contain a number of disclosures regarding CM-UK's exposures to credit risk.

7.3 Credit risk RWA and capital requirements

Table 5 shows CM-UK's RWA and Pillar 1 capital requirements by exposure class.

Table 5

	RWA		***Capital Requirements***	
	2017	***2016***	***2017***	***2016***
	US$m	***US$m***	***US$m***	***US$m***
Institutions	485.8	648.2	38.9	51.9
Corporates	1,291.0	1,804.2	103.3	144.3
Central governments	-	-	-	-
Multilateral development banks	0.5	-	-	-
Others (fixed assets, accruals & other)	35.7	29.6	2.8	2.4
	1,813.0	2,482.0	145.0	198.6

Table 6 shows residual maturity breakdown of RWA by exposure classes.

Table 6

31 December 2017	**< 3 months**	**< 1 year**	**1 - 5 years**	**> 5 years**	**Total RWA**
	US$m	***US$m***	***US$m***	***US$m***	***US$m***
Institutions	322.1	29.8	118.1	15.8	485.8
Corporates	15.5	23.6	335.1	916.4	1,291.0
Multilateral development banks	-	-	0.5	-	0.5
Other	35.7	-	-	-	35.7
	373.3	53.4	453.7	932.2	1,813.0

7.4 Gross and net exposures

Gross exposures are CM-UK's exposures to counterparties after accounting offsets and without taking into account the effects of credit risk mitigation. For derivative exposures, CM-UK applies contractual netting under Section 7, Chapter 6, Title II, Part Three of CRR, to derive at the gross exposure values where the Group has netting agreements in place with counterparties that are legally valid and enforceable in the relevant jurisdictions. See Table 15 below for the effect of contractual netting for derivatives.

CM-UK adopts the following approach to calculating net exposures:

- Credit risk mitigation: CM-UK applies the rules under Chapter 4, Title II, Part Three of CRR to recognise the effect of credit risk mitigants that meet the eligibility criteria. See Chapter 7.7 for further details.

Table 7 shows gross and net exposures by exposure classes.

Table 7

	Gross Exposures		*Net Exposures*	
	2017	***2016***	***2017***	***2016***
	US$m	***US$m***	***US$m***	***US$m***
Institutions	10,897.4	14,918.5	1,809.2	1,701.6
Corporates	3,284.6	2,674.2	1,372.2	2,099.7
Central governments	510.4	-	510.4	-
Multilateral development banks	85.7	115.4	85.7	115.4
Other	38.0	36.5	38.0	36.5
	14,816.1	17,744.6	3,815.5	3,953.2

Table 8 shows geographic distribution of the gross exposures, broken down in significant countries by exposure classes.

Table 8

31 December 2017	**Japan**	**United States of America**	**United Kingdom**	**Other Countries**	**Total Gross Exposures**
	US$m	***US$m***	***US$m***	***US$m***	***US$m***
Institutions	6,181.3	2,231.1	1,653.0	832.1	10,897.4
Corporates	-	704.7	1,170.1	1,409.8	3,284.6
Central governments	-	450.3	-	60.1	510.4
Multilateral development banks	-	-	-	85.7	85.7
Other	-	-	38.0	-	38.0
	6,181.3	3,386.0	2,861.2	2,387.7	14,816.1

Table 8 (continued)

31 December 2016	**Japan**	**United States of America**	**United Kingdom**	**Other Countries**	**Total Gross Exposures**
	US$m	***US$m***	***US$m***	***US$m***	***US$m***
Institutions	7,682.6	2,891.2	2,551.8	1,792.9	14,918.5
Corporates	-	1,206.3	365.2	1,102.7	2,674.2
Central governments	-	-	-	-	-
Multilateral development banks	-	4.2	-	111.2	115.4
Other	-	35.7	-	0.9	36.5
	7,682.6	4,137.4	2,917.0	3,007.7	17,744.6

Table 9 shows total amount of gross exposures and the average amount of the gross exposures over the period broken down by exposure classes.

Table 9	**Year-end Gross Exposures**		**Average Gross Exposures**	
	2017	**2016**	**2017**	**2016**
	US$m	***US$m***	***US$m***	***US$m***
Institutions	10,897.4	14,918.5	11,974.0	14,074.2
Corporates	3,284.6	2,674.2	2,885.8	2,594.0
Central governments	510.4	-	127.6	0.2
Multilateral development banks	85.7	115.4	85.9	143.4
Other	38.0	36.5	36.3	48.5
	14,816.1	17,744.6	15,109.6	16,860.3

Table 10 shows distribution of the gross exposures by industry and exposure classes.

Table 10

31 December 2017	**Banking & Other financial services**	**Government & Supranationals**	**Education Services**	**Healthcare**	**Other**	**Total Gross Exposures**
	US$m	***US$m***	***US$m***	***US$m***	***US$m***	***US$m***
Institutions	10,879.4	-	-	-	-	10,897.4
Corporates	1,406.8	-	484.0	274.9	1,118.9	3,284.6
Central governments	-	510.4	-	-	-	510.4
Multilateral development banks	-	85.7	-	-	-	85.7
Other	-	-	-	-	38.0	38.0
	12,286.2	596.1	484.0	274.9	1,156.9	14,816.1

Table 11 shows distribution of the exposures by for other corporates as noted in Table 10 above.

Table 11

Other - Corporates	**Gross Exposures**
	US$m
Manufacturing	333.4
Transportation	245.9
Electricity, gas and water supply	239.1
Mining and quarrying	129.9
Administrative and support service activities	44.6
Professional, scientific and technical activities	27.3
Information and communication	27.3
Wholesale and retail trade	26.0
Real estate activities	16.4
Entertainment and recreation	7.4
Other services	21.6
Total gross exposure	1,118.9

7.5 Use of External Credit Assessment Institutions ("ECAI")

Under the standardised approach to credit risk, CM-UK uses ECAI's external credit assessment to determine the risk weight to be applied to exposure amounts. This is performed via a mapping of external credit ratings to credit quality steps ("CQS"), using the standard association published by the European Banking Authority ("EBA").

For this purpose, CM-UK uses the following ECAIs and there have been no changes in the choice of ECAI during the year:

- Moody's
- S&P

Table 12 shows CM-UK's gross exposures by exposure class and obligor CQS as at 31 December 2017.

Table 12

CQS	**Institutions**	**Corporates**	**Central Governments**	**Multilateral Development Banks**	**Other**	**Total**
1	610.3	458.3	510.4	85.7	0.7	1,665.4
2	9,715.9	130.5	-	-	37.2	9,883.7
3	72.6	637.7	-	-	-	710.3
4	493.1	1,067.4	-	-	-	1,560.5
5	-	-	-	-	-	-
Unrated	5.5	990.7	-	-	-	996.1
Total	10,897.4	3,284.6	510.4	85.7	38.0	14,816.1

Table 13 shows CM-UK's net credit exposure values after credit risk mitigation by exposure class and obligor CQS.

Table 13

CQS	**Institutions**	**Corporates**	**Central Governments**	**Multilateral Development Banks**	**Other**	**Total**
1	597.8	36.2	510.4	85.7	0.7	1,230.7
2	1,145.9	106.2	-	-	37.2	1,289.4
3	49.8	228.0	-	-	-	277.8
4	10.5	23.1	-	-	-	33.7
5	-	-	-	-	-	-
Unrated	5.3	978.7	-	-	-	983.9
Total	1,809.2	1,372.2	510.4	85.7	38.0	3,815.5

7.6 Counterparty credit risk

Counterparty credit risk ("CCR") means 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. The following products are subject to CCR:

- Derivative contracts, and
- Securities financing transactions ("SFT").

CCR forms a significant portion of the credit risk RWA. CM-UK calculates the exposure values of the contracts subject to CCR using the following approaches:

- Derivative contracts: 'Mark-to-Market Method' under CRR Article 274, and
- SFT: Financial Collateral Comprehensive Method under CRR Article under CRR Article 223 & 224.

Table 14 shows a breakdown of credit risk by CCR and other credit risk.

Table 14

	RWAs		***Gross credit risk Exposures***		***Net Exposures***	
	2017 US$m	***2016 US$m***	***2017 US$m***	***2016 US$m***	***2017 US$m***	***2016 US$m***
CCR - Derivative contracts	1,586.3	2,357.3	6,762.0	6,522.1	2,544.5	3,440.2
CCR - Securities financing contracts	28.8	28.7	6,860.0	10,846.0	76.9	136.3
Credit Risk - other	197.9	96.0	1,194.1	376.5	1,194.1	376.7
Total	1,813.0	2,482.0	14,816.1	17,744.6	3,815.5	3,953.2

Table 15 shows a breakdown of derivative counterparty credit risk exposures.

Table 15

	2017	*2016*
	US$m	*US$m*
Gross positive fair value of derivative contracts	7,332.3	7,336.7
Potential future credit exposure	1,752.9	2,833.6
Netting benefits	(2,323.1)	(3,648.2)
Gross credit exposure on derivative contracts	6,762.0	6,522.1
Collateral (held)/placed (note below)	(4,217.6)	(3,081.9)
Total net derivatives credit exposures	2,544.5	3,440.2

Note that the collateral held is all eligible financial collateral as defined under Chapter 4, Title II, and Part Three of CRR. See Credit Risk Mitigation below regarding collateral.

7.7 Credit Risk Mitigation

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

- Collateral and netting agreements, which are actively pursued from the standpoint of both credit and liquidity risks. Collateral is predominantly in the form of cash, mainly in major currencies. Securities collateral is limited to high grade government bonds.
- Parental guarantees, which the Group have purchased to cover specifically identified counterparty credit risks.
- Strict credit control procedures and limits monitoring, which ensure that all front office staff incorporates a comprehensive credit assessment in their approach to pricing.

The Group recognises the effect of eligible financial collateral as per Table 15 above in the RWA calculation.

8. Market Risk

Table 16 shows CM-UK's RWA and Pillar 1 market risk capital requirements by exposure type.

Table 16	**RWA**		**Market Risk Requirements**	
	2017	***2016***	***2017***	***2016***
	US$m	***US$m***	***US$m***	***US$m***
Foreign exchange	23.4	12.8	1.9	1.0
Equity	65.0	41.6	5.2	3.3
Interest rate	614.1	145.8	49.1	11.7
Total	702.5	200.2	56.2	16.0

Table 17 shows CM-UK's equity market risk capital requirement by type.

Table 17

	2017 US$m	***2016 US$m***
General market risk	1.2	1.4
Specific market risk	4.0	1.9
Total equity market risk requirement	5.2	3.3

Note that CM-UK does not have any equity exposures that are not included in the trading book.

Table 18 shows CM-UK's interest rate market risk capital requirement by type.

Table 18

	2017 US$m	***2016 US$m***
General market risk	19.1	3.1
Specific market risk	30.0	8.6
Total interest rate market risk requirement	49.1	11.7

9. Leverage

The purpose of monitoring and measuring this metric is to prevent the risk of a build-up of 'excessive' leverage. This is not a material risk to CM-UK.

9.1 Approach to leverage ratio exposures

CM-UK calculates the leverage ratio exposures based on accounting values of the assets on the balance sheet, except for the following:

- Leverage ratio exposures for derivative contracts: based on the exposure values calculated for CCR purposes (see Chapter 7.6 above).
- Leverage ratio exposures for SFTs: a counterparty credit risk add-on (calculated under CRR Article 429b) is included in addition to the accounting values of the assets.

9.2 Approach to leverage ratio reporting

- Point in time reporting: under Recital 9 of the Leverage Ratio Delegated Regulation, CM-UK monitors and reports leverage ratio each quarter based on quarter-end data.
- Tier 1 capital: CM-UK calculates the leverage ratio using Tier 1 capital both under the transitional provisions and the 'full-loaded' approach. There is no material difference between the leverage ratios calculated on both bases.

Tier 1 capital in Table 19 represents the amount under the transitional provisions.

Table 19 shows breakdown of leverage ratio exposures by product.

Table 19

	2017 ***US$m***	***2016*** ***US$m***
Leverage ratio common disclosure		
On balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	5,323.4	4,096.9
Asset amounts deducted in determining Tier 1 capital	(31.0)	-
Total	5,294.4	4,096.9
Derivative exposures		
Replacement cost associated with derivatives transactions	3,512.3	1,594.5
Add-on amounts for PFE associated with derivatives transactions	3,192.6	2,835.7
Total	6,704.9	4,430.2
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting)	3,650.9	5,537.3
Add-on amount for counterparty credit risk exposure for SFT assets	30.8	298.7
Total	3,681.7	5,836.0
Total leverage ratio exposures	**15,679.0**	**14,363.1**
Total Tier 1 capital	**1,654.3**	**1,599.5**
Leverage ratio	**10.6%**	**11.1%**

Table 20 shows the reconciliation of accounting assets and leverage ratio exposures.

Table 20

	2017 ***US$m***	***2016*** ***US$m***
Total assets as per published financial statements	16,087.5	17,001.2
Reversal of accounting positive MTM for derivative exposures	(7,113.2)	(7,367.0)
Derivative exposures for leverage	6,704.9	4,430.2
Adjustments for securities financing transactions	30.8	298.7
Capital deduction	(31.0)	-
Leverage ratio exposure	15,679.0	14,363.1

10. Asset encumbrance

The Group determines encumbered assets and collateral in a manner consistent with the definition provided in the EBA Guidelines on the disclosure of encumbered assets. Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use. The key sources of encumbrance are repurchase agreements, trading liabilities and derivative activities. Asset encumbrance is integral to the Group's business and funding model. The types of encumbered assets have remained consistent during the year.

The Group utilises standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements.

Table 21 shows encumbered and unencumbered assets by asset category.

All figures in this section are in USD millions

Table 21

31 December 2017	**Encumbered assets**		**Unencumbered assets**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets of the reporting institution				
Loans on demand	-	-	719.7	-
Equity instruments	-	-	-	-
Debt securities	-	-	1,313.4	1,313.4
Loans and advances other than loans on demand	3,371.5	-	3,748.5	-
Other assets	-	-	6,934.5	-
	3,371.5	-	12,716.1	1,313.4

31 December 2016	**Encumbered assets**		**Unencumbered assets**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets of the reporting institution				
Loans on demand	-	-	334.8	-
Equity instruments	-	-	-	-
Debt securities	1.5	1.5	718.0	718.0
Loans and advances other than loans on demand	3,153.1	-	121.6	-
Other assets	-	-	12,672.1	-
	3,154.6	1.5	13,846.6	718.0

Table 22 shows collateral received that are encumbered and available for encumbrance.

Table 22

31 December 2017	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Collateral received by the reporting institution		
Loans on demand	-	-
Debt securities	2,993.0	2,293.0
Loans and advances other than loans on demand	-	-
Other collateral received	-	-
	2,993.0	2,293.0

31 December 2016	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Collateral received by the reporting institution		
Loans on demand	-	-
Debt securities	5,122.6	1,454.0
Loans and advances other than loans on demand	-	-
Other collateral received	-	-
	5,122.6	1,454.0

Table 23 shows sources of encumbrances by types of financial liabilities that trigger the encumbrance.

Table 23

31 December 2017	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities		
Derivatives	3,339.2	3,352.8
Repurchase agreements	2,996.0	2,990.0
	6,335.2	6,342.8

Table 23(continued)

31 December 2016	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities		
Derivatives	3,111.9	3,153.0
Repurchase agreements	5,196.3	5,124.1
	8,308.2	8,277.1

Appendix 1: Remuneration disclosures for the 2017 financial year

SMBC Nikko Capital Markets Limited Group ("CM-UK") is subject to the FCA's Remuneration Code and is categorised as a Proportionality level 3 firm. This section provides further information on CM-UK's remuneration policies and governance in addition to quantitative information on remuneration in respect of the financial year ending 31st December 2017.

1. Remuneration Policy

The Remuneration Policy ("Policy") sets out the policies and practices of remuneration for all employees of CM-UK including international secondees from SMBC and SMBC Nikko Securities Inc., and is intended to reflect CM-UK's overall business philosophy, aims and objectives.

The Remuneration Code applies to all employees of CM LTD and its subsidiaries. SMBC Derivative Products Limited ("SMBC DP") currently has no employees and is governed by three non-executive directors as it relies on an Agency Agreement with CM Inc. to provide all of its required services. In this Appendix document, SMBC DP and CM LTD are referred to as CM-UK while SMBC DP, CM LTD, CM-Asia and CM Inc. are referred to as the Group.

A continuing focus during 2017 has been to ensure that CM-UK's approach to discretionary remuneration is structured in accordance with the FCA's Remuneration Code ("the Code").

In summary, the aims of the Policy include the following statements:

a) Employees should be remunerated by means of a mix of basic salary, benefits and discretionary bonus relevant to their function and responsibilities;

b) The amount of fixed remuneration, including salary and benefits, should be sufficient for an acceptable standard of living without a dependency on discretionary bonus;

c) Employees should have the opportunity to share in the success of CM-UK and SMBC, and also share the impact of losses in years of poor performance;

d) Any discretionary bonus should be based on a mixture of SMBC results, Group results, department results and individual contribution;

e) There should be no individual formula-based bonuses in CM-UK;

f) Remuneration should be affordable and appropriate in terms of value allocated to CM-UK's shareholder and employees;

g) Any discretionary bonus should take account of a range of factors, including the risk profile of the business and the skills, knowledge and behaviours of the employee;

h) Variable compensation should not normally be guaranteed, and should only be used exceptionally as a recruitment tool, and only be paid to any individuals in their first 12 months of service.

The policy is owned by the Remuneration Committee ("RemCo"), who will review the policy annually or more frequently if necessary. The RemCo has the authority to make significant revisions to the policy. Minor revisions may be made by the Head of Human Resources and approved by the CEO, with ratification by the RemCo.

The mandate of the RemCo includes, but is not limited to:

- Reviewing and recommending to the board the approval of the Remuneration Policy

- Reviewing and approving current and deferred remuneration for identified Material Risk takers
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments

2. Regulation

CM-UK is committed to the maintenance of robust remuneration arrangements that are in accordance with regulatory requirements including the Code.

Here are some of the ways in which the Group fulfils this commitment:

a) Scope and Application – CM-UK has a clear process to identify employees whose professional activities could have a significant impact on the firm's risk profile, including senior risk and compliance officers, in accordance with the FCA Remuneration Code. Such employees are designated as Material Risk Takers ("MRT") and they are made aware of the implications of their status;

b) Governance – CM-UK is categorised as a significant, Proportionality Level 3 firm. In line with FCA Proportionality guidelines, CM-UK has constituted a Remuneration Committee to strengthen remuneration governance. The committee is primarily responsible for ensuring CM-UK's remuneration policies comply with the FCA Remuneration Code in addition to specific responsibilities for the review of MRT compensation, bonus pool funding and employee outcomes. The Head of Human Resources will seek review of the Remuneration Policy Statement and this Pillar 3 Risk Disclosure from external consultants from time to time as deemed appropriate and necessary to confirm compliant approach to remuneration and the required disclosure. The last review of the documentation, approach and compliance was undertaken by Price Waterhouse Cooper (PwC) for the FY16 performance year.

c) Capital – The aggregate total of variable remuneration in 2017 was considered in the context of CM-UK's overall capital resources;

d) Guarantees – The policy is that guarantees are used only in exceptional circumstances, only in the case of new hires and only in their first 12 months of service;

e) Risk–focused Remuneration Policies – CM-UK's policies, procedures and practices promote sound risk management. This is an important part of CM-UK's Policy which links risk and remuneration through the governance process, the performance evaluation process, deferral structures and performance adjustment provisions;

f) CM LTD has a top down risk adjustment which is produced by the Risk Management department. This uses attributed direct costs and then incorporates a cost of capital in respect of each of our Pillar 1 and Pillar 2A risks to reflect capital usage and thereby assess both profitability and appropriateness of the size of bonus funds.

g) Deferral and payment in share based schemes – See Section 7;

h) Conduct assessment is a key part in the assessment of non-financial performance.

3. Material Risk Takers

CM-UK has identified its MRTs in accordance with Remuneration Code with reference to the EBA Regulatory Technical Standards (RTS) for the definition of material risk takers for remuneration purposes. CM-UK has developed and applied internal qualitative and quantitative assessments against the defined criteria to identify those individuals that have a material impact upon the firm's risk profile.

For the performance year 2017 there were 57 MRTs identified in CM-UK.

4. Control Functions

Employees engaged in Risk and Compliance functions are independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front line business units in the process, and is reviewed and approved by the Remuneration Committee. At least 50% of the total pay for employees in control functions is fixed pay.

5. Base Salary

Base salary is the fixed payment made to an employee for their services. It does not include allowances or benefits and is the basis for salary-related benefits such as pension contributions.

The amount of salary paid to an employee will depend on the following factors:

a) The market rate for the function;

b) The consistency of the market rate with internal peer groups;

c) The knowledge, experience and competencies of the individual;

Base Salary is reviewed annually on 1 April.

Fixed remuneration comprises of base salary, allowances and benefits.

6. Variable Pay

Variable pay in CM-UK is defined as annual discretionary bonus, which is awarded based on SMBC results, CM Group results, departmental results and individual performance.

The total bonus pool amount is determined by reference to CM-UK's risk-adjusted criteria, which include both quantitative and qualitative measures.

Individual discretionary bonuses are based on performance and non-performance based criteria. Adherence to applicable risk and control frameworks is part of the performance assessment.

All employees are eligible to be considered for a discretionary bonus award as long as they began their employment with the Group on or before the last day of February of the appropriate performance year. All awards for new joiners are pro-rated based on their start date.

For FY17 the core performance criteria were:

To ensure client satisfaction is delivered to the highest standard, ensuring that whether internal and/or external clients we maintain focus on customer service, market integrity and high standards of conduct.

To rigorously manage risks associated with each role, including all projects, tasks and responsibilities under our remit, focus on conduct risk, maintaining high standards of personal, business and market conduct and ensure appropriate governance processes are adhered to in order to minimise the internal and external risks faced by CM-UK.

To effectively lead, develop and motivate the team to ensure delivery against objectives and to maximise team and individual performance potential. Create and nurture an environment and culture that supports diversity and working with respect.

CM-UK set a leverage cap for individual bonuses at 400% of the individual's base salary for the 2016 performance year upon which this disclosure is based. As a Proportionality level 3 firm, CM-UK is not restricted by the bonus cap of 100% of fixed pay. For the 2017 performance year CM UK has voluntarily adopted a deferral policy and implemented a variable pay cap of 200%.

7. Deferral and Performance Adjustment

As a Proportionality level 3 firm and in accordance with the Remuneration Code, CM-UK has dis-applied 1) Retained shares and other instruments; 2) Deferral; and 3) Performance adjustment for the 2017 remuneration cycle.

8. Remuneration of SMBC Nikko Capital Markets Limited in Remuneration Year 2017

	Senior Managers	Other members of staff designated as MRT	Total
	2017 GBP '000s	2017 GBP '000s	2017 GBP '000s
Total remuneration	3,201	8,154	11,355

NB the variable pay included in the figures above is in respect of the 12 month performance period ending 31 March 2017.