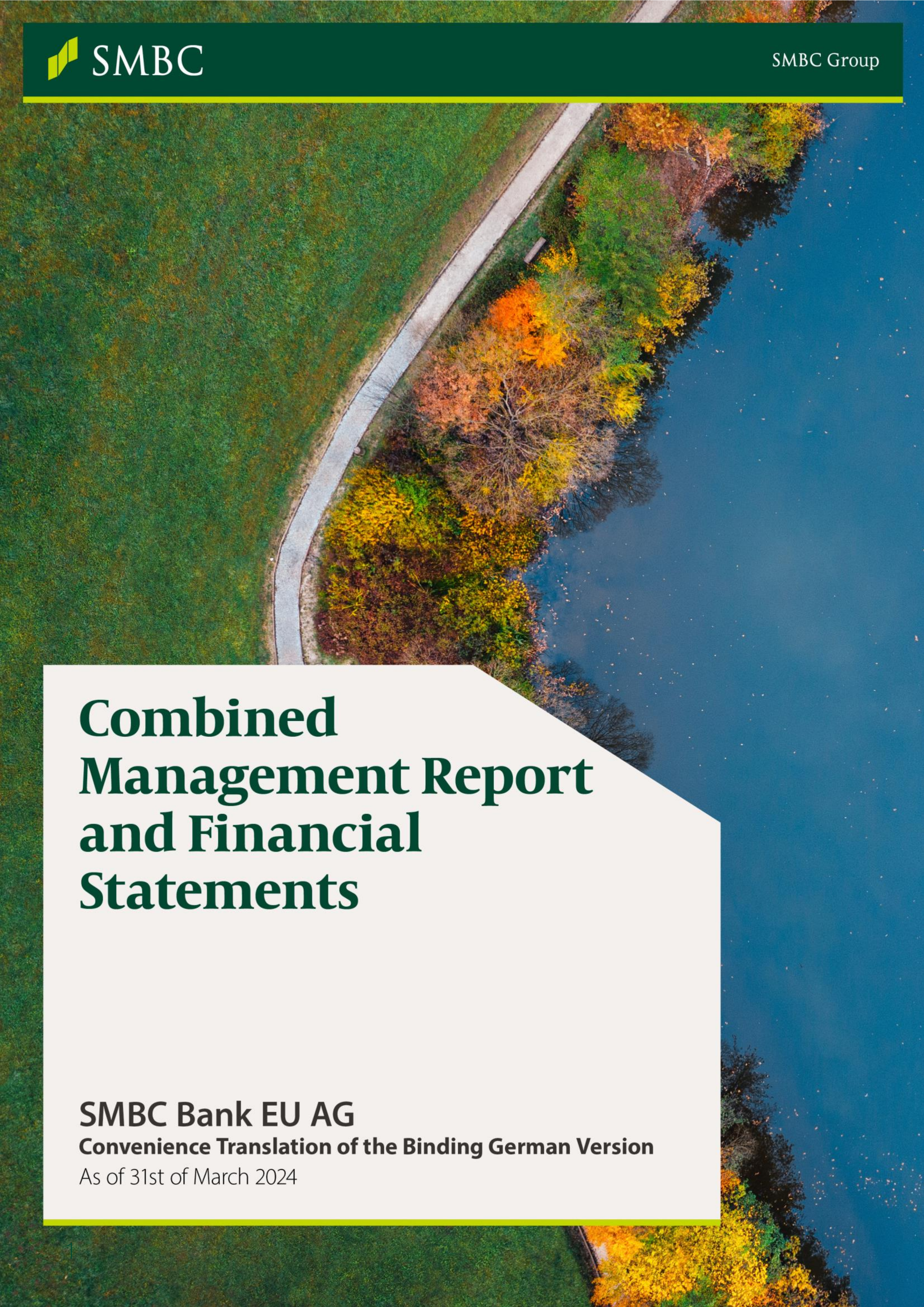

SMBC

SMBC Group

Combined Management Report and Financial Statements

SMBC Bank EU AG

Convenience Translation of the Binding German Version

As of 31st of March 2024

Contents

Annual financial statements as at 31 March 2024 and combined management report

TRANSLATION – AUDITOR'S REPORT

SMBC Bank EU AG
Frankfurt am Main, Germany

KPMG AG
Wirtschaftsprüfungsgesellschaft

The English language text below is a translation provided for information purposes only. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may arise from the translation.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor's Report

To SMBC Bank EU AG, Frankfurt am Main

Report on the Audit of the Annual Financial Statements and of the Combined Management Report

Opinions

We have audited the annual financial statements of SMBC Bank EU AG, Frankfurt am Main, which comprise the balance sheet as at 31 March 2024, and the statement of profit and loss for the financial year from 1 April 2023 to 31 March 2024, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report of SMBC Bank EU AG for the financial year from 1 April 2023 to 31 March 2024.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 March 2024 and of its financial performance for the financial year from 1 April 2023 to 31 March 2024 in compliance with German Legally Required Accounting Principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 April 2023 to 31 March 2024. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Calculation of the specific valuation allowances on loans and advances to customers

For information on the accounting policies applied by SMBC Bank EU AG, please refer to Section II. „Accounting and Valuation Methods" in the Notes to the Company's financial statements.

THE FINANCIAL STATEMENT RISK

SMBC Bank EU AG reports loans and advances to customers in the amount of EUR 11,894 million as at 31 March 2024. For acute counterparty credit risks, specific valuation allowances on loans and advances to customers have been recognised in the annual financial statements.

The identification and determination of specific valuation allowances for loans and advances to customers is discretionary. It requires assumptions about the contractual cash flows still to be expected and/or about the expected cash flows from the realization of the loan collateral provided. The assumptions are made depending on the selected restructuring or wind-down strategy.

In particular, the risk for the financial statements is that required specific valuation allowances are not recognized in a timely manner because no appropriate criteria have been defined for identifying exposures requiring specific valuation allowances, or identification of these exposures is not ensured in terms of processes. In addition, the risk for the financial statements is that, when determining the specific valuation allowance, no appropriate assumptions are made about the amount of the contractual cash flows still to be expected or about the amount of the cash flows expected from the liquidation of the loan collateral provided. Incorrect assumptions about the amount of expected cash flows and/or the realization of loan collateral provided result in receivables being measured inappropriately and thus the counterparty risks are not being adequately taken into account.

OUR AUDIT APPROACH

Based on our risk analysis and the assessment of the risks of error, we based our audit opinion on control-based and substantive audit procedures. Accordingly, we performed the following audit procedures, among others:

- In a first step, we gained a comprehensive insight into the performance of the loan portfolio, the related counterparty credit risks and also the internal control system in relation to the identification, monitoring and assessment of the counterparty credit risks in the loan portfolio.
- For the assessment of the adequacy of the internal control system with regard to the identification, management and monitoring of loans and advances to customers, we inspected the relevant organisational guidelines and performed interviews. In addition, we assured ourselves of the appropriateness, implementation and effectiveness of relevant controls.
- For the IT systems used for loans and advances to customers and for the calculation of risk provisions systems used for receivables from customers and for determining risk provisions, we have the effectiveness of the rules and procedures relating to the relevant IT applications and applications and support the effectiveness of application controls, reviewed.
- Based on a deliberate selection of individual exposures determined on the basis of materiality and risk aspects, we performed substantive audit procedures and assessed the recoverability of the receivables from customers. In particular, we assessed whether the selected exposures met criteria indicating a need for specific valuation allowances and whether this was properly identified. We satisfied ourselves that the allowance for losses on loans and advances recognised for these exposures was recognised on an accrual basis and was adequate. In doing so, we assessed assumptions about the contractual cash flows still to be expected and/or the expected cash flows from the liquidation of the loan collateral provided. Where loan collateral has been provided for an exposure and is used in the valuation, we have assessed the legal existence and recoverability of this collateral. In the case of guarantees, we assessed the creditworthiness of the guarantors. For the selected exposures, we also verified the arithmetical calculation of the specific valuation allowance recognised.

OUR OBSERVATIONS

Appropriate criteria and precautions were specified and applied to identify exposures requiring specific valuation allowances. The assumptions underlying the calculation of the specific valuation allowance regarding the amount of expected recoveries from the economic performance of the borrowers or from the liquidation of collateral were selected appropriately and are in line with the accounting principles to be applied for the measurement of specific valuation allowances.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i. e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 27 November 2023. We were engaged by the supervisory board on 27 November 2023. We have been the auditor of the SMBC Bank EU AG without interruption since the financial year 2019.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (longform audit report).

In addition to the financial statement audit, we have provided to the Company or its subsidiaries the following services that are not disclosed in the annual financial statements or in the combined management report:

- Audit of the securities services business in accordance with Section 89 of the Wertpapier-handelsgesetz (WpHG – German Securities Trading Act)
- Quality assurance on specific topics as part of the EU Intermediate Parent Undertaking (IPU) project
- Training of the Supervisory Board

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, 1 August 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Fox	Hunstock
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Combined Management Report

Introduction

This Management Report combines the Management Report of SMBC Bank EU AG and SMBC EU Group (combined Management Report with respect to § 315 Sec. 5 HGB in conjunction with § 298 Sec. 2 Sent. 2 HGB). In principle, figures apply to SMBC EU Group. To the extent that there are material differences with respect to accounting or risk figures between SMBC Bank EU AG and SMBC EU Group, figures for SMBC Bank EU AG are reported separately.

I. Fundamental Information about SMBC EU Group

1. SMBC EU Group's Business Model and Strategy

SMBC Bank EU AG (SMBC EU or the "SMBC EU Group") is a credit institution established in Frankfurt-Main, Germany, to support SMBC's business activities in the European Economic Area (EEA). The SMBC EU Group is authorised by the European Central Bank (ECB) and supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) since November 2018 and is the parent company of the SMBC EU Group.

The SMBC EU Group is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation (SMBC Tokyo), a Japanese bank, and forms part of the SMBC Group of companies. SMBC Tokyo is a wholly owned subsidiary of the Japanese Sumitomo Mitsui Financial Group (SMFG), which is ranked amongst the largest 25 banks globally by assets (G-SIFIs – Global Systemically Important Financial Institutions).

S&P and Fitch Ratings have both affirmed an international A/A- rating for SMBC Bank EU AG, Frankfurt. These ratings reflect the strong support the Bank receives from the parent company in all areas such as risk management and funding arrangements as well as information technology and operational infrastructure.

The SMBC EU Group offers a wide range of financial products, including: syndicated and bilateral financing, specialised advice for project, trade and asset financing, as well as deposit and currency transactions. As a provider of integrated financial and investment banking solutions, the SMBC EU Group also offers its clients capital market products and derivative financial products and, through its subsidiary SMBC Nikko Bank (Luxembourg) S.A., the Group is also active in fund management. The SMBC EU Group's main objective is to serve its corporate clients in the EU/EEA, while pursuing and adhering to the vision, mission and identity of the SMBC Group, which focuses on creating sustainable value for clients and shareholders. With its business model, the SMBC EU Group aims to ensure long-term sustainable growth and a balanced risk/return ratio. The strategy pursues the following objectives:

Serving customers

The SMBC EU Group, in cooperation with other SMBC companies, aims to offer high-quality value-added services to EU/EEA clients as their bank of choice.

Sustainable growth

The aim is to conduct the business activities of the SMBC EU Group in a way that is balanced and sustainable. In addition, an efficient and effective infrastructure is to be built up to support further business growth.

Competitive edges

Expansion and development of the areas in which the SMBC EU Group has a particularly strong position in terms of customer relationships, product expertise and global reach.

Team "SMBC Group"

Communicating the mission and vision of the SMBC Group and how they are implemented.

2. Organisation and Governance Structure

On 1 March 2024, SMBC EU marked the 5th anniversary of the formal commencement of operations of the SMBC EU Group. It has grown significantly since its inception, showing the strong relationships with an increasing number of core clients and stakeholders, while establishing robust governance and operational excellence that meets regulators´ requirements.

In order to fulfil its objective of servicing SMBC Tokyo’s EU/EEA customers, and to comply with the CRD V Intermediate Parent Undertaking (IPU) regulation, restructuring initiatives have continued. In May 2023, SMBC EU Group completed the formation of an EU-domiciled IPU (Intermediate Parent Undertaking) with SMBC Nikko Bank (Luxembourg) S.A.(SNBL) becoming the wholly-owned subsidiary of SMBC EU in May 2023. SMBC EU Group now includes SMBC Bank EU AG as parent and SMBC Nikko Bank (Luxembourg) S.A. as subsidiary. SMBC EU has its head office in Frankfurt-Main, Germany, with branches in Amsterdam, Prague, Madrid, Dublin, Milan, Paris and Düsseldorf. Of the named branches, only the Milan branch undertakes loan and deposit transactions as a risk-taking function. All other branches are marketing offices without any entry functions for customer transactions.

As of 31 March 2024, the SMBC EU Group has 516 employees, of which 328 are in Germany, 104 in its EU branches (PY: 382 employees, thereof 287 in Germany and 95 in EU branches) and 84 are in SNBL.

The members of the Executive Board of SMBC EU are responsible for all operations of the Bank.

The Executive Board has established several committees to control and monitor various areas of SMBC EU and SMBC EU Group. All committees have delegated approval powers from the Executive Board and include, alongside Executive Board members, selected department heads as voting members.

The Credit and Prudential Risk Management Committee (CPRC) and the Group Credit and Prudential Risk Management Committee act as the responsible body for oversight and governance for all credit and prudential-related matters (except individual credit risks) at SMBC EU and SMBC EU Group level. It serves as the main forum to discuss and debate credit and credit risk management framework elements, the coordination of ICAAP/RRP, models, model risk management and stress testing as well as environmental, social and governance (ESG) matters and overall risk governance.

The Asset Liability Risk Management Committee (ALMCO) and Group Asset Liability Risk Management Committee (GALRMC) act as the responsible body for oversight and governance for market, liquidity and derivatives risk. This includes trading and ALM-related matters as well as a forum for discussion and approval of the elements and the results of the Internal Liquidity Adequacy Assessment Process (ILAAP).

The Operational, General & Third Party Risk Management Committee (OGTPRM) and the Group Operational and Third Party Risk Management Committee are the responsible bodies for oversight and governance of non-financial risk management (in particular Operational Risk and Third Party Risk Management) and in/outsourcing matters. It further serves as a forum for discussion and approval of the relevant elements of the Internal Capital Adequacy Assessment Process (ICAAP) and Reduced Risk Products (RRP). It acts as forum for the first line of defence management of in- and outsourcing.

The Product Approval Committee (PAC) and the Group Product Approval Committee act as the governance bodies responsible for approving any new types of products or services (NPS) the entity intends to offer and implement into, including testing and review of the new products or services. It is embedded into the EMEA product approval process and members of the local product consultation group participate in screening meetings at EMEA level and the EMEA Product Approval Committee, both hosted by SMBC Bank International plc London (SMBC BI).

The Transaction Approval Committee (TAC) acts as responsible body for new transactions with unusual features, large volumes or potential effects that could be relevant to the company or the SMBC Group in terms of supervisory law, reputation, conflicts of interest, sustainability aspects or problems with client suitability.

The Credit Approval Committee (CAC) and the Group Credit Approval Committee act as the governance body to discuss and debate the credit risk of proposed lending and loan underwriting transactions and follows the SMBC Credit & Underwriting Authority Approval Matrix.

The Compliance and Anti-Money Laundering Committee (CAMLC) oversees the adherence to the SMBC EU Group's implemented anti-money laundering preventative measures and general compliance structure and measures on SMBC EU and SMBC EU Group level. It provides governance, technical and strategic support, and examines matters in respect of identified compliance, anti-money-laundering, financial crime and other regulatory risks relating to the SMBC EU Group.

A Supervisory Board has been established to supervise and monitor the bank's business activities. The Supervisory Board has established four committees to monitor various functions of the Bank and SMBC EU Group. The Audit Committee monitors the accounting processes, the internal control system and the (group) annual financial statements, as well as the independence of the auditor. The Risk Committee advises the Supervisory Board on risk management issues, including risk strategy and risk appetite. The Remuneration Control Committee is responsible for monitoring the appropriate design of the remuneration systems. The Nomination Committee supports the Supervisory Board in monitoring and performing the Supervisory Board's duties in personnel matters.

The SMBC EU Group is supported by various group entities in its day-to-day operations by way of intra-group outsourcing arrangements. This operating framework is widely used by SMBC Group throughout the EMEA region, under which several operations are centrally performed by SMBC BI and other relevant Group entities. The SMBC EU Group provides insourcing services primarily for business units and control functions of the SMBC Düsseldorf branch.

II. Macroeconomic Environment and Competitive Situation

Economic activity in Europe stagnated last year. Real GDP growth in 2023 averaged 0.4% year over year across both the euro area and European Union (EU), representing a sharp moderation from the 3.5% year-on-year growth over the previous year.[1] Economic performance varied considerably at the national level. Of the larger economies in the region, Germany failed to register growth last year, while France (0.9%), Italy (0.9%), and Spain (2.5%) all outperformed the region as a whole.

The drivers of the slowdown in growth were relatively broad-based. While labour market conditions generally remained resilient, household spending still retreated in the face of persistent price pressures; headline inflation remained elevated in historical terms, averaging 5.4% year-on-year in the euro area and 6.4% year-on-year in the EU.[2] Similarly, investment also remained subdued, reflecting in part the tighter credit conditions corporates faced as a result of the restrictive monetary policy stance. The external environment also remained febrile, although a stronger contraction in imports compared to exports meant that net trade ultimately still provided a modest boost to growth last year.

The aggregate policy stance became somewhat less supportive. Several governments in the region began scaling back discretionary fiscal support measures introduced in response to the energy crisis. As a result, the European Commission (EC) estimates that the aggregate EU fiscal stance turned neutral in 2023, after having been significantly expansionary over the preceding two years.[3] On the monetary policy side, most central banks in the region extended their tightening cycles;

[1] GDP figures reflect Eurostat data (https://ec.europa.eu/eurostat).

[2] Harmonised index of consumer prices (HICP). Data from Eurostat (https://ec.europa.eu/eurostat).

[3] European Commission Spring Forecast, May 2024.

the European Central Bank (ECB) raised interest rates progressively throughout the year, with the deposit facility rate reaching a record high of 4.0% in September 2023.

Our direct Japanese competitors, which focus on acquiring new Japanese and Asian corporate clients, are the other major Japanese banks (G-SIFIs), i.e. Mitsubishi UFJ Financial Group and Mizuho Financial Group. Furthermore, SMBC EU Group competes with all major European and US banks (G-SIFIs). Despite the current uncertainties, the SMBC EU Group believes that it is in a fundamentally favourable competitive position in the EEA, given SMBC's competitive advantages, in particular its solid rating.

III. Report on Business Development and Financial Position

1. Course of Business Operations

Against the uncertain economic backdrop, the SMBC EU Group's focus has remained on lending to investment grade borrowers but has also expanded risk appetite to allow for the development of high margin transactions and products on a selective basis while maintaining a well-diversified credit portfolio. Corporate loan demand continued to be relatively strong during much of 2023. The SMBC EU Group benefitted from this development and could provide additional liquidity to its customers. Our customers have begun to adjust their business models to adapt to climate change and reduce their impact. SMBC EU Group used new business opportunities available in this space and could provide financing solutions in the areas of energy production and energy supply. Sustainable structured finance solutions have also contributed positively to the commission income result of the Bank. With respect to bonds issues, there was a positive development on the part of issuers on the capital market in view of the increased capital requirements. This was reflected in a good result for the Bank in the debt capital markets area.

The continued rise in refinancing rates due to the shift of the European Monetary Policy has had a knock-on effect in interest rates in the capital market. The SMBC EU Group was able to translate this into a significant increase in net interest income in view of its strong equity position. At the same time, costs were kept under control despite inflationary pressures.

Despite the ongoing geopolitical tensions due to the Russia-Ukraine conflict, the risk profile of the SMBC EU Group has proven to be stable, and the increase of loan loss provisions remained moderate. The general loan loss provisions were increased in line with exposure growth without an above-average burden on earnings.

2. Financial Developments SMBC EU Group

The financial position of the Group was solid: it remained at all times in full compliance with all regulatory and internal limits with respect to its capital, liquidity and refinancing positions. Exchange rate movements had a negligible impact on the financial position.

The Group has defined three key performance indicators (KPIs) to measure business development in terms of costs, profitability and capital:

– Return on Equity (ROE): the ratio between post tax profits and average equity $-\ \boldsymbol{Return\ on\ Equity\ (ROE)} = \frac{\boldsymbol{Post\ Tax\ Profit}}{\boldsymbol{Average\ Equity}}$

– Cost Income Ratio (CIR): the ratio between operating expenses and income $-\ \boldsymbol{Cost\ Income\ Ratio} = \frac{\boldsymbol{Operating\ Expenses}}{\boldsymbol{Operating\ Income}}$

– Common Equity Tier 1 (CET1): the ratio between CET1 capital and risk-weighted assets $-\ \boldsymbol{CET1\ Ratio} = \frac{\boldsymbol{CET1\ Capital}}{\boldsymbol{Risk{-}Weighted\ Assets}}$

Subsequently, SMBC EU Group financials are based on IFRS.

Due to the dynamic business development and positively influenced by the rising interest rate levels, profitability has increased significantly, with a net income after tax of EUR 173.4 million (PY: EUR 83.4 million); all KPIs developed positively and better than the expectation of management and the owner. The Return on average Equity ("ROE") increased to 3.19% (PY: 1.61%). The profitability increased significantly due to high net interest income combined with lower growth in administrative expenses. Operating income increased by 76.4% in FY23 compared with FY22 while operating expenses increased by only 20.6%.

The Cost Income Ratio ("CIR") stands at 41.0% (PY: 60.0%). This development is mainly driven by higher operating income compared with last FY and significantly delayed increase in personnel expenses due to late hirings.

As a result of the dynamic development, the CET1 ratio has decreased to 26.4% at year-end (PY: 34.2%), very clearly above the regulatory minimum of 10.7% in 2023 and 11.1% in 2024. This ensures a strong financial standing and sufficient capitalisation, indicating the SMBC EU Group's ability to absorb losses while continuing operations, thus enhancing its resilience in the face of financial downturns. In view of the expected growth, the high CET1 ratio does not indicate an inefficient use of capital.

Balance sheet of SMBC EU Group

Total assets as of 31 March 2024 stand at EUR 23,129 million, an increase of EUR 5,405 million or 30.5% compared with 31 March 2023 (PY: EUR 17,724 million). The increase compared with the previous year resulted primarily from the further Frankfurt-booked business development due to the acquisition of the SMBC Nikko Bank (Luxembourg) S.A. (SNBL) and organic growth of Funded Assets with an increase of EUR 3,842 million compared to prior year. SNBLs portion in total assets stands at EUR 512 million. Assets recognised in Milan are stable compared to prior year with a total amount of EUR 2,577 million (PY: EUR 2,580 million).

The acquisition of SNBL in May 2023 had a total effect of EUR 512 million on the SMBC Group's total assets.

The liquidity reserves of EUR 9,089 million (PY: EUR 7,684 million) were primarily kept in Germany at the Bundesbank and with other SMBC banks. Cash and balances at central banks decreased to EUR 162 million (PY: EUR 731 million) due to shift of cash to loans and advances to banks.

Lending exposures, the most important asset type of the SMBC EU Group, are classified under loans and advances to customers and banks as well as debt securities and other fixed income securities and amounted to EUR 12,399 million (PY: EUR 8,557 million), of which EUR 9,948 million (PY: EUR 6,460 million) were recognised in Frankfurt and EUR 2,468 million (PY: EUR 2,065 million) in Milan. The development of loans and advances to customers and banks were primarily driven by a growth in portfolio in Frankfurt and Milan which amounted to EUR 3,842 million.

Financial assets held for trading consist of FX and interest derivatives. As of 31 March 2024, the trading portfolio amounts to EUR 1,266 million (PY: EUR 1,188 million) and increased due to an increase in unrealised gains from FX business. The market risk arising from derivative trades with customers is hedged by matching transactions with Group companies. The liability trading portfolio is therefore almost identical to the asset position.

Other assets, at 1.0% (PY: < 1.2%) of total assets, account for only a small portion of the balance sheet and comprise primarily hedge accounting, investment and liquidity securities, fixed assets, deferred tax assets and receivables from margin calls.

The assets are funded primarily with equity, customer deposits and intra-group funding from SMBC Tokyo via its branch in Brussels. Equity increased to EUR 5,441 million (PY: EUR 5,198 million). This change was mainly driven by an increase in retained earnings to EUR 258 million and of the legal reserve (to EUR 10.9 million). Subscribed capital and capital reserves remained stable at EUR 5,100 million and EUR 70 million respectively.

The liabilities include customer and bank deposits, financial liabilities held for trading and other short-term borrowings as well as long-term debt.

Liabilities to customers increased to EUR 11,378 million (PY: EUR 8,260 million), mainly due to an increase in in customers as well as a shift of customers from other SMBC entities. Liabilities to banks increased to EUR 4,579 million (PY: EUR 2,409 million).

Intra-group funding increased to EUR 4,578 million (PY: EUR 2,409 million) due to increased business volumes in SMBC EU Group.

The financial liabilities held for trading increased to EUR 1,251 million (PY: EUR 1,187 million) in line with the development of the trading assets.

In addition, the SMBC EU Group has off-balance sheet liabilities, specifically guarantees and irrevocable loan commitments, amounting to EUR 14,954 million (PY: EUR 12,797 million), of which EUR 5,186 million in Milan (PY: EUR 3,414 million) and EUR 9,773 million (PY: EUR 9,387 million) in Frankfurt.

While short-term borrowings decreased to EUR 1,472 million (PY: EUR 1,659 million), long-term debt increased to EUR 3,107 million (PY: EUR 750 million) due to increased business volumes.

Provisions amounted to EUR 37 million (PY: EUR 31 million).

Lease liabilities remained at EUR 11 million for March 2024 (PY: EUR 12 million) with no material change.

The SMBC EU Group was granted a committed credit line by SMBC Tokyo in the amount of EUR 1,500 million, which has not been drawn.

The capital adequacy of SMBC EU AG is described under section V. in the Risk Report.

Income statement of SMBC EU Group

In the fifth year of operation in 2023/24, the SMBC EU Group generated a net profit of EUR 173.37 million (PY: EUR 83.44 million). Due to strong business development, an increasing interest environment and tight cost control, the profitability could be increased significantly. The business operations of all subsidiaries have been profitable. The strong business development was supported by the acquisition of the SMBC Nikko Bank (Luxembourg) S.A. (SNBL) and organic growth in customer portfolio.

The operating income in SMBC EU AG amounted to EUR 514.59 million (PY: EUR 291.76 million), comprising net interest income, net fee and commission income, income from FVPL financial instruments, results from hedging relationships and other net operating income.

The net interest income increased to EUR 355.67 million (PY: EUR 159.50 million) and is mainly due to interest income from the lending and money market businesses of the SMBC EU Group. In addition, interest income from liquidity reserves increased due to increased interest base rates. Higher interest income is partly offset by higher interest expenses for Deposits and Funding. The Milan branch generated net interest income of EUR 25.28 million (PY: EUR 23.31 million). The increase in net interest income was primarily effected by increased customer portfolio and positive development of interest base rates. Interest expenses for deposits from banks and from customers increased to EUR 575.15 million (PY: EUR 195.14 million), due to higher business volumes (i.e. liabilities to customers) combined with an increased base rate in 2023.

The net fee and commission income of EUR 83.04 million (PY: 75.03 million) was primarily driven by the securities business (EUR 33.28 million, PY: EUR 19.90 million) and income derived from guarantees and upfront payments (EUR 9.51 million, PY: EUR 15.34 million). The increase compared with last year results primarily from increased primary and secondary market activities as well as the contribution from SNBL in the amount of EUR 18.16 million. The Milan branch generated a net commission loss of EUR (4.53) million (PY: EUR (1.34) million).

The income from FVPL financial instruments resulted in a net gain of EUR 49.42 million (PY: EUR 39.20 million), primarily from FX and interest rate derivative transactions. The net trading income comprises gains less losses related to trading assets and liabilities as well as gains less losses related to derivative instruments that do not meet the criteria to be designated as a hedge and are measured at fair value. The result includes all realised and unrealised fair value changes, interest and foreign exchange differences. The gains and losses were mainly driven by the increased market volatility of derivative financial instruments.

Other net operating income contributed with a positive result of EUR 24.82 million (PY: EUR 13.66 million), derived primarily from insourcing Service Level Agreements (SLAs), predominantly middle and back-office services for SMBC Düsseldorf. The Milan branch generated other operating income of EUR 0.83 million (PY: EUR 0.97 million).

Administrative expenses of EUR 208.22 million (PY: EUR 168.92 million) include primarily personnel expenses of EUR 90.88 million (PY: EUR 69.63 million) and expenses related to outsourcing arrangements with Group companies of EUR 51.77 million (PY: EUR 46.15 million). Other administrative expenses are, amongst others, related to legal & consultancy fees of EUR 15.34 million (PY: EUR 13.60 million), VAT of EUR 15.17 million (PY: EUR 12.27 million) or global IT charges of EUR 8.20 million (PY: EUR 7.77 million). The increase in administrative expenses is primarily related to an increase in business volume and consequentially higher number of employees, higher SLA charges and, to a lesser extent the subsidiarisation of the SNBL. The Milan branch generated expenses of EUR 8.41 million (PY: EUR 7.59 million).

Gains and losses from derecognition of financial assets resulted in a net gain of EUR 1.54 million (PY: net loss of EUR (3.43) million) due to portfolio rebalancing activities.

Amortisation, depreciation and write-downs for intangible assets and property and equipment of EUR 3.63 million (PY: EUR 2.76 million) relate to expenses for IFRS 16 depreciation on right-of-use assets and straight-line amortisation/ depreciation of fixed assets. IFRS 16 depreciation for Frankfurt is included in this position with an amount of EUR 1.15 million (PY: EUR 1.32 million). Milan portion of IFRS 16 depreciation is EUR 0.20 million (PY: EUR 0.22 million).

The net risk provision expenses amount to EUR 42.96 million (PY: EUR (1.55) million). The increase is primarily related to the increased business volumes.

The tax expense of EUR 87.07 million (PY: EUR 34.70 million) mainly relates to income tax expenses for profit generated. Milan generated tax expenses of EUR 8.01 million (PY: EUR 3.85 million).

3. Financial Developments SMBC Bank EU AG

The financial position of the Bank was solid: it remained at all times in full compliance with all regulatory and internal limits with respect to its capital, liquidity and refinancing positions. Exchange rate movements had a negligible impact on the financial position.

The bank has defined three key performance indicators (KPIs) to measure business development in terms of costs, profitability and capital:

– Return on Equity (ROE): the ratio between post tax profits and average equity $-\boldsymbol{Return\ on\ Equity\ (ROE)} = \frac{\boldsymbol{Post\ Tax\ Profit}}{\boldsymbol{Average\ Equity}}$

– Cost Income Ratio (CIR): the ratio between operating expenses and income $-\boldsymbol{Cost\ Income\ Ratio} = \frac{\boldsymbol{Operating\ Expenses}}{\boldsymbol{Operating\ Income}}$

– Common Equity Tier 1 (CET1): the ratio between CET1 capital and risk-weighted assets – $CET1\ Ratio = \frac{CET1\ Capital}{Risk\text{–}Weighted\ Assets}$

Subsequent SMBC EU AG financials are based on German GAAP.

Due to the dynamic business development and positively influenced by the rising interest rate levels, profitability has increased significantly, with a net income after tax of EUR 205.67 million (PY: EUR 58.7 million); all KPIs developed positively and better than the expectation of management and the owner. The Return on average Equity increased to 3.89%, (PY: 1.14%). The profitability increased significantly due to high net interest income combined with lower growth in administrative expenses. Operating income increased by 66.4% in FY23 compared to prior year but operating expenses increased by only 12.5%.

The Cost Income Ratio stands at 36.5% (PY: 53.1%, expectation < 50%). This development is mainly driven by higher operating income compared to last FY and delayed increase in personnel expenses due to late hirings.

As a result of the dynamic development, the CET1 ratio has decreased to 26.71% at year-end, and is still very clearly above the regulatory minimum of 10.7% in 2023 and 11.1% in 2024. This ensures a strong financial standing and sufficient capitalisation, indicating the Bank's ability to absorb losses while continuing operations, thus enhancing its resilience in the face of financial downturns. The high CET1 ratio is not an indication of inefficient capital utilisation, given the increasing profitability.

Balance Sheet of SMBC EU AG

Total assets as of 31 March 2024 stand at EUR 22,670 million, an increase of EUR 5,041 million or 28.6% compared to 31 March 2023 (PY: EUR 17,629 million). The increase compared with the previous year resulted primarily from the further Frankfurt-booked business development due to organic growth of Funded Assets, with an increase of EUR 4,591 million. Assets before consolidation recognised in Milan slightly decreased to EUR 2,592 million (PY: EUR 2,593 million).

Lending exposures, the most important asset type of the Bank, are classified under loans and advances to customers and banks as well as debt securities and other fixed income securities and amounted to EUR 12,503 million (PY: EUR 8,628 million), of which EUR 10,044 million (PY: EUR 6,549 million) were recognised in Frankfurt and EUR 2,483 million (PY: EUR 2,079 million) in Milan. The development of loans and advances to customers and banks were primarily driven by a growth in portfolio in Frankfurt and Milan which amounted to EUR 3,875 million. The liquidity reserves of EUR 8,705 million (PY: EUR 7,683 million) were primarily kept in Germany at the Bundesbank and with other SMBC banks.

Financial assets held for trading consist of FX and interest derivatives. As of 31 March 2024, the trading portfolio amounts to EUR 1,231 million with no material movement compared to prior year (PY: EUR 1,182 million). The market risk arising from derivative trades with customers is hedged by matching transactions with Group companies. The liability trading portfolio is therefore almost identical to the asset position.

Other assets, at less than 1.6% (PY: < 1.0%) of total assets, account for only a small portion of the balance sheet and comprise primarily goodwill and fixed assets. The goodwill was generated through the acquisition of the branches at inception of the Bank in 2019, as well as the transfer of employees from the SMBC Tokyo Düsseldorf branch and the SMBC BI Paris branch.

The assets are funded primarily with equity, customer deposits and intra-group funding from SMBC Tokyo via its branch in Brussels.

Equity increased to EUR 5,390 million (PY: EUR 5,185 million). This change was mainly driven by an increase in retained earnings. Subscribed capital and capital reserves remained stable at EUR 5,100 million and EUR 74 million respectively.

The liabilities include customer and bank deposits, financial liabilities held for trading and other short-term borrowings as well as long-term debt.

Liabilities to non-bank customers increased to EUR 11,051 million (PY: EUR 7,819 million), mainly due to an increase in foreign and domestic customers as well as shift of customers from other SMBC entities. Liabilities to banks increased to EUR 4,579 million (PY: EUR 2,826 million) due to higher business volumes than previous year.

The financial liabilities held for trading increased to EUR 1,231 million (PY: EUR 1,171 million) in line with the development on the asset side.

In addition, SMBC Bank EU AG had off-balance sheet liabilities, specifically guarantees and irrevocable loan commitments, amounting to EUR 14,954 million (PY: EUR 12,796 million), of which EUR 5,186 million in Milan (PY: EUR 3,414 million) and EUR 9,773 million (PY: EUR 9,385 million) in Frankfurt.

While short-term borrowings are at EUR 1,472 million and stable compared with prior year, long-term debt increased to EUR 3,107 million (PY: EUR 750 million) due to increased business volumes.

Provisions amounted to EUR 109 million (PY: EUR 140 million). Compared with the previous year this was a slight decrease due to concentrated settlement of open invoices in March 2024.

The Bank was granted a committed credit line by SMBC Tokyo for the amount of EUR 1,500 million, which has not been drawn.

The capital adequacy of SMBC EU AG is described under section V. in the Risk Report.

Income statement of SMBC EU AG

In the fifth year of operation in 2023/24, the Bank generated a **net profit** of EUR 205.67 million (PY: EUR 58.74 million). Due to strong business development, an increasing interest environment and tight cost control, the profitability could be increased significantly. The strong business development was mainly supported by a strong organic growth in customer portfolio.

The operating income of SMBC Bank EU AG amounted to EUR 546.33 million (PY: EUR 328.33 million), comprising the net interest income, net fee and commission income, gains and losses of trading activities and other net operating income.

The net interest income increased to EUR 391.87 million (PY: EUR 181.24 million) and is mainly due to interest income from the lending and money market businesses of SMBC Bank EU AG. In addition, interest income from liquidity reserves increased due to increased interest base rates. Higher interest income is partly offset by higher interest expenses for Deposits and Funding. The Milan branch generated net interest income of EUR 21.16 million (PY: EUR 17.26 million). The increase in net interest income was primarily generated by increased interest base rates as well as portfolio growth. Interest expenses for deposits from banks and from customers increased to EUR 572.88 million (PY: EUR 196.06 million), due to higher business volumes (i.e. liabilities to customers) combined with an increased base rate in 2023.

The net fee and commission income of EUR 132.61 million (PY: 115.33 million) was primarily the result of income derived from guarantees and upfront payments (EUR 107.50 million, PY: EUR 81.10 million) as well as income generated in the securities business of EUR 33.28 million (PY: EUR 19.90 million). The increase compared with last year results primarily from higher upfront fees due to increased lending business. The Milan branch generated a net commission income of EUR 6.82 million (PY: EUR 11.36 million).

The net trading result shows a net gain of EUR 4.81 million (PY: EUR 16.00 million), primarily from FX and interest rate derivative transactions. The Milan branch does not have a trading business.

Other net operating income contributed with a positive result of EUR 17.10 million (PY: EUR 15.76 million), derived primarily from insourcing Service Level Agreements (SLAs), predominantly middle and back-office services for SMBC Düsseldorf. The Milan branch generated other operating income of EUR -0.01 million (PY: EUR 0.97 million).

Administrative expenses of EUR 191.87 million (PY: EUR 170.20 million) include primarily personnel expenses of EUR 81.09 million (PY: EUR 69.68 million) and expenses related to outsourcing arrangements with Group companies of EUR 51.77 million (PY: EUR 46.15 million). Other administrative expenses are, amongst others, related to legal & consultancy fees of EUR 14.65 million (PY: EUR 13.60 million), VAT of EUR 15.12 million (PY: EUR 12.27 million) or global IT charges of EUR 8.13 million (PY: EUR 7.77 million). The increase in administrative expenses is primarily related to an increase in business volume, higher number of employees and higher SLA charges. The Milan branch generated expenses of EUR 8.62 million (PY: EUR 7.91 million).

Amortisation, depreciation and write-downs for intangible assets and property and equipment of EUR 7.06 million (PY: EUR 3.98 million) relate to expenses for straight-line amortisation/depreciation of fixed assets and goodwill. Milan does not generate any expenses in this position, because assets are either rented or fully depreciated. The net result of write-downs and valuation allowances for receivables and income from write-ups of loans include net expenses incurred for portfolio loan loss allowances and reserves according to Section 340f of the German Commercial Code (HGB) in the amount of EUR 35.88 million (PY: EUR 55.10 million).

The tax expense of EUR 105.58 million (PY: EUR 40.28 million) relates to income tax expenses for profit generated. Milan generated tax expenses of EUR 8.23 (PY: EUR 5.21 million).

IV. Forecast Including Business Opportunities and Risks

There is scope for activity to pick up moderately in the coming quarters. Labour market conditions have remained sound: employment growth has averaged 1.3% year over year in the euro area and EU over the last four quarters, with the unemployment rate now hovering around cyclical lows of 6.4% and 6.0% respectively.[4] Despite some signs of cooling, the fundamental tightness of the labour market should continue to support nominal wage growth. Together with receding inflationary pressures, this should in turn help restore household real disposable incomes. Government spending will also continue to play an important role; while national budgets appear constrained, EU-financed investments (including infrastructure projects supported by the recovery and resilience facility) are set to continue over the coming years. Such spending could in turn galvanise private investment in strategic sectors as well. Private investment more generally may still face constraints from tight financing conditions and weak demand in some sectors. However, businesses may exhibit a greater inclination to invest in order to strengthen the resilience of their operations, including through re-shoring or near-shoring operations. Overall, most public and private sector institutions anticipate slightly stronger growth this year, with the EC projecting growth of 0.8% year-on-year in the euro area and 0.9% year-on-year in the EU.[5]

Monetary and fiscal policy is at an inflection point. The ECB's governing council decided to lower interest rates by 25 basis points on 6 June 2024, after nine months of holding them steady.[6] However, policymakers have refrained from committing to a particular path for interest rates going forward, given the lingering uncertainty with respect to the inflation outlook. Instead, the governing council has affirmed that future decisions will be data dependent and made on a meeting-by-meeting basis. On the fiscal side, the EU's reformed fiscal framework is now in effect. National budget plans

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[4] Labour market data for Eurostat. Employment figures reflect data up to 1Q/24, while the unemployment rate reflects data for April

[5] EU economic forecast: Faster decline in inflation and slower growth – European Commission (europa.eu)

[6] ECB press release from 6 June 2024: https://www.ecb.europa.eu/

generally envisage a degree of fiscal consolidation over the coming years, as member states look to repair the damage to their balance sheet following recent shocks.

The risks to the macroeconomic outlook remain tilted to the downside. Domestic risks include those stemming from an increasingly fragmented political backdrop. This may complicate policy decision-making and implementation at both the national and EU levels. On the external front, there is still a high degree of uncertainty over the evolution of the war in neighbouring Ukraine, as well as the ongoing conflict in the Middle East. Even if a significant escalation in hostilities is avoided, these conflicts could still generate adverse economic spillovers, including by weighing on sentiment, disrupting trade flows, or pushing commodity prices higher. Separately, trade protectionist tendencies are also increasingly visible at a global level, and increased barriers to cross-border trade, capital flows, or labour mobility could dent long-term growth potential for European economies.

Despite these external factors, we intend to continue executing our growth strategy focusing on improving profitability and growing revenues while remaining disciplined in our cost management despite inflationary pressures. We anticipate our business will grow further, even though demand for refinancing might be dampened due to the economic environment. Firstly, this growth will be generated by further development of the marketing activities. Secondly, growth will be generated by assets' lifecycle events originating from SMBC BI, notably loan extensions of EU customers being booked at their final booking destination, SMBC EU Frankfurt, as a result of Brexit.

To measure our development and success, we use the KPIs that are defined in section III.2 and which are aligned with our internal controls (namely ROE, CIR, CET1).

Considering the planned asset growth, we expect the CET1 ratio for SMBC EU Group to significantly decrease but remain well above the regulatory requirement. With additional growth, we expect the profitability to stabilise at a high level. The return on equity, currently at 3.19% (PY: 1.61%), is expected to remain at a level over 3.00% until the end of financial year 2024/25. Similarly, we expect the cost-income ratio of 41.0% (PY: 60.0%) to slightly increase but stay at a level below 50%. Both, return on equity as well as cost-income ratio, reflect an expected change in the interest rate environment as well as further significant investments in staff and capabilities. On the level of SMBC EU AG we expect a similar development.

SMBC EU Group will prepare for the next stage of accelerated growth. As such, the actual outlook for the next two to three years is a phase of investment in staff and capabilities in Germany, the Bank's branches and the subsidiary SNBL in Luxembourg. An increased revenue expectation will allow to fund those investments. Net income will largely move sideways in the next three years, keeping cost income-ratio below 50% and showing a stable return on equity. The SMBC EU Group's business model, throughout the planning period, will predominantly stay a loan-related business. Long-term funding will be covered by customer deposits and Group funding, complemented by the planned issuance of securities. Dependency on Group funding will be reduced in proportion relatively but increase in absolute terms. If there is a further deterioration in economic activity in the EU due to the current macroeconomic environment, the expected level of growth is likely to be reduced and should increase the level of loan losses.

The SMBC EU Group has analysed several possible scenarios and is adequately provided with liquidity and capital should a deterioration occur.

Our results could be impacted positively by a stronger than expected economic recovery and related demand for financing. Further, we see business opportunities in the field of sustainable financing solutions for energy supply and energy generation customers.

Events after the balance sheet date that are of material significance for financial year 2023/24 are included in the notes section on subsequent events.

V. Risk Report

1. Risk Management Framework

The SMBC EU Group's intended business model continues to be a corporate banking institution that concentrates its resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced long-term growth. The Executive Board defines the risk strategy, which is based on and consistent with the approved business strategy. The risk strategy's design, implementation and monitoring are achieved through the risk management framework. This framework comprises the following components: (i) the assessment and management of the Bank's capital and liquidity resources; (ii) the definition and determination of the Bank's risk appetite; and (iii) a series of processes to identify and assess, measure, control and mitigate the risks incurred in the pursuit of the strategic objectives and to report on these.

The Executive Board is ultimately responsible for the organisation, implementation and execution of the risk management in the SMBC EU Group, including its branches. The Executive Board's overall risk control is carried out via the SMBC EU Group's organisational structure, the risk governance framework, and the internal risk control system.

Roles and responsibilities for risk management across the Bank

The SMBC EU Group uses the industry-wide standard Three Lines of Defence (3 LOD) model to manage its risks across the enterprise. The model is used as a means to achieve and ensure overall effective risk governance, management and assurance, reflecting and reinforcing the SMBC EU Group's internal control framework.

The 3 LOD approach separates the ownership and management of risks from the functions that monitor the risks and the function that provides independent assurance.

The 1st Line of Defence is responsible for identifying, implementing controls, regularly monitoring, and reporting on potential risks in the day-to-day operations of the respective departments'. This responsibility lies with the management (process owners).

The Bank's risk management is a function of the 2nd Line of Defence and is independent of the business areas. It defines the risk management and compliance framework and monitors compliance with the risk appetite in the 1st Line of Defence. It is under the responsibility of the Bank's Chief Risk Officer (CRO), who is a member of the Executive Board.

The SMBC EU Group's risk management team includes the risk controlling function of 21 specialists (in addition to the CRO) who can rely on the operational support of SMBC BI's risk management resources and, for some aspects of derivatives risk management, on the risk management department of SMBC Nikko CM Ltd. Risk management services provided by SMBC BI and SMBC Nikko CM Ltd. are provided under outsourcing SLAs.

The 3rd Line of Defence analyses and secures the processes regarding risk management and control in the first two defence lines. Primary delivery is in the scope of the Group Audit function.

Risk Committees

The SMBC EU Group has established three Risk Management Committees to ensure sound overall management and monitoring of risks. Further details are provided within the first section.

In general, the responsibilities of the three Risk Management Committees with respect to risk management matters are to provide a forum for monitoring and reviewing risk management as well as the design and execution of the risk management framework itself. Approval powers delegated to these committees are limited to non-strategic operational matters (for example: limit changes in market and liquidity risk if these are within the risk appetite, mitigation of non-material breaches of KRIs or Early Warning Indicators (EWIs)). The Executive Board remains the ultimate body responsible for the risk management and operations of the SMBC EU Group.

In addition to the risk-related committees, the SMBC EU Group has implemented three transaction committees. These transaction committees are namely the PAC ('Product Approval Committee'), the CAC ('Credit Approval Committee') and the TAC ('Transaction Approval Committee'). The PAC is responsible for the approval of new products, including implementation in accordance with MaRisk AT 8.1. The TAC and the CAC are responsible for approving individual transactions within each approved product.

Risk culture

The Executive Board is required to define, promote, assess and monitor an integrated and institution-wide risk culture. The SMBC EU Group focuses on embedding the risk culture through:

– **the 3 LOD model**, which clearly defines risk ownership, roles and responsibilities;
– **the governance structure**, which encourages transparency, debate and challenges within the SMBC EU Group's various committees;
– **the remuneration structure** and other human resource processes; and
– **the organisational guidelines** through which business activities are defined and conducted.

Risk strategy and appetite framework

The definition of the SMBC EU Group's risk strategy is an integral part of the strategic planning process, which involves the establishment of a multi-year plan based on business development planning, as well as the ICAAP and ILAAP assessments to maintain this plan. The core elements of the risk strategy related to ICAAP and ILAAP for the financial year 2024/2025 were submitted to and approved by the Executive Board and the Supervisory Board in March 2024. The risk strategy was formally submitted to and approved by the Executive Board in May 2024. It is embedded in the SMBC EU Group's business and operations through the risk appetite framework (including all risk metrics), which defines its risk tolerance and thus the associated level of risk that SMBC EU Group is prepared to accept in the pursuit of its strategic objectives for the financial year.

The SMBC EU Group has identified four risk pillars, which are critical areas where the formulation of strategy is most strongly influenced by the consideration of risk. High level strategic objectives are defined in strategic statements for each of the four pillars. These statements are further cascaded and embedded in the risk appetite framework through risk tolerances (quantitative measures to prevent the SMBC EU Group from exceeding the desired level of risk) and control measures and limits (a more granular set of metrics for the reporting and controlling risks in accordance with the risk appetite). The overall risk appetite framework is supported by the various underlying risk management policies and procedures at business and individual risk levels.

The SMBC EU Group's risk appetite framework is structured into the following four pillars with the following high level strategic objectives:

1. Business model – Attaining and maintaining long-term sustainable growth.
2. Solvency and liquidity – Compliance with regulatory standards and minimisation of capital and earnings volatility.
3. Operational risk and resilience – Planning for all plausible operational risk scenarios and strict control of outsourced and insourced activities.
4. Business conduct – Putting the company's values, cultural statements and reputation with the wider stakeholder group at the centre of all business behaviours.

Capital and liquidity assessment process

The SMBC EU Group's corporate and risk strategic planning process is performed in alignment and simultaneously with the Bank's capital and liquidity requirements assessment and planning processes. The SMBC EU Group performs an annual ICAAP (see *Capital Management* section for details) as well as an ILAAP (see *Management of Individual Risks* section for details). The ongoing adequacy of resources is monitored throughout the financial year.

Core risk management processes comprising the risk management framework

Risk identification and assessment

The risk inventory process is the SMBC EU Group's key process for identifying and assessing the Bank's existing risks and associated controls. It assesses the applicability and criticality of each inherent risk listed in a generic risk library. For each applicable risk, it also assesses the effectiveness of associated controls and results in an evaluation of the severity of all residual risks to which the SMBC EU Group is exposed and which could negatively impact the achievement of its strategic objectives.

The following risks have been identified as material within the meaning of MaRisk AT 2.2:

- Credit risk – especially credit quality and concentration risk
- Market risk – especially interest rate risks in the banking book, FX risk and market price risks from underwriting activities
- Liquidity risk – especially solvency risk, funding concentration risk, funding cost risk, Group reliance and intra-day liquidity risk
- Operational risk – especially fraud; clients, products and business practices; business disruption and system failure as well as execution, delivery and process management
- Enterprise risk – especially ESG-linked risks; culture risk; reputational risk and Group risk

The above-mentioned significant risks are part of the ICAAP and/or ILAAP, which is performed from a normative and economic perspective. Liquidity risk, except for funding cost risk, as well as enterprise risk are not covered through capital requirements.

ESG-related risks are not considered as a stand-alone risk category. However, ESG-related risks act as drivers of the original risk categories. To assess the extent of the impact of ESG factors on the risk categories, SMBC EU conducted a transmission channel analysis. ESG transmission channels describe the causal relationship of how ESG risk drivers transform ESG factors into potential adverse impacts at the level of the original risk categories. ESG factors assessed as having a material impact on original risk categories are integrated in existing risk framework and processes. ESG factors with a material impact on original risk categories are mainly governance-related risk factors with impact on operational risk and enterprise risk as well as long-term environmental transition risk with impact on credit risks.

The methods used for calculation of the capital requirement in the ICAAP are shown in the following table:

Risk type	Calculation under normative approach	Calculation under economic approach
Credit risk	Expected credit costs	Credit portfolio model (Monte Carlo Simulation at 99.9% confidence interval (CI), 1 year)
Credit concentration risk	Portfolio model-based approach (difference between fully diversified portfolio and actual portfolio (99.0% CI, 1 year)	Credit portfolio model (Monte Carlo Simulation at 99.9% confidence interval (CI), 1 year)
Credit underwriting risk	Simplified method, using Duration and historical Spread shifts (99% CI)	Simplified basis point value (BPV) method, using Duration and historical Spread shifts that incorporate flex as loss buffer (99.9% CI)
Market risk in the trading book	Historical simulation (normal and stressed period) (99.9% CI, 1 year)	Historical simulation (normal and stressed period) (99.9% CI, 1 year)
Interest rate risk in the banking book	Base scenarios: result of change in present value due to interest rate changes (historical simulation, 99.9%, 1 year) Adverse scenario (for global and European economy): historical simulation with stressed period	Result of change in present value due to interest rate changes (historical simulation with stress period, 99.9%, 1 year)
FX risk	Historical simulation (normal and stressed period) (99.9% CI, 1 year)	Historical simulation (normal and stressed period) (99.9% CI, 1 year)
Funding risk	Historical simulation based on deterministic funding gaps and simulated spreads (99.0% CI, 1 year)	Historical simulation based on deterministic funding gaps and simulated spreads (99.9% CI, 1 year)
Operational risk	Additional risk arising from a scenario-based simulation of the loss distribution (99.0%, 1 year) that is already deducted in Pillar 1 capitalised risk	Risk arising from a scenario based loss distribution approach (99.9% CI, 1 year)
Enterprise risk	Not backed by capital requirements	Not backed by capital requirements

Risk measurement and quantification

For regulatory capital requirements according to Pillar 1, the SMBC EU Group has selected the following measurement approaches:

- Credit risk: standardised approach
- Market risk: standardised approach
- Operational risk: standardised approach

The SMBC EU Group’s fundamental approach to measurement and quantification of risk is through loss modelling, using a variety of methodologies and techniques (see table above and section *Management of Individual Risks* for details on individual risks).

Stress testing framework

The SMBC EU Group uses a range of stress testing methodologies across most of the risk categories. The methodologies, assumptions and results are submitted to the relevant Risk Committee for discussion and review and are ultimately approved by the Executive Board. The Bank’s stress testing framework includes: (i) macroeconomic stress scenarios; (ii) an operational scenario analysis; (iii) reverse stress tests; and (iv) sensitivity analysis. Regarding the macroeconomic stress scenarios, the SMBC EU Group defined three different stress scenarios, an EU recession, a global recession, and a climate changes scenario, which are applied in the ICAAP and ILAAP.

The parameter for the calculation of these macroeconomic scenarios are defined on a yearly basis within the ICAAP. Each scenario is described with a storyline of drivers, its propagation sequence and path as well as its potential impact.
As stipulated by MaRisk, at least one scenario is a macroeconomic scenario, with a description of the scenario for the years 1 to 3 in the planning period. These scenario narratives are translated in a set of macroeconomic parameters for calculation of the scenario effects. Non-macroeconomic scenarios (for example climate risk scenario and strategic risk scenario) are also designed and modelled.

Risk monitoring and mitigation

SMBC EU Group uses a number of stress testing methods for most risk categories. The methods, assumptions and results are submitted to the respective Risk Committee for discussion and review and finally approved by the Executive Board. The Bank's stress testing framework includes (i) two macroeconomic stress scenarios, (ii) an ESG scenario, (iii) inverse stress tests, and (iv) a sensitivity analysis.

Risk reporting

Regular and event-driven ad-hoc reporting on the risk situation of the Bank are prepared and forwarded to the Risk Committees, the Executive Board and the Supervisory Board according to the terms of reference of each committee/meeting and as required by the economic environment. Limit and Early Warning Indicators are linked to a severity-based documented escalation process.

2. Management of Individual Risks

Credit risk

Credit risk at the level of individual counterparty and loan

As a bank focused on corporate lending, credit risk is the largest risk of the Bank. In general, the SMBC EU Group assesses and manages the credit risk of individual loans using SMBC Group policies and procedures which have been adapted to local legal and regulatory requirements and specificities. The SMBC EU Group uses global internal ratings from the SMBC Group to derive ratings to assess the credit risk of credit counterparties. The ongoing performance and validity of these rating models is managed in compliance with the SMBC EU Group's model risk management framework..

At the time of its establishment, the SMBC EU Group set up its credit approval process, which has been applied properly throughout the financial year. All credit decisions are taken by the entire SMBC EU Group’s Executive Board or at least two members of the Executive Board following an approval path that ensures the continuous segregation of duties up to the Executive Board. All credit decisions are taken only after an initial recommendation by both the local front office and the credit risk analysis department (back office).

The department is also responsible for credit monitoring, the management of underperforming loans and calculations, for which it can rely on the support of the credit department of SMBC BI under the outsourcing arrangement. This is carried out through continuous monitoring of the obligor’s performance under the facilities and periodic formal reassessment of obligor’s financial standing. The periodic credit monitoring involves the review of internal ratings.

Credit portfolio risk

The quality of the credit portfolio including concentration risks is managed through a set of tolerances and limits set on single obligor groups, countries, economic sectors, and credit products.

To manage the exposure to a single counterparty within the agreed internal single obligor limit, the SMBC EU Group uses a credit risk transfer mechanism (the risk participation scheme) under which it transfers the credit risk of the counterparty to another SMBC Group entity (SMBC Brussels branch). In order to mitigate the exposure to the SMBC Group created by the risk participation, SMBC EU can call collateral (usually provided as cash) from the SMBC Group up to the entire amount of the committed covered exposure.

Quantification of credit risk capital

Credit risk is quantified differently in the normative and the economic perspectives of the risk-bearing capacity. In the normative perspective, the credit risk is calculated for Pillar 1 using the standardised approach. Under the adverse scenarios, required capital in addition to Pillar 1 is determined as additional credit costs stemming from the deterioration of the credit portfolio under the selected macroeconomic stress. In the normative perspective, concentration risk is calculated as an add-on to the credit risk equal to the difference in capital requirement between a correlated credit risk model and a fully diversified calculation. The concentration risk is mainly driven by the structure of the portfolio and is not significantly influenced by adverse scenarios. In the economic perspective, the calculation is made using a correlated Value at Risk (VaR) credit risk model, which calculates the loss distribution of the portfolio based on fair value changes due to migrations.

The final capital requirements from credit risk as of March 2024 are as follows:

– In the normative perspective (18.0% of RWA): EUR 3,280.2 million (PY: EUR 2,686.6 million)
– In the economic approach (99.9% CI, 1 year): EUR 744.4 million (PY: EUR 581.3 million)

Structure of the loan portfolio as of 31 March 2024

Total credit exposure

The following points must be considered when reconciling the total committed loan exposure to the balance sheet:

– Nostro account balance with Deutsche Bundesbank of EUR 8.4 billion (PY: EUR 5,0 billion) and SMBC entities of EUR 0,1 billion are not included in the total exposure amount.
– Exposure from securities business is considered, however, and is represented in a separate position on the balance sheet.

Total committed credit exposure as of the end of March 2024 breaks down as follows on a gross and net basis:

	Exposure amount as of 31.03.2024 (in million EUR)	Exposure amount as of 31.03.2023 (in million EUR)
Total gross exposure(1)	27,351	21,453
Total net exposure(2)	25,876	20,805
Net take %	94.61%	97.00%
Risk participation engagement	1,476	648
Risk participated exposure %	5.39%	3.00%

(1) Before risk participation.
(2) After risk participation.

Credit quality

For the purposes of credit risk management and the credit risk capital assessment, the SMBC EU Group uses SMBC global internal ratings. Each internal rating reflects a probability of default (PD). For corporate customers, these internal ratings are assigned based on a quantitative and qualitative assessment of the borrower's financial standing and economic and business position.

Based on the Bank's internal rating model, the quality of the portfolio, under consideration of guarantees received, as of 31 March 2024, is distributed as follows:

Internal rating linked to annual PD	Net committed exposure as of 31.03.2024 (in million EUR)	Net committed exposure as of 31.03.2023 (in million EUR)
PD < 0.2%	18,522.22	14,728.0
0.2% <= PD < 2.0%	6,114.16	5,276.0
PD => 2.0%	1,239.18	800.7

With EUR 13,343 million, the SMBC EU Group holds the highest exposure in loans in an internal rating, which have a PD of 0.15% to 0.17%. The lowest exposure is held in loans in a rating, which generally exhibits a PD of 9% or below, namely EUR 0.3 million.

As of the end of March 2024, there were eight customers with impaired credit facility. This was the driver of a deterioration in the average PD of the portfolio. In comparison with previous reporting period, average portfolio PD of the Bank has slightly deteriorated to 0.60% (PY: 0.43%).

In the year under review, the total exposure to non-performing loans was identified at EUR 70,128 million as of the end of March 2024 (PY: EUR 44.18 million). The NPL ratio (Non-Performing-Loan-Ratio)[7] as of 31 March 2024 stands at 0.82% (PY: 0.17%). The reason for this increase lies in a clarification of the application of the definition of default in connection with "unlikeliness to pay" from 2023, under which the SMBC EU Group provides business turnaround support, ensures successful recovery and takes over necessary measures on a timely basis.

Single counterparty exposure

As of 31 March 2024, and since April 2021 after the capital increase, the internal single counterparty limit (per regulatory group of connected clients) was set at EUR 1,100 million. The net committed exposure to the top 10 counterparties accounted for 26.10% (PY: 27.20%) of the total portfolio net committed exposure.

[7] The NPL ratio follows the EBA definition AQT 3.2. "Level of non-performing loans and advances". Loans and advances to central banks daily due and off-balance exposures are not considered.

Country concentration

The country concentration as of 31 March 2024 is shown in the table below:

Country	Net committed exposure as of 31.03.2024 (in million EUR)	Net committed exposure as of 31.03.2023 (in million EUR)	Gross committed exposure as of 31.03.2024 (in million EUR)	Gross committed exposure as of 31.03.2023 (in million EUR)
IT	4,807.2	3,815.7	5,390.1	4,304.2
NL	3,425.0	2,431.9	3,425.0	2,665.7
ES	3,015.6	2,655.7	3,015.6	2,413.9
DE	2,546.7	1,944.9	2,549.0	1,947.3
JP	1,628.6	1,477.6	2,518.9	1,497.0
FR	1,399.0	843.7	1,399.0	843.7
CZ	1,102.0	1,065.3	1,102.0	1,203.2
Other	7,951.5	6,569.9	7,951.5	6,569.9

The country is defined as the risk country of the counterparty and generally is subject to an exposure limit of EUR 5,164 million. The following countries are subject to different limits:

– Japan EUR 10,328 million
– Eastern European countries with increases risk due to the Russia-Ukraine conflict, have a limit of EUR 2,582 million.

The risk country is in general the country to which the economic risk (e.g., where most of the revenues are generated) of the counterparty is most strongly linked.

Sector concentration

The sector concentration is shown in the following table. The sector exposure of the Bank is well diversified and incorporates a limit of EUR 5,164 million with respect to each sector.

Economic sector	Net committed exposure as of 31.03.2024 (in million EUR)	Net committed exposure as of 31.03.2023 (in million EUR)	Gross committed exposure as of 31.03.2024 (in million EUR)	Gross committed exposure as of 31.03.2023 (in million EUR)
Electric Utilities	3,450.2	3,317.7	3,450.2	3,317.7
Internet Services & Infrastructure	1,553.9	–	1,553.9	–
Integrated Oil & Gas	1,177.1	883.0	1,177.1	1,124.8
Semiconductors	1,124.0	–	1,967.9	–
Alternative Carriers	1,122.4	747.6	1,122.4	747.6
Real Estate Operating Companies	1,059.4	911.3	1,059.4	911.3
Integrated Telecommunication Services	988.1	973.3	988.1	973.3
Diversified Banks	984.6	–	984.6	–
Wireless Telecommunication Services	683.7	691.6	683.7	691.6
Passenger Motor Vehicles	656.5	–	656.5	506.5
Asset Management & Custody Banks	637.1	600.8	637.1	600.8
Central Governments	620.3	–	620.3	–
Others	11,818.3	9,649.4	12,449.9	10,828.1

In contrast to the previous year, the sector concentration has changed with respect to significant economic sectors based on the net exposure. Especially the sectors Internet Services & Infrastructure and Semiconductors were newly developed.

Market risk

The SMBC EU Group's risk appetite is low, as the risk strategy for the banking book and trading book business consists of largely hedging the market price risk through back-to-back hedging transactions with Group companies with congruent maturities and amounts. Risks to a minor extent remain in relation to interest rate risk in the banking book, foreign currency risk (FX risk) and the basis risk from derivative transactions. Foreign currency risk (FX risk) Foreign currency risk (FX risk) refers to the potential financial loss that can arise from fluctuations in the currency exchange rates. The FX risk of the SMBC EU Group comprises FX risk in the banking book resulting from currency mismatch between asset and liability and in the trading book resulting from trading activities.

From a normative perspective, the foreign currency risk is quantified from the first year in accordance with the FRTB. From an economic perspective, the foreign currency risk is determined by net cash flows in non-euro currencies, which are mainly driven by currency mismatches in assets and liabilities. FX risk in the trading book is minimal due to the back-to-back nature of the trades and is mainly driven by margin on client-side in non-EUR currencies. Economic capital quantification of FX risk is done based on a historical simulation.

In the normative perspective, the capital requirement is EUR 0.1 million. In the economic perspective, a value at risk of 99.9% is calculated using a historical simulation. The foreign currency risk as at the end of March 2024 is EUR 0.1 million.

Market price risk (trading book)

The market price risk in the trading book arises from the derivatives business with customers. In accordance with the trading strategy, all positions are closed out by means of corresponding mirror transactions on a back-to-back basis. A residual risk arises from asymmetrical CSA agreements between customers and group companies. This risk is measured and monitored using limits on basis point value (BPV), VaR and stop-loss limits.

In the normative perspective, a risk amount is calculated on the basis of a 99% confidence level using a historical simulation. The capital requirement is EUR 5.0 million.

In the economic perspective, a VaR of 99.9% is calculated using a historical simulation. The risk position as at the end of March 2024 is EUR 8.3 million (PY: EUR 0.1 million).

The market price risk from other capital market activities, such as trading in fixed-interest securities or issuing securities, is zero, as the hedging with SMBC CM Ltd. London is carried out completely and without risk.

Interest rate risk in the banking book

The SMBC EU Group’s main exposure to interest rate fluctuations is on the banking book positions (IRRBB). IRRBB is actively managed using interest rate derivatives. All interest-bearing positions with a fixed interest rate of more than one year are closed out with an offsetting transaction with matching maturities and amounts. As part of the risk-bearing capacity calculation, this risk is quantified using a risk value from a sensitivity-based historical simulation applying a 99% confidence interval for the normative perspective.

For the economic perspective a confidence interval of 99.9% is used.

In the normative approach a risk addon based on above-described methodology is EUR 58.0 million. In the economic perspective the risk position as of end of March 2024 is EUR 58.5 million (PY: EUR 20.9 million).

Loan underwriting risk

SMBC EU Group occasionally engages in syndication in the form of loans, facilities and guarantees. The underwriting business was established with the explicit objective of distributing it on the secondary market, except for the portion held by the SMBC EU Group itself. This objective of placing and selling positions on the market includes a market risk component that is actively monitored and limited by a guarantee from SMBC Brussels. The limit structure comprises limits for the total risk exposure, limits in economic terms and limits for the overall position. The position-based limits are:

– aligned with the grading-based limits on customer groups; and
– set for the total unsold position (on product level and total).

The underwriting risk position as of the end of March 2024 was:

– Normative Pillar 2 (99% CI) = EUR 114.5 million (PY: EUR 49.6 million)
– Economic Approach (99.9% CI) = EUR 121.1 million (PY: EUR 60.8 million)

Liquidity risk

Background and risk strategy

The liquidity risk management framework ensures that the SMBC EU Group maintains an adequate level of liquidity in all plausible scenarios and appropriately plans future funding and liquidity requirements. The SMBC EU Group has also implemented a contingency funding plan to define measures and steps to be taken in case of a deterioration of the liquidity and funding position of the Bank. In accordance with the Risk Appetite Framework, the SMBC EU Group aims to achieve solid liquidity management and a well-diversified financing structure.

Liquidity risk is controlled within the three Lines of Defence (LOD) model. As the 1st Line of Defence, the treasury department manages the liquidity risk. The risk management department represents the 2nd Line of Defence and is responsible for establishing the liquidity risk management framework and the exercise of oversight. Internal Audit, as 3rd Line of Defence, audits the adequacy of the internal control systems and if an effective internal control environment has been established.

The assessment of liquidity needs is fully integrated into the annual strategic planning process through the independent ILAAP. The ILAAP is aligned with the corporate strategy and with the capital assessment process (ICAAP) and considers the funding requirements required to support the corporate strategy. Through the risk identification and assessment processes, the ILAAP identifies the scenarios and risks that are relevant for the SMBC EU Group and measures those risks in relation to short-term and longer-term base and stressed environments. The ILAAP is assessed, documented and reviewed at least annually and approved by the Executive and Supervisory Boards. For the financial year 2023/24, it was approved by the Executive Board and the Supervisory Board in March 2023 and is the basis for the management of liquidity in financial year 2023/24.

The ILAAP reviews all elements of the liquidity risk framework, including the liquidity risk appetite (including all associated risk metrics), the stress testing framework and the contingency plan.

Liquidity risk monitoring and key performance indicators

In accordance with the Bank's risk profile and ILAAP requirements, the Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) have been monitored daily. The NSFR is a minimum standard for reducing refinancing risk over a longer time horizon. The required stable funding has always been met in accordance with the NSFR requirements.

The LCR is another regulatory requirement under Basel III that ensures banks hold enough high quality liquid assets to cover their total net cash outflows over 30 days during a period of intense financial stress. The aim is to promote short-term resilience of banks to potential liquidity disruptions by ensuring they can meet their immediate obligations without being forced to sell assets at a loss. The SMBC EU Group maintained a high quality liquid assets (HQLA) buffer, held in cash at Deutsche Bundesbank.

For the management of the liquidity position in the day-to-day business, the SMBC EU Group has implemented three main measurements: (i) LCR; (ii) NSFR; and (iii) Money Gap. The SMBC EU Group aims to maintain LCR levels of 120% warning and 110% limit, and NSFR levels in excess of 115% warning and 105% limit respectively. Money Gap is the Bank's primary method for monitoring and managing its business-as-usual dispositive liquidity requirements. The purpose of the Money Gap is to limit the SMBC EU Group's reliance on short-term funding (its scope includes assets and liabilities with tenors between overnight and one month) as well as to ensure a sufficient level of day-to-day liquidity. The limits and framework are reviewed on an annual basis and approved by the Executive Board.

Other risk measurement and controlling measures include stress testing framework and Early Warning Indicator (EWI) framework focusing on market indices and benchmarks and key idiosyncratic liquidity metrics. The survival period, EWIs as well as other limits and tolerances are linked to the Bank's contingency funding plan.

<u>Risk factors</u>
An increase in liquidity risk may arise through the following risk factors, either alone or in combination:

– Funding risk
– Drawdown risk
– Funding concentration risk
– Intragroup reliance Risk

<u>Liquidity stress tests</u>
As part of the ILAAP process, the SMBC EU Group assesses its key liquidity risk drivers. Liquidity stress tests are used to test the vulnerability to liquidity outflows and the adequacy of its liquidity buffer in market, idiosyncratic and combined scenarios.

<u>Liquidity stress test framework</u>
The liquidity stress testing framework is designed to assess the adequacy of the bank's liquidity buffer under certain liquidity stress testing scenarios at a given point in time and incorporates several elements based on the risk assessment to determine an appropriate level of risk appetite. The following stress tests are incorporated into the liquidity stress testing framework:

1. Stress test to determine the survival horizon: Liquidity stress test that is calculated as part of the SMBC EU Group's survival horizon tolerance at a specific point in time on the basis of stressed outflow and inflow rates according to specific scenarios.
2. Inverse Stress Test: Monthly stress test used to ascertain the circumstances under which the SMBC EU Group could not survive for a minimum 30 days with additional deposit outflow and committed facilities drawdowns.
3. FX Stress Test: Monthly stress test of non-EUR major currencies to understand the liquidity impact of foreign currency positions.
4. Intraday Liquidity Stress Test: Monthly stress test to better understand the intraday condition and to allow further evaluation of potential stress situations and determine early response actions.
5. Ad-Hoc: Additional balance sheet specific liquidity stress test scenarios might be used according to the needs.

The main risks are the starting points of the scenario creation process and are used as an anchor point when creating the narratives of the scenario to address the assessed weaknesses of SMBC EU Group.

The scenarios were then selected and created through an identification and assessment process. Regarding the survival stress test the SMBC EU Group has defined three stress scenarios:

1. Global market recession
2. SMBC idiosyncratic liquidity stress test
3. Combined liquidity stress test (combination of market and idiosyncratic)

As of end of March 2024 the survival period on the combined liquidity stress scenario (most severe scenario) was 41 days and thus above the Bank's target of 30 days. In the inverse stress test the survival period amounted to 27 days identifying the critical point between inverse and regular stress test with regard to deposits outflow and drawdowns under committed lines.

In addition to these liquidity risk-specific stress tests, the SMBC EU Group uses the adverse scenarios as per ICAAP to estimate the impact on its liquidity position in the form of NSFR and LCR ratios. For end of March 2024 the NSFR reduces to 105% in the global recession scenario, which is the most severe scenario for the NSFR. The LCR reduces to 118% in the EU recession scenario, which is the most severe for the LCR.

Liquidity risk position as of 31 March 2024

The SMBC EU Group's main liquidity and funding source is its parent. As of 31 March 2024, all liquidity limits and ratios were fulfilled, and no limit breach was observed during the last financial year.

As of 31 March 2024, the Bank's HQLA stood at EUR 8,400 million (PY: EUR 5,690 million), all held as central bank reserves at the Bundesbank. LCR stood at 129% (PY: 177%) and NSFR at 132% (PY: 147%). The reduction of NSFR is mainly driven by increase in lending business without similar growth in funding side. In addition to growth in funded assets, LCR is also negatively influenced by reduced collateral amount from the risk participation scheme.

Funding risk

Funding risk is a risk arising from higher funding costs due to a shift in funding spreads which are determined as delta between the market yield curve and the funding curve of the institution. Funding risk results primarily from the maturity transformation and the maturity ladder as well as the simulation of funding spreads over market yield.

Economic capital is calculated by measuring the hypothetical additional cost for closure of all open liquidity gaps within the upcoming 12 month at a confidence level of 99% (normative approach) and 99.9% (economic approach) applied on simulated funding spreads. Deterministic cash flows including amortisations are used as basis for the calculation. For the determination of the funding spreads, a historical simulation is used.

The expected financing costs under the normative perspective amount to EUR 76.8 million (99% confidence level, holding period of 250 days).

The expected financing costs under the economic perspective from March 2024 amount to EUR 96.8 million (99.9% confidence level, holding period of 250 days).

Operational risk

The SMBC EU Group defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risks but excludes reputational. Operational risks have very heterogenous causes and propagation mechanisms. The diversity of potential operational losses is covered by diverse operational risk scenarios that are identified by process-, governance-, and system-owners as well as HR. Significant drivers of operational risk are complexity, weak controls, and missing corporate values.

The operational risk taxonomy of the SMBC EU Group is based on industry standard as projected by the Basel Committee on Banking Supervision in the document *International Convergence of Capital Measurement and Capital Standards*. The primary objective of the Bank's operational risk management framework (ORMF) is to identify, measure, monitor, mitigate, report and escalate operational risks matters.

Key elements of the Bank's operational risk management framework include:

– Tolerances related to Operational Risk;
– Operational Risk Event Reporting;
– Issue Management;
– Risk and Control Self-Assessment;
– New Product and Services Process;
– Governance Framework for the Key Risk Indicator (KRI);
– Operational Risk Scenario Analysis;
– Third Party Risk Management;
– Project Impact Risk Assessment (PIRA); and
– Training on Operational Risk.

Operational risk capital assessment

The SMBC EU Group uses the standardised approach (TSA) for the calculation of its regulatory capital requirement for operational risk under Pillar 1.

The SMBC EU Group assesses all additional capital requirements for operational risk using a loss distribution approach (LDA) based on historical loss data and additional loss scenarios. The LDA uses a frequency and a severity distribution to calculate operational risk exposure that must be covered with capital. The frequency distribution is based on the historical loss events of the SMBC EU Group and SMBC Group, which are recorded in the loss event database as well as external loss data. The severity distribution is based on the results of internal scenario analysis covering potential damages for each operational risk category. In the adverse scenarios operational risks are stressed by increasing the likelihood of particular events (frequency) of events, that have been considered as affected in the scenario.

The operational risk in the risk-bearing capacity is performed quarterly and can be subdivided in three major steps. Starting with the provision of scenarios, the SMBC EU Group provides quarterly data for the operational risk scenarios and different scenario sets for the base and the adverse case. Based on the scenarios, the calculation of the operational risk scenario is done in SMBC BI modelling, the Operational Risk Management Group (ORMG) in SMBC BI provides an update on the loss data used for the calibration of the frequency distribution (SMBC BI and SMBC EU loss data). The data for the calibration of the severity distribution is refreshed annually and not updated during the year. The results obtained from the calculation are used for the risk-bearing capacity whereby a 99% confidence level is used in the normative approach, and a 99.9% confidence level is used in the economic approach.

As of 31 March 2024, the SMBC EU Group calculates Pillar 1 capital requirement for operational risk in its risk-bearing capacity calculation of EUR 28.1 (PY: EUR 12.8). Changes are mainly due to increased operational income. In addition, in the normative approach the SMBC EU Group calculates additional risk capital requirement for operational risk of EUR 50.6 (PY: EUR 62.8). In the economic approach the risk capital required for operational risk amounts to EUR 160.5 (PY: EUR 125.3) mainly driven by the assessed increase of operational risk due to Group operations, accompanied by increased process-related requirements and operational tasks.

The central collection of loss data enables the SMBC EU Group to detect specific patterns, concentrations and trends of operational risks. Therefore, in addition to direct losses (for which no materiality threshold is defined), the SMBC EU Group records indirect losses, near misses, opportunity costs and real concerns, as well as implemented measures. A report of the loss data is provided to the Executive Board on a regular basis. The Board can take additional measures to control risk on this basis.

As of 31 March 2024, the SMBC EU Group had experienced KEUR 292.2 of operational losses over the last financial year (PY: KEUR 20). In total, 11 operational risk events impacting SMBC EU Group were reported.

In terms of the development of the individual risk categories that determine the overall internal risk indicator for operational risks, deteriorations were observed in relation to personnel risk, processing errors, compliance with regulations/changes, product design, the risk of data confidentiality, market integrity and intra-group outsourcing risk. Improvements were recognised in the areas of cyber security, inadequate change/project management, business interruptions due to the unavailability of ICT solutions, sales processes and violations of regulations – financial crime.

Risk Level	Category	Target/Threshold	Actual
High	Fraud and Theft	>=33/66	16.67
High	Cyber Security	>=33/66	3.85
High	People Risk	>=33/66	12.50
Medium	Risk Related to Tax Matter	>=33/66	0.00
Very high	Inappropriate Change/Project Management	>=33/66	40.00
Low	External Vendor and Supplier Risk	>=33/66	0.00
Very high	Business Disruption Due to Unavailability of ICT Solutions	>=33/66	9.09
Low	Damage to Physical Assets	>=33/66	0.00
Medium	Processing Errors	>=33/66	41.67
High	EUC Risk	>=33/66	33.33
Very high	Regulatory Adherence/Changes	>=33/66	32.35
Medium	Product Design	>=33/66	0.00
Medium	Sales Process	>=33/66	0.00
Medium	Data Confidentiality Risk	>=33/66	8.33
Very high	Market Integrity	>=33/66	0.00
Very high	Conflicts of Interest	>=33/66	0.00
Very high	Regulatory Breaches – Financial Crime	>=33/66	13.64
High	Regulatory Reporting Failure	>=33/66	0.00
Medium	Payments and Settlement Risk	>=33/66	0.00
Very high	Group Outsourcing Risk	>=33/66	14.29

The values here are defined as the average status of the indicators. [all red = 100, all yellow = 50, all green = 0]

SMBC EU Group's business model relies extensively on intra-group outsourced operations and the control of this is a key element of the operational risk strategy and risk management framework. Outsourcing risk management is an element of operational risk. It is integrated into the operational risk management framework but documented separately and controlled through specific metrics. The overall metric for outsourcing risk deteriorated and is on a red flag as of end of March 2024.

Enterprise risk

Enterprise risk combines risks that materialise through other risks and are thus measured through these respective models. It covers reputational, strategic and ESG including climate risk. Reputational risks may arise from loss of confidence through SMBC EU Group's actions, peers' actions or unsubstantiated rumours and mainly materialises through business risk (exposure volume & pricing)- and liquidity risks.

Strategic risks encompass a flawed strategy and/or execution, an unfavourable business or competitive environment and mainly materialises through business risk (exposure volume & pricing) risk. ESG including climate risk act as risk driver and materialise, to a varying extent, through all prudential risk categories. Governance, as well as culture risks are risks that materialise via other risks, they are not measurable for income statement contribution, and as no observable data exists, modelling would not be accurate.

As enterprise risks are risk drivers that materialise through other risks or in stress scenarios, they are not quantified with one dedicated model, but are rather addressed through adverse scenarios and operational risk scenarios (project risk, process- and human risk). Consequently, not additional capital requirements are calculated for enterprise risk. Enterprise risk is fully covered in the elements of the risk management framework. From the normative perspective two adverse idiosyncratic scenarios are performed to test the loss potential of enterprise risk including a strategic scenario covering risks from strategic projects and a climate risk scenario covering reputational risks of a perceived contribution to climate change affecting lending margin and funding spread. Risk parameters of the credit- and operational risk models are increased to incorporate enterprise risk leading to higher risk figures for these risks.

ESG-related risks

The SMBC EU Group continued to strengthen its ESG risk management framework. ESG-related risk drivers and the materiality of their impact relationship with prudential risk categories have been analysed and incorporated in the risk register process. Further efforts were undertaken to integrate the six established risk indicators of transition and physical risk as well as a suite of additional metrics, including metrics of portfolio alignment for key sectors, in the Bank's risk appetite framework with the start of financial year 2024/25. A dedicated adverse scenario for ESG based on the parameter-isation of the NGFS Net Zero scenario is reflected in the normative perspective of the ICAAP.

3. Capital Management

The SMBC EU Group's capital management relies on the continuous monitoring and assessment of the Bank's risk-bearing capacity. The risk-bearing capacity of the SMBC EU Group is determined by calculating the internal capital required to cover all risks that are identified as material risks in the risk inventory register process and assessed as covered by capital. The annual ICAAP is the core component of the SMBC EU Group's risk bearing capacity concept. The SMBC EU Group assesses its risk-bearing capacity under two approaches: (i) a normative as well as (ii) an economic perspective.

As part of the normative approach, the SMBC EU Group analyses its ability to fulfil its regulatory requirements, over a three-year planning horizon under a base and several adverse scenarios. Under the economic approach, the SMBC EU Group analyses its ability to cover all its economic risks at a point in time for a base and stress scenario. The normative perspective of the Bank is based on exposures reflecting the accounting and regulatory standards (using CRR methodologies for Pillar 1). Additionally, in the normative approach, all material risks are quantified using internal methods and benchmarked against the Pillar 1 assessment. If deemed not covered adequately under Pillar 1, or if not covered at all under pillar 1, an additional internal quantification of the risk is determined. In the economic approach, all risks are quantified based on present value methods (an overview of the used methods can be found in the section *Risk Identification and Assessment*).

Under both approaches, all material risks are quantified and aggregated to determine the required amount of capital. Under the economic approach, risks are modelled with a 99.9% confidence level and for a period of one year. Under the normative approach, confidence level and periods are set based on regulatory requirements. Confidence level under the normative approach usually lies at 99%.

In general, material risks are covered with capital and quantified as part of the Bank's initial capital assessment and ongoing risk-bearing capacity analysis. Liquidity risk, except for funding risk, is not covered by capital, but by liquidity, as its primary aim is to ensure sufficient liquidity at all times. The enterprise risk is also not directly covered with capital. It is mainly the risk of diverging from the business case planned for the SMBC EU Group (either lower or higher growth volume, in particular owing to uncertainties surrounding the outcome of the crisis on which the respective scenario was based). This risk is addressed by performing a scenario analysis as well as through close monitoring of the business development at the Bank. The enterprise risk is therefore evaluated by the scenarios, but without an explicit determination of capital requirements. The material risks are reviewed in the risk inventory process at least annually. They may also be reassessed on an ad-hoc basis if necessary, during the financial year.

The aggregated amount of required capital is in turn compared with the available amount of capital (i.e., risk coverage potential). In the financial year 2023/24 capital planning, for both the normative and economic approaches, the SMBC EU Group's available capital used to determine its risk coverage potential is based on the regulatory capital amount adjusted economically. As of the end of March 2024, the risk coverage potential after all adjustments is calculated as EUR 5,163.7 million in the normative approach (PY: EUR 5,105.6 million) and EUR 5,079.0 million in the economic approach (PY: EUR 5,009.1 million).

Results of the normative approach as of 31 March 2024

As part of the ICAAP for the 2023/24 financial year, the SMBC EU Group has set itself an internal target for the CET1 ratio of 18.0 % in a base case scenario and 12.0 % in an adverse scenario. As of the end of March 2024, the risk-bearing capacity assessment and the contribution of material risks was as follows:

		Current year Amount (in million EUR)	Previous year Amount (in million EUR)
Total risk weighted assets (RWA)		19,301.9	14,925.43
Pillar 1 regulatory capital requirement	Credit risk	1,457.8	1,148.5
	CCR (SA)	51,4	32.7
	Market risk	0.0	0.0
	Operational risk	28.1	12.8
Total Pillar 1 capital requirement (based on 8% of RWA)		1,544.1	1,194.0
Pillar 2 capital requirement	Credit risk	–	–
	Concentration risk	37.5	37.5
	Underwriting Risk	114.5	49.6
	Market risk	5.0	0.0
	IRRBB	76.8	13.1
	FX Risk	0.1	
	Funding Risk	58.0	
	Operational risk	50.6	62.8
Total Pillar 2 capital requirement (based on 8% capital ratio)		342.5	163.0
Total capital requirement (Pillar 1 + Pillar 2)		1,886.6	1,357.0
Total capital requirement for CET1 target ratio of 18.0% (Pillar 1 RWAs only)		3,473.3	2,686.6
Available CET1		5,163.7	5,105.58
CET1 Ratio (Pillar 1 RWAs only)		26.75.%	34.21%

The table above shows the regulatory capital requirement under Pillar 1 based on total RWA in the upper section.
The capital requirement is calculated as 8% of RWA. In the normative approach, the SMBC EU Group calculates additional capital requirements which are shown as Pillar 2 capital requirement in the table above. The SMBC EU Group assesses whether the total capital requirement using Pillar 1 requirement plus the additional capital requirements (EUR 1,544 million) calculated for the normative approach are less than the Bank's total capital requirement for a target CET1 ratio of 18% (EUR 3,473.3 million).

In line with the SMBC EU Group's business model, capital requirements for credit risk are the largest contributors. The SMBC EU Group has established a risk tolerance to monitor that credit risk remains the main source of risk of the Bank, in line with its strategy.

Capital planning for financial year 2024/25 and beyond

The normative perspective is a forward-looking perspective which calculates the expected capital requirement in a three-year period under a base and several adverse scenarios. The base case was aligned with the multi-year planning exercise underpinning the corporate strategy. The SMBC EU Group planned three adverse scenarios: two macroeconomic stress scenarios, and a climate change scenario. The macroeconomic scenario based on an EU recession mainly driven by the Russia-Ukraine crisis and the tension in the Middle East was the most severe of the three adverse scenarios. In the capital planning approved by the Supervisory Board in March 2023, the target CET1 ratio of 18% could not be met in year two and three in the base case scenario, declining to an expected 15.5% at end of March 2027. In the EU recession stress test the target ratio declines further to an expected 14.29% at end of March 2027. The strong decline in both scenarios is mainly driven by an estimated sharp increase in overall exposures, which is estimated to increase by about 85% over the next three years in both scenarios. The increase is mainly due to a planned strategic acquisition of a group portfolio. A new capital plan will be calculated as part of this process and any capital measures analyzed. No direct measures were taken as of March 31, 2024.

The expected capital requirements in the base case calculated as 8% of RWA as described in the table above are as follows:

31 March 2025: EUR 5,445 million
31 March 2026: EUR 5,996 million
31 March 2027: EUR 6,654 million

The SMBC EU Group actively monitors and controls capital use. SMBC EU Group manages the greater gross exposure against the plan using hedging provided by the SMBC Group. In the course of funding, no internal or external capital limits were breached.

Results of the economic perspective as of 31 March 2024

As of the end of March 2024, the quantification and distribution of risks under the economic approach were as follows:

	Risk Type	Current year Amount (in million EUR)	Previous year Amount (in million EUR)	Limit (in million EUR)	Utilisation
Material Risks	Credit Risk and Concentration Risk	744.4	581.3	3,227.7	23.1%
	Counterparty Risk and CVA Risk	0.0	0.0	276.2	–
	Market Risk from Derivatives	8.3	0.1	110.7	7.51%
	FX Risk	0.1		46.9	0.23%
	Funding Risk	96.8		225.0	43.01%
	Market Risk from Loan Underwriting	121.1	60.8	302.9	40.0%
	Operational risk	160.5	125.3	575.3	27.9%
	IRRBB	58.5	20.9	146.8	39.9%
Total Capital Requirements		1,189.7	788.4	4,190.4	24.2%

All limits under the economic perspective were complied with in the financial year; the risk-bearing capacity under the economic perspective was given at all times.

ICAAP

The annual internal capital assessment process and continuous risk-bearing capacity assessment and monitoring are overseen by appropriate governing bodies within the SMBC EU Group. The Credit and Prudential Risk Management Committee (CPRC) remains the principal forum for tracking ICAAP progress and for reviewing, challenging and discussing the results, the appropriateness of underlying models and the appropriateness of assumptions. The Executive Board remains ultimately responsible for the control of the risk-bearing capacity assessment and status.

In the run up to the annual capital exercise and review process, monthly updates are made to the Executive Board on the progress of the analysis and all its components, with all items being discussed in the CPRC. The continuous monitoring of the SMBC EU Group's risk-bearing capacity is also within the remit of the CPRC. The reporting of the risk-bearing capacity assessment is split into three parts:

– monthly point in time calculation under both approaches excluding planning components and modelling of adverse stress scenarios;
– quarterly calculation under both approaches including three-year planning parameters (as defined in the annual review), including all adverse scenarios defined in the ICAAP (currently three) and a stress analysis in the economic perspective; and
– as part of the annual ICAAP the parameters for planning are set and the stress factors calibrated. These parameters are valid until the next ICAAP unless a revision is deemed necessary during the financial year.

As a key element of the annual ICAAP process, risk appetite tolerances are defined, including individual risk limits in the economic perspective, as well as overall risk limits in the economic and normative perspectives, and specific limits such as position limits for syndication, in order to determine the framework for the use of capital within the scope of the two capital measurement approaches. These tolerances and the associated limits and control measures are used to monitor and manage the risk-bearing capacity and the underlying assumptions.

Stress testing:

The SMBC EU Group performs quarterly stress tests as part of the risk-bearing capacity calculation. In this financial year, this stress testing included three adverse scenarios (two economic downturn scenarios and a climate change scenario) in the normative approach and economic approach.

The Bank's risk-bearing capacity was assessed to be adequate even in the stressed environment.

4. Summary and Outlook

The SMBC EU Group started the financial year in a business environment characterised by a persistently high level of stress and uncertainty due to the lack of clarity about the impact of the Russia-Ukraine crisis and the war in the Middle East. However, against this backdrop, the SMBC EU Group has managed its risk profile well this year, within the context of its risk appetite and the available capital and liquidity resources. In addition, the SMBC EU Group continued to develop its risk management framework, refining the income statement components in the adverse scenarios, strengthening the limit system in the economic perspective and improving the process documentation in response to findings from external audit.. The further development of the risk management system will continue in the next financial year, as will the close management of the risk profile in light of the ongoing challenging economic environment. The focus of risk management in the coming year will be on improving the framework conditions for the merged company and the newly created group risk management in all areas of the universal bank and the group. The current market environment will be monitored on an ongoing basis and measures will be taken in line with the SMBC EU Group's risk appetite in order to adequately counter the situation.

VI. Internal Control System and Risk Management System in the Financial Reporting Process

The internal control and risk management system in respect of SMBC EU Frankfurt's financial reporting process comprises the principles, procedures and measures to ensure a compliant application of financial reporting requirements. The significant risks in respect of compliant financial reporting are misstatement of the assets, liabilities, financial position and financial performance or late publication. The internal control system in the financial reporting process is subject to the general principles of the Bank's risk management approach and is thus an integral component of the risk management system.

Primary responsibility for the internal control and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Executive Board. The Executive Board establishes the general principles and defines areas of responsibility. The finance department implements the requirements of the Executive Board and defines the specific parameters within the given framework. Operational risk has the responsibility for identifying and assessing risks on a regular basis. The risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the identified risks.

The financial reporting process is supported by a multi-step control system. This ensures compliance with legal requirements and the implementation of internal policies. The accounting processes are largely automated, and functionalities of the key IT applications have been defined on a centralised basis. IT permissions are defined in accordance with the respective policies and regularly monitored.

In addition, Internal Audit supports management and the Supervisory Board in their control functions through independent and objective risk-oriented audits. Regular audits are performed on the financial reporting processes to determine whether they are effective, orderly and efficient.

VII. Additional Disclosures

1. Final Declaration on the Dependency Report in Accordance with Section 312 (3) Sentence 3 AktG

The entire share capital of SMBC Bank EU AG is held by Sumitomo Mitsui Banking Corporation, Tokyo, Japan; SMBC Bank EU AG is therefore a dependent company within the meaning of Section 17 (1) AktG. There is no control or profit/loss transfer agreement between SMBC Bank EU AG and SMBC Tokyo. The Executive Board of SMBC Bank EU AG needs to prepare a dependency report on the Company's relationships with affiliated companies in accordance with Section 312 AktG.

The report issued in this respect concludes with the following statement: "The Management Board declares that SMBC Bank EU AG has received appropriate consideration for each legal transaction with the controlling or other affiliated company in accordance with the circumstances known at the time when the transactions were carried out. No further measures have been taken or omitted which would have been detrimental to SMBC Bank EU AG."

2. Assurance of the Legal Representatives

We hereby confirm that, to the best of our knowledge, the SMBC EU Group's financial statements give a true and fair view of the assets, liabilities, financial position, liquidity and financial performance of the SMBC EU Group in accordance with applicable financial reporting standards, and that the combined group management report gives a true and fair view of the SMBC EU Group's business development, and also describes significant opportunities and risks related to the SMBC EU Group's anticipated development for the remaining part of the financial year.

Frankfurt am Main, 1 August 2024

SMBC Bank EU AG
Frankfurt am Main

Executive Board

Naoki Okubo   Stanislas Roger   Yosuke Uemura

Dr Niklas Dieterich   Isabelle Saadjian

Balance Sheet

Assets

in EUR	Appendix	31.03.2024	31.03.2023
Cash reserves	III, 1	135,852,103.04	730,961,933.12
a) Cash on hand		–	–
b) Balances with central banks		135,852,103.04	730,961,933.12
thereof:			
at the Deutsche Bundesbank		135,852,103.04	730,961,933.12
Loans and advances to banks	III, 2	9,062,845,242.90	7,445,131,123.03
a) Payable on demand		8,527,369,373.08	5,118,516,968.98
b) Other loans and advances		535,475,869.82	2,326,614,154.05
Loans and advances to customers	III, 3	11,894,399,035.62	7,974,643,062.04
Debt instruments and other fixed-income securities	III, 4	115,032,590.27	160,285,421.76
a) Money market instruments		115,032,590.27	160,285,421.76
aa) Of public-sector issuers			–
ab) of other issuers		115,032,590.27	160,285,421.76
Assets held for trading	III, 5	1,230,871,629.68	1,182,000,594.31
Investment in associated companies	III, 6	85,750,470.83	–
thereof: in financial institutions		85,750,470.83	
Intangible assets	III, 7	14,182,033.99	19,232,024.54
a) Self-created property rights and similar rights and assets			–
(b) Concessions, industrial property rights and similar rights and assets as well as licences to such rights and assets acquired for consideration		670,902.03	199,484.69
c) Goodwill		13,511,132.96	19,032,539.85
d) Advance payments made			–
Property and equipment	III, 7	5,618,453.51	4,998,665.73
Other assets	III, 8	125,231,431.24	111,537,770.30
Prepaid expenses	III, 9	400,819.63	280,521.11
Total assets		22,670,183,810.71	17,629,071,115.94

Liabilities

in EUR	Appendix	31.03.2024	31.03.2023
Liabilities to banks	III, 10	4,579,006,411.98	2,825,664,857.43
a) Payable on demand		1,371,533.45	1,644,821.84
b) With agreed maturities or notice periods		4,577,634,878.53	2,824,020,035.59
Liabilities to customers	III, 11	11,050,847,357.78	7,818,515,118.98
a) Savings deposits		–	–
aa) with an agreed notice period of three months		–	–
ab) with an agreed notice period of more than three months		–	–
b) Other liabilities		11,050,847,357.78	7,818,515,118.98
ba) Payable on demand		396,652,582.28	263,128,327.24
bb) with an agreed term or notice period		10,654,194,775.50	7,555,386,791.74
Liabilities held for trading	III, 12	1,230,413,446.70	1,171,359,991.22
Other liabilities	III, 13	290,138,576.31	476,909,994.15
Deferred income	III, 14	15,799,375.01	8,007,241.14
Provisions	III, 15	109,339,669.14	140,332,871.95
a) Provisions for pensions and similar obligations	–	–	
b) Tax provisions		37,317,644.83	40,224,452.33
c) Other provisions		72,022,024.31	100,108,419.62
Funds for general banking risks	III, 16	4,436,319.72	3,749,724.03
Equity	III, 17	5,390,202,654.07	5,184,531,317.04
a) Called capital		5,100,000,000.00	5,100,000,000.00
Subscribed capital		5,100,000,000.00	5,100,000,000.00
Less uncalled outstanding capital		–	–
b) Capital reserves		73,537,837.78	73,537,837.78
c) Revenue reserves		10,900,000.00	549,673.96
ca) Legal reserves		10,900,000.00	549,673.96
(cb) Reserve for shares in a controlling or majority-owned undertaking		–	–
cc) Reserves required under the articles of association		–	–
cd) Other revenue reserves		–	–
d) Accumulated gain/(deficit)		205,764,816.29	10,443,805.30
Total liabilities and equity		22,670,183,810.71	17,629,071,115.94

Contingent liabilities and other obligations

in EUR	Appendix	31.03.2024	31.03.2023
Contingent liabilities	V, 2	1,956,271,708.64	2,143,465,892.79
a) Contingent liabilities from rediscounted bills		–	–
b) Contingent liabilities from guarantees and indemnity agreements		1,956,271,708.64	2,143,465,892.79
c) Liability from the collateralisation of third party liabilities		–	–
Other commitments	V, 2	12,997,710,417.91	10,652,962,743.51
a) Repurchase obligations from reverse repurchase agreements		–	–
b) Placement and underwriting obligations		–	–
c) Irrevocable loan commitments		12,997,710,417.91	10,652,962,743.51

Income Statement

in EUR	Appendix	01.04.2023 - 31.03.2024	01.04.2022 - 31.03.2023
Interest income	IV, 1	964,740,829.67	377,290,714.78
a) Lending and market business		958,851,005.92	375,354,673.03
thereof: Negative Interests on Credit and Money Market Transactions		(47,425.81)	(6,662,161.95)
b) Fixed-income securities and book-entry securities		5,889,823.75	1,936,041.75
thereof: Negative interest income from fixed-income securities and book-entry securities		–	–
Interest expenses	IV, 1	(572,875,256.02)	(196,055,004.53)
Negative interest expense		887,012.18	4,803,170.78
Commission income	IV, 2	222,782,781.31	169,962,789.05
Commission expenses	IV, 2	(90,176,222.12)	(54,628,725.78)
Net trading result	IV, 3	4,805,702.02	15,997,590.99
Other operating income	IV, 4	17,051,281.24	15,761,890.08
General administrative expenses	IV, 5	(191,868,251.94)	(170,200,310.05)
a) Personnel expenses		(81,086,318.57)	(69,678,697.33)
aa) Wages and salaries		(66,566,931.41)	(57,605,987.78)
ab) Social security, pension, and other benefits		(14,519,387.16)	(12,072,709.55)
thereof:			
for Pensions		–	–
b) Other administrative expenses		(110,781,933.37)	(100,521,612.72)
Amortisation, depreciation and write-downs on intangible assets and property and equipment	IV, 6	(7,055,883.18)	(3,978,841.10)
Other operating expenses	IV, 7	(277,042.34)	(26,236.89)
Write-downs and allowances on receivables and certain securities as well as additions to provisions for loan losses	IV, 8	(35,875,206.51)	(55,103,791.13)
Total Operating Income		311,252,732.13	99,020,075.42
Income taxes	IV, 9	(105,538,662.00)	(40,233,438.44)
Other taxes	IV, 10	(42,733.10)	(47,015.81)
Net income for the year	–	205,671,337.03	58,739,621.17
Accumulated deficit brought forward	–	10,443,805.30	(47,746,141.91)
Allocations to revenue reserves		(10,350,326.04)	(549,673.96)
a) to the legal reserve		(10,350,326.04)	(549,673.96)
Accumulated gain/(deficit)		205,764,816.29	10,443,805.30

SMBC Bank EU AG, Frankfurt am Main, as of 31.03.2024
Registration court: Frankfurt am Main District Court
Commercial Register Number: HRB 110214

I. General information on the Annual Financial Statements

SMBC Bank EU AG (SMBC EU, "the Bank"), is a public limited company registered in Frankfurt am Main with branches in Amsterdam, Dublin, Dusseldorf, Madrid, Milan, Paris, and Prague.

The annual financial statements of SMBC Bank EU AG as of 31 March 2024 have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Regulation on the Accounting for Banks and Financial Services Institutions (RechKredV) as well as the provisions of the German Stock Corporation Act (AktG). In addition to the annual financial statements – comprising of the annual balance sheet, income statement and notes – a management report was prepared in accordance with Section 289 of the German Commercial Code (HGB). The management report comprises the management report of SMBC EU AG and the SMBC EU Group (combined management report in accordance to Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 289 (2) of the German Commercial Code (HGB)). To the extent that there are significant differences between the accounting and risk figures between SMBC EU AG and the SMBC EU Group, SMBC EU AG information is reported separately in the combined (Group) management report.

The income statement and the balance sheet are structured in accordance with the requirements of the RechKredV while using “Staffelform” for the income statement.

Unless otherwise indicated, all amounts are stated in thousands of Euros (KEUR). Due to rounding, in individual cases it is possible that individual figures do not add up exactly to the total stated. Minor deviations may occur in the totals and percentages due to rounding.

The financial year of SMBC EU is defined as the period from 1 April to 31 March of the following calendar year.

As of May 30, 2023, SMBC EU AG acquired one hundred percent of the shares in SMBC Nikko Bank (Luxembourg) S.A. (SNBL) from SMBC Nikko (Japan). The SNBL is a custodian with banking business focused on funds services.

SMBC Bank EU AG will prepare consolidated financial statements for the first time as of March 31, 2024 (smallest scope of consolidation). This will be published in the “Bundesanzeiger”.

The parent company of SMBC EU is Sumitomo Mitsui Banking Corporation, Tokyo in Japan (SMBC Tokyo). SMBC Tokyo is included in the consolidated financial statements of Sumitomo Mitsui Financial Group, Tokyo in Japan (SMFG) (largest scope of consolidation). The consolidated financial statements of SMFG are available at the following link:

https://www.smfg.co.jp/english/investor/financial/disclosure.html#link2024

II. Accounting and Valuation Methods

Assets and liabilities are reported in accordance with the general accounting and valuation principles of the HGB (Sections 252 et seq. HGB). The special regulations for banks (Sections 340 et seq. HGB) are considered.

The **cash reserve** is accounted at a nominal amounts.

Loans and advances to banks and loans and advances to customers are reported at nominal amounts; any loss allowances are deducted from this amount. The differences between the acquisition costs and the nominal amounts are shown as deferred items and recognised in net interest income over the term.

Loan loss provisioning on the credit portfolio is calculated for lending transactions with immediate default risks at individual transaction level and for lending transactions with foreseeable default risks not yet individually specified on a portfolio basis. The amount of the loan loss provisioning for which an impairment loss has been identified is measured by the difference between the book value of the loan and its present value calculated using the discounted cash flow method. This is determined by the expected future cash inflows, considering recoverable collateral on these receivables. The measurement of the loan loss provision on portfolio basis is based on the requirements of IDW RS BFA 7 on general loan loss provisioning. The Bank is opting to determine the loan loss provision on portfolio basis in compliance with the regulations of IFRS 9. The loan loss provision on portfolio basis is calculated considering historical observed defaults, current information, predictions, the time to maturity as well as the assessment of the risk situation amounting to the 12-month expected credit loss and increased to the expected loss over the remaining lifetime depending on a possible significant increase of the credit risk according to the methodology of IFRS 9. Also, country risks are considered for the general loan loss provision.

Debt instruments and other fixed-income securities with no intention of trading are allocated to the liquidity reserve, which is strictly subject to the lower of cost or market principle pursuant to Section 253 (4) HGB. In case of differences in the book value and the market value of a security, a write-off is made to the lower value.

The positive and negative market values of **derivative financial instruments held for trading** are reported in the assets held for trading and liabilities held for trading. No financial instruments held for trading were reclassified in the financial year.

All **financial instruments held for trading** are measured at fair value at initial recognition. Fair value is the amount at which an asset could be exchanged or a liability settled between knowledgeable , willing and independent business partners. At the time of receipt, this corresponds to the transaction price, i.e. the fair value of the consideration.

The subsequent measurement of the financial instruments held for trading is carried out at fair value less a risk adjustment in accordance with Section 340e (3) of the German Commercial Code (HGB). The subsequent valuation is based on publicly listed market prices on an active market. If these are not available, the assessment is based on recognised valuation methods. The fair value model taking into account the yield curve and the Black-Scholes model for options are used.

The values resulting from market valuation are reduced by a Value at Risk deduction. The calculation of the risk adjustment is based on the regulatory Value at Risk approach and is measured in such a way that an expected maximum loss from these trading books is not exceeded with a probability of 99.0% for a holding period of 10 days. The historical observation period is three years. Value at Risk is determined centrally for the entire portfolio and recognised in the balance sheet under assets held for trading.

In the case of OTC derivatives held for trading, the counterparty default risk is taken into account by considering a credit valuation adjustment (CVA) and SMBC EU AG's own default risk is considered by recognising a debit valuation adjustment (DVA). For funding-related valuation adjustments (FVA), the refinancing expenses from unsecured derivatives and collateralised derivatives for which only partial collateral is available or the collateral cannot be used for refinancing are considered at fair value. To determine the amount of the fair value, observable market data (e.g., credit default swap spreads) are used for CVA, DVA and FVA, if available. Changes in the fair value of the trading portfolio are shown in net income from trading. Hedge instruments for market risks and default risks of counterparties are allocated to the trading portfolio. They are subject to the accounting and valuation methods of the trading portfolio.

Intangible fixed assets as well as property and equipment are reported at cost and, where a finite useful life is applicable, reduced by amortisation/depreciation. Amortisation/depreciation is spread over the useful economic life. In the event of an expected permanent impairment, a write-down (impairment loss) is recognised. There are currently no internally generated intangible assets in the portfolio.

Goodwill is determined as the difference between the consideration paid for the acquisition of an entity and the value of the individual assets of the entity less liabilities on the date of transfer. Its use is limited in time and is reduced by amortisation. The useful life of the recognised goodwill is based on the estimated useful economic life and is 10 years. In the event of expected permanent impairment, write-down is recognised.

Other assets are accounted for with the nominal amounts. Differences between acquisition costs and nominal amounts are recognised as deferred income or prepaid expenses and amortised over the lifetime of the asset. Prepaid expenses and deferred income include expenses incurred and revenue received prior to the balance sheet date that represent expenditures or earnings for a certain period after the balance sheet date.

Liabilities to banks and customers are shown with the settlement amounts plus accrued interest.

Provisions for taxes and other provisions are recognised in the amount of the settlement amount necessary in accordance with sound business judgement, provisions with a remaining term of more than one year are recognised at the present value. Actuarial assessments were made for early retirement obligations. The calculation is based on the Projected Unit Credit (PUC) method.

Actuarial assessments base on following valuation assumptions:

	31.03.2024	31.03.2023
Discount rate	1.56 %	1.17 %
Salary trend	1.50 %	1.50 %
Trend BVV/KV contribution	0.00 %	0.00 %
Social security contributions (flat-rate)	20.450 %	20.225 %
Fluctuation	5.00 %	5.00 %
Demands	100.00 %	100.00 %
Biometry	RT2018 G	RT 2018 G
Evaluation method	PUC	PUC

According to Section 340e (4) sentence 1 (HGB) in conjunction with Section 340g (HGB), the fund for general banking risks is recognised to cover special risks of the line of business.

The **periodic method (P&L method)** is applied for the loss-free valuation of interest-related transactions in the banking book, there is no need to recognise a provision for anticipated losses.

Deferred taxes are determined for temporary differences between the book values of assets and liabilities in the financial statements and their tax base. The deferred tax assets per country remaining after offsetting are not reported in accordance with the accounting option provided by Section 274 (1) Sentence 2 HGB.

Assets and liabilities denominated in **foreign currency** are translated at the average spot rate on the balance sheet date. Income and expenses in foreign currencies are translated into Euros immediately upon realisation, thereby fixing their amount. Due to the separate cover in the same currency, unrealised currency gains for assets and liabilities in the banking book with a remaining lifetime of more than one year are recognised in the income statement up to the amount of offsetting losses in the same currency. Gains and losses from currency translation of assets and liabilities with a remaining lifetime of less than one year are recognised in full in the income statement.

Negative interest for financial instruments carried as assets is reported under interest income and **positive interest** for financial instruments carried as liabilities are reported under interest expenses, in each case as deducted items.

For this financial year, the **offsetting option** of Section 340 f Paragraph 3 HGB was used for **cross-compensation**, which is why income from write-ups of receivables from credit institutions and customers as well as from the reversals of provisions for contingent liabilities was set off with the corresponding expenses from write-offs and value adjustments on receivables as well as allocations to provisions for contingent liabilities.

This was decided in particular for reasons of better comparability to the IFRS consolidated group financial statements, in which the corresponding income and expenses are also shown under a collective profit and loss item.

III. Notes to the Balance Sheet

1. Cash reserve

KEUR	31.03.2024	31.03.2023
Cash reserves	135,852	730,962
Cash on hand	–	–
Balances at central banks	135,852	730,962
thereof at Deutsche Bundesbank	135,852	730,962

2. Loans and Advances to Banks

KEUR	31.03.2024	31.03.2023
Loans and Advances to Banks	9,062,845	7,445,131
thereof: Loans and advances to affiliated companies	87,821	1,869,461
Maturity breakdown:		
Payable on demand	8,527,369	5,118,517
Up to three months	36,390	1,829,999
More than three months and up to one year	42,917	448,287
More than one year and up to five years	456,169	48,328
More than five years	–	–

Loans and advances to banks include receivables from inter-bank lending business in the amount of EUR 31.83 million (PY: EUR 1,826.99 million).

3. Loans and Advances to Customers

KEUR	31.03.2024	31.03.2023
Loans and Advances to Customers	11,894,399	7,974,643
thereof: Loans and advances to affiliated companies	96,772	17,089
Maturity breakdown:		
Payable on demand	–	–
Up to three months	2,126,591	1,522,837
More than three months and up to one year	1,323,992	451,429
More than one year and up to five years	6,509,875	3,925,562
More than five years	1,933,941	2,074,815

The loans and advances to customers result mainly from the lending business.

4. Debt Instruments and Other Fixed-income Securities

KEUR	31.03.2024	31.03.2023
Debt securities and other fixed-income securities	115,033	160,285

Debt instruments and other fixed-income securities exclusively include stock exchange eligible, but non-listed money market instruments from other issuers that mature within the next financial year.

5. Assets Held for Trading

KEUR	31.03.2024	31.03.2023
Assets held for trading	1,230,872	1,182,001
Derivative Financial Instruments	1,233,856	1,182,073
Risk adjustments	(2,984)	(72)

6. Investment in associated companies

KEUR	31.03.2024	31.03.2023
Investment in associated companies	85,750	–

The item includes the participation in the subsidiary SMBC Nikko Bank (Luxembourg) S.A. (SNBL), based in Luxembourg, of which 100% of the shares were acquired as of May 30, 2023. According to the most recently available annual financial statements (March 31, 2023 according to LuxGAAP), SNBL's equity is KEUR 179,353. The result for the corresponding financial year amounted to KEUR 35,687.

7. Intangible Property, Property and Equipment

The development of the individual items is shown in the following statement of movements in fixed assets in KEUR:

	Cost					Amortisation					Residual book value	
KEUR	01.04. 2023	Additions	Disposals	Transfers	31.03. 2024	01.04. 2023	Additions	Disposals	Transfers	31.03. 2024	03.04. 2023	31.03. 2024
Concessions, property rights and similar rights and assets as well as licences to such rights and assets acquired for consideration	910	692	–	–	1,602	710	221	–	–	931	200	671
Goodwill	28,213	–	–	–	28,213	9,181	5,521	–	–	14,702	19,032	13,511
Intangible Assets	29,123	692	–	–	29,815	9,890	5,742	–	–	15,632	19,232	14,183
Leasehold improvement	7,087	254	–	–	7,342	3,985	596	–	–	4,581	3,102	2,761
Operating and other equipment	4,326	1,622	15		5,933	2,429	717	11	–	3,137	1,897	2,796
Construction in progress	–	61	–	–	61	–	–	–	–	–	–	61
Property and equipment	11,413	1,938	15	–	13,336	6,414	1,312	11	–	7,718	4,999	5,618
Total	40,536	2,630	15	–	43,151	16,304	7,054	11	–	23,350	24,231	19,801

8. Other assets

Other assets mainly include:

KEUR	31.03.2024	31.03.2023
Other assets	125,231	111,538
thereof:		
Receivables from intra-group clearing	49,043	47,770
Cash collateral (margins) received	47,939	39,905
Spot exchange rate differences from unsettled forward transactions	6,386	–
Other	21,863	23,863

Other includes interest accruals for derivative financial instruments from the non-trading portfolio, of which KEUR 466.54 (PY: EUR 4.21 million) are due from affiliated companies. Of the cash collateral received, KEUR 28.86 million (PY: EUR 31.59 million) affiliated companies.

9. Accrued Expenses and Deferred Revenues

KEUR	31.03.2024	31.03.2023
Prepaid expenses	401	281

Accrued Expenses and Deferred Revenues mainly includes prepaid rents paid for office buildings, contributions to BaFin and deposit insurance, as well as for membership fees and credit insurance.

10. Liabilities to Banks

KEUR	31.03.2024	31.03.2023
Liabilities to Banks	4,579,006	2,825,665
thereof: liabilities to affiliated companies	4,269,044	2,683,648
Maturity breakdown:		
Payable on demand	1,370	1,645
Up to three months	748,601	633,154
More than three months and up to one year	348,773	2,270
More than one year and up to five years	2,878,712	2,188,596
More than five years	601,550	–

Liabilities to banks mainly consists of liabilities from time deposits of EUR 1,455 million (PY: EUR 2,065.1 million) and EUR 3,115.03 million of deposits from the SMBC Group.

11. Liabilities to customers

KEUR	31.03.2024	31.03.2023
Liabilities to customers	11,050,847	7,818,515
thereof: liabilities to affiliated companies	2,256	2,873
Maturity breakdown:		
Payable on demand	396,652	263,128
Up to three months	10,627,910	6,753,775
More than three months and up to one year	23,859	800,070
More than one year and up to five years	2,247	465
More than five years	179	1,077

Liabilities to customers mainly includes liabilities from customer deposits of EUR 9,881.58 million (PY: EUR 7,531.17 million) and current accounts of EUR 396.65 million (PY: EUR 263.13 million) as well as liabilities from the securities trading at the amount of EUR 2.04 million, reported as other liabilities in the PY (EUR 6.45 million).

12. Liabilities Held for Trading

KEUR	31.03.2024	31.03.2023
Liabilities held for trading	1,230,413	1,171,360
Derivative Financial Instruments	1,230,413	1,171,360

The recognition of securities held for trading was adjusted from trading to settlement day during the financial year.

13. Other liabilities

KEUR	31.03.2024	31.03.2023
Other liabilities	290,139	476,910
thereof:		
Provided cash collateral (margins)	167,696	417,009
Liabilities from intra-group clearing	112,776	32,339
Differences in spot rates from unsettled forward transactions	–	14,280
Liabilities from security trading	–	6,447
Tax liabilities	4,540	4,160
Other	5,127	2,675

Of the cash collateral provided, EUR 6.61 million (PY: EUR 281.02 million) is due from affiliated companies.

14. Deferred income

KEUR	31.03.2024	31.03.2023
Accrual	15,799	8,007
thereof:		
Discount (disagio)	3,729	4,950
Accrual of commitment fees	2,231	2,082
Interest not yet earned from receivables purchases		
Other	9,839	975

The item contains the discount between the nominal amount and the issued amount (disagio) of receivables in the amount of EUR 3,729 million (PY: EUR 4.95 million), as the receivable is recognised at nominal amount.

15. Provisions

KEUR	31.03.2024	31.03.2023
Accruals	109,340	140,333
thereof:		
Tax provisions	37,318	40,224
Other provisions	72,022	100,108

The other provisions mainly consist of provisions for intra-group clearing at the amount of EUR 9.4 million (PY: EUR 45.49 million) and bonus provisions in the amount of EUR 23.06 million (PY: EUR 14.70 million). Furthermore, provisions for value adjustments on off-balance items in the amount of EUR 22.05 million (PY: EUR 10.91 million) are included.

Some employees are entitled to early retirement benefits, depending on their seniority. A corresponding provision of EUR 2.21 million (PY: EUR 2.20 million) is reported under other provisions.

Retirement obligations KEUR	31.03.2024	31.03.2023
Early retirement commitments	2,210	2,205
ongoing early retirement	695	477
potential early retirement	1,515	1,728

The early retirement obligations are offset by compensation claims in the amount of EUR 0.58 million (PY: EUR 0.85 million) from the SMBC Düsseldorf branch for early retirement commitments made before the transfer of the employees in February 2020. The discount on provisions resulted in expenses of KEUR 23.96 (PY: KEUR 20.69).

16. Fund for general banking risks

In accordance with Section 340e (4) Sentence 1 HGB in conjunction with Section 340g HGB, the fund for general banking risks is allocated an amount of KEUR 686.60 (PY: KEUR 1,769.45). In the past financial year, a total value of KEUR 4,436.32 (PY: KEUR 3,749.72) results. The addition is offset against the net income from the trading portfolio.

17. Equity

KEUR	31.03.2024	31.03.2023
Equity	5,390,202	5,184,531
Subscribed capital	5,100,000	5,100,000
Capital reserves	73,538	73,538
Revenue reserves	10,900	550
Legal reserve	10,900	550
Change		550
Accumulated gain/(deficit)	205,765	10,444

The bank's subscribed capital amounts to EUR 5.10 billion as of the balance sheet date which is divided into 5,100,000,000 registered no-par shares (notional value per share EUR 1.00).

In accordance with Section 150 of the German Stock Corporation Act (AktG), around 5% of the net profit for the year, reduced by a loss carried forward from the PY, will be transferred to the legal reserve. In addition, the Executive Board will propose to the Annual General Meeting that the accumulated gain is carried forward.

IV. Explanatory Notes to the Income Statement

1. Net interest income

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Interest income	391,866	181,236
Interest income from:	964,741	377,291
Lending and money market business excluding negative interest	958,898	382,017
Negative interest on lending and money market business	(47)	(6,662)
Fixed-income securities and book-entry securities	5,890	1,936
Interest expenses	(572,875)	(196,055)
Interest expenses	(573,762)	(200,858)
Less negative interests on interest expenses	887	4,803

EUR 851.65 million (PY: EUR 326.71 million) is attributable to SMBC EU in Frankfurt, EUR 113.05 million (PY: EUR 50.59 million) to the Milan branch and KEUR 48.13 to the Paris branch.

2. Net Commission Income

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Net commission income	132,607	115,334
Commission income	222,783	169,963
Loan service fees	177,454	142,941
Commissions from security business	39,869	20,949
Guarantee fees received	5,459	5,900
Other	1	173
Commission expenses	(90,176)	(54,629)
Commissions from security business	(6,590)	(1,049)
Guarantee fees paid	(4,401)	(3,921)
Interbank commissions	(75,662)	(44,579)
Other	(3,523)	(5,080)

EUR 204.78 million (PY: EUR 152.08 million) is attributable to SMBC EU in Frankfurt, EUR 17.45 million (PY: EUR 17.63 million) to the Milan branch, and KEUR 558.63 (PY: KEUR 250.62) to the Paris branch.

3. Net Trading Result

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Net trading result	4,806	15,998

The net income from the trading portfolio is fully attributable to SMBC EU in Frankfurt and includes an allocation to the Section 340e of the German Commercial Code (HGB) reserve in the amount of KEUR 686.60 (PY: KEUR 1,769.45).

4. Other operating income

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Other operating income	17,051	15,762
thereof:		
Income from intra-group clearing	11,980	11,256
Rental income	719	1,979
Income from the reversal of provisions	–	78
Other	4,352	2,449
including: currency translation from receivables and liabilities from foreign currencies	1,757	2,081

The gain from currency conversion of receivables and liabilities denominated in foreign currency amounts to EUR 1.76 million (PY: KEUR 2.08).

Other operating income of EUR 14.01 million (PY: EUR 12.86 million) is attributable to SMBC EU in Frankfurt, EUR 2.94 million (PY: EUR 2.66 million) to the Paris branch, and KEUR 100.05 (PY: KEUR 247.08) to the other branches.

5. General administrative expenses

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
General administrative expenses	(191,868)	(170,200)
thereof:		
Personnel expenses	(81,086)	(69,679)
Wages and salaries	(66,567)	(57,606)
Social security, pensions, and other benefits	(14,519)	(12,073)
thereof for pensions	–	–
Other administrative expenses	(110,782)	(100,522)

Other general administrative expenses mainly consist of expenses from intra-group clearing of EUR 51.77 million (PY: EUR 46.15 million), VAT expenses of EUR 15.120 million (PY: EUR 12.24 million), the bank levy of KEUR 50 (PY: EUR 3.17 million), expenses for temporary staff of EUR 5.42 million (PY: EUR 5.28 million) as well as external consulting services in the amounting to EUR 13.01 million (PY: EUR 12.29 million).

6. Amortisation, Depreciation and Write-downs on Intangible Assets and Property and Equipment

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Amortisation, depreciation and write-downs on intangible assets and property and equipment	(7,056)	(3,979)
thereof:		
Leasehold improvement	(574)	(679)
Goodwill	(5,521)	(2,821)
Other	(961)	(479)

7. Other operating expenses

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Other operating expenses	(277)	(26)

8. Write-downs and Allowances on Receivables and Certain Securities and Additions to Provisions for Loan Losses

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Write-downs and allowances on receivables and certain securities and additions to provisions for loan losses	(35,875)	(55,104)

The amount essentially includes the addition to the § 340 f HGB reserve. For this financial year, the offsetting option for cross-compensation according to the section 340 f (3) (HGB) was exercised. Without cross-compensation, income from write-ups of receivables and certain securities as well as from the release of provisions in the lending business would have amounted to KEUR 477 (PY: KEUR 2,303)

9. Income Taxes

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Income taxes	(105,538)	(40,233)
Trade tax	(50,805)	(19,174)
Corporate tax	(54,330)	(21,060)
Other	(403)	–

Corporate tax shows income taxes paid in Germany as well as in the countries in which the branches are located.

In Germany, the combined income tax rate is 31.730%. The Italian income tax rate is 27.5%, while the French rate is 25%. The income tax rate in the Czech Republic is 21% (19% in 2023), while in the Netherlands, depending on the amount of taxable profit, it is 19% and 25.8%, respectively. In Spain, the income tax rate is 25% and in Ireland it is 12.5%.

No significant additional effort is expected when implementing the MinBestRL-UmsG.

10. Other taxes

Other taxes amounted to KEUR 42.73 in the financial year (PY: KEUR 47.02). These mainly include tax expense from withheld taxes from professional services as well as property tax.

V. Other Explanatory Notes

1. Held for Trading

Derivative Financial Instruments Held for Trading

KEUR	Face value	Market value Positive	Market value Negative
OTC products			
Interest-related transactions	34,312,301	736,284	(734,801)
Currency-related transactions	25,096,004	497,572	(495,612)

2. Off-balance sheet transactions

Derivative Financial Instruments Not Held for Trading

KEUR	Face value	Market value Positive	Market value Negative
Interest rate risk			
Interest rate swap	1,387,432	54,402	(1,161)
Currency risks			
Currency swap	1,776,504	17,961	(7,902)

At the balance sheet date, the Bank carried unsettled interest rate and currency swaps to hedge interest rate and currency risks in the banking book.

Contingent liabilities and other obligations

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Contingent liabilities		
Liabilities from guarantees and indemnity agreements	1,956,272	2,143,466
Other obligations		
Irrevocable loan commitments	12,997,710	10,652,963

Based on past experience, the probability of a claim against guarantees and indemnity agreements being made is considered to be low. Irrevocable credit commitments are regularly drawn by customers.

As of March 31, 2024, there are contingent liabilities and irrevocable loan commitments to four individual borrowers of EUR 1,207.50 million, EUR 733.43 million, EUR 542.61 million and EUR 620 million, respectively which are above the large exposure threshold.

3. Assets and Liabilities Denominated in Foreign Currency

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Assets and liabilities in foreign currency		
Assets	9,227,340	7,508,209
Liabilities	(9,337,088)	(7,496,299)

VI. Other information

1. Number of employees

Number	01.04.2023 – 31.03.2024	01.04.2022– 31.03.2023
Average	413	357
Dusseldorf	124	115
Back office	88	76
Front office	35	39
Frankfurt	189	155
Back office	94	74
Front office	95	81
Milan	16	16
Back office	6	6
Front office	10	10
Amsterdam	15	13
Back office	2	2
Front office	13	11
Prague	12	12
Back office	2	2
Front office	10	10
Madrid	7	6
Back office	2	2
Front office	5	4
Dublin	12	9
Back office	4	3
Front office	8	6
Paris	38	33
Back office	6	4
Front office	32	29

2. Auditor’s fees

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Auditor’s fees	2,320	1,026
Auditing services	2,140	950
Provision	1,961	950
Other assurance services	144	76
Provision	105	76
Other services	37	–

3. Explanatory Notes on Other Financial Commitments

The minimum rental expenses for the business premises in Frankfurt, Milan, Amsterdam as well as Madrid, Paris and Prague amount to EUR 13.56 million (PY: EUR 10.11 million). The company car results in minimum rental expenses of KEUR 8.2 (PY: KEUR 13.13).

The Bank is supported by various SMBC Group entities in its day-to-day operations by way of intra-group outsourcing arrangements. This operating framework is widely used by SMBC Group throughout the EMEA region, under which several operations are centrally performed by SMBC BI and other relevant Group entities.

4. Governing Bodies

Members of the Executive and the Supervisory Board

Executive Board
Naoki Okubo
Chair since 26/04/2022
Stanislas Roger
CEO since 26/04/2022
Tetsuji Ueno
Head of Planning Department
Dr. Niklas Dieterich
CFO, COO
Isabelle Saadjian
CRO

Supervisory Board
Hideo Kawafune
Chair since 01/04/2023
Antony Yates
Deputy Chair since 06/05/2022, Deputy Chair of the Audit Committee since 13/05/2022 till 22/03/2024, Deputy Chair of the Risk and Remuneration Control Committee since 22/03/2024
Glenn Swanton
Chair of the Audit Committee since 13/05/2022, Deputy Chair of the Nomination Committee since 22/03/2024
Takahiro Yazawa
Deputy Chair of the Audit Committee since 22/03/2024
Karin Elisabeth Katerbau
Member of the supervisory board since 15/12/2023, Chair of the Risk Committee since 22/03/2024

Total Remuneration

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Salaried employees		
Executive Board	3,801	4,045
Members of the Executive Board	3,801	4,045
Former members of the Executive Board or their surviving dependants	–	–
Supervisory board	–	–
Members of the Supervisory Board	31	–
Former members of the Supervisory Board or their surviving dependents	–	–

In the year under review, only the external members of the Supervisory Board receive remuneration.

5. Mandates on Supervisory Boards and Other Control Bodies

Executive Board
Naoki Okubo
No further mandates
Stanislas Roger
Deputy Head SMBC EMEA Division
Tetsuji Ueno
No further mandates
Dr. Niklas Dieterich
No further mandates
Isabelle Saadjian
No further mandates

Supervisory Board
Hideo Kawafune
SMBC Bank International plc (Chief Executive director),
Sumitomo Mitsui Banking Corporation / Sumitomo Mitsui Financial Group (Managing Executive Officer, Head of EMEA Division),
SMBC Nikko Capital Markets Limited (non-executive Director),
SMBC London Branch (Group Non-executive Director
SMBC Bank EU AG (Supervisory Board Member)
Shimano Europe B.V. (Supervisory Director)
Antony Yates
SMBC Nikko Capital Markets Limited (Executive Director),
SMBC Derivative Products Limited (Executive Director)
SMBC Nikko Securities Inc. (Executive Director)
SMBC Capital Markets Asia Limited (Director)
SMBC Bank EU AG (Supervisory Board Member)
SMBC bank International Plc (Deputy Chief Executive)
SMBC/SMFG (Deputy Head of EMEA Division)
Glenn Swanton
SMBC Bank International plc (Chief Risk Officer),
Sumitomo Mitsui Financial Group Inc. (Co-Chief Risk Officer, EMEA Region)
SMBC Derivative Products Limited (Group Non-Executive Director, Chair of Risk Committee)
SMBC Bank EU AG (Supervisory Board Member)
Takahiro Yazawa
SMBC Nikko Securities Inc. (Senior managing executive Officer, Head of Global Business Planning Unit and Head of Global Business Planning)
Sumitomo Mitsui Financial Group Inc. (Managing executive Officer, Deputy Head of Global Business Unit)
SMBC Nikko Capital Markets Limited (non-executive Director)
SMBC Nikko Securities (Hong Kong) Limited (Director)
SMBC Nikko Securities (Singapore) Pte. Limited (Director)
SMBC Nikko Investment Consulting (Shanghai) Limited (Supervisor)
SMBC Bank EU AG (Supervisory Board Member)
Karin Elisabeth Katerbau
SMBC Bank EU AG (Supervisory Board Member)
ProCredit Holding AG (Supervisory Board Member)
ProCredit Bank (Bulgaria) EAD (Supervisory Board Member)
Foundation of the Oldenburgische Landesbank AG (Chairperson of the Executive Board)

6. Subsequent Events

On 16 May 2024, the Supervisory Board passed a resolution to terminate a mandate of an Executive Board member Mr Tetsuji Ueno as of 17 May 2024 (the last working day). On 12 June 2024, the Supervisory Board resolved to appoint Mr. Yosuke Uemura as a new Executive Board member with effect from 1 July 2024, and for the term of office of three years.

Frankfurt am Main, 1 August 2024

SMBC Bank EU AG
Frankfurt am Main

The Executive Board

Naoki Okubo	Stanislas Roger	
Dr. Niklas Dieterich	Isabelle Saadjian	Yosuke Umemura

Country-by-Country Reporting

In accordance with the requirement of EU Directive 2013/36/EU Art. 89 on country-by-country reporting, which has been adopted into German law by section 26a (1) sentence 2 of the German Banking Act, the bank must prepare country-by-country reporting.

In this country-by-country reporting, SMBC Bank EU AG discloses the following information as of 31 March 2023 in accordance with Section 26a (1) Nos. 1 to 6 of the German Banking Act:

– Company name, type of business and the geographical location of the branches
– Revenue
– Number of employees in full-time equivalents
– Profit or loss before tax
– Taxes on Profit or Loss
– Public aid received

The report includes the information for the branches of the Bank included in the financial statements. The figures contained in the report are based on an unconsolidated basis.

Turnover is the sum of net interest, commission and trading income as well as other operating income. The number of employees corresponds to the status as of 31 March 2023. The income taxes of the branch are shown as taxes. The branches did not receive any public aid during the financial year.

Name of the company	Type of activity	Seat	Land
SMBC Bank EU AG	Credit institution	Frankfurt	Germany
SMBC Bank EU AG, Milan Branch	Credit institution	Milan	Italy
SMBC Bank EU AG, Prague Branch	Credit institution	Prague	Czech Republic
SMBC Bank EU AG, Amsterdam Branch	Credit institution	Amsterdam	Netherlands
SMBC Bank EU AG, Madrid Branch	Credit institution	Madrid	Spain
SMBC Bank EU AG, Dublin Branch	Credit institution	Dublin	Ireland
SMBC Bank EU AG, Paris Branch	Credit institution	Paris	France

Country	Revenues in KEUR	Profit/loss before tax in KEUR	Taxes on profit or loss in KEUR	Public aid received in KEUR	Number of employees
Germany	498,869	336,313	(110,185)	–	309.7
Italy	27,970	18,812	(8,235)	–	15
Czech Republic	2,828	399	(123)	–	11.8
Netherlands	4,426	345	(83)	–	15
Spain	1,879	147	(146)	–	7.2
Ireland	3,116	198	(70)	–	13
France	17,810	(216)	(8)	–	34

Further disclosure obligations pursuant to section 26a (1) sentence 4 of the KWG

The return on capital to be disclosed in accordance with section 26a (1) sentence 4 of the KWG is calculated as the ratio of the net income/loss for the year and the balance sheet total. According to this definition, the return on capital employed in the financial year was 0.93%.

Publisher

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SMBC