SMBC

SMBC Group

Combined Group Management Report and Group Financial Statements

SMBC Bank EU Group

Convenience Translation of the Binding German Version

As of 31st of March 2024

Contents

Consolidated financial statements as at 31 March 2024 and combined group management report

TRANSLATION – AUDITOR'S REPORT

SMBC Bank EU AG
Frankfurt am Main, Germany

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

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

Independent Auditor's Report

To SMBC Bank EU AG, Frankfurt am Main

Report on the Audit of the Consolidated Financial Statements and of the Combined Group Management Report

Opinions

We have audited the consolidated financial statements of SMBC Bank EU AG, Frankfurt am Main, and its subsidiaries (the Group) which comprise the consolidated statement of financial position at 31 March 2024, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 April 2023 to 31 March 2024, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined group management report of SMBC Bank EU AG for the financial year from 1 April 2023 to 31 March 2024.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 March 2024, and of its financial performance for the financial year from 1 April 2023 to 31 March 2024, and
- the accompanying combined group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined group 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 consolidated financial statements and of the combined group management report.

Basis for the Opinions

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

Reference to another matter

The consolidated financial statements of the company for the previous financial year ending 31 March 2023 were not audited. The comparative information is unaudited. Our audit opinions on the consolidated financial statements and on the combined group management report are not modified.

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 consolidated financial statements for the financial year from 1 April 2023 to 31 March 2024. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

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

THE FINANCIAL STATEMENT RISK

SMBC Bank EU AG reports loans and advances to customers in the amount of EUR 11,790 million as at 31 March 2024. For acute counterparty credit risks, specific valuation allowances on loans and advances to customers have been recognised in the annual financial statements.

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

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

OUR AUDIT APPROACH

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

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

OUR OBSERVATIONS

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

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

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated 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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the combined group 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 consolidated financial statements and this combined group 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 consolidated financial statements and of the combined group 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 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined group 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.
- 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 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 Group'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 consolidated financial statements and in the combined group 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined group 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 27 November 2023. We have been the auditor of the SMBC Bank EU AG without interruption since the financial year 2019.

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

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

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

German Public Auditor Responsible for the Engagement

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

Frankfurt am Main, 1 August 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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

Combined Group Management Report

Introduction

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

I. Fundamental Information about SMBC EU Group

1. SMBC EU Group's Business Model and Strategy

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

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

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

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

Serving customers

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

Sustainable growth

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

Competitive edges

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

Team "SMBC Group"

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

2. Organisation and Governance Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. Macroeconomic Environment and Competitive Situation

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

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

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

---

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

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

[3] European Commission Spring Forecast, May 2024.

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

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

III. Report on Business Development and Financial Position

1. Course of Business Operations

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

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

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

2. Financial Developments SMBC EU Group

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

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

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

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

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

Subsequently, SMBC EU Group financials are based on IFRS.

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

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

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

Balance sheet of SMBC EU Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income statement of SMBC EU Group

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

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

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

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

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

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

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

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

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

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

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

3. Financial Developments SMBC Bank EU AG

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

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

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

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

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

Subsequent SMBC EU AG financials are based on German GAAP.

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

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

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

Balance Sheet of SMBC EU AG

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income statement of SMBC EU AG

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

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

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

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

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

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

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

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

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

IV. Forecast Including Business Opportunities and Risks

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

V. Risk Report

1. Risk Management Framework

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

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

Roles and responsibilities for risk management across the Bank

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

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

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

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

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

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

Risk Committees

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

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

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

Risk culture

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

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

Risk strategy and appetite framework

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

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

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

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

Capital and liquidity assessment process

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

Core risk management processes comprising the risk management framework

Risk identification and assessment

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

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

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

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

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

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

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

Risk measurement and quantification

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

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

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

Stress testing framework

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

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

Risk monitoring and mitigation

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

Risk reporting

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

2. Management of Individual Risks

Credit risk

Credit risk at the level of individual counterparty and loan

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

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

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

Credit portfolio risk

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

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

Quantification of credit risk capital

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

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

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

Structure of the loan portfolio as of 31 March 2024

Total credit exposure

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

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

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

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

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

Credit quality

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

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

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

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

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

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

Single counterparty exposure

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

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

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

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

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

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

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

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

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

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

Market risk

The SMBC EU Group's risk appetite is low, as the risk strategy for the banking book and trading book business consists of largely hedging the market price risk through back-to-back hedging transactions with Group companies with congruent maturities and amounts. Risks to a minor extent remain in relation to interest rate risk in the banking book, foreign currency risk (FX risk) and the basis risk from derivative transactions.

Foreign currency risk (FX risk)

Foreign currency risk (FX risk) refers to the potential financial loss that can arise from fluctuations in the currency exchange rates. The FX risk of the SMBC EU Group comprises FX risk in the banking book resulting from currency mismatch between asset and liability and in the trading book resulting from trading activities.

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

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

Market price risk (trading book)

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

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

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

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

Interest rate risk in the banking book

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

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

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

Loan underwriting risk

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

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

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

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

Liquidity risk

Background and risk strategy

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

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

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

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

Liquidity risk monitoring and key performance indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funding risk

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

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

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

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

Operational risk

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

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

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

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

Operational risk capital assessment

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

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

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

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

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

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

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

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

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

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

Enterprise risk

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

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

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

ESG-related risks

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

3. Capital Management

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

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

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

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

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

Results of the normative approach as of 31 March 2024

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

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

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

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

Capital planning for financial year 2024/25 and beyond

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

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

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

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

Results of the economic perspective as of 31 March 2024

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

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

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

ICAAP

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

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

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

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

Stress testing:

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

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

4. Summary and Outlook

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

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

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

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

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

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

VII. Additional Disclosures

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

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

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

2. Assurance of the Legal Representatives

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

Frankfurt am Main, 1 August 2024

SMBC Bank EU AG
Frankfurt am Main

Executive Board

Naoki Okubo

Stanislas Roger

Yosuke Uemura

Dr Niklas Dieterich

Isabelle Saadjian

Statement of Comprehensive Income
For the year ended 31 March 2024

EUR	Notes	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Interest income[8] [9]	V.1	930,810,913.91	354,638,101.18
Interest expenses	V.1	(575,145,534.36)	(195,139,431.63)
Net interest income		355,665,379.55	159,498,669.55
Fees and commission income	V.2	173,974,759.99	129,651,150.23
Fees and commission expense	V.2	(90,933,535.09)	(54,618,439.70)
Net fees and commissions income		83,041,224.90	75,032,710.53
Income from FVPL financial instruments	V.3	49,422,758.92	39,196,564.58
Result from hedging relationships	V.4	1,649,502.58	4,364,622.38
Other operating income	V.5	24,815,417.33	13,662,965.83
Operating income		514,594,283.28	291,755,532.87
General administrative expenses	V.6	(208,217,961.23)	(168,916,631.05)
Net result from the derecognition of financial assets measured at AC	V.7	1,541,803.16	(3,426,343.62)
Depreciation and amortisation	V.8	(3,630,054.66)	(2,757,942.03)
Other operating expenses	V.9	(884,951.00)	(60,099.56)
Risk provision	V.10	(42,962,649.93)	1,554,713.46
Profit before income tax		260,440,469.62	118,149,230.07
Income tax charge	V.11	(87,070,993.03)	(34,704,648.59)
Profit for the year		173,369,476.59	83,444,581.48
Allocations to statutory reserves		10,350,326.04	(549,673.96)
Net profit		163,019,150.55	82,894,907.52
Other comprehensive income			
Items that will never be reclassified to profit and loss		–	–
Items that will be reclassified to profit and loss		1,700,815.54	–
Change in fair value of financial assets measured at FVOCI		2,263,200.45	–
Related tax		(562,384.91)	–
Total other comprehensive income		1,700,815.54	–
Total comprehensive income for the year		175,070,292.13	83,444,581.48

The notes on pages 39 to 104 are an integral part of these financial statements.

[8] All interest income was calculated using the effective interest rate method.

[9] Interest income mainly relates to interest recognised on financial assets measured at amortised cost.

Statement of Financial Position
As at 31 March 2024

EUR	Notes	31.03.2024	31.03.2023	01.04.2022
Assets				
Cash	IV.1	161,792,836.64	730,981,773.12	2,659,423,054.91
Loans and Advances to banks	IV.2	9,420,446,394.01	7,446,243,023.19	685,001,540.18
Loans and Advances to customers	IV.2	11,790,055,032.52	7,903,624,929.32	5,886,478,696.01
Derivative Assets: Hedge Accounting	IV.5	55,051,951.83	89,986,530.86	37,812,132.15
Trading Assets	IV.4	1,265,932,184.16	1,187,775,460.16	473,968,364.73
Investment and Liquidity Securities	IV.3	202,429,197.93	160,495,703.36	98,841,058.94
Equity Instruments		–	–	–
Property and equipment	IV.6	15,945,303.82	16,383,704.06	17,373,222.12
Intangible assets and goodwill	IV.6	1,921,605.10	199,484.69	267,194.44
Income Tax Assets	IV.7	12,999,876.19	3,211,558.39	1,047,158.85
Deferred Tax Assets	IV.8	77,594,712.21	80,572,528.75	43,881,960.37
Other Assets	IV.9	124,510,173.96	104,025,814.80	57,349,517.72
Total assets		23,128,679,268.37	17,723,500,510.70	9,961,443,900.42
Liabilities				
Liabilities to banks	IV.10	4,578,558,087.90	2,408,692,053.98	1,581,062,858.86
Liabilities to customers	IV.11	11,377,658,993.38	8,259,617,172.29	2,572,276,928.92
Derivative Liabilities: Hedge Accounting	IV.5	2,817,918.29	8,256.07	73,992.66
Trading Liabilities	IV.12	1,251,367,716.55	1,186,864,358.91	482,063,306.25
Provisions	IV.13	37,046,696.81	31,095,104.73	29,398,280.71
Income Tax Liabilities	IV.7	42,026,304.92	40,414,359.58	5,715,454.17
Deferred Tax Liabilities	IV.8	28,359,146.19	51,779,074.81	20,863,190.46
Other Liabilities	IV.14	370,165,722.14	547,329,737.81	225,457,699.93
Total liabilities		17,688,000,586.16	12,525,800,118.18	4,916,911,711.96
Shareholders' equity				
Subscribed capital	IV.15	5,100,000,000.00	5,100,000,000.00	5,100,000,000.00
Capital reserves	IV.15	69,723,622.57	69,723,622.57	–
Legal reserves	IV.15	10,900,000.00	549,673.96	–
Reserves from retained earnings	IV.15	258,354,244.10	27,427,095.99	(55,467,811.54)
Other reserves	IV.15	1,700,815.54	–	–
Total equity		5,440,678,682.21	5,197,700,392.52	5,044,532,188.46
Total liabilities and equity		23,128,679,268.37	17,723,500,510.70	9,961,443,900.42

The notes on pages 39 to 104 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 March 2024

EUR	Share capital	Retained earnings	Legal reserve	Capital redemption	Fair value reserve	Total
Balance as of 1 April 2023	5,100,000,000	27,427,096	549,674	69,723,623	–	5,197,700,393
Total comprehensive income for the year						
Net profit for the period	–	163,019,151	–	–	–	163,019,151
Other comprehensive income, net of tax	–	–	–	–	–	–
Net gains/(losses) transferred to net profit	–	–	–	–	–	–
Actuarial gain/(loss) on defined benefit scheme	–	–	–	–	–	–
Change in fair value of assets classified as fair value through other comprehensive income (FVOCI)	–	–	–	–	1,700,816	1,700,816
Effective portion of changes in fair value	–	–	–	–	–	–
Effect of changes in tax rate	–	–	–	–	–	–
Other changes	–	67,907,998	10,350,326	–	–	78,258,324
Balance as of 31 March 2024	**5,100,000,000**	**258,354,244**	**10,900,000**	**69,723,623**	**1,700,816**	**5,440,678,682**
Balance as of 1 April 2022	5,100,000,000	(55,467,812)	–	–	–	5,044,532,188
Total comprehensive income for the year						
Net profit for the period	–	82,894,907	–	–	–	82,894,907
Other comprehensive income, net of tax	–	–	–	–	–	–
Net gains/(losses) transferred to net profit	–	–	–	–	–	–
Actuarial gain/(loss) on defined benefit scheme	–	–	–	–	–	–
Change in fair value of assets classified as fair value through other comprehensive income (FVOCI)	–	–	–	–	–	–
Effective portion of changes in fair value	–	–	–	–	–	–
Effect of changes in tax rate	–	–	–	–	–	–
Other changes	–	–	549,674	69,723,623	–	70,273,297
Balance as of 31 March 2023	5,100,000,000	27,427,096	549,674	69,723,623	–	5,197,700,393

The notes on pages 39 to 104 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 March 2024

EUR	Notes	2024	2023
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit for the year before tax		260,440,470	118,149,230
Adjustments for non-cash items:			
Net impairment loss on financial assets		42,962,650	(1,554,713)
Gain/loss on sale of investments		17,777	0
Gain/loss on sale of tangible assets		575	(25,829)
Other non cash items on non operating assets and liabilities		(1,503,541)	
Depreciation and amortisation		3,630,055	2,757,942
Changes in operating assets and liabilities:			
Changes in loans and advances to banks		(7,172,638)	(501,166,772)
Changes in loans and advances to customers		(3,914,534,410)	(2,016,147,905)
Changes in derivative financial instruments		37,744,241	(52,240,135)
Changes in other assets		6,528,329	41,500,930
Changes in liabilities to banks		2,169,052,373	827,629,195
Changes in liabilities to customers		2,732,444,350	5,687,340,243
Net decrease/(increase) in trading portfolio assets		(52,411,478)	(713,807,095)
Net increase in trading portfolio liabilities		38,839,516	704,801,053
Change in collateral placed/received		(246,682,236)	229,631,472
Changes in other liabilities		60,879,304	75,553,723
Taxes paid		(117,299,375)	(6,111,690)
Net cash from/(used in) operating activities		1,012,935,962	4,396,309,648
Purchase of investment securities		(314,431,214)	(345,724,288)
Proceeds from sale or redemption of investment securities		362,692,245	284,075,115
Purchase of controlling interest		(84,900,000)	–
Cash and cash equivalent on subsidarisation		423,970,414	–
Purchase of intangible assets		(1,307,197)	(62,237)
Proceeds from the sale of intangible assets		–	–
Purchase of property and equipment		(1,974,638)	(1,372,870)
Proceeds from sale of property and equipment		4,203	26,652
Net cash used in investing activities		384,053,813	(63,057,627)
Cash flow from financing activities			
Payment of lease liabilities		(2,277,211)	(1,614,596)
Net cash from financing activities		(2,277,211)	(1,614,596)
Net decrease in cash and cash equivalents		1,394,712,563	4,331,637,425
Cash and cash equivalents at start of the year		7,676,045,292	3,344,407,867
Exchange differences in respect of cash and cash equivalents		–	–
Cash and cash equivalents at 31 March		9,070,757,855	7,676,045,292
Cash and cash equivalents comprise:			
Cash and balances at central banks		161,792,837	730,981,773
Cash and balances at other bank		8,908,965,019	6,945,063,519
		9,070,757,855	7,676,045,292

Notes to the Financial Statements
For the year ended 31 March 2024

I. Reporting Entity

SMBC Bank EU AG (together with its subsidiary referred to as “the SMBC EU Group” or “the Bank”) with commercial register number 110214 is a public limited company registered in Frankfurt-Main with branches in Amsterdam, Dublin, Düsseldorf, Madrid, Milan, Paris and Prague.

The SMBC EU Group offers a wide range of wholesale banking products, including: bilateral loans, syndicated loans, project finance, aircraft finance, shipping finance, trade finance, other asset finance, cash management, money markets, foreign exchange. As a provider of integrated financial and investment banking solutions, the SMBC EU Group also offers its clients capital market products and derivative financial instruments. Furthermore, it acts as intermediate EU parent undertaking (IPU) of its subsidiary located in Luxemburg. The registered office is at Main Tower, Neue Mainzer Str. 52-58, 60311 Frankfurt am Main.

The merger of the former Group sister companies SMBC Nikko Capital Markets Europe GmbH, Frankfurt (CM Europe) on SMBC EU with effect from 25 April, 2022 results in limited comparability of the profit and loss statement. The associated branch of CM Europe in France, established in June 2021, was merged into SMBC EU at the same time.

SMBC Bank EU AG acquired 100% of the voting rights of SMBC Nikko Bank (Luxembourg) S.A. (SNBL) on 30 May 2023. SNBL was previously a wholly-owned subsidiary of SMBC Nikko Securities, Inc. (SMBC Nikko (Japan)). SNBL is a custodian bank and operates banking business with a focus on fund services.

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

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

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

II. Basis of Preparation

1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), which have also been endorsed by the European Union (EU), and also take into account the requirements of section 315a/315e of German GAAP.

2. Basis of Measurement

The consolidated financial statements of the SMBC EU Group prepared on a going concern basis and under the historical cost convention as modified by the revaluation of investments, derivatives and other financial instruments, in accordance with applicable accounting standards.

The Executive Board believes that the SMBC EU Group has adequate financial resources and is well placed to manage its business risks successfully despite the current uncertain outlook for the global economy and the banking sector. In addition, the Executive Board believes the SMBC EU Group is capable of continuing its operations and meeting its obligations in the current economic environment, taking into account significant risks, for a period of at least 12 months from the date of approval of these consolidated financial statements.

In making this assessment, the Executive Board has considered a wide range of detailed information relating to present and future conditions, including projections of profitability, liquidity and capital requirements and resources. They determined that the principal risks the SMBC EU Group currently faces are those arising from recession as a result of the Russia-Ukraine crisis and high commodity prices and inflation, although other risks are also considered. This belief is based on consideration of a wide range of information including:

– the results of the SMBC EU Group’s three-year liquidity planning assessment;
– the results of the SMBC EU Group’s three-year capital planning assessment; and
– the results of the SMBC EU Group’s capital and liquidity stress testing.

The economic scenarios for the capital stress are:

– Global economic downturn: The Russia-Ukraine conflict remains a key risk. In addition, relations between the USA and China are worsening, leading to a global recession due to the high geopolitical risk. Central banks continue to tighten their monetary policy. Emerging countries with a dependency on foreign debt are experiencing capital outflows and currency devaluations, leading to a severe slowdown in economic activity.
– UK and EU recession: Deep recession in the Eurozone and UK, driven by rising cost of living as a result of increased energy costs arising from the Russia-Ukraine conflict. Tight government budgets and concerns on the financial markets about high sovereign debt.
– Japan recession: Global recession which disproportionately impacts Japan. Tensions with China lead to supply chains being impacted and sovereign credit rating downgraded. Japan experiences a period of high inflation which is forecast to persist and Yen depreciation, and the Bank of Japan (BoJ) increases interest rates to respond.

The economic scenarios for the liquidity stress included:

– UK and EU market-wide: The scenario models the impact of a UK/EU market-wide effect, mainly driven by Russia and Ukraine tensions escalating due to NATO expansion, the UK and Eurozone in deep recession and national budgets being strained, causing concerns over sovereign debt.
– Japanese stress: The scenario models the impact of a Japanese market-wide effect driven by rising tensions in East Asia as China asserts ownership over Taiwan and risk of trade sanctions being introduced. Japan suffers a period of high inflation with risk of persistent future inflation, with the BoJ ceasing monetary easing and raising interest rates.
– SMBC Group idiosyncratic stress: SMBC Group idiosyncratic scenario models the situation where SMBC Group is suffering from a severe stress event which results in increased credit risk or concerns over solvency.
– Combined stress: The combined scenario models the situation where EMEA/UK or Japan market-wide scenario is combined with an SMBC Group idiosyncratic event.

The liquidity and capital assessments and the stress tests have shown that the SMBC EU Group remains well funded and is still able to continue its business activities.

Based on the above, the Executive Board concludes that the SMBC EU Group has sufficient resources to continue its operations for a period of at least 12 months from the date of these financial statements and that the financial statements can be prepared on a going concern basis.

3. Functional and Presentation Currency

These group financial statements are presented in euro, which is also the SMBC EU Group’s functional currency. Euro is the SMBC EU Group’s functional currency as it is the dominant operating currency of the SMBC EU Group’s business. 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.

4. Adoption of IFRS

New and amended standards and interpretations

The following new or amended standards and interpretations, which have been issued, but are not yet mandatory, have not been applied early. Unless otherwise stated, the application of the following standards and interpretations is currently not expected to have any material impact on SMBC Bank EU AG:

Amendment to IAS 21 (Non-exchangeability of foreign currencies; not yet EU endorsed, effective date: 1 January 2025):

The amendment clarifies how an entity should assess whether a currency is exchangeable into another currency. Additionally, the amendment clarifies the determination of the exchange rate to be used and the required disclosures in the notes if the previous assessment has determined that the exchangeability of a currency is not given.

Future accounting standards

There are no new standards or amendments to standards that must be applied in future financial years and are expected to have a significant impact on the SMBC EU Group.

5. Significant Accounting Judgements and Estimates

The preparation of the consolidated financial statements of the SMBC EU Group in accordance with IFRS involves the use of assumptions and estimates and requires discretionary decisions by management in the application of accounting policies. In the following cases, discretionary decisions, assumptions and estimates were used that have an impact on the disclosure:

Impairment losses on loans and advances and undrawn loan commitments (note VI.3)

IFRS 9 impairment involves several areas of judgement as follows:

- Definition of the criteria for determining as to whether the default risk of the financial asset has increased significantly since initial recognition.
- Selection and approval of models for estimating the ECL, including determining the relevant risk parameters, determining relevant scenarios by type and scope, including consideration of interdependencies and the corresponding scenario weights.
- Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- Considerations and calculations of impairment allowances for individually significant assets in Stage 3 (see below).

The SMBC EU Group reviews its problem assets held at amortised cost at each reporting date to assess whether an allowance for credit impairment should be recorded in profit and loss. In determining the ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and sensitive to the risk factors. Further information and sensitivity analyses of ECL to different economic scenarios is provided in note VI.3.

In addition to the impairment allowances for credit-impaired loans (stage 3), the SMBC EU Group also recognizes impairment allowances for assets on the basis of 12-month ECLs (Stage 1) and on assets subject to a significant increase in credit risk based on lifetime ECLs (Stage 2).

Fair value of financial instruments (note VI.4)

Where the prices of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from markets where valuations are actively quoted, they are determined using a variety of valuation techniques that include use of mathematical models. Where possible, the input for these models is derived from market data relating to relevant instruments traded on an active market. If such a market does not exist, depending on the price transparency of the instrument or market and the complexity of the instrument, a certain degree of management judgment is required when determining the fair value.

III. Significant Accounting Policies

This section describes the SMBC EU Group's significant accounting policies that relate to the consolidated financial statements and the notes as a whole. If an accounting policy relates to a particular note, the accounting policy is contained within the relevant note.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1. Basis of Consolidation

Subsidiaries are investees controlled by the Bank. The SMBC EU Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The SMBC EU Group reassesses whether it has control if there are changes to one or more of the elements of control. As part of its normal business activities, the Bank grants loans to structured companies in different industries. The assessment undertaken by the SMBC EU Group includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over the investee. The financial statements of any subsidiaries would be included in the consolidated financial statements from the date control commences until the date control ceases. As of March 31, 2024, the Bank did not control any investees other than its direct subsidiary SNBL, where SMBC EU holds 100% of the voting rights.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of the SMBC EU Group's previously held equity interest over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

Business combinations under common control are accounted for using the book value method. The transaction is carried out at the seller's (group) book value since the subordinate subgroup financial statements represent a section of the overall consolidated financial statements. Any difference between the net book value of the acquired company and the acquisition costs of the company acquisition is offset directly against equity. This also applies if the equity is used up or even becomes negative.

The Bank bought 100% of the voting rights of SMBC Nikko Bank (Luxembourg) S.A. (SNBL) on 30 May 2023. SNBL was a former wholly-owned subsidiary of SMBC Nikko Securities, Inc. SNBL's core business is funds administration and custody services. SNBL is not engaged in proprietary trading activities. The Bank and SNBL are both part of the Sumitomo Mitsui Financial Group Inc. (SMFG) and are from a Group perspective wholly-owned subsidiaries of SMFG. This acquisition meets the definition of a business combination under common control as defined in IFRS 3 and was therefore accounted for using the book value method.

Full ownership of the SNBL shares was transferred on 30 May 2023 to the Bank for a total consideration of KEUR 84,900. The equity of SNBL at the time of transfer was KEUR 152,807, comprising subscribed capital, capital reserves, retained earnings and other reserves including other comprehensive income. The equity of SNBL at the time of the ownership transfer succeeds the acquisition price leading to a negative difference, which is shown in the SMBC EU Group consolidated financial statements equity in Retained Earnings. All the transaction costs incurred with the SNBL acquisition are recognised as expenses in the statement of profit or loss in the period when they were contracted.

The following table shows a detailed breakdown of SNBL's assets and liabilities at the time of transition:

EUR	31.05.2023
Assets	
Cash and Balances at central banks	45,896,709.25
Loans and advances to banks	381,482,921.04
Loans and advances to customers	10,880.07
Trading Assets	25,745,246.30
Investment and Liquidity Securities	86,427,617.88
Property, plant and equipment	1,073,949.40
Intangible assets	1,095,803.26
Deferred Tax Assets	2,417,364.78
Other assets	29,755,509.38
Total Assets	573,906,001.36
Liabilities	
Liabilities to banks	813,660.72
Liabilities to customers	385,597,470.83
Trading Liabilities	25,663,841.67
Provisions	1,971,383.69
Income Tax Liabilities	3,761,381.86
Deferred Tax Liabilities	606,648.91
Other liabilities	2,683,616.13
Equity	152,807,997.57
Total Liabilities	573,906,001.36

2. Interest and Similar Income and Expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities at amortised cost using the effective interest method. The effective interest method is a method of calculating the cost of a financial asset or liability and of allocating the interest income over the relevant period. The effective interest rate is the rate that at which the estimated future cash payments are discounted over the expected term of the financial instrument - according to the contractual agreements - or over a shorter period if applicable. The application of the method results in the recognition of income from the instrument in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the SMBC EU Group estimates cash flows considering all contractual terms of the financial instrument but, for financial assets, excluding future credit losses.

Fees from loans and advances held at amortised cost that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate and are recognised in profit and loss as part of the net interest income. Where a fee is considered to be an adjustment to the effective interest rate, it is recognised as such over the expected life.

3. Fee and Commission Income and Expense

Fees and commissions receivable in respect of services provided are recognised in profit and loss when the related services are performed and when consideration is considered receivable. The performance obligations, as well as the timing of when they have been met, are identified, and determined, at the inception of the contract. The SMBC EU Group's revenue contracts do not include multiple performance obligations. When the SMBC EU Group provides a service to its customers, consideration is generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. If the service is provided at a specific point in time, it is recognized in the profit and loss statement at the time the service is provided. If it is related to a period, it is recognized in the profit and loss statement pro rata temporis.

Fees relating to loans and advances held at amortised cost that are not an integral part of the effective interest rate are recognised in profit and loss as part of the fees and commission income and expenses. Where loans and advances are purchased in the secondary market and there is observable evidence that the fair value is higher than the purchase price and the fair value is determined exclusively from observable parameters, then the difference is recognized immediately in the profit and loss statement.

Fees and commissions expense relates mainly to transaction and service fees, which are expensed as the service is received.

4. Income from FVPL Financial Instruments

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

5. Financial Instruments – Initial Recognition and Subsequent Measurement

Financial assets

These include loans and advances to banks and customers and investment securities.

i) Classification, initial recognition and subsequent measurement

Financial assets are initially recognized at fair value plus - in the case of financial assets that are not measured at fair value through other comprehensive income - any transaction costs that are incremental and directly attributable to the acquisition of the financial asset.

Financial assets are classified into the following measurement categories:

– those to be measured at fair value (either through other comprehensive income (FVOCI) or through profit or loss (FVTPL)); or
– those to be measured at amortised cost.

The classification depends on the business model in which a financial asset is held and the contractual terms of the financial assets' cash flows.

Business model assessment

The SMBC EU Group makes an assessment of the objective of the business model in which a financial asset is held based on the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. This includes whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
– how the performance of the portfolio is evaluated and reported to the SMBC EU Group's management;
– the risks that affect the performance of the business model and how those risks are managed;
– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the respective assets or the contractual cash flows collected; and
– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The SMBC EU Group has defined three portfolios as Corporate Banking, Treasury and Trading. The SMBC EU Group's corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows and where loans are rarely sold (business model Hold). The exception to this is the syndications portfolio where the assets are held within a business model whose objective is achieved by selling the financial assets (Business model Sell).

Investment securities are either held for collecting contractual cash flows (Business model Hold) or as part of liquidity management to collect contractual cash flows and for sale (Business Model Hold and Sell).

The Treasury portfolio includes derivatives for hedging the banking book (Business model Sell) and the sub-portfolio for the nostro business (Business model Hold).

The trading business exclusively includes financial instruments that are intended for trading (Business model Sell).

Contractual terms of financial assets’ cash flows

For financial assets to be held at amortised cost, the contractual terms of the financial asset must give rise to cash flows on specified dates that represent solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, principal is defined as the fair value of the financial assets on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, as well as for other basic lending risks and costs (e.g. liquidity risk and administrative costs). It further includes a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the SMBC EU Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The assessment is carried out by the SMBC Group using a checklist upon conclusion of the contract. In making this assessment, the SMBC EU Group considers in particular the following characteristics of potentially harmful characteristics:

– contingent events that would change the amount or timing of cash flows;
– conditions that could change the contractual coupon rate, including variable interest rates or coupling to stock indices, currency indices or other indices;
– Yields that are dependent on the utilization, performance or stage of completion of the asset;
– Potential conversion options to convert the liability into other asset classes;
– prepayment and extension features; and
– terms that limit the SMBC EU Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual nominal value, a feature that permits or requires prepayment at an amount that substantially represents the contractual nominal value plus accrued contractual interest (which may include reasonable additional compensation for early termination) is treated as consistent with this requirement if the fair value of the prepayment feature is insignificant at initial recognition.

In addition, on initial recognition, the SMBC EU Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. This fair value option is currently not used by the SMBC EU Group.

Financial liabilities

These comprise deposits, which are the SMBC EU Group’s source of debt funding. Financial liabilities are classified as non-trading, held for trading or designated as held at fair value through profit and loss. Financial liabilities are initially recognised at their fair value minus, in the case of financial liabilities not at fair value through profit and loss, any transaction costs that are incremental and directly attributable to the issue of the financial liability. Subsequent to initial recognition, non-trading liabilities are recorded at amortised cost.

ii) Derecognition of financial assets and liabilities

The SMBC EU Group Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the SMBC EU Group does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of i) the consideration received including any new asset obtained less any new liability assumed and ii) all cumulative gains or losses that have been recognised in other comprehensive income are recognised in profit and loss.

In case the SMBC EU Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but does not transfer all the risks and opportunities of the transferred assets and retains control over the transferred assets, then the transferred assets are not derecognised.

The SMBC EU Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iii) Modifications of financial assets and liabilities

Financial assets

When the terms of a financial asset are modified, the SMBC EU Group assesses whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are considered to have expired. In this instance, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

If the cash flows of a modified financial asset carried at amortised cost or FVOCI are not substantially different, then the modification does not result in the derecognition of the financial asset. In this case, the SMBC EU Group recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit and loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The SMBC EU Group derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in profit and loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised costs of the liability are recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit and loss.

iv) Impairment losses on loans and unutilised loan commitments

The SMBC EU Group has not applied the exception for low credit risks permitted under IFRS 9.

6. Foreign Currencies

The financial statements are presented in euro, which is the SMBC EU Group's functional and reporting currency. Items included in the financial statements of each of the SMBC EU Group's operations are measured using their functional currency, being the currency of the primary economic environment in which they operate.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in the income statement.

7. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises balances with original maturities of up to three months including cash and cash equivalents with central banks, and loans and advances to banks. These are highly liquid assets that can be easily converted into cash and have an insignificant risk of changing their value.

8. First-Time Adoption of IFRS

The consolidated financial statement, for the year ended 31 March 2024, is the first that the Group has prepared in accordance with IFRS as endorsed in the European Union. For periods up to and including the year ended 31 March 2024, SMBC BANK EU AG prepared its financial statements in accordance with the German Commercial Code (Handelsgesetzbuch, HGB), herein referred to as German GAAP. Due to the acquisition of SNBL, SMBC EU AG became an EU parent of an institution based in the EU and is therefore obliged to prepare and present consolidated financial statements in addition to its existing mandatory annual financial statements.

Accordingly, the Group has prepared a consolidated financial statement that complies with IFRS as endorsed in the European Union applicable as of 31 March 2024, together with the comparative period data for the year ended 31 March 2023. In preparing the consolidated financial statement, the Group's opening statement of financial position was prepared as of 1 April 2022, the Group's date of transition to IFRS.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has not applied any of the exemptions.

Reconciliation of equity

Reconciliation of equity – German GAAP as of 31 March 2022 to IFRS Opening Balance as of 1 April 2022

KEUR	Subscribed capital	Capital reserves	Legal reserves	Reserves from retained earnings	Other reserves	Total
Equity at 31 March 2022 according to HGB (GGAAP)	5,100,000	73,538	–	(47,746)	–	5,125,792
Initial recognition of deferred tax claims				23,019		23,019
Derecognition of goodwill from business combinations under common control				(21,854)		(21,854)
Capitalisation of prepayments and other fees				(18,769)		(18,769)
Release of reserves according to HGB § 340e/340f				5,060		5,060
Application of hedge accounting				(5,502)		(5,502)
Inclusion of all stand-alone derivatives at their full fair value				2,181		2,181
Merger of Nikko Capital Markets Europe GmbH		(73,538)		3,814		(69,724)
Adjustment of loan loss provision				5,010		5,010
Other				(680)		(680)
Equity at 1 April 2022 according to IFRS	5,100,000	–	–	(55,468)	-	5,044,532

Reconciliation of equity – German GAAP as of 31 March 2023 to IFRS as of 31 March 2023

KEUR	Subscribed capital	Capital reserves	Legal reserves	Reserves from retained earnings	Other reserves	Summe
Equity at 31 March 2023 according to HGB (GGAAP)	5,100,000	73,538	550	10,444	–	5,184,531
Adjustments for first-time adoption of IFRS[1]		(73,538)		(7,722)[10]		(81,260)
Differences in net income				24.705		24,705
CM Merger time difference		69,724				69,724
Equity at 31 March 2023 according to IFRS	5,100,000	69,724	550	27,427	–	5,197,700

Explanation to the reconciliations of equity:

Application of hedge accounting: Under German GAAP hedge accounting is not applied by the SMBC EU Group. The reconciliation position results from the designation of hedging relationships in accordance with IFRS and the resulting measurement adjustments made by the SMBC EU Group to the hedged items in micro fair value hedges as well as the fair values of the derivatives that are part of this hedging relationship.

Inclusion of all stand-alone derivatives with their fair value: German GAAP stipulates that derivatives that are used to reduce interest rate risk in the banking book are not subject to individual imparity valuation, but rather are valued in the economic context of all interest-related financial instruments in the banking book. IFRS requires all derivatives to be measured at fair value. This position concerns derivatives that are not part of a hedging relationships.

[10] See total of all adjustments of retained earnings in the table above: Reconciliation of equity - HGB as of 31 March 2022 to the IFRS opening balance as of 1 April 2022

Initial recognition of deferred tax claims: Under German GAAP no deferred taxes were recognised in accordance with the accounting option provided by section 274 (1) Sentence 2 German GAAP. The deferred taxes on the differences between the tax balance sheet and the commercial balance sheet were recognised as part of the transition to IFRS.

Derecognition of goodwill from business combinations under common control: The goodwill recognised under German GAAP concerns past mergers and acquisitions that meet the definition of business combinations under common control. Therefore, the book value method would have been applied for SMBC EU Group accounting under IFRS and the difference between the consideration given and the aggregate carrying value of the assets and liabilities of the acquired entity at the date of transition is included in retained earnings.

Capitalisation of upfront and other fees: According to IFRS 9 the SMBC EU Group has capitalised fees that are an integral part of the effective interest rate and amortises these fees using the effective interest method until the expected maturity of the financial instrument.

Release of reserves according to §340f/340g HGB: Reserves in accordance with Section 340f HGB are not permitted for IFRS and have been dissolved. In accordance with Section 340g HGB, the SMBC EU Group also recognised a fund for general banking risks. Such a reserve is also not permitted under IFRS.

Timing difference of SMBC Nikko Capital Markets Europe GmbH merger: SMBC Bank EU AG was merged with SMBC Nikko Capital Markets Europe GmbH (CM Europe) at 25th of April 2022. For German GAAP the merger took effect from 1 November 2021, whereas for IFRS a retrospective effect is not applicable and the merger is shown as of the time of acquisition. Losses of KEUR 3,814 generated by CM Europe up to 1st of April 2022 and the capital reserve of KEUR 73,538 resulting from the merger are not shown under IFRS as the merger has not taken place at this point in time yet.

Adjustment of loan loss provision: German GAAP permits the use of IFRS loan loss provisions to determine general loan loss provisions in accordance with IDW RS BFA 7. The SMBC EU Group makes use of this exception under German GAAP. However, there is a difference between IFRS and German GAAP on whether a financial instrument is subject to a loan loss provision. For securities held as current assets, the lower of cost or market principle is applied in accordance with German GAAP and accordingly no general loan loss provisions are recognised. In addition, under IFRS, part of the loan portfolio is measured at fair value and accordingly no loan loss provisions are recognised. Additionally, recalibrations of the methodology used to measure expected losses, which were applied retrospectively for IFRS since the opening balance, led to a difference between loan loss provision applied according to German GAAP compared to IFRS.

Other: Other differences mainly result from different rules for the accounting for leasing contracts in the amount of KEUR -660 and adjustments of provisioning for early retirement in the amount of KEUR 101. The SMBC EU Group has recognised rights-of-use assets as well as lease liabilities for its leasing contracts according to IFRS 16. Under German GAAP no such right-of-use asset nor lease liability has been recognised. The remaining differences are explained by KEUR -147 which are recognised under IFRS in order to show the acquired portfolio of the Milan branch at fair value and corrections for German GAAP amounting to KEUR 25.

Reconciliation of total comprehensive income from German GAAP to IFRS for the year ended 31 March 2023:

KEUR	German GAAP	Effects of transition	IFRS	
Interest income	377,291	(22,653)	354,638	Interest income
Interest expenses	(196,055)	916	(195,139)	Interest expenses
Net interest income	**181,236**	**(21,737)**	**159,499**	**Net interest income**
Commission income	169,963	(40,312)	129,651	Fees and commissions income
Commission expense	(54,629)	10	(54,618)	Fees and commissions expense
Net commission income	**115,334**	**(40,301)**	**75,033**	**Net commission income**
Net income (expense) on trading portfolio	15,998	23,199	39,197	Result from financial instruments measured at FVPL
		4,365	4,365	Result from hedging relationship
Other operating income	15,762	(2,099)	13,663	Other operating income
Operating income	**328,329**	**(36,574)**	**291,756**	**Operating income**
General administrative expenses	(170,200)	1,284	(168,917)	General administrative expenses
		(3,426)	(3,426)	Net result from the derecognition of financial assets measured at amortised costs
Depreciation and valuation adjustments for intangible and tangible assets	(3,979)	1,221	(2,758)	Depreciation and amortisation
Other operating expenses	(26)	(34)	(60)	Other expenses
Depreciation and valuation adjustments for receivables and certain securities as well as for additions to provisions for loan losses	(57,407)	58,962	1,555	Loan loss provision result
Income from the write-up of receivables and certain securities as well as from the reversal of provisions for loan losses	2,303	(2,303)		
Earnings before income tax	**99,020**	**19,129**	**118,149**	**Profit before income tax**
Income taxes	(40,233)	5,529	(34,704)	Income taxes
Other taxes	(47)	47		
Net income	**58,740**	**24,705**	**83,445**	**Profit for the year**
Allocations to revenue reserves	(550)	–	(550)	Allocations to revenue reserves
Net profit	**58,190**	**24,705**	**82,895**	**Net profit**

Explanation to the reconciliations of profit or loss and other comprehensive income:

For the year ended 31 March 2023 there is no other comprehensive income according to IFRS. German GAAP does not allow another comprehensive income position, thus net profit equals total comprehensive income for both German GAAP and IFRS for the year ended 31 March 2023.

The effects of transition stem from the same topics mentioned in the reconciliation of equity above.

The differences in net interest and commission income result from the different treatment of fees between GGAAP and IFRS.

In the result from financial instruments measured at FVPL/trading income, differences arise from changes in the Section 340g reserve under German GAAP, the fair value measurement of loans measured at FVPL and the different measurement of derivatives used to hedge the banking book.

The result from hedging relationships shows the fair value changes in designated hedging derivatives and the associated underlying transactions.

Under GGAAP, the other operating result includes the foreign currency result, which under IFRS is recognised under the result from financial instruments measured at FVPL.

The general administrative expenses are different due to the treatment of IFRS 16 lease expenses.

Under IFRS, the result from the derecognition of financial assets measured at amortised cost must be reported separately.

The differences in the item amortisation, depreciation and impairment of intangible assets and property, plant and equipment result from the amortisation of right-of-use assets under IFRS 16 and the amortisation of goodwill under German GAAP.

The loan loss provision result is different due to the formation of a Section 340f reserve in accordance with German GAAP and differences in the scope of the financial instruments that are subject to the formation of a loan loss provision.

Income from the write-up of loans and advances and certain securities and from the reversal of loan loss provisions was reported separately under German GAAP as at 31 March 2023. This option does not exist under IFRS.

There are differences in income taxes due to the mandatory recognition of all deferred taxes under IFRS, whereas under German GAAP there is an option for the recognition of deferred tax assets. Under German GAAP the option was exercised and no deferred taxes are recognized.

IV. Explanatory Notes to the Group Balance Sheet

1. Cash and Central Bank Balances

KEUR	31.03.2024	31.03.2023	31.03.2022
Cash	1	–	
Central bank balances	161,792	730,982	2,659,423
thereof at Deutsche Bundesbank	135,852	730,982	2,659,423
Total cash and central bank balances	161,793	730,982	2,659,423

2. Loans and Advances to Banks and Customers

Loans and advances at amortised cost

Loans and advances at amortised cost are non-derivative financial assets with fixed or determinable payments and exclude those that are classified as held for trading and those that are designated as at fair value through profit and loss. Subsequent to initial recognition, loans and advances are measured at amortised cost less impairment losses where:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise to cash flows on specified dates that represent solely payments of principal and interest on the principal amount outstanding.

Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the hedged loans and advances includes a fair value adjustment for the hedged risk only (note IV.5).

Loans and advances at fair value through profit and loss

Loans and advances held at fair value through profit and loss include all loans and advances classified as held for trading, those irrevocably designated as held at fair value through profit and loss on initial recognition, and those with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding.

Loans and advances classified at fair value through profit and loss are recorded at fair value on the statement of financial position with changes in fair value recognised in profit and loss. Financial instruments are classified as held for trading when they are held with the intention of generating short-term profits.

Loans and advances to banks

KEUR	31.03.2024	31.03.2023	31.03.2022
Loans and advances to banks at amortised cost	9,420,729	7,446,246	685,002
Loans and advances to banks at FVPL	–	–	–
Less allowance for credit losses	(282)	(3)	(1)
Total loans and advances to banks	9,420,446	7,446,243	685,002

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

Loans and advances to customers

KEUR	31.03.2024	31.03.2023	31.03.2022
Loans and advances to customers at amortised cost	11,582,098	7,747,016	5,869,867
Loans and advances to customers at FVPL	255,821	176,358	32,859
Of which: Loans and advances to customers at FVPL – SPPI fail	140,373	51,420	32,859
Less allowance for credit losses	(47,864)	(19,749)	(16,247)
Total loans and advances to customers	11,790,055	7,903,625	5,886,479

Loans and advances to customers mainly result from lending business.

3. Investment and Liquidity Securities

Investment securities at amortised cost

Investment securities at amortised cost are non-derivative financial assets with fixed or determinable payments and exclude those that are classified as held for trading and those that are designated as at fair value through profit and loss. Subsequent to initial recognition, investment securities are measured at amortised cost less impairment losses where:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise to cash flows on specified dates that represent solely payments of principal and interest on the principal amount outstanding.

Investment securities at fair value through other comprehensive income

Investments in debt instruments that are classified as at fair value through other comprehensive income are those where:

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.

The assets are measured at fair value on the statement of financial position. Unrealised gains and losses are recognised in other comprehensive income and only on disposal is the cumulative gain or loss, previously recognised in other comprehensive income, recognised in profit and loss.

Investment securities

KEUR	31.03.2024	31.03.2023	31.03.2022
Investment securities held at amortised cost	115,037	160,506	98,847
Investment securities at fair value through OCI	87,397	–	–
Less allowance for credit losses	(5)	(10)	(6)
Total investment securities	202,429	160,496	98,841

Investment securities held at amortised cost exclusively include stock exchange eligible, but non-listed money market instruments from other issuers that mature within the next financial year.

Investments securities measured at fair value through other comprehensive income comprise fixed-income securities with a maximum maturity of 10 years or less.

4. Accounting for Derivatives

Derivatives include interest rate swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative instruments which do not meet the criteria to be designated as a hedge are considered to be held for trading and are measured at fair value with the resulting profits and losses included in net trading income.

The fair value of exchange-traded derivatives is determined by reference to the quoted market price.

The fair value of over-the-counter ("OTC") derivatives is determined by calculating the expected cash flows under the terms of each specific contract, and then discounting these to their net present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices, or through modelling cash flows using appropriate pricing models. The effect of discounting expected cash flows back to present value is achieved by constructing discount curves derived from the market price of the most appropriate observable interest rate products such as deposits, interest rate futures and swaps.

In the case of OTC derivatives held for trading, the counterparty default risk is taken into account by considering a credit valuation adjustment (CVA), while 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 income from FVPL financial instruments.

Trading assets

KEUR	31.03.2024	31.03.2023	31.03.2022
Held for trading	1,265,932	1,187,775	473,968
Derivative financial instruments	1,265,933	1,188,019	473,968
Other	(1)	(244)	–
Total Trading assets	1,265,932	1,187,775	473,968

Trading liabilities

KEUR	31.03.2024	31.03.2023	31.03.2022
Held for trading	1,251,368	1,186,864	482,063
Derivative financial instruments	1,251,368	1,187,108	482,063
Other	–	(244)	–
Total Trading liabilities	1,251,368	1,186,864	482,063

Derivative financial instruments and hedge accounting

The following tables show the notional amounts and fair values of the SMBC EU Group's derivatives at 31 March 2024 and 31 March 2023 as well as 31 March 2022.

	31.03.2024			31.03.2023		
KEUR	Nominal value	Fair value derivatives (assets)	Fair value derivatives (liabilities)	Nominal value	Fair value derivatives (assets)	Fair value derivatives (liabilities)
Trading derivatives	62,490,629	1.265,933	(1,251,368)	38,326,324	1,188,019	(1,187,108)
Interest rate risk	34,313,061	736,284	(734,811)	23,676,6482	872,900	(863,720)
Interest rate swaps	30,761,240	624,092	(634,710)	20,739,744	715,992	(707,678)
CAP/FLOOR	2,801,821	85,454	(85,250)	2,711,904	129,388	(128,710)
Swaption	750,000	14,851	(14,851)	225,000	27,332	(27,332)
Other	–	11,887	–	–	188	–
Currency risk	28,177,568	529,649	(516,557)	14,649,676	315,119	(323,389)
Foreign exchange derivatives	19,052,405	147,689	(138,341)	8,700,123	80,387	(93,349)
Currency option	234,522	2,011	(1,986)	1,916	27	(27)
Cross currency swaps	8,890,641	379,949	(376,230)	5,947,637	234,705	(230,012)
Fair value hedge derivatives	1,512,273	55,052	(2,818)	1,460,799	89,987	(8)
Interest rate risk	1,386,672	54,402	(1,151)	1,342,835	76,336	(8)
Interest rate swaps	1,386,672	54,402	(1,151)	1,342,835	76,336	(8)
Currency risk	125,601	650	(1,667)	117,964	13,651	–
Cross currency swaps	125,601	650	(1,667)	117,964	13,651	–
Total derivatives	64,002,901	1,320,985	(1,254,186)	39,787,123	1,278,006	(1,187,116)

	31.03.2022		
KEUR	Nominal value	Fair value derivatives (assets)	Fair value derivatives (liabilities)
Trading derivatives	27,198,675	473,968	(482,063)
Interest rate risk	16,310,166	296,943	(293,589)
Interest rate swaps	13,600,445	233,855	(230,814)
CAP/FLOOR	2,484,721	52,917	(52,604)
Swaption	225,000	10,171	(10,171)
Other	–	–	–
Currency risk	10,888,509	177,025	(188,475)
Foreign exchange derivatives	5,768,934	44,227	(57,285)
Currency option	4,198	78	(78)
Cross currency swaps	5,115,376	132,720	(131,111)
Fair value hedge derivatives	1,207,629	37,812	(74)
Interest rate risk	1,087,128	23,150	(5)
Interest rate swaps	1,087,128	23,150	(5)
Currency risk	120,501	14,662	(69)
Cross currency swaps	120,501	14,662	(69)
Total derivatives	28,406,303	511,780	(482,137)

5. Hedge Accounting

Hedge accounting

The SMBC EU Group applies IFRS 9 ‘Financial Instruments: Recognition and Measurement’ for hedge accounting purposes.

As part of its asset management, the SMBC EU Group uses derivatives as fair value hedges to protect it against changes in the fair value of financial assets due to movements in interest rates and against variability in cash flows arising from movements in foreign exchange rates. Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. These instruments frequently involve a high degree of leverage and can be volatile. Due to this, the Bank maintains very tight control over their use.

The SMBC EU Group applies hedge accounting to manage interest rate and foreign exchange risk. Further details of how these risks arise and how they are managed by the SMBC EU Group are discussed in note VI.3.

In order to hedge the risks to which the SMBC EU Group is exposed, the hedging instruments employed are interest rate and cross currency interest rate swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in specified underlying indices such as an interest rate or foreign currency rate.

Interest rate swaps relate to contracts taken out by the SMBC EU Group with other financial institutions in which the SMBC EU Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed or alternative floating rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a cross currency interest rate swap, the SMBC EU Group pays the principal amount in one currency at the beginning of the transaction and receives the principal amount back in the other currency. At maturity of the transaction, the capital amounts are paid in reverse. Interim cash flows of interest are then exchanged on the same basis as an interest rate swap in that the SMBC EU Group either receives or pays a floating rate of interest in one currency, in return for paying or receiving, respectively, a fixed rate of interest in the other currency.

The hedging instruments share the same risk exposure as the hedged items, being interest rate and currency risk. Before hedge accounting is applied, the SMBC EU Group determines whether an economic relationship exists between the hedged item and the hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk and considers whether the underlying parameters of the hedged item and hedging instrument are closely aligned.

The following criteria are required for a derivative instrument to be classified as a hedging transaction:

– The transactions are eligible hedged items and hedging instruments
– At the start of the hedge, the SMBC EU Group formally documents the hedging relationship between the hedged item and the hedging instrument, including risk management objectives and strategy, description of the hedged risk, effectiveness of the measurement method and sources of ineffectiveness
– The hedge is expected to be highly effective.
– The effectiveness of the hedge (hedged item and hedging instrument) can be reliably measured.
– Non-dominance of the default risk.
– Economic interdependency between hedged item and hedging instrument

The SMBC EU Group applies fair value hedge accounting if the transaction fulfils the above criteria. Hedge accounting is discontinued if it is determined that the derivative is no longer effective as a hedge. A hedge also ceases to be effective if the derivative or asset is sold, cancelled, expires or matures, or if a forecast transaction is no longer considered probable.

The changes in the hedged item and the hedging instruments are recognised in the income statement under net income from hedging relationships.

Fair value hedge accounting

For qualifying fair value hedges, the changes in fair value in respect of the hedged risk of both the hedged item and hedging derivative are recognised in profit and loss. Any ineffective portion of the hedge is immediately recognised in profit and loss under result from hedging relationships. Ineffectiveness can be caused by the multi-curve effect, as different discount curves may be used when measuring the hedged item and the hedging transaction. Other reasons for ineffectiveness can be fixed dates in relation to the reporting date, as changes in market interest rates are only passed on to the variable side of the interest rate swap with a time lag.

If hedge relationships no longer meet the criteria for hedge accounting or the hedging derivative is sold, terminated, expires or matures, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised over the remaining period to maturity of the previously designated hedge relationship using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in profit or loss.

Fair value hedges

The financial instruments hedged for interest rate risk concern only fixed rate loans. The SMBC EU Group uses interest rate swaps to hedge interest rate risk (including currency swaps). Interest rate risk arises as the SMBC EU Group holds a portfolio of medium- and long-term fixed rate customer loans whose fair value fluctuates due to movements in market interest rates. In such cases, changes in the fair values in respect of the hedged risk of both the hedging instrument and the hedged item are recognised in profit and loss.

The SMBC EU Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of fixed rate loans are significantly influenced by changes in the benchmark interest rate.

The following table shows the hedging instruments recognised in the balance sheet of the SMBC EU Group within the positive and negative fair values from designated hedging derivatives:

	31.03.2024			31.03.2023			31.03.2022		
KEUR	Carrying amount hedge accounting assets	Carrying amount hedge accounting liabilities	Change in FV used as a basis to determine ineffectiveness	Carrying amount hedge accounting assets	Carrying amount hedge accounting liabilities	Change in FV used as a basis to determine ineffectiveness	Carrying amount hedge accounting assets	Carrying amount hedge accounting liabilities	Change in FV used as a basis to determine ineffectiveness
Fair value hedge derivatives	55,052	2,818	(30,745)	89,987	8	48,881	37,812	(74)	–
Interest rate risk	54,402	1,151	(24,437)	76,336	8	50,521	23,150	(5)	–
Interest rate swaps	54,402	1,151	(24,437)	76,336	8	50,521	23,150	(5)	–
Currency risk	650	1,667	(6,309)	13,651	–	(1,640)	14,662	(69)	–
Cross currency swaps	650	1,667	(6,309)	13,651	–	(1,640)	14,662	(69)	–

Derivative financial instruments and hedge accounting – Fair value hedges

The following tables profile the notional values of current hedging instruments:

Interest rate risk	Maturity at 31 March 2024			Maturity at 31 March 2023			Maturity at 31 March 2022		
KEUR Hedge of loans and advances to customers	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years
Notional amount	157,549	1,037,437	191,686	44,000	1,040,597	258,238	100,000	801,680	185,448
Average fixed interest rate %	1.91%	2.66%	4.86%	0.52%	1.36%	3.26%	0.32%	0.95%	2.62%

Currency rate risk	Maturity at 31 March 2024			Maturity at 31 March 2023			Maturity at 31 March 2022		
KEUR Hedge of loans and advances to customers	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years
Notional amount	–	125,601	–	–	117,964	–	–	119,808	–
Average fixed interest rate %		6.85%			4.94%			4.94%	

The following table shows the hedged items in fair value hedge accounting relationships:

		31.03.2024			
KEUR Hedged risk	Classification of the hedged item in the balance sheet	Carrying amount	Accumulated fair value hedge adjustments included in carrying amount	Change in fair value used as a basis to determine ineffectiveness	Accumulated fair value hedge adjustments remaining in statement of financial position
Interest rate risk	Loans and advances to customers	1,349,647	(48,986)	26,889	–
Currency risk	Loans and advances to customers	126,641	(5,065)	5,505	–
Total		1,476,288	(54,051)	32,394	–

		31.03.2023			
KEUR Hedged risk	Classification of the hedged item in the balance sheet	Carrying amount	Accumulated fair value hedge adjustments included in carrying amount	Change in fair value used as a basis to determine ineffectiveness	Accumulated fair value hedge adjustments remaining in statement of financial position
Interest rate risk	Loans and advances to customers	1,266,960	(75,875)	(48,862)	–
Currency risk	Loans and advances to customers	105,229	(10,570)	4,345	–
Total		1,372,189	(86,446)	(44,516)	–

		31.03.2022			
KEUR Hedged risk	Classification of the hedged item in the balance sheet	Carrying amount	Accumulated fair value hedge adjustments included in carrying amount	Change in fair value used as a basis to determine ineffectiveness	Accumulated fair value hedge adjustments remaining in statement of financial position
Interest rate risk	Loans and advances to customers	1,060,115	(27,013)		–
Currency risk	Loans and advances to customers	103,357	(14,916)		–
Total		1,163,471	(41,929)	–	–

6. Accounting for Intangible Assets and Property and Equipment

Accounting for intangible assets

Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. The carrying values of intangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable. Expenditure on internally developed software is recognised as an asset when the SMBC EU Group is able to demonstrate its intention and ability to complete the development and use the software in a manner which will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. There are currently no internally generated intangible assets in the portfolio.

Accounting for property and equipment

Fixed tangible assets are stated at capitalised cost less accumulated depreciation and accumulated impairment losses. The carrying values of fixed tangible assets are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property and equipment are depreciated on a straight-line basis over their estimated useful lives. Useful life is specified in accordance with tax tables (afa-tables from the German tax authority; EStRL) if the according timeframe is considered presentable for the useful life.

Accounting for leases

At inception of a contract, the SMBC EU Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the SMBC EU Group uses the definition of a lease in IFRS 16.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the SMBC EU Group allocates consideration in the contract to each lease component based on its relative standalone price.

The SMBC EU Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the SMBC EU Group's incremental borrowing rate. Generally, the SMBC EU Group uses its incremental borrowing rate as the discount rate.

The SMBC EU Group determines its incremental borrowing rate by taking the 'Pfandbriefe' yields published by Deutsche Bundesbank as the basis and uses various external sources to make certain adjustments to reflect the terms of the lease, country risks, the entity-specific financing spread and type of asset leased. As the Pfandbriefe are issued with an investment grade of AAA, the SMBC EU Group adjusts the published interest rates by the difference in risk margins between the AAA rating and the relevant rating of SMBC EU Group. The difference is determined using the yield curves of bonds.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the SMBC EU Group is reasonably certain to exercise, lease payments in an optional renewal period if the SMBC EU Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the SMBC EU Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the SMBC EU Group's estimate of the amount expected to be payable under a residual value guarantee, if the SMBC EU Group changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

The SMBC EU Group presents right-of-use assets in property and equipment, and lease liabilities in 'Other liabilities' in the statement of financial position.

The SMBC EU Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including leases of IT equipment. The SMBC EU Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

	Cost					Amortisation					Net carrying amount	
KEUR	01.04. 2023	Additions	Reductions	Transfers	**31.03. 2024**	01.04. 2023	Additions	Reductions	Transfers	**31.03. 2024**	01.04. 2023	**31.03. 2024**
Concessions, property rights and similar rights and assets as well as licences to such rights and assets acquired for consideration	909	6,414	18	–	7,306	710	4,692	18	–	5,385	199	1,922
Intangible assets	909	6,414	18	–	7,306	710	4,692	18	–	5,385	199	1,922
Leasehold improvement	7,088	606	–	–	7,694	3,986	946	–	–	4,931	3,102	2,763
Operating and other equipment	4,326	2,426	110	–	6,642	2,430	1,460	105	–	3,784	1,897	2,858
Construction in progress	–	61	–	–	61	–	–	–	–	–	–	61
Property and equipment	11,414	3,094	110	–	14,398	6,415	2,406	105	–	8,716	4,999	5,682
Properties	17,271	1,016	–	–	18,287	5,898	2,132	–		8,031	11,373	10,256
Vehicles	14	–	–	–	14	2	5	–	–	7	12	7
Right-of-use asset (IFRS 16)	17,285	1,016	–	–	18,301	5,900	2,137	–	–	8,037	11,385	10,263
Total	29,608	10,523	128	–	40,005	13,026	9,235	123	–	22,138	16,583	17,867

KEUR	Cost 01.04. 2022	Cost Additions	Cost Reductions	Cost Transfers	Cost 31.03. 2023	Amortisation 01.04. 2022	Amortisation Additions	Amortisation Reductions	Amortisation Transfers	Amortisation 31.03. 2023	Net carrying amount 01.04. 2022	Net carrying amount 31.03. 2023
Concessions, property rights and similar rights and assets as well as licences to such right and assets acquired for consideration	834	62	3	16	909	566	130	3	16	710	267	199
Intangible assets	834	62	3	16	909	566	130	3	16	710	267	199
Leasehold improvement	6,056	876	–	156	7,088	3,339	630	–	16	3,985	2,717	3,102
Operating and other equipment	3,769	713	75	–80	4,326	2,084	332	9	22	2,430	1,685	1,897
Construction in progress	–	41	41	–	–	–	–	–	–	–	–	–
Property and equipment	9,825	1,630	116	75	11,414	5,423	963	9	39	6,415	4,402	4,999
Properties	17,271	–	–	–	17,271	4,300	1,599	–	–	5,898	12,972	11,373
Vehicles	–	14	–	–	14	–	2	–	–	2	–	12
Right-of-use asset (IFRS 16)	17,271	14	–	–	17,285	4,300	1,600	–	–	5,900	12,972	11,385
Total	27,930	1,706	119	92	29,609	10,289	2,693	12	55	13,026	17,640	16,583

7. Income Taxes

KEUR	31.03.2024	31.03.2023	31.03.2022
Income tax asset	13,000	3,212	1,047
Income tax liability	(42,026)	(40,414)	(5,715)
Total	(29,026)	(37,203)	(4,668)

The table shows the income tax assets and income tax liabilities to the tax authorities.

The SMBC Group falls within the scope of the global minimum taxation rules (“Pillar 2”), which entered into force in Germany on 28 December 2023 by the implementation of the Minimum Tax Act (MinStG).

As the Minimum Tax Act applies for the first time for fiscal years beginning after 30 December 2023, there was no minimum tax exposure for the fiscal year 2023/2024. Under the Minimum Tax Act, the SMBC Group must pay a top-up tax for each jurisdiction in which the effective tax rate is below 15%. During the transitional period from 2024 until 2026, the top-up tax can, upon request, be deemed to be zero for a jurisdiction where the requirements of the Country-by-Country Reporting Safe Harbour rules are met.

SMBC Bank EU AG and its mother company Sumitomo Mitsui Banking Corporation, Tokyo, Japan initiated a project on a global basis. Further within EMEA region a parallel project in alignment with the global project has started to continuously analyse and evaluate the impact of the global minimum taxation rules whereby external tax advisors are involved. Given the complexity of the minimum taxation rules, the still pending implementation into domestic legislation in many jurisdictions, and the SMBC Group’s business performance in the next years, it is not yet possible to reliably assess the quantitative effects arising from the global implementation of the minimum taxation rules for 2024. The main jurisdictions in which exposures to this minimum top-up tax may exist from a German perspective (only taking subsidiaries and branches of SMBC Bank EU AG into consideration) include Ireland and Luxembourg.

The SMBC Bank EU AG has applied the temporary exemption from the accounting requirements for deferred taxes relating to Pillar 2 income taxes under IAS 12 published by the IASB in May 2023. Accordingly, the SMBC Bank EU AG neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar 2 income taxes.

The SMBC Bank EU AG has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify, that the Standard applies to income taxes arising tax low enacted or substantively enacted to implement the Pillar 2 model rules published by the OECD, including tax that implements qualified domestic minimum top-up taxes described in those rules.

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar 2 income taxes.

8. Deferred Taxes

The components of deferred taxes disclosed on the statement of financial position are as follows:

KEUR	31.03.2024	31.03.2023	31.03.2022
Deferred tax assets	77,595	80,572	43,881
Deferred tax liabilities	(28,359)	(51,779)	(20,863)
Net deferred tax	49,236	28,793	23,018

Movements on deferred tax balances

Movements on deferred tax assets and liabilities were as follows:

KEUR	Asset/(liability) at 1 April 2023	Movement through the P&L account	Movement through the other comprehensive income	Movement through retained earnings	Asset/(liability) at 31 March 2024
Bonus accrual	801	(255)	–	–	546
Derivatives & other FVPL financial instrument	(22,833)	2,582	–	(15)	(20,266)
Fixed assets	218	18	–	–	236
Goodwill	8,930	(729)	–	–	8,201
IFRS 9 and upfront fees	41,638	16,763	(562)	2,404	60,243
Other	40	814	–	(579)	275
Total	28,793	19,194	(562)	1,811	49,236

Deferred tax assets and liabilities totalling KEUR 1,811 were recognised because of the acquisition of SNBL.

KEUR	Asset/(liability) at 1 April 2022	Movement through the P&L account	Movement through the other comprehensive income	Asset/(liability) at 31 March 2023
Bonus accrual	404	397	–	801
Derivatives & other FVPL financial instrument	(7,539)	(15,293)	–	(22,833)
Fixed assets	184	34	–	218
Goodwill	5,835	3,094	–	8,930
IFRS 9 and upfront fees	19,515	22,123	–	41,638
Tax loss carry forward	4,595	(4,595)	–	–
Other	25	14	–	40
Total	23.019	5.775	–	28.793

9. Other Assets

Other assets mainly include:

KEUR	31.03.2024	31.03.2023	31.03.2022
Receivables from intra-group clearing	48,944	47,769	34,101
Cash collateral provided (margins)	61,947	39,905	19,364
Other	13,620	16,351	3,884
Total Other assets	124,511	104,025	57,350

Of the cash collateral provided, EUR 28.95 million (PY: 31.59 million) is to affiliated companies.

10. Liabilities to Banks

KEUR	31.03.2024	31.03.2023	31.03.2022
Liabilities to banks at amortised cost	4,578,558	2,408,692	1,581,063
Total liabilities to banks	4,578,558	2,408,692	1,581,063

Liabilities to banks mainly consist of liabilities from time deposits of EUR 1,454.94 million (PY: EUR 1,649.8 million) and EUR 3,115.03 million in deposits from the SMBC Group (further details in note VI.2).

11. Liabilities to Customers

KEUR	31.03.2024	31.03.2023	31.03.2022
Liabilities to customers at amortised cost	11,377,659	8,259,617	2,572,277
Total liabilities to customers	11,377,659	8,259,617	2,572,277

Liabilities to customers mainly consist of liabilities arising from customer deposits amounting to EUR 9,881.58 million (PY: EUR 7,531.17 million) and current accounts of EUR 396.65 million (PY: EUR 263.13 million).

12. Provisions

KEUR	31.03.2024	31.03.2023	31.03.2022
Employee benefits provisions	2,570	3,380	2,122
Provisions for value adjustments on off-balance items	21,766	7,190	7,753
Other provisions	12,711	20,525	19,523
Total provisions	37,047	31,095	29,398

Other provisions mainly consist of provisions for the audit of the financial statements and other audit services totalling EUR 2.47 million (previous year: EUR 2.06 million), provisions for lawyers totalling EUR 1.57 million (previous year: EUR 2.87 million), provisions for external consulting support totalling EUR 1.01 million (previous year: EUR 0.33 million), provisions from outsourced activities in the wider SMBC Group totalling EUR 5.35 million (previous year: EUR 12.13 million). The provisions for audits and other audit services, for external consulting support and for outsourced activities are expected to be used in the next financial year.

Some employees are entitled to early retirement benefits depending on their seniority. A corresponding provision of EUR 1.86 million (PY: EUR 1.73 million) is reported in employee benefits provisions.

The following **valuation assumptions and methods** were used for the calculation of the early retirement provision:

KEUR	31.03.2024	31.03.2023
Actuarial interest	1.56%	1.17%
Salary trend	1.50%	1.50%
Health insurance contribution	0.00%	0.00%
Social security contributions (general)	20.450%	20.225%
Fluctuation	5.00%	5.00%
Utilisation	100.00%	100.00%
Biometrics	RT2018 G	RT 2018 G
Valuation method	PUC	PUC

KEUR Early retirement commitments	31.03.2024	31.03.2023
Early retirement commitments	1,862	1,728
Ongoing early retirement	686	477
Potential early retirement	1,176	1,251

The early retirement obligations are offset by compensation claims in the amount of EUR 0.58 million (PY: EUR 0.85 million) from the SMBC Düsseldorf branch for early retirement commitments that were made before the transfer of the employees in February 2020. The discounting of provisions results in an expense of KEUR 59.71 (PY: KEUR 28.10) in the financial year.

KEUR	Employee benefits provisions	Other provisions
Opening balance on 1 April 2023	3,380	20,525
Provisions made during the year	303	7,528
Provisions used during the year	(161)	(12,773)
Provisions reversed during the year	(952)	(2,637)
Unwind of discount	–	–
Other movements	–	68
Closing balance on 31 March 2024	**2,570**	**12,711**

KEUR	Employee benefits provisions	Other provisions
Opening balance on 1 April 2022	2,122	19,523
Provisions made during the year	2,072	19,800
Provisions used during the year	(414)	(18,899)
Provisions reversed during the year	(400)	(2)
Unwind of discount	–	–
Other movements	–	103
Closing balance on 31 March 2023	3,380	20,525

13. Other Liabilities

KEUR	31.03.2024	31.03.2023	31.03.2022
Cash collateral provided (margins)	**168,708**	417,009	165,834
Liabilities from intra-group clearing	**120,253**	45,054	129
Bonus accruals	**23,891**	16,293	10,772
Accrual of commitment fees	**21,887**	12,179	5,425
Lease liabilities	**11,206**	12,262	13,631
Unearned interests from account receivable purchases	**8,524**	1,003	126
Tax liabilities	**4,967**	4,149	2,166
Other	**10,768**	39,381	27,375
Total Other liabilities	**370,166**	547,329	225,458

Deferred bonus scheme

The SMBC EU Group has a deferred bonus scheme for certain employees. Such employees receive part of their annual bonus as a deferred award comprising 50% in cash and 50% in a scheme coupled to the SMFG share price. Any deferred awards are dependent on future service and are awarded over periods up to five years. As at the year-end, total deferred bonuses were KEUR 3.703,74 (PY: KEUR 611.86).

Leases

The SMBC EU Group leases various offices under non-cancellable lease arrangements to meet its operational business requirements. The SMBC EU Group does not have any material subleasing arrangements. Right-of-use assets relate to property leases and one car lease: refer to note IV.6 for a breakdown of the carrying amount of right-of-use assets.

KEUR	
As of 31 March 2022	13,631
Interest expense on lease liabilities	231
New leases	14
Disposals	–
Cash payments	(1,615)
As of 31 March 2023	12,262
Interest expense on lease liabilities	206
New leases	1,015
Disposals	–
Cash payments	(2,278)
As of 31 March 2024	11,206

During the financial year a new lease was recognised for the office of the new subsidiary SNBL in Luxembourg.

Leases – Maturity analysis – Contractual undiscounted cash flows

The undiscounted maturity analysis of lease liabilities at 31 March 2024, 31 March 2023 and 31 March 2022 is as follows:

31 March 2024 KEUR	Up to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	627	1,650	1,664	1,365	1,237	1,047	4,413	12,003
Finance charges	(47)	(130)	(148)	(123)	(100)	(83)	(167)	(797)
Net present values	580	1,519	1,516	1,242	1,138	964	4,246	11,206

31 March 2023 KEUR	Up to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	451	1,293	1,794	1,664	1,365	1,237	5,460	13,265
Finance charges	(54)	(152)	(177)	(148)	(123)	(100)	(249)	(1,003)
Net present values	397	1,141	1,618	1,516	1,242	1,138	5,211	12,262

31 March 2022 KEUR	Up to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	412	1,200	1,739	1,789	1,661	1,365	6,697	14,865
Finance charges	(60)	(171)	(206)	(177)	(148)	(123)	(349)	(1,233)
Net present values	352	1,029	1,533	1,613	1,513	1,242	6,348	13,631

The SMBC EU Group is not exposed to any additional cash flows in respect of variable lease payments or extension and termination options. Additionally, the SMBC EU Group does not have any significant sale and lease back transactions and does not have any restrictions or covenants imposed by the lessor on its property leases which restrict its business.

14. Equity

KEUR	31.03.2024	31.03.2023	31.03.2022
Subscribed capital	5,100,000	5,100,000	5,100,000
Capital reserves	69,724	69,724	–
Legal reserves	10.900	550	–
Retained earnings	258,354	27,427	(55,468)
Other reserves	1,701	–	–
thereof other comprehensive income	1,701	–	–
Total equity	5,440,679	5,197,700	5,044,532

The subscribed capital of the SMBC EU Group 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).

Retained earnings include the difference between the purchase price and the net asset value of the new subsidiary SNBL. Detailed information can be found in Note III.1 and in the statement of changes in equity. The group statement of profit or loss and other comprehensive income includes KEUR 2,879 and the revaluation reserve (other reserves) includes KEUR 1,701 generated by the subsidiary SNBL for the reporting period since the acquisition date.

In accordance with Section 150 AktG, around 5% of the net income for the year reduced by the loss carried forward from the previous year based on German GAAP is transferred to the legal reserve.

The Executive Board contemplates to book a locked reserve of EUR 2,000,000 from the retained earnings in SMBC Bank EU AG Milan Branch per 31 March 2024 in the light of the expected positive results of the financial year ending 31 March 2024.

In addition, the Executive Board will propose to the Annual General Meeting that the accumulated gain is carried forward.

V. Explanatory Notes to the Statement of Comprehensive Income

1. Interest Income and Expense and Similar Income and Expense

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Interest income	930,811	354,638
Lending and money market business	924,648	359,364
Negative interest on lending and money market business	(47)	(6,662)
Fixed-income securities and book-entry securities	6,210	1,936
Interest expense	(575,146)	(195,139)
Interest expenses	(576,033)	(190,336)
Less: negative interests on interest expenses	887	(4,803)
Net interest income	355,665	159,499

EUR 813.46 million (EUR 303.97 million) of interest income is attributable to SMBC EU in Frankfurt, EUR 110.42 million (PY: EUR 50.67 million) to the Milan branch and KEUR 48.13 (PY: EUR nil) to the Paris branch. EUR 6.88 million of interest income are from the new subsidiary SNBL in Luxembourg.

2. Net Fee and Commission Income

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Commission income	173,975	129,651
Loan service fees	110,262	102,778
Commissions from security business	39,869	20,973
Guarantee fees received	5,459	5,900
Investment funds fees	16,609	–
Other	1,775	–
Commission expense	(90,934)	(54,618)
Commissions from security business	(6,590)	(1,038)
Guarantee fees paid	(4,401)	(3,921)
Interbank commissions	(75,662)	(44,579)
Investment funds fees	(673)	–
Other	(3,607)	(5,080)
Net commission income	83,041	75,033

EUR 142.17 million (PY: EUR 118.51 million) of commission income is attributable to SMBC EU in Frankfurt, EUR 12.86 million (PY: EUR 10.89 million) to the Milan branch and KEUR 558.63 (PY: KEUR 250.62) to the Paris branch. EUR 18.38 million arise from the new subsidiary SNBL in Luxembourg.

3. Net Trading Result

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Net trading result	49,423	39,197

EUR 46.58 million (PY: EUR 38.17 million) of the net trading result is attributable to SMBC EU in Frankfurt, kEUR 114.59 (PY: kEUR 226.44) to the Milan branch and EUR 2.72 million to the new subsidiary SNBL in Luxembourg.

4. Result from Hedging Relationships

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Result from hedging relationships	1,650	4,365

5. Other Operating Income

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Income from intra-group clearing	11,842	11,256
Gain on sale of loans at FVPL	9,431	–
Rental income	719	1,979
Income from the reversal of provisions	–	–
Other	2,823	428
Other operating income	24,815	13,663

EUR 20.74 million (PY: EUR 10.76 million) of the other operating income is attributable to SMBC EU in Frankfurt, EUR 2.94 million (PY: EUR 2.66 million) to the branch in Paris, KEUR 827.67 (PY: KEUR 119.23) to the branch in Milan, KEUR 111.60 (PY: KEUR 101.20) to the branch in Dublin, and EUR 0 (PY: KEUR 26.65) to the branch in Prague. KEUR 198.53 arise from the new subsidiary SNBL in Luxembourg.

6. Administrative Expenses

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Wages and salaries	74,871	57,606
Social security costs	16,012	12,020
Other administrative costs	117,336	99,291
Total	208,218	168,917

Other administrative expenses mainly consist of expenses from intra-group clearing of EUR 51.77 million (PY: EUR 46.15 million), VAT expenses in the amount of EUR 15.17 million (PY: EUR 12.27 million), bank levy of KEUR 50 (PY: EUR 3.19 million), expenses for temporary staff of about EUR 5.46 million (PY: EUR 5.43 million) as well as external consulting services amounting to EUR 13.59 million (PY: EUR 12.50 million).

The item 'Wages and salaries' includes expenses from deferred bonuses linked to the SMFG share price in the amount of EUR 2.39 million (PY: kEUR 307).

7. Net Result from the Derecognition of Financial Assets Measured at AC

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Net result from the derecognition of financial assets measured at AC	1,542	(3,426)

A profit of EUR 1.54 million (PY: EUR 3.4 million) was realised from the sale of loans valued at amortised cost.

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

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Leasehold improvement	(576)	(445)
Right-of-use asset	(1,604)	(1,600)
Other	(1,450)	(712)
Amortisation, depreciation and write-downs on intangible assets and property and equipment	(3,630)	(2,758)

9. Other Operating Expenses

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Other operating expenses	(885)	(60)

10. Risk Provision

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Risk provision	(42,963)	1,555

The movement in the risk provision result is largely due to additions to stage 3 risk provisions. More detailed information can be found in note VI.3.

11. Income Tax Charge

Accounting for income taxes

Income tax charge comprises current and deferred tax. Current tax and deferred tax are recognised in profit and loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Income tax charge

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Income taxes	(87,071)	(34,705)
Trade tax	(51,055)	(19,174)
Corporate tax	(54,792)	(21,291)
Deferred tax	19,178	5,760
Other	(403)	–

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

In Germany, the combined income tax rate equals 31.730%. 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%. For Luxembourg the income tax rate is 24.94%.

Income taxes – Amounts recognised in the income statement

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Current tax charge	(106,249)	(40,465)
Current year	(106,249)	(40,465)
Adjustment for prior years	–	–
Deferred tax charge	19,178	5,760
Origination and reversal of temporary differences	19,178	5,760
Adjustment for prior years	–	–
Other	–	–
Total income tax expense	(87,071)	(34,705)

Income taxes – Amounts recognised in OCI

	01.04.2023 – 31.03.2024			01.04.2022 – 31.03.2023		
KEUR	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Items that will not be reclassified to income statement						
Items that are or may be reclassified subsequently to income statement						
Change in fair value of financial assets at FVOCI	(2,305)	575	(1,730)	–	–	–
Other unrealised gains (+)/losses (–) recognised in the reporting period, before tax	(7)	–	(7)	–	–	–
Realised gains (–)/losses (+) reclassified to profit or loss in the reporting period, before tax	49	(13)	36	–	–	–
Total	(2,263)	562	(1,701)	–	–	–

Income taxes – Reconciliation of effective tax rate

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Profit before tax	260,440	118,149
Domestic tax rate	31.73%	31.65%
Expected income tax at the domestic tax rate	(82,639)	(37,390)
foreign tax rate differentials	424	12
tax expenses not deductible for tax purposes	(4,754)	(2,916)
TLCFs	0	6,449
Adjustments of Tax base TT	61	66
non recognised deferred taxes of branches	(123)	(122)
others	(40)	(803)
Total effective tax expense	(87,071)	(34,705)
Effective tax rate	33.43%	29.63%

12. Net Income from Financial Assets and Liabilities

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Profit or loss from financial instruments – held for trading	77,393	40,338
Profit or loss from financial instruments – mandatorily FVPL	8,302	2,950
Profit or loss from financial assets measured at amortised cost	903,365	355,526
Profit or loss from financial liabilities measured at amortised cost	(547,637)	(178,915)
Profit or loss from financial assets measured at FVOCI	253	–
Total	441,676	219,899

VI. Other Explanatory Notes

1. Off-Balance-Sheet Transactions

Contingent liabilities and other obligations

KEUR	31.03.2024	31.03.2023	31.03.2022
Contingent liabilities			
Liabilities from guarantees and indemnity agreements	1,956,647	2,143,917	1,963,064
Other obligations			
Irrevocable loan commitments	12,997,710	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 31 March 2024, there are contingent liabilities and irrevocable loan commitments to four individual borrowers of EUR 1,207.50 million, EUR 733.43 million, EUR 542.61 million and EUR 620 million, respectively, which are above the large exposure threshold.

Accounting for contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are improbable.

At the reporting date, there is no knowledge of any contingent liability other than the stated liabilities from guarantees and indemnity agreements.

2. Related Party Transactions

Parent company

The SMBC EU Group is a subsidiary undertaking of Sumitomo Mitsui Financial Group Inc, which is the ultimate parent company incorporated in Japan. SMFG is the ultimate controlling party.

The largest group in which the results of the Company are consolidated is that headed by Sumitomo Mitsui Financial Group Inc. SMFG's consolidated financial statements can be obtained from its registered office at 1-1-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

The smallest group in which they are consolidated is that headed by Sumitomo Mitsui Banking Corporation, SMBC EU Group's immediate parent. The consolidated financial statements of SMBC can be obtained from its registered office at 1-1-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

Related parties

Two or more parties are considered to be related when one party has direct or indirect control over the other party; or the parties are subject to common control from the same source; or one party has influence over the financial and operating policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests.

Key management personnel are the members of the Executive Board of the Company. There were no loans or deposits with or to key management personnel (and their connected persons) of the SMBC EU Group.

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Short-term employee benefits	3,148	3,042
Other long-term benefits	296	285
Termination benefits	–	–
Share-based payment	603	581
Total	4,047	3,908

Amounts receivable from and payable to related parties of the SMBC EU Group are as follows:

	Parent company			Other related parties		
KEUR	2024	2023	2022	2024	2023	2022
Loans and advances to banks	470,062	1,166,213	636,243	55,297	703,249	47,401
Loans and advances to customers	–	–	–	98,941	19,206	47,486
Derivative assets: Hedge accounting	–	–	–	55,052	89,987	37,812
Trading assets	–	–	–	590,398	676,923	266,489
Remaining assets	164,647	125,204	97,460	52,663	44,903	22,714
Total assets	634,708	1,291,417	733,703	852,352	1,534,268	421,903
Liabilities to banks	4,266,992	2,675,565	1,552,235	1,377	4,081	19,393
Liabilities to customers	–	–	–	16,602	1,862	–
Derivative liabilities: Hedge accounting	–	–	–	2,818	8	74
Trading liabilities	–	–	3,409	680,297	514,546	214,370
Provisions	2,514	2,695	2,506	11,109	19,767	20,718
Remaining liabilities	12,027	1,656	83	107,207	496,653	111,852
Total liabilities	4,281,533	2,679,916	1,558,234	819,410	1,036,918	366,406

Loans and credits are granted to affiliated companies at arm's length conditions in the ordinary course of business of the SMBC EU Group.

SMBC EU Group receives collateral from SMBC, consisting of cash (part of amounts due to the parent company) of EUR 3,115.03 million (PY: EUR 752.86 million) to mitigate large exposures on intra-group positions. Deposits are taken in the ordinary course of business and on the same terms as comparable transactions with third parties.

Guarantees received from or given to related parties of the SMBC EU Group are as follows:

	Parent Company			Other related parties		
KEUR	2024	2023	2022	2024	2023	2022
Guarantees received	910,904	703,775	146	129,000	–	–
Guarantees given	9,734	3,297	61,181	334	–	–

Amounts recognised in the statement of comprehensive income in respect of related party transactions are as follows:

	Parent Company		Other related parties	
KEUR	2024	2023	2024	2023
Interest income	8,016	30,154	59,037	28,433
Interest expenses	(124,845)	(49,408)	(21,608)	(16,028)
Fee and commission income	62,426	55,869	15,435	13,604
Fee and commission expense	(6,371)	(3,722)	(74,866)	(39,728)
Other revenues	7,826	7,703	4,061	6,600
Other expenses	(12,103)	(15,498)	(54,931)	(44,261)
Net trading	(10,830)	(178)	(88,746)	121,419
Result from hedging relationships	–	–	(30,745)	48,881
Total	(75,882)	24,921	(192,363)	118,920

3. Financial Risk Management

The risks relating to financial instruments and the way in which the SMBC EU Group manages these are described below.

Credit risk

Credit risk is the risk of any losses the SMBC EU Group may incur due to a reduction or loss of the value of assets (including off-balance sheet obligations consisting of financial guarantees issued and loan commitments) arising from any credit events, such as for example the deterioration of a borrower's financial standing.

Credit assessment

The SMBC EU Group assesses and manages the credit risk of individual loans and credit portfolios on a consistent quantitative basis utilising an internal rating system.

The rating system consists of two indicators, namely:

– the obligor grading, which indicates the creditworthiness of the borrower; and
– the facility grading, which indicates the probability of repayment of each facility.

Facility grades are assigned based on the borrower's obligor grading and transaction terms such as guarantee, maturity and collateral.

The SMBC EU Group's internal grading and borrower categories are set out in the table below, and are used for the purposes of determining the SMBC EU Groups credit quality of obligors.

G grade* Code	J grade* Code	Borrowers' category
G1	J1	Normal borrowers
G2	J2	Normal borrowers
G3	J3	Normal borrowers
G4	J4	Normal borrowers
G5	J5	Normal borrowers
G6	J6	Normal borrowers
(G7A, G7B)	(J7A, J7B)	Borrowers requiring caution
G7R	J7R	Substandard borrowers
G8	J8	Potentially bankrupt borrowers
G9	J9	Virtually bankrupt borrowers
G10	J10	Bankrupt borrowers

* G grade – non-Japanese borrowers, J Grade – Japanese borrowers.

The internal ratings G7R and J7R through to G10 and J10 are recognised as 'Default' in terms of EU Capital Requirements Directive IV and in line with regulatory default definition. These are generally assigned to stage 3 and are credit-impaired as defined by IFRS.

Credit monitoring

Credit monitoring is carried out through an ongoing reassessment of obligor grades involving:

– annual monitoring following financial results disclosures; and
– ad-hoc monitoring should credit conditions deteriorate.

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'Normal borrower' category, the customer is added to the special credit borrower list and reported to management.

To minimise the potential loss that may arise from any model failure and/or inadequate usage of the models and systems, the SMBC EU Group has appropriate policies in place to manage its models and grading systems. The SMBC EU Group's Credit Risk Control Unit performs validation of the grading models at least annually to ensure the appropriateness of the grading models.

The SMBC EU Group regularly monitors the credit risks associated with wider aspects of its business, such as specific country exposure, products, industries etc. on a portfolio basis. The SMBC EU Group also undertakes regular stress tests on its portfolio to ensure adequate capital is kept at all times to cover potential losses incurred during extreme events such as the COVID-19 pandemic.

Expected credit losses

Accounting for impairment provisions

Impairment provisions are accounted for in line with IFRS 9 'Financial Instruments – Classification and Measurement'. The SMBC EU Group applies a three-stage approach to measuring ECL for the following categories of financial instruments that are not measured at FVTPL:

- Loans and advances to banks and customers measured at amortised cost.
- Debt instruments measured at amortised cost and FVOCI.
- Loan commitments.
- Financial guarantee contracts.

The SMBC EU Group has grouped its financial instruments into Stage 1, Stage 2 and Stage 3, based on the implied impairment methodology, as described below:

Stage 1: 12-month ECL – For performing financial instruments where there has not been a significant deterioration in their credit quality since initial recognition, the SMBC EU Group recognises an allowance for the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.

Stage 2: Lifetime ECL – For financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the SMBC EU Group recognises an allowance for the lifetime ECL.

Stage 3: Credit-impaired – Financial instrument exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the instrument have occurred. For financial instruments that have been assessed as credit-impaired, the SMBC EU Group recognises an allowance for the lifetime ECLs.

Determining the stage for impairment

At each balance sheet date, for loans carried at amortised cost, loan commitments, financial guarantee contracts and debt securities carried at FVOCI, the SMBC EU Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default between the balance sheet date and the date of initial recognition. Credit risk is assessed either individually to financial assets, or collectively to a portfolio of similar, homogenous assets.

Significant increase in credit risk (SICR)

In determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the SMBC EU Group considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, provided that this information is relevant to the credit risk of the financial instrument in question and can be obtained without undue cost or effort. The SMBC EU Group assesses the significant increase in credit risk using both quantitative and qualitative information.

Determining whether SICR takes place

SMBC EU Group follows a robust event-based framework of determining SICR. The SMBC EU Group uses the quantitative factor of a change in the probability of default (PD) based on the grading of each loan as well as additional factors such as 30 days past due and whether a customer is on the Credit Alarm System (Watch List) in order to determine whether a significant increase in the credit risk of a financial instrument has taken place.

SMBC EU Group has enhanced the staging model to a methodology that uses a forward-looking approach to determine the appropriate stage. The forward-looking grade calculated takes consideration of the future state of the economy. SMBC EU Group applies a grading-based review on each exposure by comparing grade at origination and forward-looking grade at reporting date. The SMBC EU Group uses relative PD threshold based on grading as a quantitative criterion for identifying significant increase in credit risk. The threshold was assessed based on historical default data. The threshold value compares the annualised probability of default at the end of the term on the reporting date with the annualised probability of default at the end of the term expected for this line for this period. The threshold used depends on the rating and is defined as an absolute change in PD for good to very good rating classes 0.1% PD change for very good and 0.3% for good rating classes. For rating classes G4-G6, a relative PD change of 50% is defined as significant.

The SMBC EU Group uses an additional criterion of 30 days overdue to determine a significant increase in the risk of default. The number of days overdue is calculated by counting the number of days from the first day on which the payment was not received in full. The payment dates are determined without taking into account the grace period that may be granted to the borrower. In addition, the inclusion in the watch list for customers with the ratings G/J 5 and G/J 6 is an indicator of a significant increase in the risk of default. This applies to customers who are classified as 'Normal Borrowers' but are classified for additional monitoring due to a deterioration in creditworthiness.

A line is considered to be a line with a significant increase in the credit risk if one of the above-described cases is met.

Recognition of financial assets as impaired (Stage 3)

Risk exposures are assessed as impaired when one or more events have occurred that adversely affect the estimated future cash flows of the instrument. For financial instruments that are classified as credit-impaired, the SMBC EU Group makes a value adjustment for the lifetime ECLs.

A risk position is classified as defaulted if a default, as defined below, has occurred.

Default definition

The definition of default for the purpose of determining ECLs has been aligned to the Capital Requirements Regulation Article 178 definition of default, to maintain a consistent approach with IFRS 9 and associated regulatory guidance. The following events generally provide objective evidence of a default situation:

- The management bodies of the borrower/group of borrowers decide to reorganise or liquidate the borrower and/or any bankruptcy proceedings or involuntary liquidation in respect of the borrower is initiated (either by the borrower itself or by any third parties) and/or an external manager, provisional manager, liquidator or commissioner is appointed.
- Delinquency exceeds three months. Delinquency is considered to be caused by the deterioration of business conditions or constrained cash flow (and including cases in which only interest is not paid, but there is no delay in repayment of the principal).
- The loan is restructured towards the more favourable conditions for a borrower, in the absence of which the borrower could not fulfil the obligations towards the SMBC EU Group properly.
- Breach of financial covenants, which, in the reasonable opinion of the SMBC EU Group, may result in improper fulfilment of obligations by the borrower.
- Any other event happens in relation to the borrower/group of borrowers that, in the SMBC EU Group's opinion, can cause improper fulfilment of obligations by the borrower.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, the impairment provision reverts from lifetime ECL to 12-month ECL.

The SMBC EU Group recognises write-offs when the Bank assesses there is no prospect of further recoveries, typically on liquidation of the counterparty.

Improvement of credit quality

If a financial asset classified in Stage 2 shows an improvement in credit quality, then this asset can be reclassified in Stage 1. No probation period is applied as the latest grading will reflect the customer's current financial creditworthiness with consideration of any near-term factors which could impact the customer grade already taken into account.

Movement from Stage 3 to Stage 2 or 1 is dependent on individual assessment. All relevant factors in relation to the credit-worthiness of the customer will be taken into account before a customer is upgraded and moved out of Stage 3. The Stage 3 exposures with forbearance measures in place have to go through, in addition to the above requirements, a minimum cure period of two years as a normal borrower before they can be moved out of Stage 3. There have been no such movements during the year.

Grades (credit ratings)

The SMBC EU Group assigns appropriate grades to each exposure based on data that is used to predict the risk of default and by applying expert judgement on credit quality. Ratings are determined based on qualitative and quantitative factors, and indicators of the risk of default. These factors vary depending on the type of the borrower and exposure itself.

Grades are determined in a way that the risk of default increases significantly as credit quality deteriorates. For example, the difference between grades 1 and 2 is less than the difference between grades 2 and 3.

Each exposure is assigned with a particular grade at the date of the initial recognition based on the information available. These exposures are subject to continuous monitoring. So, the grade assigned to the exposure could change since the date of the initial recognition.

Monitoring usually includes the analysis of the following data:

– Information obtained as a result of analysis of the borrowers on a periodic basis: audited financial statements, management accounts, budgets, forecasts and plans.
– Credit rating agencies' data, publications and information on changes in external credit ratings.
– Bond and credit default swap quotes, if such information is available.
– Actual and expected significant changes in political, regulatory and technological environments that could influence the borrower's business.

Creation of provisions

The calculation of ECLs is based on the following metrics:

– Probability of default (PD).
– Loss given default (LGD).
– Exposure at default (EAD).

The LGD model uses the Frye-Jacob approach as its theoretical basis. The model is based on the assumption that the default rate and the loss rate move simultaneously with the systemic risk. Therefore, the LGD change can be described as a function of the PD and the PD change, and the LGD can consequently be determined from the modelled PD. Accordingly, the LGD uses the same macroeconomic variables as the PD model.

The EAD model is used to estimate the EAD over the entire lifetime, for level 2, or the next 12 months for level 1, which is used in the ECL calculation. This model forecasts the undrawn amount using the estimated credit conversion factor (CCF) and calculates the drawn amount of the facilities, also taking into account the defined repayment and drawing schedule. This year, a fallback component is added if no suitable macroeconomic variables are found for the CCF forecast. In this approach, the CCF for each scenario is determined based on the quantile of the annual historical CCF distribution. Each scenario weight/probability is used to calculate the corresponding CCF.

In order to calculate ECL for loans provided to corporate clients and banks, the SMBC EU Group adjusts the annual value of PD in proportion to the term of the financial instrument.

Probability of default

The PD is modelled using credit ratings transition matrices that were created based on internal and external statistics. The transition matrix shows the expected migration of a customer at a specific grade to alternative grades over a period of time. The SMBC EU Group uses two sets of transition matrices to forecast PD, including transition matrices for borrowers whose parent companies are located in Japan and transition matrices for borrowers whose parent companies are residents of other countries. The value of PD is determined based on macroeconomic forecasts, including the dynamics of equity prices and GDP (2022: unemployment rates for the UK model and GDP for the EU model).

Grades are the main inputs that are used for creation of the PD for positions exposed to credit risk. The SMBC EU Group collects information on the debt service quality and default level of exposures, analysed depending on jurisdiction or region, type of product and borrower, and also depending on the rating of the credit risk.

The SMBC EU Group uses statistical models to analyse the collected data and to obtain estimates of the PD for the remaining period for positions exposed to credit risk and expectations of their changes in the future.

This analysis involves estimating and calibrating the correlation between changes in default levels and changes in key macroeconomic factors. The analysis is based on a single-factor model, the so-called credit cycle index.

The SMBC EU Group uses GDP dynamics for the EU and Japan, and unemployment rates for the UK, as key macroeconomic factors to determine the PD of positions exposed to credit risk.

The SMBC EU Group uses these forecasts to adjust PD estimates.

Macroeconomic forecasts

Depending on the client, the SMBC EU Group defines the share price in the EU and the UK, as well as the GDP of the EU and the UK (previous year: GDP of the EU and unemployment rates in the UK), as key macroeconomic factors in the PD, LGD and EAD models.

For each key macroeconomic factor the SMBC EU Group estimates four scenarios: a base, optimistic, pessimistic (moderate) and pessimistic (severe) scenario. The base scenario is based on third party subject matter expert forecasts and is parameterised internally to give the optimistic and pessimistic scenarios. Each scenario has a probability of occurring assigned as follows:

– Optimistic: 10% (PY: 10%)
– Base: 46% (PY: 46%)
– Moderate pessimistic: 26% (PY: 26%)
– Severe stress: 18% (PY: 18%)

Measurement of expected credit losses

ECLs are derived from probability-weighted estimates of expected loss, and are measured as follows:

– Financial assets that are not credit-impaired at the balance sheet date: as the present value of payment defaults from loss events in the next 12 months of the financial asset, discounted at the effective interest rate for assets classified at stage 1, or cash value payment defaults from loss events over the remaining term of the financial asset, discounted with the effective interest rate for assets classified as stage 2
– Financial assets that are credit-impaired at the balance sheet date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
– Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the SMBC EU Group if the commitment is drawn down and the cash flows that the SMBC EU Group expects to receive.
– Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the SMBC EU Group expects to recover.

Movement in ECLs is recognised as an impairment loss in the income statement and, for financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets. For debt securities measured at FVOCI, no loss allowance is recognised in the balance sheet as the carrying amount of the assets is equal to their fair value. However, the SMBC EU Group recognises the impairment in the income statement. For undrawn credit commitments and financial guarantees that are recorded off-balance, the SMBC EU Group recognises the impairment in the income statement with the corresponding amount recorded in other provisions in the balance sheet.

Forward-looking information

The SMBC EU Group incorporates forward-looking information into the assessment of whether the default risk of an instrument has increased significantly since initial recognition, as well as into the forward-looking estimate of PD and LGD when measuring ECL.

Methods of estimation and creation of provision for credit losses

The SMBC EU Group estimates provisions for credit losses at the transaction level for all financial instruments.

Expected life

For term loans, the expected life of the transactions is based on contractual maturity.

For revolving credit facilities, a model linked to the macroeconomic variables is used to predict utilisation rates.

Purchased or originated credit-impaired

As of 31 March 2024, SMBC EU Group did not hold any financial assets that are purchased or originated credit-impaired (PY: none).

Governance

The ECL models are all subject to the SMBC EU Group's model governance framework.

The macroeconomic factors for the base and pessimistic scenarios are sourced from external subject matter experts whilst the optimistic scenario is derived internally. These are reviewed and challenged by internal subject matter experts. The macroeconomic factors are presented for review and approval to the Credit Prudential Risk Management Committee. These are subsequently presented for review and final approval to the Executive Board. The Executive Board also reviews and considers the weightings applied to each scenario.

Financial risk management – Credit risk – Credit quality and stage per class of financial asset

The following tables show the gross exposure and related impairments allowance by stage and grading as of 31 March 2024 and 31 March 2023.

At 31 March 2024 KEUR	Internal grading	Gross Exposure			ECL			Net Exposure
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Cash and balances at central banks at amortised cost		161,792.8	–	–	–	–	–	161,792.8
Normal borrowers – investment grade	1–3	161,792.8	–	–	–	–	–	–
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Loans and advances to banks at amortised cost		9,420,728.7	–	–	282.3	–	–	9,420,446.4
Normal borrowers – investment grade	1–3	9,420,728.7	–	–	282.3	–	–	9,420,446.4
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost		11,231,726.1	280,244.0	70,127.6	8,810.6	18,960.0	20,093.6	11,534,233.6
Normal borrowers – investment grade	1–3	9,413,186.3	145,450.0	–	5,178.3	8,108.1	–	9,545,349.9
Normal borrowers – non-investment grade	4–6	1,818,539.9	133,790.0	–	3,632.3	9,980.0	–	1,938,717.4
Borrowers requiring caution	7A, 7B	–	1,004.2	–	–	871.9	–	132.3
Substandard borrowers and below	7R, 8–10	–	–	70,127.6	–	–	20,093.6	50,034.0
Investment securities at amortised cost		115,036.50	–	–	4.8	–	–	115,031.7
Normal borrowers – investment grade	1–3	115,036.50	–	–	4.8	–	–	115,031.7
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Investment securities at FVOCI		87,397.4	–	–	–	–	–	87,397.4
Normal borrowers – investment grade	1–3	87,397.4	–	–	–	–	–	87,397.4
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Off-balance sheet loans and commitments and financial guarantee contracts		14,842,599.3	76,428.7	35,329.6	5,180.9	1,610.1	13,304.7	14,934,262.0
Normal borrowers – investment grade	1–3	13,814,432.6	37,344.7	–	3,186.7	1,193.2	–	13,847,397.4
Normal borrowers – non-investment grade	4–6	1,028,166.7	38,738.0	–	1,994.2	405.5	–	1,064,505.0
Borrowers requiring caution	7A, 7B	–	346.0	–	–	11.4	–	334.6
Substandard borrowers and below	7R, 8–10	–	–	35,329.6	–	–	13,304.7	22,024.9

In addition to the ECL disclosed above, there is EUR nil ECL in relation to other financial assets.

At 31 March 2023 KEUR	Internal grading	Gross Exposure			ECL			Net Exposure
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Cash and balances at central banks at amortised cost		730,981.8	–	–	–	–	–	730,981.8
Normal borrowers – investment grade	1–3	730,981.8	–	–	–	–	–	730,981.8
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Loans and advances to banks at amortised cost		7,446,246.5	–	–	3.5	–	–	7,446,243.0
Normal borrowers – investment grade	1–3	7,446,246.5	–	–	3.5	–	–	7,446,243.0
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost		7,389,441.8	340,199.7	17,374.6	6,156.2	4,532.8	9,060.0	7,727,267.0
Normal borrowers – investment grade	1–3	6,521,965.1	211,956.7	–	4,245.2	3,763.9	–	6,725,912.7
Normal borrowers – non-investment grade	4–6	867,476.7	127,094.4	–	1,911.0	474.0	–	992,186.1
Borrowers requiring caution	7A, 7B	–	1,148.6	–	–	294.9	–	853.7
Substandard borrowers and below	7R, 8–10	–	–	17,374.6	–	–	9,060.0	8,314.6
Investment securities at amortised cost		160,505.3	–	–	9.6	–	–	160,495.7
Normal borrowers – investment grade	1–3	160,505.3	–	–	9.6	–	–	160,495.7
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Investment securities at FVOCI		–	–	–	–	–	–	–
Normal borrowers – investment grade	1–3	–	–	–	–	–	–	–
Normal borrowers – non-investment grade	4–6	–	–	–	–	–	–	–
Borrowers requiring caution	7A, 7B	–	–	–	–	–	–	–
Substandard borrowers and below	7R, 8–10	–	–	–	–	–	–	–
Off-balance sheet loans and commitments and financial guarantee contracts		12,136,250.1	633,863.5	26,766.7	3,344.7	3,845.2	–	12,789,690.3
Normal borrowers – investment grade	1–3	11,440,671.6	324,994.4	–	2,118.3	837.1	–	11,762,710.6
Normal borrowers – non-investment grade	4–6	695,578.5	308,523.0	–	1,226.4	1,883.5	–	1,000,991.6
Borrowers requiring caution	7A, 7B	–	346.0	–	–	1,124.6	–	(778.6)
Substandard borrowers and below	7R, 8–10	–	–	26,766.7	–	–	–	26,766.7

In addition to the ECL disclosed above, there is EUR nil ECL in relation to other financial assets.

Financial risk management – Credit risk – Sensitivity analysis of ECL due to staging

The measurement of ECL involves increased complexity and judgement, including estimation of probability of default (PD), loss given default (LGD), range of unbiased future economic scenarios, estimation of expected lives, estimation of exposure at default (EAD) and assessing significant increases in credit risk.

The table below shows the ECL assuming each scenario has been 100% weighted to show the impact of alternative scenarios.

31 March 2024 KEUR	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base	Optimistic
Original model results	20,114.8	42,028.0	21,534.8	11,746.0	7,746.5

31 March 2023 KEUR	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base	Optimistic
Original model results	17,892.2	30,572.4	23,159.4	12,585.8	5,782.2

Financial risk management – Credit risk – Macroeconomic scenarios and sensitivity analysis of key sources of estimation uncertainty

Macroeconomic scenarios

The SMBC EU Group has used a four-scenario model to calculate ECL at year-end. The base case forecast has been sourced externally and two downside scenarios and one upside scenario have been derived. An overview of the four scenarios used at the year-end is as follows:

Optimistic scenario – produced internally using an in-house scenario generator. Assumes:

- The Russia–Ukraine conflict ends in 2024. Ceasefire agreement reached between Russia and Ukraine.
- Consumer confidence increases, easing the squeeze on household real incomes and supporting consumption.
- Reduced uncertainty boosts demand for both domestic and foreign investments in the UK and EU.
- Industrial strike actions decrease as inflation falls and cost-of-living concerns diminish.

Base scenario – sourced externally. Assumes:

- Inflation is expected to elevate up to the start of 2024 and slow markedly thereafter.
- The global inflation crisis begins to moderate in response to tightening financial conditions, softening demand, and easing supply conditions.
- Deterioration of sovereign credit quality will tighten governmental support and flexibility
- Monetary tightening will eventually succeed in cooling inflation, allowing interest rates to retreat and global economic growth to pick up pace

Moderate pessimistic scenario – produced internally. Assumes:

- Russia–Ukraine conflict shows no signs of ending.
- Western countries are providing more arms to support Ukraine but still limited to a two-country war and not escalating to NATO level.
- Inflation increases and financial conditions tighten significantly further, consumers get squeezed and the cost-of-living crisis deepens as energy prices increase again.
- The introduction of restrictions to address energy supply shortages hits the industrial sector.
- Frequent industrial strike actions become more widespread in the UK and EU economies, hindering economic growth, with upward pressure on labour costs eroding competitiveness.

Severe pessimistic scenario – produced internally. The forecast for this scenario is in line with the SMBC EU Group's ICAAP stress test and its severity has been benchmarked to those from the European Banking Authority (EBA) and Oxford Economics. Assumes:

– Escalation of Russia–Ukraine spillovers. Ukrainian military successes and internal tensions within Russia lead to more aggressive Russian military strategy. Conflict escalates across Ukraine, and Russia indiscriminately targets civilian infrastructure.
– Temporary waning of political support from Western countries, which Russia then tries to exploit, combined with a harsh winter, leads to jump in energy/agricultural prices, prolonged period of well above-target inflation, hit to household real incomes, and higher for longer policy rates. Further rounds of sanctions follow, amid disruption to trade.
– Israeli military response broadens out to Iran, leading to wider global geopolitical tensions and uncertainty. The war intensifies with ground fighting between Israel, Hamas and Hezbollah.
– Combined with the wars in Ukraine and Middle East together with spiralling in inflation, investment confidence is fragile in EU economies and equity indices (FT100, EU STOXX) are severely impacted.
– The war in Ukraine and the Middle East conflict drive up commodities prices and push up higher inflation for longer, squeezing household real incomes, compounded by tighter financial conditions for longer.
– In EU, the higher for longer rate will increase borrowing costs and lead to tighter credit conditions.

Scenario weightings

The SMBC EU Group's ECL scenario weighting methodology is based on statistical modelling taking into consideration the average value of the three-year forecasts. To determine the weights for alternative scenarios, the SMBC EU Group computes a three-year forecast average for each macroeconomic parameter, compares it to its historical values and identifies the percentile that it is closest to. The final scenario percentile is the average percentile across all parameters for each scenario. The base weight is 100% less the sum of alternative weights. The scenario weights are reviewed internally and by external economists.

The tables below show the probability weightings applied to each scenario and the key macroeconomic variables by scenario used in the ECL calculation.

31 March 2024 Percentage	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base
Scenario probability weightings	18	26	46	10

31 March 2023 Percentage	Weighted ECL	Severe pessimistic	Moderate pessimistic	Base
Scenario probability weightings	18	26	46	10

31 March 2024 Percentage		Key macroeconomic variables Severe pessimistic	Moderate pessimistic	Base	Optimistic
Economic and Monetary Union GDP Real	2024	(2.3)	(0.5)	0.5	2.3
	2025	(2.7)	(0.9)	1.5	3.9
	2026	0.0	0.8	1.6	2.4
	2027	0.9	1.1	1.6	2.6
Economic and Monetary Union Equity	2024	(3.0)	(1.3)	5.0	12.6
	2025	(18.4)	(13.7)	(0.8)	36.3
	2026	(3.4)	(3.2)	(2.1)	8.5
	2027	(3.9)	(2.5)	(1.2)	9.0
Japan Nominal GDP	2024	5.4	5.3	5.3	5.6
	2025	1.6	2.3	3.6	4.0
	2026	3.3	3.9	3.2	3.5
	2027	3.0	4.5	3.0	3.3

31 March 2023 Percentage		Key macroeconomic variables Severe pessimistic	Moderate pessimistic	Base	Optimistic
Economic and Monetary Union GDP Real	2023	(3.6)	(1.7)	0.6	2.1
	2024	(4.7)	(2.5)	1.1	3.9
	2025	0.2	0.8	1.9	3.2
	2026	1.0	0.9	1.7	2.4
Economic and Monetary Union Equity	2023	(19.3)	(9.1)	(5.8)	5.7
	2024	(24.7)	(16.4)	0.5	26.2
	2025	(11.6)	(6.9)	(1.5)	20.5
	2026	0.8	0.4	0.4	7.5
Japan Nominal GDP	2023	0.4	0.9	1.8	1.9
	2024	1.8	1.9	3.6	4.0
	2025	3.0	3.4	3.6	3.9
	2026	3.0	2.9	3.2	3.3

Financial risk management – Credit risk – Movement in impairment provisions

The following tables present a reconciliation of the opening to closing balance of the exposure and impairment allowance for financial assets at amortised cost. Transfers between stages in the tables have been reflected as if they had taken place at the beginning of the year. The movements are measured over a 12-month period.

Financial assets at amortised cost:

At 31 March 2024	Gross exposure				Impairment allowance			
KEUR	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	15,727,175.5	340,199.6	17,374.6	16,084,749.7	6,169.4	4,532.8	9,060.0	19,762.2
Transfers from Stage 1 to 2	(208,535.4)	208,535.4	–	–	(1,819.1)	1,819.1	–	–
Transfers from Stage 2 to 1	173,131.2	(173,131.2)	–	–	293.8	(293.8)	–	–
Transfers to Stage 3	(53,606.2)	–	53,606.2	–	(182.6)	–	182.6	–
Transfers from Stage 3	–	–	–	–	–	–	–	–
New business	6,356,279.0	–	–	6,356,279.0	4,365.2	–	–	4,365.2
Net drawdowns, repayments and movements due to exposure and risk parameter changes	3,340,363.4	(51,873.9)	(853.1)	3,287,636.4	899.4	15,727.7	10,851.1	27,478.2
Financial assets derecognised	(4,318,125.9)	(43,485.9)	–	(4,361,611.8)	(628.4)	(2,825.9)	–	(3,454.3)
Write-offs	–	–	–	–	–	–	–	–
Balance at end of year	21,016,681.6	280,244.0	70,127.6	21,367,053.2	9,097.7	18,960.0	20,093.6	48,151.2

The above risk provisions and movements relate to claims on banks and customers, as well as securities.

The movement in gross exposure between the beginning and the end of the period relates to origination and derecognition in the normal course of business with no movements arising as a result of modification.

The main drivers of the movements between the levels can be summarised in three points:

- A more precise definition and its implementation in the default definition generated the movements in level 3.
- The annual recalibration of the macroeconomic model parameters had a reducing effect on the level 1 and 2 risk provision.
- The significant deterioration of a customer has essentially (EUR 9 million) contributed to the increase in level 2.

At 31 March 2023	Gross exposure				Impairment allowance			
KEUR	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	8,840,767.2	462,808.2	14,063.9	9,317,639.2	4,855.2	11,398.4	4,500.0	20,753.6
Transfers from Stage 1 to 2	(191,117.6)	191,117.6	–	–	(2,621.6)	2,621.6	–	–
Transfers from Stage 2 to 1	38,386.1	(38,386.1)	–	–	1.2	(1.2)	–	–
Transfers to Stage 3	(3,733.3)	–	3,733.3	–	(1.2)	–	–	(1.2)
Transfers from Stage 3	–	–	–	–	–	–	–	–
New business	9,033,278.1	–	–	9,033,278.1	4,073.6	–	–	4,073.6
Net drawdowns, repayments and movements due to exposure and risk parameter changes	1,688,144.6	95,891.6	(422.6)	1,783,613.6	746.6	61.8	4,560.0	5,368.5
Financial assets derecognised	(3,678,549.6)	(371,231.6)	–	(4,049,781.2)	(884.5)	(9,547.8)	–	(10,432.3)
Write-offs	–	–	–	–	–	–	–	–
Balance at end of year	15,727,175.5	340,199.6	17,374.6	16,084,749.7	6,169.4	4,532.8	9,060.0	19,762.2

The following tables present a reconciliation of the opening to closing balance of the exposure and impairment allowance for loan commitments and financial guarantees.

The effects described above on the recalibration of the macroeconomic assumptions are equally applicable to the off-balance-sheet items.

Loan commitments and financial guarantees

At 31 March 2024 KEUR	Gross exposure Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	12,136,250.1	633,863.4	26,766.7	12,796,880.2	3,344.7	3,845.1	–	7,189.8
Transfers from Stage 1 to 2	(44,778.7)	44,778.7	–	–	(104.9)	104.9	–	–
Transfers from Stage 2 to 1	354,844.8	(354,844.8)	–	–	348.2	(348.2)	–	–
Transfers to Stage 3	(4,305.7)	–	4,305.7	–	(53.9)	–	53.9	–
Transfers from Stage 3	–	–	–	–	–	–	–	–
New business	5,511,155.4	–	–	5,511,155.4	2,156.9	–	–	2,156.9
Net drawdowns, repayments and movements due to exposure and risk parameter changes	1,960,581.9	(125,849.6)	4,257.2	1,838,989.5	1,254.7	2,892.6	13,250.8	17,398.2
Financial assets derecognised	(5,071,148.5)	(121,519.0)	–	(5,192,667.5)	(1,764.9)	(3,214.4)	–	(4,979.3)
Write-offs	–	–	–	–	–	–	–	–
Balance at end of year	14,842,599.3	76,428.8	35,329.6	14,954,357.7	5,180.9	3,280.0	13,304.7	21,765.6

At 31 March 2023 KEUR	Gross exposure Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	8,476,587.0	406,428.0	–	8,883,015.0	3,604.3	4,148.8	–	7,753.1
Transfers from Stage 1 to 2	(465,836.4)	465,836.4	–	–	(2,457.1)	2,457.1	–	–
Transfers from Stage 2 to 1	70,498.1	(70,498.1)	–	–	81.9	(81.9)	–	–
Transfers to Stage 3	–	(26,766.7)	26,766.7	–	(11.0)	–	–	(11.0)
Transfers from Stage 3	–	–	–	–	–	–	–	–
New business	5,753,374.5	–	–	5,753,374.5	1,793.6	–	–	1,793.6
Net drawdowns, repayments and movements due to exposure and risk parameter changes	1,305,005.2	(1,875.9)	–	1,303,129.3	188.3	737.2	–	925.5
Financial assets derecognised	(3,003,378.4)	(139,260.2)	–	(3,142,638.6)	144.6	(3,416.0)	–	(3,271.4)
Write-offs	–	–	–	–	–	–	–	–
Balance at end of year	12,136,250.1	633,863.5	26,766.7	12,796,880.2	3,344.7	3,845.1	–	7,189.8

Financial risk management – Analysis of concentration credit risk

The commitment of the most important industrial sectors can be analysed in the following table. The four sectors with the highest exposure are shown separately to identify the concentration risks.

At 31 March 2024 KEUR	Financial institutions and insurance	Manufacturing	Real estate and leasing	Transportation, communications and other public enterprises	Others	Total
Cash and Balances at central banks	161,792.8	–	–	–	–	161,792.8
Loans and advances to banks	9,420,446.4	–	–	–	–	9,420,446.4
Loans and advances to customers	966,934.8	2,793,892.9	1,277,263.9	4,496,659.7	2,255,303.7	11,790,055.0
Investment and Liquidity Securities	199,967.1	2,462.1	–	–	–	202,429.2
Derivative assets: Hedge Accounting	55,052.0	–	–	–	–	55,052.0
Trading assets	622,389.7	261,215.7	37,581.4	189,601.4	155,144.0	1,265,932.2
Total on-balance sheet	11,426,582.8	3,057,570.7	1,314,845.3	4,686,261.2	2,410,447.6	22,895,707.6
Loan commitments and financial guarantees	449,254.2	3,010,867.9	242,366.9	7,023,478.2	4,228,390.5	14,954,357.7
Total	11,875,836.9	6,068,438.7	1,557,212.2	11,709,739.4	6,638,838.1	37,850,065.3

At 31 March 2023 KEUR	Financial institutions and insurance	Manufacturing	Real estate and leasing	Transportation, communications and other public enterprises	Others	Total
Cash and Balances at central banks	730,981.8	–	–	–	–	730,981.8
Loans and advances to banks	7,446,243.0	–	–	–	–	7,446,243.0
Loans and advances to customers	422,911.8	1,657,632.6	1,074,388.2	2,938,361.3	1,810,331.1	7,903,624.9
Investment and Liquidity Securities	159,253.4	1,242.3	–	–	–	160,495.7
Derivative assets: Hedge Accounting	89,986.53	–	–	–	–	89,986.5
Trading assets	691,833.5	259,846.0	16,601.4	103,232.5	116,262.1	1,187,775.5
Total on-balance sheet	9,541,210.0	1,918,720.9	1,090,989.6	3,041,593.8	1,926,593.2	17,519,107.4
Loan commitments and financial guarantees	425,186.5	3,201,165.9	229,025.8	6,593,419.4	2,348,082.6	12,796,880.2
Total	9,966,396.4	5,119,886.8	1,320,015.4	9,635,013.2	4,274,675.8	30,315,987.7

The table below analyses the geographical spread of financial assets based on country of residence of the counterparty. The business of the SMBC Group is heavily focused on Europe, which is why the three European countries with the highest exposure are shown separately for a detailed breakdown.

At 31 March 2024 KEUR	Germany	Italy	Netherlands	Other Europe	Japan	Rest of World	Total
Cash and Balances at central banks	135,299.1	–	.	26,493.7	–	–	161,792.8
Loans and advances to banks	8,402,346.4	356,554.5	43,461.3	337,385.4	239,512.7	41,186.0	9,420,446.4
Loans and advances to customers	1,203,989.0	2,007,195.0	1,882,792.2	5,833,662.8	269.3	862,146.7	11,790,055.0
Investment and Liquidity Securities	–	–	–	202,429.2	–	–	202,429.2
Derivative assets: Hedge Accounting	–	–	–	55,052.0	–	–	55,052.0
Trading assets	122,064.4	7,767.1	323,252.4	795,173.9	18.9	17,655.5	1,265,932.2
Total on-balance sheet	9,863,698.9	2,371,516.6	2,249,506.0	7,250,196.9	239,800.9	920,988.2	22,895,707.6
Commitments and guarantees	1,484,407.9	5,113,299.1	1,300,933.1	6,866,973.5	11,466.7	177,277.5	14,954,357.7
Total	11,348,106.8	7,484,815.7	3,550,439.0	14,117,170.4	251,267.6	1,098,265.7	37,850,065.3

At 31 March 2023 KEUR	Germany	Italy	Netherlands	Other Europe	Japan	Rest of World	Total
Cash and Balances at central banks	730,049.8	–	–	932.0	–	–	730,981.8
Loans and advances to banks	5,052,555.5	448,783.0	48,865.4	1,890,892.2	4,906.8	240.1	7,446,243.0
Loans and advances to customers	769,442.4	1,489,259.6	1,205,949.8	3,572,834.2	244,980.8	621,158.1	7,903,624.9
Investment and Liquidity Securities	–	–	–	160,495.7	–	–	160,495.7
Derivative assets: Hedge Accounting	–	–	–	89,986.5	–	–	89,986.5
Trading assets	113,841.5	2,819.7	301,369.4	762,290.3	–	7,454.6	1,187,775.5
Total on-balance sheet	6,665,889.1	1,940,862.4	1,556,184.6	6,477,430.9	249,887.6	628,852.8	17,519,107.4
Commitments and guarantees	1,244,043.0	3,102,931.2	1,697,837.7	6,729,276.1	13,063.9	9,728.3	12,796,880.2
Total	7.909.932.1	5,043,793.5	3,254,022.3	13,206,707.0	262,951.5	638,581.1	30,315,987.7

Financial risk management – Maximum exposure to credit risk for the components of the statement of financial position, including derivatives

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross and does not consider collateral or other credit enhancements.

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Cash and Balances at central banks	161,791.7	730,981.8
Loans and advances to banks	9,420,446.4	7,446,243.0
Loans and advances to customers	11,790,055.0	7,903,624.9
Investment and Liquidity Securities	202,429.2	160,495.7
Derivative assets: Hedge Accounting	55,052.0	89,986.5
Trading assets	1,265,932.2	1,187,775.5
Financial guarantees	1,956,647.3	2,143,917.5
Loan commitments	12,997,710.4	10,652,962.7
Total	37,850,065.3	30,315,987.7

Financial risk management – Received collateral

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Received financial guarantees	6,317,640.4	5,248,762.9
Other collateral	7,665,500.7	1,710,925.7
Collateral held	–	–
of which: Collateral permitted to be sold, repledged, delivered or otherwise used	–	–

Other collateral includes ships, aircraft, and real estate.

Liquidity risk

Liquidity risk is the risk that the SMBC EU Group cannot meet its liabilities or unwind or settle its positions as they become due.

Analysis of liquidity risk

Contractual maturity of financial assets and liabilities form an important source of information used by management for the management of liquidity risk.

Financial risk management – Liquidity risk

The table below provides details on the contractual maturity of financial assets and financial liabilities. Impairment provisions on loans and advances to banks and customers are included in the 'Up to 3 months' column.

At 31 March 2024 KEUR	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Total financial assets	11,401,451.7	1,829,948.8	7,685,405.0	1,978,902.1	22,895,707.6
Cash and Balances at central banks	161,792.8	–	–	–	161,792.8
Loans and advances to banks	8,921,360.4	42,917.2	456,168.8	–	9,420,446.4
Loans and advances to customers	2,010,874.9	1,317,047.6	6,528,216.5	1,933,916.0	11,790,055.0
Investment and Liquidity Securities	67,678.4	47,353.3	67,769.5	19,627.9	202,429.2
Derivative assets: Hedge Accounting	51,099.1	644.7	3,308.2	–	55,052.0
Trading assets	188,646.0	421,986.0	629,942.1	25,358.1	1,265,932.2
Total financial liabilities	12,285,429.6	793,878.8	3,503,716.5	627,377.8	17,201,402.7
Liabilities to banks	749,523.9	348,772.6	2,878,711.6	601,550.0	4,578,558.1
Liabilities to customers	11,353,670.7	23,720.1	268.2	–	11,377,659.0
Derivative liabilities: Hedge Accounting	445.5	1,666.6	705.8	–	2,817.9
Trading liabilities	181,789.4	419,719.5	624,031.0	25,827.8	1,251,367.7
Cumulative gap financial assets less financial liabilities	(883,977.9)	1,036,070.0	4,181,688.5	1,351,524.3	5,685,304.9

At 31 March 2023 KEUR	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Total financial assets	9,262,026.9	1,046,932.6	5,092,967.4	2,117,180.6	17,519,107.4
Cash and Balances at central banks	730,981.8	–	–	–	730,981.8
Loans and advances to banks	6,949,627.8	448,286.8	48,328.4	–	7,446,243.0
Loans and advances to customers	1,386,948.4	454,355.2	3,971,683.9	2,090,637.4	7,903,624.9
Investment and Liquidity Securities	81,991.7	78,504.0	–	–	160,495.7
Derivative assets: Hedge Accounting	72,598.7	–	17,387.8	–	89,986.5
Trading assets	39,878.5	65,786.6	1,055,567.2	26,543.2	1,187,775.5
Total financial liabilities	7,730,686.7	849,705.2	3,248,244.7	–	11,855,181.8
Liabilities to banks	217,825.7	2,270.4	2,188,596.0	–	2,408,692.1
Liabilities to customers	7,459,658.5	799,958.7	–	–	8,259,617.2
Derivative liabilities: Hedge Accounting	8.3	–	–	–	8.3
Trading liabilities	53,194.3	47,476.1	1,059,648.8	26,545.2	1,186,864.4
Cumulative gap financial assets less financial liabilities	1,531,340.2	197,227.4	1,844,722.6	2,090,635.4	5,663,925.6

The table below shows the contractual maturity cash flow analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments on the basis of undiscounted cashflows.

At 31 March 2024 KEUR	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities to banks/customers	12,226,772.6	478,784.3	3,113,641.0	600,000.0	16,419,197.9
Issued financial guarantee contracts	292,233.3	853,627.4	768,432.5	42,354.1	1,956,647.3
Unrecognised loan commitments	128,687.3	1,022,395.2	9,104,453.8	2,728,869.5	12,984,405.7
Total	12,647,693.2	2,354,806.9	12,986,527.3	3,371,223.6	31,360,250.9
Derivative liabilities	56,042.2	143,624.5	363,142.1	613,900.2	1,176,709.0
Total liabilities, issued guarantees and commitments	12,703,735.4	2,498,431.3	13,349,669.4	3,985,123.8	32,536,959.9

At 31 March 2023 KEUR	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities to banks/customers	7,682,705.4	862,914.0	2,304,126.5	–	10,849,745.9
Issued financial guarantee contracts	67,712.4	1,104,149.1	893,673.8	78,382.3	2,143,917.5
Unrecognised loan commitments	185,742.2	1,433,564.8	7,408,951.0	1,624,704.8	10,652,962.7
Total	7,936,160.0	3,400,627.9	10,606,751.3	1,703,087.0	23,646,626.2
Derivative liabilities	60,554.3	58,037.1	730,962.4	380,978.8	1,230,532.6
Total liabilities, issued guarantees and commitments	7,996,714.3	3,458,664.9	11,337,713.7	2,084,065.9	24,877,158.8

Market risk

Market risk is the risk that movements in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.

Financial risk management – Market risk – VaR exposures

The SMBC EU Group's VaR exposures during the year were:

	To 31 March 2024				To 31 March 2023			
KEUR	Maximum	Minimum	Average	31 March	Maximum	Minimum	Average	31 March
Trading	4,384.8	51.8	740.2	4,209.8	102.0	60.1	81.3	60.9
Banking	1,1126.1	496.3	796.3	919.2	994.9	550.8	762.6	615.1
Total	5,510.9	548.1	1,536.5	5,129.0	1,096.9	610.9	843.9	676.0

The income sensitivity below reports the largest potential loss of six possible yield curve shift scenarios, including 'Steepening', 'Flattening' and 'Parallel' shifts. The table shows the largest loss assuming rising interest rates up to 250 basis points ('Short up to 250bp' scenario).

MEUR	31 March 2024	31 March 2023
Profit and loss impact	18.8	16.6

Financial risk management – IBOR transition

Interest rate benchmark reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as IBOR have become a priority for global regulators. As a result, global regulators instructed market participants to prepare for the cessation of most LIBOR rates after the end of 2021, and to adopt 'near risk-free rates' (RFRs).

The SMBC EU Group did have certain exposures to IBORs on its financial instruments that were reformed as part of this market-wide initiative. As of 31st of March 2024 the replacement to risk-free interest rates was completed.

IBOR transition

The following table shows the SMBC EU Group's exposure to significant IBORs subject to reform that have yet to transition to RFRs.

At 31 March 2024 MEUR	Non-derivative financial assets at carrying value	Non-derivative financial liabilities at carrying value	Undrawn commitments	Derivatives notional amount
USD LIBOR	–	–	–	–
JPY LIBOR	–	–	–	–

At 31 March 2023 MEUR	Non-derivative financial assets at carrying value	Non-derivative financial liabilities at carrying value	Undrawn commitments	Derivatives notional amount
USD LIBOR	357.7	36.8	354.1	1,950.1
JPY LIBOR	–	–	–	110.5

4. Fair Value of Financial Instruments

The SMBC EU Group's accounting policy on fair value measurements is disclosed in note III.5.

The SMBC EU Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: Quoted market price (unadjusted) in an active market for an individual instrument.
– Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
– Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. If these are not available, the assessment is based on recognised valuation methods. A fair value model taking into account the yield curve and the Black-Scholes model for options are used.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond prices, foreign currency exchange rates, and expected price volatilities and correlations. All observable data is taken directly from Bloomberg or Reuters. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The SMBC EU Group uses widely recognised models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities, exchange-traded derivatives and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation, and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

If the fair value of a financial instrument at the time of recording differs from the transaction price, differences not recorded at the time of initial recognition of these instruments (day-one profit or loss) arise if the fair value cannot be substantiated either by the price quoted on an active market for an identical asset or an identical liability, or by valuation models that use only observable market data. In such transactions, the fair value plus the unrecognised difference between the transaction price and the fair value is recognised in the balance sheet. This unrecognised difference is released to the income statement either over the term or at the time when all the parameters used for the valuation can be observed.

Fair value of financial instruments – Assets and liabilities measured at FV on recurring basis

The following table shows the SMBC EU Group's financial assets and liabilities that are held at fair value by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31 March 2024 KEUR	Level 1	Level 2	Level 3	Total
Loans and advances to customers	–	–	255,821	255,821
Derivative assets: Hedge Accounting	–	55,052	–	55,052
Trading assets	–	1,265,932	–	1,265,932
Investment and Liquidity Securities	87,397	–	–	87,397
Total financial assets	87,397	1,320,984	255,821	1,664,203
Derivative liabilities: Hedge Accounting	–	2,818		2,818
Trading liabilities	–	1,251,368	–	1,251,368
Total financial liabilities	–	1,254,186	–	1,254,186

There are no movements between level 1, level 2 or level 3.

At 31 March 2023 KEUR	Level 1	Level 2	Level 3	Total
Loans and advances to customers	–	–	176,358	176,358
Derivative Assets: Hedge Accounting	–	89,987	–	89,987
Trading assets	–	1,187,775	–	1,187,775
Investment and Liquidity Securities	–	–	–	–
Total financial assets	–	1,277,762	176,358	1,454,120
Derivative liabilities: Hedge Accounting	–	8	–	8
Trading liabilities	–	1,186,864	–	1,186,864
Total financial liabilities	–	1,186,873	–	1,186,873

At 31 March 2022 KEUR	Level 1	Level 2	Level 3	Total
Loans and advances to customers	–	–	32,859	32,859
Derivative assets: Hedge Accounting	–	37,812	–	37,812
Trading assets	–	473,968	–	473,968
Investment and Liquidity Securities	–	–	–	–
Total financial assets	–	511,780	32,859	544,639
Derivative liabilities: Hedge Accounting	–	74	–	74
Trading liabilities	–	482,063	–	482,063
Total financial liabilities	–	482,137	–	482,137

Level 3 assets consist exclusively of receivables from customers. These receivables were assigned to Level 3 because the credit risk inherent in these loans is not observable in the market. Therefore, internal credit ratings were used to assess the credit risk for the measurement of the fair value. If the credit risk were to decrease significantly, as indicated by the internal credit rating, this could lead to a significant decline in the fair value.

In addition to the credit risk, other observable and non-observable parameters relating to the risk-adjusted discount rate are incorporated into the valuation model for the valuation of financial instruments allocated to Level 3. The observable parameters of the valuation are mainly the risk-free interest rate curve. The unobservable parameters primarily include liquidity spreads, tenor basis spreads, cross currency basis spreads, equity costs (profit margin and compensation for unexpected losses) and administrative costs. The ranges of fluctuation of the unobservable parameters outside of the credit risk are immaterial.

Of the gains and losses on level 3 assets amounting to KEUR 17,731 (previous year: KEUR 3,975) for the year, KEUR 17,290 (previous year: KEUR 2,950) is attributable to interest income, commission income and gains on disposal. The remaining KEUR 442 (previous year: KEUR 1,025) is attributable to changes in valuation, which are shown in the result from financial instruments valued at FVPL.

The following table shows the reconciliation of Level 3 assets from 31 March 2022 to 31 March 2024:

KEUR	Loans and advances
As at 31 March 2022	32,859
Changes in the portfolio:	
Issue	142,474
Change in valuation	1,025
As at 31 March 2023	176,358
Changes in the portfolio:	
Issue	202,933
Sale	(123,913)
Change in valuation	442
As at 31 March 2024	255,820

Fair value of financial instruments – Assets and liabilities carried at amortised cost

The following table summarises the fair value of financial assets and liabilities measured at amortised cost, by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31 March 2024 KEUR	Carrying value	Total fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and balances at central banks	161,793	161,793	–	161,793	–
Loans and advances to banks	9,420,446	9,420,455	–	8,885,722	534,733
Loans and advances to customers	11,534,234	11,574,912	–	–	11,574,912
Investment and Liquidity Securities	115,032	115,037	–	115,037	–
Financial liabilities					
Liabilities to banks	4,578,558	4,590,303	–	–	4,590,303
Liabilities to customers	11,377,659	11,377,662	–	–	11,377,662

At 31 March 2023 KEUR	Carrying value	Total fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and balances at central banks	730,982	730,982	–	730,982	–
Loans and advances to banks	7,446,243	7,446,793	–	5,118,497	2,328,296
Loans and advances to customers	7,727,267	7,761,010	–	–	7,761,010
Investment and Liquidity Securities	160,496	160,505	–	160,505	–
Financial liabilities					
Liabilities to banks	2,408,692	2,429,796	–	–	2,429,796
Liabilities to customers	8,259,617	8,258,061	–	–	8,258,061

At 31 March 2022 KEUR	Carrying value	Total fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and balances at central banks	2,659,423	2,659,441	–	2,659,441	–
Loans and advances to banks	685,002	684,978	–	99,977	585,001
Loans and advances to customers	5,853,620	5,885,667	–	–	5,885,667
Investment and Liquidity Securities	98,841	98,847	–	98,847	–
Financial liabilities					
Liabilities to banks	1,581,063	1,581,016	–	–	1,581,016
Liabilities to customers	2,572,277	2,571,972	–	–	2,571,972

There were no positions classified on inception as designated at fair value through profit and loss during the year.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost not hedged through fair value hedges are estimated by comparing market interest rates on initial recognition with current market rates offered for similar financial instruments including any effect of changes in market credit spreads, where material. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

VII. Other Information

1. Average Number of Employees – Branches

Number	01.04.2023 – 31.03.2024	01.04.2022–31.03.2023
Annual average	413	357
Düsseldorf	124	115
Back office	88	76
Front office	35	39
Frankfurt	189	155
Back office	94	74
Front office	95	81
Milan	16	16
Back office	6	6
Front office	10	10
Amsterdam	15	13
Back office	2	2
Front office	13	11
Prague	12	12
Back office	2	2
Front office	10	10
Madrid	7	6
Back office	2	2
Front office	5	4
Dublin	12	9
Back office	4	3
Front office	8	6
Paris	38	33
Back office	6	4
Front office	32	29
Luxembourg	90	–
Back office	59	–
Front office	31	–

2. Auditor’s Fees

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

3. Governing Bodies

Members of the Executive and the Supervisory Board

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

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

4. Remuneration of the Boards

KEUR	01.04.2023 – 31.03.2024	01.04.2022 – 31.03.2023
Executive Board	4,997	4,045
Members of the Executive Board	4,997	4,045
Former members of the Executive Board or their surviving dependants	–	–
Advances and loans granted by the parent undertaking and the subsidiaries	–	–
of which: amount repaid/waived	–	–
of which: contingent liabilities	–	–
Supervisory Board	1,196	–
Members of the Supervisory Board	1,196	–
Former members of the Supervisory Board or their surviving dependants	–	–
Advances and loans granted by the parent undertaking and the subsidiaries	–	–
of which: amount repaid/waived	–	–
of which: contingent liabilities	–	–

5. Mandates on Supervisory Boards and Other Control Bodies

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

Supervisory Board
Hideo Kawafune
SMBC Bank International plc (Chief Executive Director),
Sumitomo Mitsui Banking Corporation/Sumitomo Mitsui Financial Group (Managing Executive Officer, Head of EMEA Division),
SMBC Nikko Capital Markets Limited (non-executive Director),
SMBC London Branch (Group Non-executive Director
SMBC Bank EU AG (Supervisory Board member)
Shimano Europe B.V. (Supervisory Director)
Antony Yates
SMBC Nikko Capital Markets Limited (Executive Director),
SMBC Derivative Products Limited (Executive Director)
SMBC Nikko Securities Inc. (Executive Director)
SMBC Capital Markets Asia Limited (Director)
SMBC Bank EU AG (Supervisory Board member)
SMBC bank International Plc (Deputy Chief Executive)
SMBC/SMFG (Deputy Head of EMEA Division)
Glenn Swanton
SMBC Bank International plc (Chief Risk Officer),
Sumitomo Mitsui Financial Group Inc. (Co-Chief Risk Officer, EMEA Region)
SMBC Derivative Products Limited (Group non-Executive Director, Chair of Risk Committee)
SMBC Bank EU AG (Supervisory Board member)

Supervisory Board
Takahiro Yazawa
SMBC Nikko Securities Inc. (Senior managing executive officer, Head of Global Business Planning Unit and Head of Global Business Planning)
Sumitomo Mitsui Financial Group Inc. (Managing executive officer, Deputy Head of Global Business Unit)
SMBC Nikko Capital Markets Limited (non-executive Director)
SMBC Nikko Securities (Hong Kong) Limited (Director)
SMBC Nikko Securities (Singapore) Pte. Limited (Director)
SMBC Nikko Investment Consulting (Shanghai) Limited (Supervisor)
SMBC Bank EU AG (Supervisory Board member)
Karin Elisabeth Katerbau
SMBC Bank EU AG (Supervisory Board member)
ProCredit Holding AG (Supervisory Board member)
ProCredit Bank (Bulgaria) EAD (Supervisory Board member)
Stiftung der Oldenburgische Landesbank AG (Chairperson of the Executive Board)

6. Subsequent Events

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

Frankfurt am Main, 1 August 2024

SMBC Bank EU AG
Frankfurt am Main

Executive Board

Naoki Okubo	Stanislas Roger	Yosuke Uemura
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 SMBC EU Group is required to prepare country-by-country reporting.

In this country-by-country reporting, SMBC Bank EU Group discloses the information listed below in accordance with Section 26a (1) nos. 1 to 6 KWG as of 31 March 2024:

– 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 SMBC EU Group'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 2024. 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
SMBC Nikko Bank (Luxembourg) S.A, Luxembourg subsidiary	Financial Institution	Luxembourg	Luxembourg

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	449,037	289,765	(86,033)	–	317.9
Italy	21,177	12,643	(6,484)	–	16
Czech Republic	2,827	594	(123)	–	11.8
Netherlands	4,478	585	(85)	–	16
Spain	1,934	225	(122)	–	7.2
Ireland	3,237	417	(60)	–	14
France	17,929	(976)		–	38
Luxembourg	19,709	3,692	(914)	14	90

Publisher

SMBC Bank EU AG

Neue Mainzer Straße 52–58
60311 Frankfurt-Main
Tel +49 (0)69 22229-8200
smbceu@de.smbcgroup.com
https://www.smbcgroup.com/emea/group-companies/smbc-bank-eu-ag/

SMBC