SMBC

SMBC Group

SMBC BANK EU AG

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Convenience Translation of the Binding German Version

Annual Financial Statements and Management Report as of 31 March 2023

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Management Report

I. Fundamental Information about SMBC Bank EU AG

1. SMBC Bank EU AG's Business Model and Strategy

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

The Bank 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 Sumitomo Mitsui Financial Group (SMFG), a company that is also incorporated in Japan and ranked amongst the largest 25 banks globally by assets (G-SIFI – Global Systemically Important Financial Institutions).

S&P and Fitch Ratings have both affirmed an international A/A- rating for SMBC EU, 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 Bank offers a wide variety of wholesale financial products, including syndicated and bilateral loans and specialist financial advisory services for project, trade and asset finance, as well as deposits and foreign exchange. As an integrated banking/securities service provider, the Bank also provides customers with debt and equity capital markets and derivative products.

The Bank's main objective is to serve its European Union (EU)/EEA corporate customers, while sharing the SMBC Group's Mission, Vision and Identity, which emphasises sustainable value creation for both customers and shareholders. The Bank's business model is to provide corporate finance in a way that supports its long-term sustainable growth, ensuring that it is well funded, well controlled and that there is a sensible balance between risk and reward. The strategy is built around four corporate objectives:

Serving Customers

To be the bank of choice for the Bank's EU customers through the provision of high quality value-added services in cooperation with SMBC Group companies.

Sustainable Growth

To run the Bank's business in a way that is appropriately balanced and sustainable; to develop an efficient and effective infrastructure to support sound business growth.

Competitive Edges

To establish and expand those areas where the Bank has a particularly strong position in terms of customer relationships, product expertise and global reach.

Team SMFG/SMBC Tokyo

To share and help realise SMBC Group's Mission and Vision.

2. Organisation and Governance Structure

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.

In order to fulfil its objective of servicing SMBC Tokyo's EU/EEA customers, and to prepare for the CRD V Intermediate Parent Undertaking (IPU) regulation, restructuring initiatives that had started in the previous year have continued. Following the withdrawal of the United Kingdom from the EU, SMBC Group has been providing financial services to customers in the EEA through SMBC EU and SMBC Nikko Capital Markets Europe GmbH (CM Europe). To better serve customers by offering banking and securities products through a single entity, it was decided that SMBC EU will provide securities services as Universal Bank by merging with CM Europe. The merger became legally effective on 25 April 2022 by the registration in the Commercial Register, but with the retroactive effective date under German commercial and income taxation law of 1 November 2021.

As of 31 March 2023, the Bank has 377 employees, of which 282 are in Germany and 95 in its EU branches (PY: 275 employees, thereof 206 in Germany and 69 in EU branches). In the context of the merger, 57 employees were transferred from CM Europe to SMBC EU in April 2022.

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

The Executive Board has established seven committees (PY: four committees) to control and monitor various areas of SMBC EU. Since the Universal Bank merger, the Bank has established three Risk Committees, three Transaction Committees and one Compliance Committee. 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) acts as the responsible body for oversight and governance for all credit and prudential-related matters (except individual credit risks) at SMBC EU. 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) acts as the responsible body for oversight and governance for market, liquidity and derivatives risk including 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) is the responsible body for oversight and governance of non-financial risk management (in particular Operational Risk and Third Party Risk Management) and in/outsourcing matters as well as a forum for discussion and approval of the relevant Operational Risk/Third Party Risk Management (TPRM) 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) acts as the governance body 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 the governance body for new trades with unusual features or large volume, potential reputational or conduct risk, or those which could lead to material conflicts of interests or client suitability issues for the entity or SMBC Group.

The Credit Approval Committee (CAC) acts 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 Bank's implemented anti-money laundering preventative measures and general compliance structure and measures. 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 Bank.

A Supervisory Board is established by operation of law to supervise and monitor the operations of the Bank. The Supervisory Board established an Audit Committee to monitor the corporate governance systems including internal control system, risk management system, compliance management system and the internal audit system. The Committee also monitors the financial statements audit.

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. The Bank provides insourcing services primarily for business units and control functions of the SMBC Düsseldorf branch.

II. Macroeconomic Environment and Competitive Situation

Despite the gradual emergence from COVID-19, 2022 was a year of further disruption and volatility, given the conflict in Ukraine, rising interest rates and inflationary pressures.

Still, the European economy performed better than initially anticipated.[1] Despite the significant economic spillovers generated by Russia's invasion of Ukraine, real GDP growth in 2022 averaged 3.5% year on year across both the Euro area and the EU.[2] The resilience partly reflected the substantial policy interventions by governments, including in the form of countercyclical fiscal support to shield households and corporates from rising energy costs, as well as coordinated efforts by EU member states to secure alternative gas supplies and accelerate the rollout of renewable energy infrastructure. Private sector energy demand also declined as a result of adaptation to high prices, consumer awareness campaigns, and a relatively mild winter. Altogether, the combined public and private sector response helped avoid significant disruptions to economic activity last year. The latest data confirms that real GDP in both the Euro area and the EU contracted in quarterly terms over 4Q/22, with the currency bloc suffering a further successive decline in output over 1Q/23.[3]

Headwinds facing the economy have nevertheless been significant and persistent. The commodity price shock has had a heterogeneous impact across countries and sectors, with output from energy intensive industries[4] in particular lagging behind other sectors. Consumer price inflation has also remained stubbornly high, averaging 8.4% year on year in the Euro area and 9.2% year on year in the EU last year,[5] which has in turn eroded real household spending power. Finally, the ongoing monetary policy tightening by the ECB has been unprecedented in its pace; the governing council increased the deposit rate from -0.5% in June 2022 to 3.50% in June 2023, and signalled an intention to maintain a sufficiently restrictive policy stance for as long as necessary.[6] Together with action by other central banks in the region, this has contributed to more restrictive financial conditions for the real economy, including tighter standards applied by commercial banks to the approval of loans, as well as higher credit costs.[7]

Our direct Japanese competitors, especially in terms of gaining Japanese and Asian corporate customers, are the other Japanese G-SIFIs, i.e., the Mitsubishi UFJ Financial Group and the Mizhuho Financial Group. In case of companies in the EEA, the Bank competes with all major European/US G-SIFIs. Despite current uncertainties, given the competitive advantages of SMBC in its solid rating in particular, the Bank basically sees itself in an advantageous competitive position in the EEA.

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1 Survey of Professional Forecasters second quarter: https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/index.en.html.

2 Data from Eurostat (https://ec.europa.eu/eurostat).

3 Data from Eurostat. The aggregate-level weakness at the turn of the year was in part driven by Irish national accounts figures, which can be volatile owing to the presence of multinational corporations headquartered in the country. Excluding Ireland, real GDP expanded by 0.1% quarter on quarter in the Euro area and 0.3% quarter on quarter in the EU.

4 The industries with the highest final energy consumption according to data from Eurostat include the chemicals; paper, pulp and printing; and non-metallic minerals industries.

5 Figures correspond to headline inflation as measured by the harmonised index of consumer prices (HICP). Data from Eurostat.

6 Statement from the ECB governing council, 15 June 2023: https://www.ecb.europa.eu/press/pressconf/2023/html/ecb.is230615~3de9d68335.en.html. (DN: next ECB meeting on 27 July.)

7 The ECB's bank lending survey published in April 2023 revealed a substantial tightening in approval criteria for loans to both corporates and households, as well as reduced loan demand: https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html.

III. Report on Business Development and Financial Position

1. Course of Business Operations

Against the uncertain economic backdrop, the Bank's focus has remained on lending to top-tier 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 appeared relatively strong during much of 2022, but this was driven in part by firms' working capital needs and efforts to build inventories.[8] The Bank 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. The Bank used new business opportunities available in this space within its risk 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 restraint on the part of issuers on the capital market in view of the increased refinancing costs. This was reflected in only a moderate result for the Bank in the Debt Capital Markets area.

The 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 Bank 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 geopolitical tensions due to the Russia-Ukraine conflict, the risk profile of the Bank has proven to be stable and loan loss provisions have remained moderate. As a result, loan default costs remained moderate and the general loan loss provisions were increased in line with exposure growth without an above-average burden on earnings.

Among others, to better serve customers by offering banking and securities products through a single entity, it was decided that SMBC EU will provide securities services as Universal Bank by merging with CM Europe. The merger was legally enacted on 25 April 2022, with an effective date from a commercial law and income taxation perspective of 1 November 2021. As of 31 March 2022, the two entities still operated separately. The parties have agreed that, as of the effective merger date, all actions and transactions by CM Europe shall be deemed carried out for the account of SMBC EU. All assets and liabilities as of 31 March 2022, as well as operating results since 1 November 2021 of CM Europe, had therefore been included in the financial position of the Bank as of 31 March 2022.

2. Financial Developments

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.

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 58.7 million (PY: EUR 4.3 million), all following key performance indicators (KPIs) developed positively and better than the expectation of management and the owner. The return on equity increased to 1.14%, (PY: 0.14%, expectation: < 1.0%). The cost income ratio stands at 53.1% (PY: 84.8%, expectation < 74.8%). As a result of the dynamic development, the CET1 ratio has decreased to 34.21% at year-end (PY: 47.63%, expectation: > 13.4%), very clearly above the regulatory minimum of 13.4%.

Balance Sheet

Total assets as of 31 March 2023 stand at EUR 17,629 million, an increase of EUR 7,594 million or 75.7% compared with 31 March 2022. The increase compared with the previous year resulted primarily from the further Frankfurt-booked business development, with an increase of EUR 8,138 million before consolidation. Assets before consolidation recognised in Milan increased by EUR 1,497 million.

[8] The euro area bank lending survey - First quarter of 2023 (europa.eu)

Lending exposures, the most important asset type of the Bank, are classified under loans and receivables from customers & banks as well as debt securities and other fixed income securities and amounted to EUR 8,628 million (PY: EUR 6,042 million), of which EUR 6,549 million (PY: EUR 5,010 million) were recognised in Frankfurt and EUR 2,079 million (PY: EUR 1,020 million) in Milan. In addition, the Bank had off-balance-sheet liabilities, specifically guarantees and irrevocable loan commitments, amounting to EUR 12,796 million (PY: EUR 8,883 million), of which EUR 3,414 million in Milan and EUR 9,385 million in Frankfurt (PY: EUR 3,496 million in Milan and EUR 5,387 million in Frankfurt).

The liquidity reserves of EUR 7,683 million (PY: EUR 3,430 million) were primarily kept in Germany at the Bundesbank and with other SMBC banks.

The trading business consists of FX and interest derivatives. As of 31 March 2023, the trading portfolio amounts to EUR 1,182.00 million (PY: EUR 472.96 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 1.0% (PY: < 1.0%) of total assets, account for only a small portion of the balance sheet and comprise primarily goodwill, fixed assets, and receivables from margin calls. 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.

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

Income Statement

In the fourth year of operation in 2022/23, the Bank generated a profit of EUR 58.74 million (PY: EUR 4.27 million). Due to strong business development, an increasing interest environment and tight cost control, this result was as anticipated by management and the owner. The business operations in all locations have both been profitable, expect for Paris which is still at an inception phase.

The net interest income of EUR 181.24 million (PY: EUR 47.68 million) was generated primarily by the lending and money market businesses of the Bank. The Milan branch generated net interest income of EUR 17.26 million (PY: EUR 10.00 million).

The net commission income of EUR 115.33 million (PY: 72.44 million) was primarily the result of marketing services received from and charged to other Group companies (EUR 18.84 million), securities business (EUR 19.90 million) and income derived from guarantees and upfront payments (EUR 81.10 million). The Milan branch generated a net commission income of EUR 11.36 million (PY: EUR 7.05 million). The increase compared with last year results primarily from higher upfront fees due to increased lending business but also from higher commissions from the securities business because of the merger.

The trading business generated net income of EUR 16.00 million (PY: EUR 9.50 million), primarily from FX and interest rate derivative transactions. The Milan branch does not have a trading business.

Other operating income contributed with a positive result of EUR 15.76 million (PY: EUR 14.18 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 0.97 million (PY: EUR 0.18 million).

Administrative expenses of EUR 170.20 million (PY: EUR 114.98 million) include primarily personnel expenses of EUR 69.68 million (PY: EUR 50.50 million) and expenses related to outsourcing arrangements with Group companies of EUR 46.15 million (PY: EUR 35.12 million). The Milan branch generated expenses of EUR 7.91 million (PY: EUR 6.51 million). This increase is primarily related to an increase in business volume, higher number of employees, higher SLA charges and, to a lesser extent, the merger.

Amortisation, depreciation and write-downs for intangible assets and property and equipment of EUR 3.98 million (PY: EUR 6.82 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 amortisation of the previous year contains a one-time effect from CM Europe amounting to EUR 2.72 million.

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 55.10 million (PY: EUR 12.06 million). The increase is primarily related to due additional section 340f reserves for general credit risks.

The tax expense of EUR 40.28 million (PY: EUR 5.50 million) relates to income tax expenses for profit generated. Milan generated tax expenses of EUR 5.21 (PY: EUR 2.67 million).

IV. Forecast Including Business Opportunities and Risks

There is scope for economic activity to pick up moderately over the coming quarters in the EEA. The labour market has remained relatively resilient across the region, and continued labour shortages should help sustain further growth in nominal wages. Together with a prospective moderation in price pressures, this should in turn also enable a more visible recovery in private consumption. Government spending may also play a supportive 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. This public spending could in turn galvanise private investment in strategic sectors as well. Finally, while the external backdrop remains uncertain, the prospective recovery amongst key trading partners could support export performance going forward. [9]

Overall, near-term growth is nevertheless likely to remain subdued at historical standards. Lingering headwinds from still-elevated prices, tighter financial conditions, and generalised uncertainty will likely dampen domestic and external demand. Most public and private sector institutions expect a considerable slowdown in 2023 compared with the previous year; the latest survey of professional forecasters run by the ECB, for instance, suggests a consensus expectation of 0.6% year-on-year growth for the Euro area this year, followed by 1.2% in 2024 and 1.6% in 2025. Survey data suggests aggregate loan demand has declined in more recent quarters in the context of tighter monetary policy, while still-elevated uncertainty may also progressively dampen demand for fixed investments.

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 and the Universal Banking business model post the merger. 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.

[9] ECB survey of professional forecasts for 2Q/23: https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/ecb.spf2023q2~ca13b26598.en.html#toc4.

To measure our development and success, we defined the following KPIs, which are aligned with our internal controls:

$$Common\ Equity\ Tier\ 1\ Ratio\ (CET1\ Ratio) = \frac{CET1\ Capital}{Risk - Weighted\ Assets}$$

$$Return\ on\ Equity\ (ROE) = \frac{Post\ Tax\ Profit}{Average\ Equity}$$

$$Cost\ Income\ Ratio = \frac{Operating\ Expenses}{Operating\ Income}$$

Considering the planned asset growth, we expect the CET1 ratio to significantly decrease but remain well above the regulatory requirement. With additional growth, we expect the profitability to increase. The return on equity, currently at 1.14%, is expected to increase to an amount over 2.0% until the end of financial year 2023/24. Similarly, we expect the cost-income ratio of 53.0% to improve and decrease to a level below 50%.

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 Bank 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 2022/23 are included in the notes section on subsequent events.

V. Risk Report

1. Risk Management Framework

The Bank's target business model continues to be a corporate banking institution focusing resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced long-term growth. The Executive Board sets 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 covers the following components: (i) assessment and management of the Bank's capital and liquidity resources; (ii) the definition and setting of the Bank's risk appetite; and (iii) an array of processes to identify and assess, measure, control and mitigate the risks assumed 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 framework in the Bank, including its branch offices. The Executive Board's overall risk control is exercised through the Bank's organisational structure, the risk governance framework, and the internal risk control system.

After the finalisation of the implementation of the merger with CM Europe on 25 April 2022, the Risk Report covers both elements, the commercial banking as well as the investment bank side.

Roles and Responsibilities for Risk Management across the Bank

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

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

The Bank's risk management function is a second line of defence function independent of the business areas. It is under the responsibility of the Bank's Chief Risk Officer (CRO), who is a member of the Executive Board. The Bank's risk management team includes the risk controlling function of 11 specialists based in Frankfurt and three based in Düsseldorf, as well as a credit analysis team of five credit officers (both in addition to the CRO) who can rely on the operational support of risk management resources in SMBC BI and, for some aspects of derivatives risk management, 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.

Risk Committees

The Bank 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 on 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 EWIs). The Executive Board remains the ultimate responsible body for the risk management framework and operations of the Bank.

In addition to the risk-related committees, there are three transaction committees established in the Bank. These transaction committees are the PAC, the CAC and the TAC. The PAC is responsible for the approval of new products including implementation according to 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 Bank focuses on embedding the risk culture through:

- the 3 LOD model and clear definition of risk ownership and responsibilities;
- its governance structure and encouraging transparency, debate and challenges within the Bank's various committees;
- the remuneration structure and other human resource processes; and
- organisational guidelines through which business activities are conducted.

Risk Strategy and Appetite Framework

The Bank's risk strategy setting 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 risk strategy for financial year 2022/23 was submitted to and approved by the Executive Board and the Supervisory Board in May 2022. It is embedded into the Bank's business and operations through the risk appetite framework (including all risk metrics), which defines the associated level of risk that the Bank is prepared to accept in pursuit of its strategic objectives for the financial year.

The Bank has identified four risk pillars which are critical areas where the formulation of strategy is most strongly influenced by a consideration of risk. High level strategic objectives are spelled out 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 Bank from exceeding the desired level of risk) and control measures and limits (a more granular set of metrics for the reporting and control of risks in accordance with risk appetite). The overall risk appetite framework is supported by the various underlying risk management policies and procedures at the business and individual risk levels.

The Bank's risk appetite framework is articulated across the following four pillars with the following high level strategic objectives:

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

Capital and Liquidity Assessment Process

The Bank'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 Bank performs an annual ICAAP (see section *Capital Management* for details) as well as an ILAAP (see section *Management of Individual Risks* 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 register process is the Bank'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 Bank is exposed and which could negatively impact on the achievement of its strategic objectives.

The following risks were identified as significant:

- Credit risk
- Credit concentration risk
- Credit underwriting risk
- Market risk
- Interest rate risk in the banking book
- Operational risk
- Liquidity risk (including funding cost risk)
- Enterprise risk

Within the risk register, the Bank analysed the impact of ESG risks on all risks in the risk register. In addition, a scenario driven by ESG has been defined in the ICAAP. The Bank has further developed its ESG risk framework and reporting. In particular, the risk strategy was supplemented by ESG aspects and an ESG risk statement was approved by the Executive Board in December 2022.

The above risks are part of the Bank's risk-bearing capacity (normative and economic) in the past financial year.

Corporate risk: This risk was addressed as part of the initial capital assessment exercise by adverse scenarios. For financial year 2022/23, ICAAP exercise, strategic and liquidity risk were not addressed through additional capital requirements (see section *Capital Management* for details).

The below risks are newly considered in the capital planning for the future period and were not considered in the Bank's risk-bearing capacity in the past year:

- Market risk (FX risk)
- Funding cost risk

The methods used for calculation of the capital requirement in Pillar 2 are shown in the following table:

Risk type	Calculation under normative approach	Calculation under economic approach
Credit risk	Expected credit costs	Credit portfolio model (99.9% confidence interval, 1 year)
Credit concentration risk	Portfolio model-based approach (difference between fully diversified portfolio and actual portfolio (99.0% CI, 1 year)	
Credit underwriting risk	Simplified method, using Duration and historic Spread shifts (99% CI)	Simplified method, using Duration and historic Spread shifts (99.9% CI)
Market risk	Historical simulation (normal and stressed period) (99.0% CI, 10-day holding period)	Historical simulation (normal and stressed period) (99.9% CI, 10-day holding period)
Interest rate risk in the banking book	Base scenarios: result of change in present value due to interest rate changes (historical simulation, 99.0%, 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, 99.9%, 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 simulation of loss distribution (99.9%, 1 year).
Enterprise risk	The enterprise risk is mainly the risk of diverging from the business case planned for the Bank (either lower or higher growth volume, in particular owing to uncertainties surrounding the outcome of the Russia-Ukraine crisis, the Coronavirus pandemic, the recession and other drivers). This risk is addressed by performing a scenario analysis as well as through close monitoring of the business development at the Bank.	

New Risks of Capital Planning

Risk type	Calculation under normative approach
FX risk	Historical simulation (normal and stressed period) (99.0% CI, 10-day holding period)
Funding cost risk	Historical simulation (normal and stressed period) (99.0% CI, 10-day holding period)

Risk Measurement and Quantification

For regulatory capital requirements, the Bank has selected the following measurement approaches:

– Credit risk: standardised approach
– Market risk: standardised approach
– Operational risk: standardised approach

Otherwise, the Bank's fundamental approach to measurement and quantification of risk is through loss modelling, using a variety of methodologies and techniques (see section *Management of Individual Risks* for details on individual risks).

Stress Testing Framework

The Bank 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) a macroeconomic stress scenario; (ii) an operational scenario analysis; (iii) reverse stress tests; and (iv) sensitivity analysis.

Risk Monitoring and Mitigation

The bank 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) a macroeconomic stress scenario, (ii) an operational scenario analysis, (iii) reverse stress tests, and (iv) a sensitivity analysis.

Risk Reporting

Regular and event-driven ad-hoc reporting on the risk situation of the Bank is 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 business circumstances. Limit and early warning indicators are associated with 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 Bank 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 Bank has also adopted SMBC global internal ratings derived from SMBC globally used credit rating models to assess the credit risk of credit counterparties. The ongoing performance and validity of these rating models are managed in compliance with the Bank's model risk management framework. The model risk management framework is currently under review and shall be strengthened to ensure a yearly review of the models in the Bank.

At the time of its establishment, the Bank set up its credit approval process, which has been duly applied throughout the financial year. All credit decisions are taken by the Bank's Executive Board and/or 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, problem assets management and work outs, for which it can rely on the support of the credit department of SMBC BI under the SLA. 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 Bank 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. 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 2023 are as follows:

- In the normative perspective (18.0% of RWA): EUR 2,686.6 million (PY: EUR 1,872.3 million)
- In the economic approach (99.9% CI, 1 year): EUR 581.3 million (PY: EUR 452.4 million)

Structure of the Loan Portfolio as of 31 March 2023

Total Credit Exposure

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

- Nostro account balance with Deutsche Bundesbank of EUR 5.0 billion and SMBC entities of EUR 1.8 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 breaks down as follows on a gross and net basis:

	Exposure amount (in million EUR)
Total gross exposure[1]	21,453
Total net exposure[2]	20,805
Net take %	97.0%
Risk participation engagement	648
Risk participated exposure %	3.0%

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

Credit Quality

For the purposes of credit risk management and the credit risk capital assessment, the Bank 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, as of 31 March 2023, is distributed as follows:

Internal rating linked to annual PD	Net committed exposure (in million EUR)
PD < 0.2%	14,728.0
0.2% <= PD < 2.0%	5,276.0
PD => 2.0%	800.7

As of the end of March 2023, there was only one impaired credit facility. Nevertheless, in comparison to previous reporting period, Average Portfolio PD of the Bank has improved. The main reason for that was the downgrade of obligors that were assessed as deteriorating due to Russia-Ukraine crisis last year and that the Bank was able to remove from the portfolio without a loss.

In the year under review, two new deals have been identified as non performing as of the end of March 2023. The NPL (Non-Performing-Loan-Ratio)[10] as of 31 March 2023 was:

NPL Ratio = 0.17%

Single Counterparty Exposure

As of 31 March 2023, 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 27.2% of the total portfolio net committed exposure.

Country Concentration

The country concentration as of 31 March 2023 is shown in the table below:

Country	Net committed exposure (in million EUR)	Gross committed exposure (in million EUR)
IT	3,815.7	4,304.2
NL	2,655.7	2,655.7
ES	2,431.9	2,431.9
DE	1,944.9	1,947.3
JP	1,477.6	1,497.0
PL	1,065.3	1,203.2
FR	843.7	843.7
Other	6,569.9	6,569.9

The country is defined as the risk country of the counterparty. 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.

[10] 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.

Sector Concentration

The sector concentration is shown in the following table. The sector exposure of the Bank is well diversified.

Economic sector	Net committed exposure (in million EUR)	Gross committed exposure (in million EUR)
Electric Utilities	3,317.7	3,317.7
Integrated Telecommunication Services	973.3	973.3
Real Estate Operating Companies	911.3	911.3
Integrated Oil & Gas	883.0	1,124.8
Alternative Carriers	747.6	747.6
Oil & Gas Refining & Marketing	705.1	843.1
Wireless Telecommunication Services	691.6	691.6
Gas Utilities	625.0	625.0
Asset Management & Custody Banks	600.8	600.8
Consumer Finance	583.3	583.3
Oil & Gas Storage & Transportation	580.4	580.4
Industrial Conglomerates	536.1	804.6
Other	9,6494	9,649.4

Loan Underwriting Risk

SMBC EU from time to time conducts underwriting business in the form of loans, facilities and guarantees. This underwriting business is originated with the clear objective to distribute it to the market. That distribution and sell down of the underwritten position includes a market risk component, which is actively monitored and limited through a guarantee from SMBC Brussels. The limit structure includes limits on the total risk taken, limits in the economic perspective as well as limits on the total 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 2023 was (in million EUR):

– Normative Pillar II (99% CI) = 49.6
– Economic Approach (99.9% CI) = 60.8

Market Risk

The Bank has very limited appetite for market risk and its risk strategy is to hedge market risk with cash flow matching hedging transactions with Group entities for banking book and trading book business. Limited residual market risk results from foreign exchange risk and basis risk on derivative trades. Residual market risk (generated by the banking book business) is part of the management of general market risk and is not managed separately.

Currency Risk

The currency risk in the Bank is controlled by the treasury department and is almost fully hedged. The residual basis risk from the banking book business is monitored using limits.

The currency risk from the banking book in Pillar 1 was EUR 18.5 thousand at the end of the financial year (PY: EUR 17.1 thousand).

The currency risk is from financial year 2022/23 onwards, included in the risk-bearing capacity of the Bank, and was included in the capital planning finalised in March 2023 in terms of a capital position for FX risk of EUR 10 million in the base case.

Market Risk (Trading Book)

Market risk is measured and controlled with the use of limits on basis point value (BPV), VaR and stop-loss limits. Market risk capital for Pillar 1 uses the standardised approach and for additional capital requirements under the risk-bearing capacity analysis a stressed VaR approach.

The market risk on customer derivatives in the trading book is managed using cash flow matching hedge transactions. A residual market risk is generated by the asymmetric collateral position between the uncollateralised customer trade and its collateralised cash flow matching hedge (generating a basis risk due to the LIBOR/OIS spread), with eliminated spreads for successive switches to risk-free interest rates.

Market risk from other capital market activities, such as fixed income securities trading or issuance of securities, are back to back hedged with CM Ltd. London.

Interest Rate Risk in the Banking Book

The Bank's main exposure to interest rate fluctuations is on the banking book positions (IRRBB). IRRBB is actively steered by controlling the funding structure and entering into interest rate derivatives to maintain a low exposure to interest rate risk. Under the risk-bearing capacity calculation, this risk is measured using historical simulations. The Bank uses historical values starting 2001 and calculates the relevant interest rate changes over a rotating timeframe of one year. The risk is calculated on currency level. This risk is capitalised as a Pillar 2 risk.

Within the financial year, no internal breach was observed. The threshold for the regulatory early warning indicator was not breached. Hence, the Bank is not treated as an institution with increased interest rate risk.

Liquidity Risk

The liquidity risk management framework ensures that the Bank maintains an adequate level of liquidity in all plausible scenarios and appropriately plans future funding and liquidity requirements. The Bank 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. Within its risk appetite framework (RAF), the Bank's strategic statement for liquidity is for the Bank to pursue a sound management of liquidity and achieve a well-diversified funding structure in the long term.

Liquidity risk is controlled within the 3 LOD model. As the first line, the treasury department manages the liquidity risk, with the risk management department responsible for establishing the liquidity risk management framework and the exercise of the second line oversight. Internal Audit, as third line, 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, 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 Bank and measures those risks in relation to short-term and longer-term base and stressed environments. The ILAAP for the financial year 2022/23 was approved by the Executive Board and the Supervisory Board in March 2022 and was the basis for the management of liquidity in financial year 2022/23. The NSFR and liquidity coverage ratio (LCR) have been monitored daily. The required stable funding was managed to meet the NSFR requirements. In spite of the Coronavirus pandemic and the Russia-Ukraine crisis, the funding position of the Bank remained robust throughout the financial year and dominated by intra-group funding as well as capital contributions. The Bank maintained a high quality liquid assets (HQLA) buffer (held in cash at Bundesbank). The ILAAP also reviews and updates all elements of liquidity and funding risk management, including the liquidity risk appetite (including all related risk metrics), the stress testing framework, the contingency funding plan, and the mechanism for setting the Bank's funds. During the Coronavirus pandemic and after Russia's invasion of Ukraine, the Bank performed further ad-hoc stress tests and replanning of potential additional long-term funding requirements, stepped up its risk management monitoring and reporting of liquidity risks.

For the management of the liquidity position in the day-to-day business, the Bank has implemented three main measurements: (i) LCR; (ii) NSFR; and (iii) a money gaps report.

The Bank aims to maintain LCR levels of 120% warning and 110% limit, and NSFR levels in excess of 110.0% warning and 105.0% limit respectively. The money gaps report 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 Bank'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.

The Bank also assesses the liquidity risk in point in time stress cases. As part of the ILAAP process, the Bank considers its main liquidity risk drivers. Stress testing is designed to test the Bank's liquidity risk vulnerabilities and the adequacy of its liquidity buffer under market, idiosyncratic and combined scenarios. Stress tests based on the ILAAP scenarios are run on a monthly basis.

In addition, inverse stress tests are conducted. This involves the determination of survival periods and circumstances under which the Bank could survive without the support of the Group. The minimum survival periods were defined and monitored as risk tolerances in addition to the LCR and NSFR targets in the Bank's RAF.

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

Liquidity Risk Position as of 31 March 2023

The Bank's main liquidity and funding source is its parent. As of 31 March 2023, all liquidity limits and ratios were fulfilled, and no limit breach was observed during the last financial year. As of 31 March 2023, the Bank's HQLA stood at EUR 5.69 billion, all held as central bank reserves at the Bundesbank. LCR stood at 177% and NSFR at 147%.

Operational Risk

The Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank's operational risk taxonomy 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;
– Key Risk Indicator (KRI) Governance Framework;
– operational risk scenario analysis;
– Third Party Risk Management;
– Project Impact Risk Assessment (PIRA); and
– training on operational risk.

Operational Risk Capital Assessment

The Bank uses the Standardised Approach (TSA) for the calculation of its regulatory capital requirement for operational risk under Pillar 1.

The Bank assesses all additional capital requirements for operational risk using a loss distribution approach (LDA). 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 Bank 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.

The central collection of loss data enables the Bank to detect specific patterns, concentrations and trends of operational risks. Therefore, in addition to direct losses (for which no materiality threshold is defined), the Bank 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 2023, the Bank had experienced less than EUR 20 thousand of operational losses over the last financial year.

3. Capital Management

The Bank's capital management relies on the continuous monitoring and assessment of the Bank's risk-bearing capacity. The risk-bearing capacity of the Bank results from the calculation of the internal capital required to cover all risks identified as material risks as part of the risk register process and assessed as to be covered with capital. The annual ICAAP is the core component of the Bank's risk-bearing capacity concept. The Bank assesses its risk-bearing capacity under two approaches: (i) a normative (seen predominantly as a going concern perspective) as well as (ii) an economic perspective (seen predominantly as a creditor protection perspective in a wind-down scenario).

As part of the normative perspective, the Bank 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 Bank analyses its ability to cover all its economic risks at a point in time. 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 perspective, all risks are quantified based on fair 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 normative approach, this is performed for each year over the three-year planning horizon in a base and an adverse business scenario for capital planning purposes.

In the financial year 2022/23 exercise, the following material risks were identified:

– Credit risk
– Concentration risk
– Operational & non-financial risk
– Market risk
– Interest rate risk in the banking book
– Liquidity risk (including funding risk)
– Enterprise risk

New Risks Modelled

Funding risk: within this year's capital planning, funding risk has for the first time been included as a capital requirement in the Bank. Funding risk is seen as the increased funding cost on market movements, that cannot be pushed through to the asset side due to an open funding gap.

Market risk – FX risk: within this year's capital planning, FX risk has been newly added as a capital requirement. In the ICAAP, a generic EUR 10 million position was incorporated.

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. Funding risk is not covered with capital as it is mainly mitigated by the structural long liquidity position resulting from the risk participation scheme as well as by Group funding resources and support. The enterprise risk is mainly the risk of diverging from the business case planned for the Bank (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 case of a lower than expected business volume is covered under the adverse scenario. The material risks are reviewed in the risk register 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 2022/23 capital planning, for both the normative and economic approaches, the Bank'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 2023, the risk coverage potential after all adjustments is calculated as EUR 5,105.6 million in the normative approach and EUR 5,009.1 million in the economic approach.

Results of the Normative Approach as of 31 March 2023

The Bank had set an internal target for the CET1 ratio of 18.0% in a base case environment and of 12.0% in an adverse environment in its financial year 2022/23 ICAAP exercise.

As of the end of March 2023, the risk-bearing capacity assessment and the contribution of material risks was as follows:

		Amount (in million EUR)
Total risk weighted assets (RWA)		14,925.43
Pillar 1/regulatory capital requirement	Credit risk	1,148.5
	CCR (SA)	32.7
	Market risk	0.0
	Operational risk	12.8
Total Pillar 1 capital requirement		1,194.0
Pillar 2 capital requirement	Credit risk	–
	Concentration risk	37.5
	Underwriting Risk	49.6
	Market risk	0.0
	IRRBB	13.1
	Operational risk	62.8
Total Pillar 2 capital requirement		163.0
Total capital requirement (Pillar 1 + Pillar 2)		1,357.0
Total capital requirement for CET1 target ratio of 18.0%		2,686.6
Available CET1		5,105.58
CET1 Ratio		34.21%

In line with the Bank's business model, capital requirements for credit risk are the largest contributors. The Bank 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 2023/24 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 Bank planned four adverse scenarios: three macroeconomic stress scenarios, and one business model and strategic-based scenario. The macroeconomic scenario based on an EU recession mainly driven by the Russia-Ukraine crisis was the most severe of the four adverse scenarios. However, the base case scenario resulted in the highest capital requirements due to the growth figures and was the leading scenario in the financial year 2023/24 capital planning. In the capital exercise approved by the Supervisory Board in March 2023, the total required capital amount to sustain the quantified risks under the normative approach for the first year of operations was determined as EUR 1,410 million, driven by the base case scenario and a CET1 ratio target of 18.0%. The three-year risk capital requirement will be closely monitored and benchmarked against plan as the Bank's business develops. The Bank has included the planned subsidiarisation of the SNBL which had been processed in May 2023. The risk from this project has been mainly reflected in the Bank's standalone capital planning as an investment risk position in Pillar 1. The RWA contribution of the investment risk is around 1%.

The expected capital requirements are as follows:

31 March 2024: EUR 3.438 million
31 March 2025: EUR 3.928 million
31 March 2026: EUR 4.233 million

The capital held by the end of the financial year is sufficient to cover the expected risks from the organic growth of the three-year planning period.

The Bank actively monitors and controls capital use. The Bank managed 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 2023

As of the end of March 2023, the quantification and distribution of risks under the economic approach were as follows:

	Risk type	Amount (in million EUR)
Material risks	Credit and concentration risk	581.3
	Market risk	0.1
	Underwriting Risk	60.8
	Operational risk	125.3
	IRRBB	20.9
Total capital requirements		**788.4**

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 Bank. The 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 Bank's risk-bearing capacity is also within the remit of the Credit and Prudential Risk Management Committee. 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 excluding adverse, stress scenarios modelling;
- quarterly calculation under both approaches including three-year planning parameters (as defined in the annual review) including an adverse scenario and a stress analysis under the economic approach; 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 to set the framework for capital use under the two capital measurement approaches. These tolerances and the associated limits and control measures are used for monitoring and controlling the risk-bearing capacity and the underlying assumptions.

Stress Testing:

The Bank performs quarterly stress tests as part of the risk-bearing capacity calculation. In the financial year, this stress testing included an adverse scenario (economic downturn) in the normative approach as well as a parametrised stress test (deterioration of the credit quality) in the economic approach.

As a measure for the Russia-Ukraine crisis, the Bank performed an ad-hoc stress test to analyse the potential impact of the impending crisis on the risk-bearing capacity of the Bank. The Bank's risk-bearing capacity was assessed to be adequate even in the stressed environment.

4. Summary and Outlook

The Bank started this financial year of business operations, its first year as a universal bank comprising commercial banking and capital markets businesses, in a business environment characterised by a lasting high degree of stress and uncertainty due to the lack of clarity over the impact of the Russia-Ukraine crisis and rising inflation. However, throughout this year and in this backdrop, the Bank managed its risk profile well within its risk appetite and available capital and liquidity resources. In addition, the Bank continued with the development of its risk management framework. The further enhancement of the risk management system will be continued in the next financial year, alongside the close management of the risk profile under the still challenging current economic backdrop. The Bank's focus on risk management in the next year is on improving the framework for the merged entity as well as the newly created Group risk management in all areas of the Universal Bank and the Group. The current market environment will be monitored constantly and action will be taken within the Bank's risk appetite to address the situation sufficiently.

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 for the effective, cost-effective and 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 Executive 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 respective time when the legal transactions took place. No other measures have been taken or omitted that would have been disadvantageous for SMBC Bank EU AG."

2. Assurance of the Legal Representatives

We hereby confirm that, to the best of our knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position, liquidity and financial performance of the Bank in accordance with applicable accounting policies, and that the management report gives a true and fair view of the Bank's business development including its performance and financial position, and also describes significant opportunities and risks relating to the Bank's anticipated development for the remaining part of the financial year.

Frankfurt-Main, 1 August 2023

SMBC Bank EU AG
Frankfurt-Main

Executive Board

Naoki Okubo **Stanislas Roger**

Tetsuji Ueno **Dr Niklas Dieterich** **Isabelle Saadjian**

Annual financial statements as at 31 March 2023 and management report

TRANSLATION – AUDITOR'S REPORT

SMBC Bank EU AG
Frankfurt am Main, Germany

KPMG AG
Wirtschaftsprüfungsgesellschaft

Note: This is a translation of the German original. Solely the original text in German language is authoritative. The annual financial statements and the management report above and 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.

Independent Auditor's Report

To SMBC Bank EU AG, Frankfurt am Main

Report on the Audit of the Annual Financial Statements and of the 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 2023, and the statement of profit and loss for the financial year from 1 April 2022 to 31 March 2023, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of SMBC Bank EU AG for the financial year from 1 April 2022 to 31 March 2023.

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 2023 and of its financial performance for the financial year from 1 April 2022 to 31 March 2023 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this 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 management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the 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 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 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 2022 to 31 March 2023. 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 7,975 million as at 31 March 2023. 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, we tested, with the involvement of our IT specialists, the effectiveness of the rules and procedures relating to a large number of IT applications and supporting the effectiveness of application controls.
- 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 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 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 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 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 management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the 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 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 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 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 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 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 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 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 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 30 November 2022. We were engaged by the supervisory board on 19 December 2022. 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 management report:

- Audit of the securities services business in accordance with Section 89 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act)

German Public Auditor Responsible for the Engagement

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

Frankfurt am Main, 3 August 2023 AddIn-Variable*: 3. August 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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

Balance Sheet

Assets

EUR	Notes	31.03.2023	31.03.2022
Cash reserves	III. 1	**730,961,933.12**	2,699,264,744.12
a) Cash on hand		**–**	–
b) Balances at central banks		**730,961,933.12**	2,699,264,744.12
thereof:			
at the Deutsche Bundesbank		**730,961,933.12**	2,699,264,744.12
Loans and advances to banks	III. 2	**7,445,131,123,03**	731,178,862.09
a) Payable on demand		**5,118,516,968.98**	144,946,866.69
b) Other loans and advances		**2,326,614,154.05**	586,231,995.40
Loans and advances to customers	III. 3	**7,974,643,062.04**	5,943,169,554.33
Debt instruments and other fixed-income securities	III. 4	**160,285,421.76**	98,846,611.52
a) Money market instruments		**160,285,421.76**	98,846,611.52
aa) Of public-sector issuers		**–**	–
ab) Of other issuers		**160,285,421.76**	98,846,611.52
Assets held for trading	III. 5	**1,182,000,594.31**	472,960,209.08
Intangible assets	III. 6	**19,232,024.54**	22,121,120.05
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		**199,484.69**	267,194.44
c) Goodwill		**19,032,539.85**	21,853,925.61
d) Advance payments made		**–**	–
Property and equipment	III. 6	**4,998,665.73**	4,676,292.70
Other assets	III. 7	**111,537,770.30**	62,207,810.56
Prepaid expenses	III. 8	**280,521.11**	256,921.00
Total assets		**17,629,071,115.94**	10,034,682,125.45

Liabilities and Equity

EUR	Notes	31.03.2023	31.03.2022
Liabilities to banks	III. 9	**2,825,664,857.43**	1,590,173,209.66
a) Payable on demand		**1,644,821.84**	237,633,49
b) With agreed maturities or notice periods		**2,824,020,035.59**	1,589,935,576.17
Liabilities to customers	III. 10	**7,818,515,118.98**	2,569,524,354.02
a) Saving deposits		**–**	–
aa) With agreed notice period of three months		**–**	–
ab) With agreed notice period of more than three months		**–**	–
b) Other liabilities		**7,818,515,118.98**	2,569,524,354.02
ba) Payable on demand		**263,128,327.24**	485,017,486.54
bb) With agreed notice period of three months		**7,555,386,791.74**	2,084,506,867.48
Liabilities held for trading	III. 11	**1,171,359,991.22**	468,599,358.21
Other liabilities	III. 12	**474,909,994.15**	214,516,034.08
Deferred income	III. 13	**8,007,241.14**	4,091,232.56
Provisions	III. 14	**140,332,871.95**	60,005,964.71
a) Provisions for pensions and similar obligations		**–**	–
b) Tax provisions		**40,224,452.33**	7,029,076.88
c) Other provisions		**100,108,419.62**	52,976,887.83
Fund for general banking risks	III. 15	**3,749,724.03**	1,980,276.34
Equity	III. 16	**5,184,513,317.04**	5,125,791,695.87
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		**549,673.96**	–
ca) Legal reserves		**549,673.96**	–
cb) Reserves for shares in a controlling company or majority owned company		**–**	–
cc) Reserves required under the articles of association		**–**	–
cd) Other revenue reserves		**–**	–
d) Accumulated gain/(deficit)		**10,443,805.30**	(47,746,141.91)
Total liabilities and equity		**17,629,071,115.94**	10,034,682,125.45

Contingent Liabilities and Other Obligations

EUR	Notes	31.03.2023	31.03.2022
Contingent liabilities	V. 2	**2,143,465,892.79**	1,963,063,584.54
a) Contingent liabilities from rediscounted bills		**–**	–
b) Contingent liabilities from guarantees and indemnity agreements		**2,143,465,892.79**	1,963,063,584.54
c) Liability from the collateralisation of third party liabilities		**–**	–
Other obligations	V. 2	**10,652,962,743.51**	6,919,951,434.63
a) Repurchase obligations from reverse repurchase agreements		**–**	–
b) Placement and underwriting obligations		**–**	–
c) Irrevocable loan commitments		**10,652,962,743.51**	6,919,951,434.63

Income Statement

EUR	Notes	**01.04.2022 – 31.03.2023**	01.04.2021 – 31.03.2022
Interest income	IV. 1	**377,290,714.78**	56,438,947.58
a) Lending and market business		**375,354,673.03**	56,168,361.35
thereof: Negative Interests on Credit and Money Market Transactions		**(6,662,161.95)**	(32,885,238.00)
b) Fixed-income securities and book-entry securities		**1,936,041.75**	270,586.23
thereof: Negative interest income from fixed-income securities and book-entry securities		**–**	–
Interest expenses	IV. 1	**(196,055,004.53)**	(8,761,828.75)
Negative interest expenses		**4,803,170.78**	16,717,468.73
Commission income	IV. 2	**169,962,789.05**	85,580,127.51
Commission expenses	IV. 2	**(54,628,725.78)**	(13,141,653.02)
Net trading result	IV. 3	**15,997,590.99**	9,499,034.45
Other operating income	IV. 4	**15,761,890.08**	14,180,846.76
General administrative expenses	IV. 5	**(170,200,310.05)**	(114,978,489.96)
a) Personnel expenses		**(69,678,697.33)**	(50,502,057.68)
aa) Wages and salaries		**(57,605,987.78)**	(40,121,467.97)
ab) Social security, pension, and other benefits		**(12,072,709.55)**	(10,380,589.71)
thereof:			
For pensions		**–**	–
b) Other administrative expenses		**(100,521,612.72)**	(64,476,432.28)
Amortisation, depreciation and write-downs on intangible assets and property and equipment	IV. 6	**(3,978,841.10)**	(6,817,879.38)
Other operating expenses	IV. 7	**(26,236.89)**	(161,210.86)
Write-downs and allowances on receivables and certain securities/ additions to provisions for loan losses	IV. 8	**(57,406,980.34)**	(23,764,155.25)
Income from write-ups of loans and certain securities as well as releases of provisions for loan losses	IV. 9	**2,303,189.21**	11,700,000.00
Total Operating Income		**99,020,075.42**	9,773,739.08
Income taxes	IV. 10	**(40,233,438.44)**	(5,450,647.16)
Other taxes	IV. 11	**(47,015.81)**	(51,517.81)
Net income for the year		**58,739,621.17**	4,271,574.11
Accumulated deficit brought forward		**(47,746,141.91)**	(52,017,716.02)
Allocations to revenue reserves		**(549,673.96)**	–
a) to the legal reserve		**(549,673.96)**	–
Accumulated gain/(deficit)		**10,443,805.30**	(47,746,141.91)

Notes

SMBC Bank EU AG, Frankfurt-Main, as of 31 March 2023
Registered court: District Court Frankfurt am Main
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-Main with branches in Amsterdam, Dublin, Düsseldorf, Madrid, Mailand, Paris and Prague.

The annual financial statements of SMBC EU, as of 31 March 2023, 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 the balance sheet, income statement and notes – a management report was prepared in accordance with Section 289 HGB.

The income statement and the balance sheet are structured in accordance with the requirements of RechKredV.

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.

The merger of SMBC Nikko Capital Markets Europe GmbH in Frankfurt (CM Europe) into SMBC Bank EU AG with effect from 1 November 2021 results in a limited comparability of the figures in the income statement. The income and expenses of the former CM Europe were included in the income statement of the previous period from 1 November 2021 and have therefore affected the results of operations for five months.

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

https://www.smfg.co.jp/english/investor/financial/disclosure.html#link2023

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 shown at 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.

Positive and negative market values of **derivative financial instruments held for trading** are reported in assets 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 upon addition. The 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 addition, this corresponds to the transaction price, i.e., the fair value of the consideration.

The subsequent valuation of the financial instruments held for trading is carried out at fair value less a risk adjustment in accordance with Section 340e (3) 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 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 recognised at nominal amounts. Differences between 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 also 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 liabilities to customers are stated at the settlement amounts plus accrued interest.

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

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

The **periodic method** (P&L method) is applied for the loss-free valuation (net realisable value) 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 are reported under interest income and **positive interest** for financial instruments carried as liabilities are reported under interest expenses, in each case as deducted items.

III. Explanatory Notes to the Balance Sheet

1. Cash Reserves and Balances at Central Banks

KEUR	31.03.2023	31.03.2022
Cash reserves	**730,962**	2,699,265
Cash on hand	–	–
Balances at central banks	**730,962**	2,699,265
thereof at Deutsche Bundesbank	**730,962**	2,699,265

2. Loans and Advances to Banks

KEUR	31.03.2023	31.03.2022
Loans and advances to banks	**7,445,131**	731,179
thereof: Loans and advances to affiliated companies	**1,869,461**	676,443
Maturity breakdown:		
Payable on demand	**5,118,517**	144,947
Up to three months	**1,829,999**	391,049
More than three months and up to one year	**448,287**	114,301
More than one year and up to five years	**48,328**	80,882
More than five years	–	–

Loans and advances to banks include receivables from inter-banking lending business of EUR 1,826.99 million (PY: EUR 584.99 million).

3. Loans and Advances to Customers

KEUR	31.03.2023	31.03.2022
Loans and advances to customers	**7,974,643**	5,943,170
thereof: Loans and advances to affiliated companies	**17,089**	2,386
Maturity breakdown:		
Payable on demand	–	952
Up to three months	**1,522,837**	1,643,542
More than three months and up to one year	**451,429**	720,001
More than one year and up to five years	**3,925,562**	2,678,476
More than five years	**2,074,815**	900,200

Loans and advances to customers mainly result from lending business.

4. Debt Instruments and Other Fixed-income Securities

KEUR	31.03.2023	31.03.2022
Debt instruments and other fixed-income securities	**160,285**	98,847

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	31.03.2023	31.03.2022
Assets held for trading	**1,182,001**	472,960
Derivative financial instruments	**1,182,073**	472,837
Debt securities and other fixed-income securities	**–**	203
Risk adjustments	**(72)**	(80)

6. 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	01.04.2022	Additions	Reductions	Transfers	31.03.2023	01.04.2022	Additions	Reductions	Transfers	31.03.2023	01.04.2022	31.03.2023
Concessions, property rights and similar rights and assets as well as licences to such rights and assets acquired for consideration	834	63	3	16	**910**	566	130	3	16	**709**	267	**200**
Goodwill	28,213	–	–	–	**28,213**	6,360	2,821	–	–	**9,181**	21,853	**19,032**
Intangible assets	29,047	63	3	16	**29,123**	6,926	2,951	3	16	**9,890**	22,120	**19,232**
Leasehold improvement	6,056	876	–	155	**7,087**	3,339	630	–	16	**3,985**	2,717	**3,102**
Operating and other equipment	4,043	438	75	(80)	**4,326**	2,084	332	9	22	**2,429**	1,959	**1,897**
Construction in progress	–	41	41	–	**–**	–	–	–	–	**–**	–	**–**
Property and equipment	10,099	1,355	116	75	**11,413**	5,423	962	9	38	**6,414**	4,676	**4,999**
Total	39,146	1,418	119	91	**40,536**	12,349	3,913	12	54	**16,304**	26,797	**24,231**

7. Other Assets

Other assets mainly include:

KEUR	31.03.2023	31.03.2022
Other assets	**111,538**	62,208
thereof:		
Receivables from intra-group clearing	**47,770**	34,819
Received cash collateral (margins)	**39,905**	19,298
Other	**23,863**	8,090

Other included the interest accruals for derivative financial instruments from the non-trading portfolio, of which EUR 4.21 million are due from affiliated companies. Of the cash collateral received, EUR 31.59 million are due from affiliated companies.

8. Prepaid expenses

KEUR	31.03.2023	31.03.2022
Prepaid expenses	**281**	257

Accrued Expenses and Deferred Revenues mainly includes rent paid in advance for office buildings, contributions to BaFin and the deposit insurance fund, as well as for membership fees and credit insurance.

9. Liabilities to Banks

KEUR	31.03.2023	31.03.2022
Liabilities to banks	**2,825,665**	1,590,173
thereof: liabilities to affiliated companies	**2,683,648**	1,564,203
Maturity breakdown:		
Payable on demand	**1,645**	238
Up to three months	**633,154**	1,378,320
More than three months and up to one year	**2,270**	130,737
More than one year and up to five years	**2,188,596**	80,878
More than five years	**–**	–

Liabilities to banks mainly consist of liabilities from time deposits of EUR 2,065.1 million (PY: EUR 1,586.73 million).

10. Liabilities to Customers

KEUR	31.03.2023	31.03.2022
Liabilities to customers	**7,818,515**	2,569,524
thereof: liabilities to affiliated companies	**2,873**	829
Maturity breakdown:		
Payable on demand	**263,128**	485,017
Up to three months	**6,753,775**	1,749,004
More than three months and up to one year	**800,070**	331,507
More than one year and up to five years	**465**	3,874
More than five years	**1,077**	122

Liabilities to customers mainly consist of liabilities arising from customer deposits amounting to EUR 7,531.17 million (PY: EUR 2,082.92 million) and current accounts of EUR 263.13 million (PY: EUR 485.02 million).

11. Liabilities Held for Trading

KEUR	31.03.2023	31.03.2022
Liabilities held for trading	**1,171,360**	468,599
Derivative financial instruments	**1,171,360**	468,395
Liabilities	**–**	204

12. Other Liabilities

KEUR	31.03.2023	31.03.2022
Other liabilities	**476,910**	214,516
thereof:		
Provided cash collateral (margins)	**417,009**	165,834
Liabilities from intra-group clearing	**32,339**	25,935
Differences in spot rates from unsettled forward transactions	**14,280**	14,717
Liabilities from security trading	**6,447**	3,778
Tax liabilities	**4,160**	2,212
Other	**2,675**	2,040

Of the cash collateral provided, EUR 281.02 million is due from affiliated companies.

13. Deferred Income

KEUR	31.03.2023	31.03.2022
Deferred income	**8,007**	4,091
thereof:		
Discount (disagio)	**4,950**	2,155
Accrual of commitment fees	**2,082**	1,619
Other	**975**	317

The item includes the discount between the nominal amount and the issued amount (disagio) for receivables in the amount of EUR 4.95 million (PY: EUR 2.16 million) as the receivable is recognised at nominal amount.

14. Provisions

KEUR	31.03.2023	31.03.2022
Provisions	**140,333**	60,006
thereof:		
Tax provisions	**40,224**	7,029
Other provisions	**100,108**	52,977

Other provisions mainly consist of provisions for intra-group clearing in the amount of EUR 45.49 million (PY: EUR 17.30 million) as well as bonus provisions of EUR 14.70 million (PY: EUR 13.62 million). Furthermore, provisions for value adjustments on off-balance items in the amount of EUR 10.91 million (PY: EUR 11.06 million) are included.

Some employees are entitled to early retirement benefits depending on their seniority. A corresponding provision of EUR 2.20 million is reported in other provisions.

The following **valuation assumptions and methods** were used:

	31.03.2023	31.03.2022
Actuarial interest	**1.17%**	1.05%
Salary trend	**1.50%**	1.50%
Health insurance contribution	**0.00%**	0.00%
Social security contributions (general)	**20.225%**	19.975%
Fluctuation	**5.00%**	5.00%
Utilisation	**100.00%**	100.00%
Biometrics	**RT 2018 G**	RT 2018 G
Valuation method	**PUC**	PUC

KEUR **Early retirement commitments**	**31.03.2023**	31.03.2022
Early retirement commitments	**2,205**	2,056
Ongoing early retirement	**477**	170
Potential early retirement	**1,728**	1,887

The early retirement obligations are offset by compensation claims in the amount of EUR 0.85 million (PY: EUR 1.18 million) from the SMBC Düsseldorf branch for early retirement commitments that were made before the transfer of the employees in February 2020. The discounting of provisions results in an expense of KEUR 20.69 (PY: KEUR 20.01) in the financial year.

15. 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 1,769.45 (PY: KEUR 938.28). In the past financial year, a total value of KEUR 3,749.72 (PY: KEUR 1,980.28) results. The addition is offset against the net income from the trading portfolio.

16. Equity

KEUR	**31.03.2023**	31.03.2022
Equity	**5,184,531**	5,125,792
Subscribed capital	**5,100,000**	5,100,000
Capital reserves	**73,538**	73,538
Change	**–**	73,538
Revenue reserves	**550**	–
Legal reserve	**550**	
Change	**550**	–
Accumulated gain/(deficit)	**10,444**	(47,746)

The subscribed capital of the Bank amounted 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 of EUR 1.00 per share).

In accordance with Section 150 AktG, 5% of the net income for the year reduced by the loss carried forward from the previous year is 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	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Net interest income	**181,236**	47,677
Interest income from:	**377,291**	56,439
Lending and money market business excluding negative interest	**382,017**	89,053
Negative interest on lending and money market business	**(6,662)**	(32,885)
Fixed-income securities and book-entry securities	**1,936**	271
Negative interest on fixed-income securities and book-entry securities	**–**	–
Interest expenses from:	**(196,055)**	(8,762)
Interest expenses	**(200,858)**	(25,479)
Less negative interests on interest expenses	**4,803**	16,717

EUR 326.71 million (EUR 44.89 million) of interest income is attributable to SMBC EU and EUR 50.59 million (PY: EUR 11.55 million) to the Milan branch.

2. Net Commission Income

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Net commission income	**115,334**	72,438
Commission income	**169,963**	85,580
Loan service fees	**142,941**	68,691
Commissions from security business	**20,949**	12,453
Guarantee fees received	**5,900**	4,221
Other	**173**	215
Commission expenses	**(54,629)**	(13,142)
Commissions from security business	**(1,049)**	(1,180)
Guarantee fees paid	**(3,921)**	(2,366)
Interbank commissions	**(44,579)**	(7,365)
Other	**(5,080)**	(2,230)

EUR 152.08 million (PY: EUR 77.89 million) of commission income is attributable to SMBC EU in Frankfurt, EUR 17.63 million (PY: EUR 7.63 million) to the Milan branch and KEUR 250.62 (PY: EUR 54.05) to the Paris branch.

3. Net Trading Result

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Net trading result	**15,998**	9,499

The net trading result includes the allocation to the Section 340e HGB reserve amounting to KEUR 1,769.45 (PY: KEUR 938.28).

4. Other Operating Income

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Other operating income	**15,762**	14,181
thereof:		
Income from intra-group clearing	**11,256**	10,696
Rental income	**1,979**	2,380
Income from the reversal of provisions	**78**	360
Other	**2,449**	745

The gain from currency conversion of receivables and liabilities denominated in foreign currency amounts to EUR 2.08 million (PY: KEUR 11.31).

EUR 12.86 million (PY: EUR 11.54 million) of the other operating income is attributable to SMBC EU in Frankfurt, EUR 2.66 million (PY: EUR 2.60 million) to the branch in Paris, KEUR 119.23 (PY: KEUR 183.45) to the branch in Milan, KEUR 101.2 (PY: KEUR 127.11) to the branch in Dublin, and KEUR 26.65 (PY: KEUR (286.88)) to the branch in Prague.

5. General Administrative Expenses

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
General administrative expenses	**(170,200)**	(114,978)
thereof:		
Personnel expenses	**(69,679)**	(50,502)
Wages and salaries	**(57,606)**	(40,121)
Social security, pensions, and other benefits	**(12,073)**	(10,381)
thereof for pensions	**–**	–
Other administrative expenses	**(100,522)**	(64,476)

Other administrative expenses mainly consist of expenses from intra-group clearing of EUR 46.15 million (PY: EUR 29.19 million), VAT expenses in the amount of EUR 12.24 million (PY: EUR 8.67 million), bank levy of EUR 3.17 million (PY: EUR 3.28 million), expenses for temporary staff of about EUR 5.28 million (PY: EUR 4.43 million) as well as external consulting services amounting to EUR 12.29 million (PY: EUR 2.91 million).

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

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Amortisation, depreciation and write-downs on intangible assets and property and equipment	**(3,979)**	(6,818)
thereof:		
Leasehold improvement	**(679)**	(746)
Goodwill	**(2,821)**	(2,821)
Software no longer used post merger	**–**	(2,673)
Other	**(479)**	(577)

7. Other Operating Expenses

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Other operating expenses	**(26)**	(161)

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

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Write-downs and allowances on receivables and certain securities and additions to provisions for loan losses	**(57,407)**	(23,764)

This amount mainly comprises the addition to the reserve pursuant to Section 340f HGB. In addition, losses from the sale of loans arise.

9. Income from Write-ups of Loans and Certain Securities as well as Releases of Provisions for Loan Losses

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Income from write-ups of loans and certain securities as well as releases of provisions for loan losses	**2,303**	11,700

The income of EUR 2.30 million resulted from the reversal of allowance for losses on loans and advances.

10. Income Taxes

KEUR	01.04.2022 – 31.03.2023	01.04.2021 – 31.03.2022
Income taxes	**(40,233)**	(5,451)
Trade tax	**(19,174)**	(1,087)
Corporate tax	**(21,060)**	(4,364)

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 equals 31.647%. The Italian income tax rate is 27.5% and for France it is 25.0%. The income tax rate in the Czech Republic is 19.0% and in the Netherlands, depending on the taxable profit, 19.0% (PY: 15.0%) or 25.8%. In Spain, the income tax rate equals 25.0% and for Ireland 12.5%.

11. Other Taxes

In the financial year, other taxes of KEUR 47.02 (PY: KEUR 51.52) arose. These mainly comprise tax expense from taxes withheld from professional services as well as property tax.

V. Other Explanatory Notes

1. Held for Trading

Derivative Financial Instruments Held for Trading

KEUR	Nominal value	Market value positive	Market value negative
OTC products			
Interest-related transactions	27,774,293	873,765	(873,765)
Currency-related transactions	13,460,526	309,690	(309,517)

2. Off-Balance-Sheet Transactions

Derivative Financial Instruments Not Held for Trading

KEUR	Nominal value	Market value positive	Market value negative
Interest rate risk			
Interest rate swap	1,347,616	76,300	(59)
Currency risks			
Currency swap	1,596,988	19,507	(15,705)

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	31.03.2023	31.03.2022
Contingent liabilities		
Liabilities from guarantees and indemnity agreements	**2,143,466**	1,963,064
Other obligations		
Irrevocable loan commitments	**10,652,963**	6,919,951

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, 2023, there are contingent liabilities and irrevocable loan commitments to two individual borrowers of EUR 656.82 million and EUR 620.00 million, respectively, which are above the large exposure threshold.

3. Assets and Liabilities Denominated in Foreign Currency

KEUR	31.03.2023	31.03.2022
Assets and liabilities denominated in foreign currency		
Assets	**7,508,209**	5,508,204
Liabilities	**(7,496,299)**	(6,029,122)

VI. Other Information

1. Number of Employees

Number	**01.04.2022 – 31.03.2023**	01.04.2021 – 31.03.2022
Annual average	**357**	289
Düsseldorf	**115**	108
Back office	**76**	69
Front office	**39**	39
Frankfurt	**155**	114
Back office	**74**	60
Front office	**81**	54
Milan	**16**	15
Back office	**6**	6
Front office	**10**	9
Amsterdam	**13**	10
Back office	**2**	2
Front office	**11**	8
Prague	**12**	9
Back office	**2**	2
Front office	**10**	7
Madrid	**6**	6
Back office	**2**	2
Front office	**4**	4
Dublin	**9**	5
Back office	**3**	3
Front office	**6**	2
Paris	**33**	22
Back office	**4**	2
Front office	**29**	20

2. Auditor's Fee

KEUR	**01.04.2022 – 31.03.2023**	01.04.2021 – 31.03.2022
Auditor's fee	**1,026**	880
Audit services	**950**	728
Provision	**950**	728
Other assurance services	**76**	152
Provision	**76**	152
Other services	**–**	–

3. Explanatory Notes on Other Financial Commitments

The minimum rental expenses up to the earliest termination date for the business premises in Amsterdam, Frankfurt, Paris and Prague as well as Madrid and Milan amount to EUR 10.11 million (PY: EUR 10.78 million). The company car results in minimum rental expenses of EUR 13.13 thousand (PY: EUR 0.00 thousand).

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
Tetsuji Ueno
Head of Planning Department
Dr Niklas Dieterich
CFO, COO
Isabelle Saadjian
CRO
Jörg Legens
Country Coordinator until 24/04/2022
Supervisory Board
Keiichiro Nakamura
Chair till 31.03.2023
Antony Yates
Deputy Chair since 06/05/2022, Deputy Chair of the Audit Committee since 13/05/2022
Glenn Swanton
Chair of the Audit Committee since 13/05/2022
Takahiro Yazawa

4. Total Remuneration

KEUR	**01.04.2022 – 31.03.2023**	01.04.2021 – 31.03.2022
Salaried employees		
Executive Board	**4,045**	2,588
Members of the Executive Board	**4,045**	2,588
Former members of the Executive Board or their surviving dependants	**–**	–
Supervisory Board	**–**	–
Members of the Supervisory Board	**–**	–
Former members of the Supervisory Board or their surviving dependants	**–**	–

The Supervisory Board did not receive any remuneration for the financial year.

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	
Keiichiro Nakamura	
SMBC Bank International plc	
SMBC/SMFG (Managing Executive Officer, Head of EMEA Division)	
SMBC Nikko Capital Markets Limited (non-executive Director)	
Shimano Europe B.V. (Supervisory Board member)	
The Japanese School Ltd.	
Antony Yates	
SMBC Nikko Capital Markets Limited (Chief Executive Director)	
SMBC Derivative Products Limited (Chair, Board member)	
SMBC Capital Markets Inc. (Global Head of Derivatives, Board member)	
SMBC Capital Markets Asia Limited (Board member)	
Glenn Swanton	
SMBC Bank International plc (Chief Risk Officer)	
Sumitomo Mitsui Financial Group, EMEA Region (Co-Chief Risk Officer)	
SMBC Leasing UK Ltd. (Group non-executive Director)	
SMBC Derivative Products Ltd. (Group non-executive Director, Chair of the Risk Committee)	
Takahiro Yazawa	
SMBC Nikko Securities Inc. (Senior Managing Executive Officer, Head of Global Business Planning Unit)	
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) Ltd. (Director)	
SMBC Nikko Securities (Singapore) Pte. Ltd. (Director)	
SMBC Nikko Investment Consulting (Shanghai) Ltd. (Supervisor)	
SMBC Nikko Bank Luxembourg S.A. (Director, Chair of the Board of Directors)	
P.T. Nikko Securities Indonesia (Commissioner)	

6. Subsequent Events

As of 31 March 2023, Mr Keiichiro Nakamura resigned from the Supervisory Board.

As of 1 April 2023, Mr Hideo Kawafune has been appointed as a member of the Supervisory Board.

As of 30 May 2023, SMBC EU AG purchased 100% of the shares in SMBC Nikko Bank (Luxembourg) S.A. (SNBL) from SMBC Nikko (Japan). SNBL is a custodian and engages in banking business with a focus on services for funds. The acquisition of SNBL is accompanied by the formation of a subgroup.

Frankfurt-Main, 1 August 2023

SMBC Bank EU AG
Frankfurt-Main

Executive Board

Naoki Okubo **Stanislas Roger**

Tetsuji Ueno **Dr Niklas Dieterich** **Isabelle Saadjian**

Country-by-Country Reporting

In accordance with the requirements of the EU Directive 2013/36/EU Article 89 on Country-by-Country Reporting, which has been incorporated into German law with Section 26a (1) Sentence 2 of the German Banking Act (KWG), the Bank is required to prepare country-by-country reporting.

In this country-by-country reporting, SMBC Bank EU AG discloses the information listed below in accordance with Section 26a (1) nos. 1 to 6 KWG as of 31 March 2023:

- 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 relating to the Bank's branches included in the annual financial statements. The figures included in the report have been calculated on an unconsolidated basis.

Revenues are the sum of net interest, commission income, trading income and other operating income. The number of employees is provided as of 31 March 2023. Taxes present the income taxes of the branch. The branches received no public aid in the financial year.

Name	Type of business	Registered office	Country
SMBC Bank EU AG	Financial Institution	Frankfurt	Germany
SMBC Bank EU AG, Milan branch	Financial Institution	Milan	Italy
SMBC Bank EU AG, Prague branch	Financial Institution	Prague	Czech Republic
SMBC Bank EU AG, Amsterdam branch	Financial Institution	Amsterdam	Netherlands
SMBC Bank EU AG, Madrid branch	Financial Institution	Madrid	Spain
SMBC Bank EU AG, Dublin branch	Financial Institution	Dublin	Ireland
SMBC Bank EU AG, Paris branch	Financial Institution	Paris	France

Country	Revenues in KEUR	Profit or loss before tax in KEUR	Tax on profit or loss in KEUR	Public aid received in KEUR	Number of employees
Germany	303,240	79,551	(34,812)	–	270.2
Italy	29,596	19,278	(5,207)	–	15.0
Czech Republic	2,706	330	(104)	–	11.8
Netherlands	4,310	362	8	–	14.8
Spain	1,764	291	(91)	–	5.2
Ireland	3,243	260	(35)	–	9.0
France	13,140	(1.053)	(38)	–	32.0

Further Disclosures Pursuant to Section 26a (1) Sentence 4 KWG

The return on capital to be disclosed in accordance with Section 26a (1) Sentence 4 KWG is calculated as the ratio of the net income/loss for the year and the balance sheet total. In accordance with this definition, the return on capital amounted to 0.33% in the financial year.

Publisher

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