Annual financial statements as at 31 March 2022 and management report

TRANSLATION – AUDITOR'S REPORT

SMBC Bank EU AG
Frankfurt am Main, Germany

KPMG AG Wirtschaftsprüfungsgesellschaft

SMBC

SMBC Group

SMBC BANK EU AG

SMBC Bank EU AG

Convenience Translation of the Binding German Version

Annual Financial Statements and Management Report
as of 31 March 2022

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Management Report

I. Fundamental Information about SMBC Bank EU AG

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

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

The Bank is a wholly owned subsidiary of Sumitomo Mitsui Banking Corporation (SMBC Tokyo), a Japanese bank, and forms part of the SMBC Group of companies. SMBC Tokyo is a wholly owned subsidiary of Sumitomo Mitsui Financial Group (SMFG), a company that is also incorporated in Japan and ranked amongst the largest 25 banks globally by assets (G-SIFI).

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

The Bank offers a wide variety of wholesale financial products, including syndicated and bilateral loans and specialist financial advisory services for project, trade and asset finance, as well as deposits and foreign exchange. As an integrated banking/securities service provider, the Bank also provides customers with debt and equity capital markets and derivative products.

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

Serving Customers

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

Sustainable Growth

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

Competitive Edges

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

Team SMFG/SMBC Tokyo

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

2. Organisation and Governance Structure

SMBC EU has its head office in Frankfurt-Main, Germany, with branches in Amsterdam, Prague, Madrid, Dublin, Milan, Paris, and Düsseldorf. Of the above branches, only the Milan branch undertakes loan and deposit transactions with local booking. All other branches are marketing offices without any entry functions for customer transactions.

In order to fulfil its objective of servicing SMBC Tokyo's EU/EEA customers, and to prepare for the CRD V Intermediate Parent Undertaking (IPU) regulation, further restructurings have taken place. Following the withdrawal of the United Kingdom from the European Union, SMBC Group has been providing financial services to customers in the European Economic Area (EEA) through SMBC EU and SMBC Nikko Capital Markets Europe GmbH (CM Europe). To better serve customers by offering banking and securities products through a single entity, it was decided that SMBC EU will provide securities services as Universal Bank by merging with CM Europe. The merger became legally effective on 25 April 2022 by the registration in the Commercial Register, but with retroactive effective date under German commercial and income taxation law 1 November 2021. The parties have agreed that as of the effective merger date, all actions and transactions by CM Europe shall be deemed carried out for the account of SMBC EU and are therefore included in this financial report.

As of 31 March 2022, the Bank has 275 employees, of which 206 in Germany and 69 in its EU branches. In the context of the merger, 57 employees were transferred from CM Europe to SMBC EU in April 2022.

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

Committees have been established on behalf of the Executive Board to control and monitor various areas of SMBC EU. Relevant matters arising in these committees are reported to the Executive Board.

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

The Risk Management Committee provides governance, technical and strategic support and examines matters in respect of credit and operational risks as well as other general (non-financial) risk relating to the Bank.

The Asset and Liability Management and Prudential Regulatory Committee discusses and decides topics relating to market and liquidity risks as well as asset and liability management relating to the Bank and provides governance, technical and strategic support, and examines those matters.

The Insourcing Committee deals with services the Bank provides to other Group entities. Insourcing activities account for a significant portion of SMBC EU resources and activities and include additional risks as well as regulatory and contractual obligations. The purpose of this committee is to provide governance, oversight, and strategic support for the provision of insourced services.

A Supervisory Board is established by operation of law to supervise and monitor the operations of the Bank. The Supervisory Board established an Audit Committee with effect from 21 February 2022.

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

II. Macroeconomic Environment and Competitive Situation

The European economy was experiencing a relatively robust growth cycle prior to Russia's invasion of Ukraine. Following an unprecedented contraction in 2020, real GDP expanded last year by 5.3% y/y in the Euro area and 5.4% y/y in the European Union (EU). Much of the rebound was concentrated in the second and third quarters, as the lifting of government-imposed social-distancing measures of the Coronavirus pandemic enabled a release of pent-up consumer demand. Real GDP subsequently expanded by a further 0.5% q/q in the first quarter of 2022 in the Euro area and 0.6% q/q in the EU, taking the overall level of output in both regions back above its pre-pandemic peak.[1]

[1] https://ec.europa.eu/eurostat/

Economic performance last year nevertheless varied considerably across the EU. In part, this reflects differences in underlying economic structures across countries, which in turn governed the extent to which the pandemic and the associated containment measures hobbled economic activity. Differences in the scale, composition, and timing of countercyclical policy support also explain the variation in economic performance across countries last year.

Domestic tailwinds still have some capacity to partially offset external shocks. For starters, consumer fundamentals generally remain in good shape across the region, with labour market conditions having improved in recent months and the stock of accumulated savings by households still offering a meaningful (though finite) buffer against rising prices. Public investment also has the capacity to propel growth; governments are making increased use of grants and concessional loans available through the EU's recovery and resilience facility (RRF), which may in turn galvanise private investment in key infrastructure areas as well.

The risks are nevertheless still tilted significantly to the downside. The consumer cycle may retrench further as inflation accelerates, with households' propensity to borrow or draw down on savings likely to diminish as confidence slumps. In similar vein, businesses may be more reluctant to push ahead with planned investments, with short-term stock-building measures likely to be prioritised over major capital expenditure decisions as uncertainty rises. Together with the potential for a protracted war and a ramping-up of geopolitical pressures, the risk is that an already tepid growth path for many countries gives way to a sharper recession in the near term.

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

III. Report on Financial Position

1. Course of Business Operations

After three full years of operation, SMBC EU is still in its early development phase and is experiencing significant business growth, partially supported by the ongoing relocation of the SMBC Group's continental European business. The restructuring of the European SMBC business has continued.

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

2. Financial Developments

The financial position of the Bank was solid, it remained at all times in full compliance with all regulatory and internal limits. Exchange rate movements had a negligible impact on the financial position. Due to the dynamic business development and, despite significant project investments, the Bank has been profitable with a net income after tax of EUR 4.3 million (PY: EUR 4.3 million). The KPI development exceeded the expectation of the management and the owner. The ROE equals 0.14% (PY: 0.41%, expectation: < 0.0%). The cost income ratio stood at 84.8% (PY: 81.1%, expectation > 100.0%). To support further business growth over the following years, a capital increase of EUR 4.0 billion was made in April 2021, increasing the subscribed capital to EUR 5.1 billion. Consequentially, the CET ratio stood at 47.63% at year-end (PY: 23.75%, expectation: > 12.0%), very clearly above the regulatory minimum of 12.0%, that was established as part of the licensing process and is determined until the notice of a SREP.

As the merger was approved after the reporting date March 31, 2022, regulatory reports have been prepared and submitted individually for SMBC EU and CM Europe. Above CET 1 ratio applies to SMBC EU standalone. The CET 1 ratio for CM Europe was 86.91% (PY: 83.96%).

Balance Sheet

Total assets as of 31 March 2022, stood at EUR 10,035 million, an increase of EUR 2,916 million or 41.0% compared to 31 March 2021. The increase compared to the previous year resulted primarily from the further Frankfurt-booked business development, with an increase of EUR 2,524 million without considering CM Europe assets. Assets recognised in Milan increased by EUR 288 million. As a result of the merger, assets have been increased by EUR 91 million.

Lending exposures, the most important asset type of the Bank, are classified under loans and receivables from customers as well as debt securities and other fixed income securities and amounted to EUR 6,042 million (PY: EUR 3,283 million), of which EUR 5,010 million (PY: EUR 2,538 million) were recognised in Frankfurt and EUR 1,020 million (PY: EUR 746 million) in Milan. In addition, the Bank had off-balance-sheet liabilities, specifically guarantees and irrevocable loan commitments, amounting to EUR 8,883 million (PY: EUR 6,863 million), of which EUR 3,496 million in Milan and EUR 5,387 million in Frankfurt (PY: EUR 2,824 million in Milan and EUR 4,039 million in Frankfurt).

The liquidity reserves of EUR 3,430 million (PY: EUR 3,895 million) were primarily kept in Germany at the Bundesbank and with other SMBC banks.

The trading business consists of FX and interest derivatives. As of 31 March 2022, the trading portfolio amounts to EUR 472.96 million (PY: EUR 143.23 million). The market risk arising from derivative trades with customers is hedged by matching transactions with Group companies. The liability trading portfolio is therefore almost identical to the asset position.

Other assets, at less than 1.0% (PY: < 2.0%) of total assets, account for only a small portion of the balance sheet and comprise primarily goodwill, fixed assets, and margin calls. The goodwill was generated through the acquisition of the branches at inception of the Bank in 2019, as well as the transfer of employees from SMBC Tokyo Düsseldorf branch and the SMBC BI Paris branch.

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

The equity of SMBC EU Frankfurt amounted to EUR 5,126 million (PY: EUR 1,048 million). To support the projected growth of the Bank, the subscribed capital was increased by SMBC Tokyo in April 2021 from EUR 1,100 million to EUR 5,100 million. The capital reserves were originated by way of the merger and represent the net asset value of CM Europe as of the effective date of the merger 1 November 2021.

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

Income Statement

In the third year of operation in 2021/2022, the Bank generated a profit of EUR 4.27 million (PY: EUR 4.26 million). Due to strong business development and tight cost control, this result was better than anticipated by management and the owner. The business operations in Germany and Italy have both been profitable. The net loss of CM Europe since 1 November 2021 was EUR (-3.81) million, this was partially a result of the merger.

The net interest income of EUR 47.68 million (PY: EUR 34.46 million) was generated primarily by the lending business of the Bank, less the cost of holding the liquidity position at the Bundesbank. The Milan branch generated net interest income of EUR 10.00 million (PY: EUR 14.54 million). Due to its business model no material contribution to the net interest income was made by CM Europe.

The net commission income of EUR 72.44 million (PY: 42.93 million) was primarily the result of marketing services received from and charged to other Group companies (EUR 34.21 million), CM Europe securities business since 1 November 2021 (EUR 15.03 million) and income derived from guarantees and upfront payments (EUR 20.80 million). The Milan branch generated a net commission income of EUR 7.05 million (PY: EUR (-2.10) million).

The trading business generated net income of EUR 9.50 million (PY: EUR 4.64 million) from FX and interest rate derivative transactions. The Milan branch does not have a trading business. The trading result of CM Europe is not material.

Other operating income contributed with a positive result of EUR 14.18 million (PY: EUR 10.35 million), derived primarily from insourcing SLAs, predominantly middle and back-office services for SMBC Düsseldorf. The Milan branch generated other operating income of EUR 0.18 million (PY: EUR 0.30 million). No material contribution to other operating income was made by CM Europe.

Administrative expenses of EUR 114.98 million (PY: EUR 71.47 million) include primarily personnel expenses of EUR 50.50 million (PY: EUR 36.44 million) and expenses related to outsourcing arrangements with Group companies of EUR 35.12 million. With the merger, administrative expenses increased by EUR 14.57 million and the Milan branch generated expenses of EUR 6.51 million (PY: EUR 5.48 million).

Amortisation, depreciation and write-downs for intangible assets and property and equipment of EUR 6.82 million (PY: EUR 3.93 million) relates to expenses for straight-line amortisation/depreciation of fixed assets and goodwill. EUR 2.72 million expenses were contributed by CM Europe.

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 12.06 million (PY: EUR 10.59 million). Next to portfolio growth, what drove risk provisioning cost were changes in expected losses as they have occurred as a consequence of the first time adoption of IDW RS BFA 7 and the considering geopolitical and economic uncertainties triggered by the Russian invasion into Ukraine.

The tax expense of EUR 5.50 million (PY: EUR 2.10 million) relate to income tax expenses for profit generated by the head office, the acquired branches and since 1 November 2021 the CM Europe .

IV. Forecast including Business Opportunities and Risks

Overall, most public and private sector institutions have progressively revised down their expectations for growth. The latest survey of professional forecasters run by the European Central Bank (ECB) suggests a consensus expectation of 2.9% y/y growth for the Euro area this year, followed by 2.3% in 2023 (down from 4.2% and 2.7% respectively in the previous survey).[2] The spread of estimates among forecasters also still varies considerably, underscoring the prevailing uncertainty over the outlook. Economic performance is nevertheless likely to remain heterogeneous across countries and sectors, reflecting both the enduring impact from the pandemic as well as the severity of economic spillovers from the war in Ukraine.

The fiscal stance across the EU remains mixed. Various governments have responded to rising cost pressures by extending short-term support to vulnerable industries and households. At the same time, additional funds at both the national and EU level are being directed toward longer-term investment objectives, including energy efficiency and energy security. Still, available fiscal space varies by country, and will at least in part be determined by financing conditions facing sovereign issuers, with some experiencing increased market volatility and spreads in recent weeks.

Monetary policy space is now more constrained. Central banks in various jurisdictions have been forced to begin or accelerate their monetary policy tightening cycles. In addition to a steady rise in headline inflation, there are also signs that

[2] Results from the third quarter survey of professional forecasters. https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/index.en.html.

price pressures are broadening out beyond energy and food into other core goods and services as well. Expectations of future price rises among consumers, businesses, and market participants are also trending higher, increasing the risk of inflation inertia. The ECB brought an end to net asset purchases under its asset purchase programme (APP) on 1 July 2022, and subsequently raised its key interest rates by 50 basis points at its 21 July 2022 meeting. While the governing council has indicated it will take a meeting-by-meeting approach to future decisions, in its latest monetary policy statement it signalled that further normalisation of interest rates will be appropriate. A new transmission protection instrument (TPI) has also been introduced to counter risks from unwarranted and disorderly market dynamics.[3]

Other central banks in the region, including those in central and eastern Europe and the United Kingdom, have extended their rate hike cycles in recent months.

The European recovery now faces significant new challenges. Beyond the humanitarian catastrophe resulting from the ongoing war in Ukraine, the conflict has also generated substantial headwinds on growth. These are materialising through various channels, including through disruptions to cross-border trade, higher commodity prices, tighter financial conditions, and weaker sentiment amongst businesses and households. At the same time, pandemic-related challenges are still present, with lingering disruptions to global supply chains in particular exerting a drag on industrial output. Against this backdrop, the risk of a renewed contraction across major economies is significant.

Despite these uncertainties, we intend to continue executing our strategy focusing on improving profitability and growing revenues while remaining disciplined in our cost management. We anticipate our business will grow further. Firstly, this growth will be generated by further development of the marketing activities and the Universal Banking business model post the merger. Secondly, growth will be generated by assets' lifecycle events originating from SMBC BI, notably loan extensions of EU customers being booked at their final booking destination SMBC EU Frankfurt, as a result of Brexit.

To measure our development and success we defined the following key performance indicators (KPIs) which are aligned with our internal controls:

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

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

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

Considering the planned asset growth, we expect the CET 1 ratio to decrease but remain well above the regulatory requirement. With additional growth, we expect the profitability to increase. The return on equity, currently at 0.14%, will increase to an amount under 1.0% until end of financial year 2022/2023. Similarly, we expect the cost-income ratio of 84.8% to improve and decrease of more than 10 percentage points.

If there is a further deterioration in economic activity in the EU due to the current macroeconomic environment, the expected level of growth is likely to be reduced and should increase the level of loan losses.

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

Events after the balance sheet date that are of material significance for financial year 2021/2022 are included in the notes section on subsequent events.

[3] Press release from the ECB, 21 July 2022. https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220721~973e6e7273.en.html

V. Risk Report

1. Risk Management Framework

The Bank's target business model continues to be a corporate banking institution focusing resources on carefully selected sectors and regional customer partnerships in order to achieve sustainable and balanced long-term growth. The Executive Board sets the risk strategy, which is based on and consistent with the approved business strategy. The risk strategy's design, implementation and monitoring are achieved through the risk management framework. This framework covers the following components: (i) assessment and management of the Bank's capital and liquidity resources, (ii) the definition and setting of the Bank's risk appetite and (iii) an array of processes to identify and assess, measure, control and mitigate the risks assumed in the pursuit of the strategic objectives and to report on these.

The Executive Board is ultimately responsible for the organisation, implementation, and execution of the risk management framework in the Bank, including its branch offices. The Executive Board overall risk control is exercised through the Bank's organisational structure, the risk governance framework, and the internal risk control system.

While the merger took place retroactively on 31 March 2022, an operational implementation of the merger has been processed in the new financial year. The merger of SMBC EU and CM Europe is covered in this risk report in the following way:

Quantitative information is shown, if existing for the particular entity, on a separate basis. No consolidation has been performed and so no virtual combined figures are shown. Qualitative information describes SMBC EU, if they are reflecting this financial year. CM Europe has managed and controlled risks in the past financial year according to the governance implemented in the entity.

The capital planning incorporates risks from the merger and has been processed on a consolidated basis.

Roles and Responsibilities for Risk Management across the Bank

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

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

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

Risk Committees

The Bank has established two risk management committees to ensure sound overall management and monitoring of risks.

The Risk Management Committee (bi-monthly chaired by the CRO) – This committee covers the operational (including outsourcing and insourcing arrangements) and general risks, as well as the credit risks of the Bank.

ALM / Prudential Committee (monthly chaired by the CRO) – This committee covers market and liquidity risks and monitors the Asset and Liability Management (ALM) of the Bank. It also supports the management of the Bank's prudential position and governs the capital (Internal Capital Adequacy Assessment Process or ICAAP and risk-bearing capacity) and liquidity (Internal Liquidity Adequacy Assessment Process or ILAAP) assessment and monitoring processes.

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

With the Merger the Bank will change the committee structure to reflect the changes in risks and business processes adequately. The following risk committee will be held:

The Operational, General and Third Party Risk Management Committee covers the operational risks of the Bank including outsourcing and insourcing arrangements and third party risk.

Transaction committees are the Product Approval Committee (PAC), the Credit Approval Committee (CAC) and the Transaction Approval Committee (TAC). PAC is responsible for the approval of new products including implementation according to MaRisk AT 8.1 New Product Concept, Register and Framework covered in OADR. TAC and CAC are responsible for approving individual transactions within each approved product.

ALM – This committee covers market and liquidity risks and monitors the Asset and Liability Management (ALM) of the Bank. It also supports the management of the Bank's prudential position and governs the liquidity (Internal Liquidity Adequacy Assessment Process or ILAAP) assessment and monitoring processes.

Credit and Prudential Risk Management Committee – This committee covers general risks, as well as the credit risks of the Bank. It supports the management of the Bank's prudential position and governs the capital of the bank (Internal Capital Adequacy Assessment Process or ICAAP and risk-bearing capacity).

Risk Culture

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

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

Risk Strategy and Appetite Framework

The Bank's risk strategy setting is an integral part of the strategic planning process which involves the establishment of a multi-year plan based on business development planning, as well as the ICAAP and ILAAP assessments to maintain this plan. The risk strategy for financial year 2021/2022 was submitted to and approved by Executive Board and the Supervisory Board in April 2020. It is embedded into the Bank's business and operations through the risk appetite framework (including all risk metrics) which define the associated level of risk that the Bank is prepared to accept in pursuit of its strategic objectives for the financial year.

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

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

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

Capital and Liquidity Assessment Process

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

Core Risk Management Processes composing the Risk Management Framework

Risk Identification and Assessment

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

The following risks were identified as significant:

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

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

Corporate risk: This risk was addressed as part of the initial capital assessment exercise by adverse scenarios. The previous main risk, the strategic risks, has been transferred to the enterprise risk. For financial year 2021/2022 ICAAP exercise, strategic and liquidity risk were not addressed through additional capital requirements (see section *Capital Management* for details).

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

– Credit risk – Loan underwriting risk
– Market risk – Risk from securities trading (Fixed Income)

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

Risk type	Calculation under normative approach	Calculation under economic approach
Credit risk	Expected credit costs	Credit portfolio model (99.9% confidence interval, 1 year)
Credit concentration risk	Portfolio model-based approach (difference between fully diversified portfolio (99.0% CI, 1 year)	
Market risk	Historical simulation (normal and stressed period) (99.0% CI, 10-day holding period)	Historical simulation (normal and stressed period) (99.9% CI, 10-day holding period)
Interest rate risk	Base scenarios: result of change in present value due to interest rate changes (historical simulation, 99.0%, 1 year) Adverse scenario (for global and European economy): Historical simulation with stressed period.	Result of change in present value due to interest rate changes (historical simulation, 99.9%, 1 year)
Operational risk	Additional risk arising from a scenario based-simulation of the loss distribution (99.0%, 1 year) that is already deducted in Pillar 1 capitalised risk.	Risk arising from a scenario-based simulation of loss distribution (99.9%, 1 year).
Enterprise risk	The Enterprise risk is mainly the risk of diverging from the business case planned for the Bank (either lower or higher growth volume, in particular owing to uncertainties surrounding the outcome of the Ukraine crisis, the Coronavirus pandemic, the recession and other drivers). This risk is addressed by performing a scenario analysis as well as through close monitoring of the business development at the Bank.	

New Risks of Capital Planning

Risk type	Calculation under normative approach
Underwriting risk	Risks from the stress shock calculation, a shocked factor is used from market indices with a 99.0% percentage confidence interval
Market risk from security trading (bonds)	99.0% VaR based on a virtual planned portfolio

Risk Measurement and Quantification

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

– Credit risk: Standardised approach
– Market risk: Standardised approach
– Operational risk: Standardised approach

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

Stress-testing Framework

The Bank uses a range of stress testing methodologies across most of the risk categories. The methodologies, assumptions and results are submitted to the relevant risk committee for discussion and review and are ultimately approved by the Executive Board. The Bank's stress testing framework includes (i) a macroeconomic stress scenario, (ii) an operational scenario analysis, (iii) reverse stress tests and (iv) sensitivity analysis.

Risk Monitoring and Mitigation

The Bank uses an array of risk metrics, including limits, key risk indicators, early warning indicators, to monitor the risks.

Risk Reporting

Regular and event-driven ad-hoc reporting on the risk situation of the Bank is prepared and forwarded to the risk committees, the Executive Board, and the Supervisory Board according to the terms of reference of each committee/meeting and as required by the business circumstances. Limit and early warning indicators are associated with a severity-based documented escalation process.

2. Management of Individual Risks

Credit Risk

Credit Risk at the Level of Individual Counterparty and Loan

As a bank focused on corporate lending, credit risk is the largest risk of the Bank. In general, the Bank assesses and manages the credit risk of individual loans using SMBC Group policies and procedures which have been adapted to local legal and regulatory requirements and specificities. The Bank has also adopted SMBC global internal ratings derived from SMBC globally used credit rating models to assess the credit risk of credit counterparties. The ongoing performance and validity of these rating models are managed in compliance with the Bank's model risk management framework. Within the financial year a model risk management framework was implemented, and all relevant rating models have been validated.

At the time of its establishment, the Bank set up its credit approval process, which has been duly applied throughout the financial year. All credit decisions are taken by the Bank's Executive Board and/or members of the Executive Board following an approval path that ensures the continuous segregation of duties up to the Executive Board. All credit decisions are taken only after an initial recommendation by both the local front office and the credit risk analysis department (back office). The credit risk analysis department may request a credit recommendation from an SMBC credit department if deemed necessary. Decisions are made at the Executive Board level in accordance with an approval matrix. The approval matrix addresses the legal and regulatory requirements and tiers the required governance as a function of the materiality of the risk of the proposed transaction.

The credit analysis department is a team comprised of two credit analysts. The team is located in the risk management department and is under the responsibility of the Bank's head of credit as senior credit officer. The senior credit officer reports to the CRO.

The team is also responsible for credit monitoring, problem assets management and work outs for which it can rely on the support of the credit department of SMBC BI under the SLA. This is carried out through continuous monitoring of the obligor's performance under the facilities and periodic formal reassessment of obligor's financial standing. The periodic credit monitoring involves the review of internal ratings.

Credit Portfolio Risk

The credit standing of the credit portfolio including concentration risks is managed through a set of tolerances, limits and guidelines which measure the evolution of the credit quality as well as the credit exposure to single obligor groups, countries, economic sectors, and credit products.

To manage the exposure to a single counterparty within the agreed internal single obligor limit, the Bank uses a credit risk transfer mechanism (the risk participation scheme) under which it transfers the credit risk of the counterparty to another SMBC Group entity (SMBC Brussels branch). In order to mitigate the connected exposure to the SMBC Group created by the risk participation, the SMBC Group provides eligible collateral for the entire amount of the committed covered exposure.

Quantification of Credit Risk Capital

Credit risk is quantified differently in the normative and the economic perspectives of the risk bearing capacity. In the normative perspective, the credit risk is calculated for Pillar 1 using the standardised approach. Under the adverse scenarios, required capital in addition to Pillar 1 is determined as additional credit costs stemming from the deterioration of the credit portfolio under the selected macroeconomic stress. In the normative perspective, concentration risk is calculated as an add-on to the credit risk equal to the difference in capital requirement between a correlated credit risk model and a fully diversified calculation. In the economic perspective the calculation is made using a correlated Value at Risk (VaR) credit risk model, which calculates the loss distribution of the portfolio based on fair value changes due to migrations.

The final capital requirements from credit risk as of March 2022 are:

– In the normative perspective (18.0% of RWA): EUR 1,872.3 million
– In the economic approach (99.9% CI, 1 year): EUR 452.4 million

Structure of the Loan Portfolio as of 31 March 2022

Total Credit Exposure

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

	Exposure amount (in million EUR)
Total gross exposure (1)	14,778
Total net exposure (2)	14,667
Net take %	99.2
Risk participation engagement	111.3
Risk participated exposure %	0.8

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

Credit Quality

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

Based on the Bank's internal rating model, the quality of the portfolio as of the 31 March 2022, is distributed as follows:

Internal rating linked to annual PD	Net committed exposure (in million EUR)
PD < 0.2%	10,348.8
0.2% <= PD < 2.0%	3,711.1
PD => 2.0%	544.6

As of the end of March 2022, there was only one impaired credit facility. Nevertheless, in comparison to previous reporting periods, Average Portfolio PD of the Bank has worsened. The main reason for that was the downgrade of obligors that were assessed as deteriorating due to Russian-Ukraine crisis. In the year under review, no new specific provision for credit engagements were recognised as of the end of March 2022.

Single Counterparty Exposure

As of 31 March 2022, 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 31.4% of the total portfolio net committed exposure.

Country Concentration

The country concentration as of 31 March 2022, is shown in the table below:

Country	Net committed exposure (in million EUR)	Gross committed exposure (in million EUR)
IT	2,818.1	2,818.1
NL	1,917.2	1,967.2
ES	1,830.9	1,892.2
JP	1,144.5	1,144.5
NO	899.3	899.3
GB	757.9	757.9
DE	724.7	724.7
Other	4,574.1	4,574.1

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

Sector Concentration

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

Economic sector	Net committed exposure (in million EUR)	Gross committed exposure (in million EUR)
Electric Utilities	1,511.5	1,511.5
Integrated Oil & Gas	1,356.1	1,356.1
Integrated Telecommunication Services	954.0	954.0
Gas Utilities	911.4	911.4
Wireless Telecommunication Services	690.1	690.1
Passenger Motor Vehicles	542.4	542.4
Industrial Conglomerates	539.3	589.3
Alternative Carriers	458.4	458.4
Real Estate Operating Companies	382.8	382.8
Oil & Gas Refining & Marketing	379.0	379.0
Multi-Sector Holdings	375.6	375.6
Auto Parts & Equipment	372.5	372.5
Others	6,193.6	6,254.9

Market Risk

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

Currency Risk:

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

The currency risk from the banking book in Pillar 1 was KEUR 17.1 at the end of the financial year (PY: KEUR 10.4).

Market Risk (Trading Book):

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

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

Interest Rate Risk in the Banking Book:

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

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

Liquidity Risk

The liquidity risk management framework ensures that the Bank maintains an adequate level of liquidity in all plausible scenarios and appropriately plans future funding and liquidity requirements. The Bank has also implemented a contingency funding plan to define measures and steps to be taken in case of a deterioration of the liquidity and funding position of the Bank. Within its Risk Appetite Framework (RAF), the Bank's strategic statement for liquidity is for the Bank to pursue a sound management of liquidity and achieve a well-diversified funding structure in the long term.

Liquidity risk is controlled within the 3 LOD model. As the first line, the treasury department manages the liquidity risk, with the risk management department responsible for establishing the liquidity risk management framework and the exercise of the second line oversight. The internal audit as third line, audits the adequacy of the internal control systems and if an effective internal control environment has been established.

The assessment of liquidity needs is fully integrated into the annual strategic planning process through the independent ILAAP. The ILAAP is aligned with the corporate strategy and with the capital assessment process and considers the funding requirements required to support the corporate strategy. Through the risk identification and assessment processes, the ILAAP identifies the scenarios and risks that are relevant for the Bank and measures those risks in relation to short-term and longer-term, base and stressed environments. The ILAAP for the financial year 2021/2022 was approved by the Executive Board and the Supervisory Board in March 2021 and was the basis for the management of liquidity in financial year 2021/2022. NSFR and LCR have been monitored daily. The required stable funding was managed to meet the NSFR requirements. In spite of the Coronavirus pandemic and the Russian-Ukraine crisis, the funding position of the Bank remained robust throughout the financial year and dominated by intra-group funding as well as capital contributions. The Bank maintained a sizeable HQLA buffer (held in cash at Bundesbank). The ILAAP also reviews and updates all elements of the liquidity and funding risk management including the liquidity risk appetite (including all related risk metrics), the stress testing framework, the contingency funding plan, and the mechanism for setting funds of the Bank. During the Coronavirus pandemic and after Russia's invasion of Ukraine, the Bank performed further ad-hoc stress tests and replanning of potential additional long-term funding requirements, stepped up its risk management monitoring and reporting of liquidity risks.

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

The Bank aims to maintain LCR and NSFR levels in excess of 120.0% and 110.0% respectively. The money gaps report is the Bank's primary method for monitoring and managing its business as usual dispositive liquidity requirements. The purpose of the money gap is to limit the Bank's reliance on short-term funding (its scope includes assets and liabilities with tenors between overnight and through to one month) as well as to ensure a sufficient level of day-to-day liquidity. The limits and framework are reviewed on an annual basis and approved by the Executive Board.

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

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

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

Liquidity Risk Position as of 31 March 2022

The Bank's main liquidity and funding source is its parent. As of 31 March 2022, all liquidity limits and ratios were fulfilled, and no limit breach was observed during the last financial year. As of 31 March 2022, the Bank's HQLA stood at EUR 2.66 billion, all held as central bank reserves at the Bundesbank. LCR stood at 153.0% and NSFR at 126.9%.

Operational Risk

The Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people, and systems, or from external events. The operational risk management framework uses a standard event type categorisation for operational risk, as per external regulations and common industry practice. It is consistent with the categorisation also used by the SMBC Group. Operational risk management is embedded in the Bank through regular collaboration with the business units, operational risk reporting and training.

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

– Operational risk appetite tolerances
– Operational risk event logging and reporting
– Risk register
– New product and services process
– Key risk indicators compilation and reporting
– Operational risk scenario analysis
– Reporting and escalation of operational risks
– Training on operational risk.

Operational Risk Capital Assessment

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

The Bank assesses all additional capital requirements for operational risk using a loss distribution (LDA) approach. The LDA uses a frequency and a severity distribution to calculate operational risk exposure that must be covered with capital. The frequency distribution is based on the historical loss events of the Bank and SMBC Group, which are recorded in the loss event database as well as external loss data. The severity distribution is based on an internal scenario analysis of 19 scenarios covering potential loss scenarios for each operational risk category.

The central collection of loss data enables the Bank to detect specific patterns, concentrations, and trends of operational risks. Therefore, in addition to direct losses (for which no materiality threshold is defined), the Bank collects indirect losses, near misses and compensations, as well as implemented measurements. 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 2022, the Bank had experienced a total amount of EUR 3,646 of operational losses.

The Bank performed a dedicated risk assessment of the Coronavirus pandemic for its operational risk profile twice during the year. In spite of the considerable impact of the pandemic on the operational organisation of the Bank, the Bank's operational performance remained under control with limited impact observed on its operational risk profile.

3. Capital Management

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

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

Under both approaches, all material risks are quantified and aggregated to determine the required amount of capital. Under the normative approach, this is performed for each year over the three-year planning horizon in a base and an adverse business scenario for capital planning purposes.

In the financial year 2021/2022 exercise, the following material risks were identified:

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

In general, material risks are covered with capital and quantified as part of the Bank's initial capital assessment and ongoing risk-bearing capacity analysis. Funding risk is not covered with capital as it is mainly mitigated by the structural long liquidity position resulting from the risk participation scheme as well as by Group funding resources and support. The Enterprise risk is mainly the risk of diverging from the business case planned for the Bank (either lower or higher growth volume, in particular owing to uncertainties surrounding the outcome of the crisis, on which the respective scenario was based). This risk is addressed by performing a scenario analysis as well as through close monitoring of the business development at the Bank. The case of a lower than expected business volume is covered under the adverse scenario. The material risks are reviewed in the risk register process at least annually. They may also be reassessed on an ad-hoc basis if necessary, during the financial year.

The aggregated amount of required capital is in turn compared with the available amount of capital (i.e., risk coverage potential). In the financial year 2021/2022 capital planning, for both the normative and economic approaches, the Bank's available capital used to determine its risk coverage potential is based on the regulatory capital amount adjusted economically. As of the end of March 2022, the risk coverage potential after all adjustments is calculated as EUR 5,023.8 million in the normative approach and EUR 4,879.6 million in the economic approach.

Results of the Normative Approach as of 31 March 2022

The Bank had set an internal target for the CET 1 ratio of 18.0% in a base case environment and of 12.0% in an adverse environment in its financial year 2021/2022 ICAAP exercise.

As of the end of March 2022, the risk-bearing capacity assessment and the contribution of material risks was as follows:

		Amount (in million EUR)
Total risk weighted assets (RWA)		10,548.3
Pillar 1/regulatory capital requirement	Credit risk	832.1
	CCR (SA)	–
	Market risk	–
	Operational risk	11.7
	FX-Buffer	0
Total Pillar 1 capital requirement		843.9
Pillar 2 capital requirement	Credit risk	–
	Concentration risk	38.0
	Counterparty Risk and CVA Risk	–
	Underwriting Risk	–
	Market risk	0.05
	IRRBB	7.0
	Operational risk	60.8
Total Pillar 2 capital requirement		105.9
Total capital requirement (Pillar 1 + Pillar 2)		949.8
Total capital requirement for CET 1 target ratio of 18.0%		1,898.7
Available CET 1		5,023.8
CET 1 Ratio		47.63%

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

Results of the Normative Approach of CM Europe as of 31 March 2022

CM Europe had set an internal red threshold for the CET 1 ratio of 30.0% in a base case environment and adverse environment in its financial year 2021/2022 ICAAP exercise.

As of the end of March 2022, the risk-bearing capacity assessment and the contribution of material risks was as follows:

		Amount (in million EUR)
Total risk weighted assets (RWA)		79.9
Pillar 1/regulatory capital requirement	Credit risk	1.2
	Market risk	–
	Operational risk	5.2
Total Pillar 1 capital requirement		6.4
Pillar 2 capital requirement	Credit risk	–
	Market risk	–
	Operational risk	–
Total Pillar 2 capital requirement		–
Total capital requirement (Pillar 1 + Pillar 2)		6.4
Available CET 1		69.5
CET 1 Ratio		86.9%

Capital Planning for Financial year 2022/2023 and beyond

The normative perspective is a forward-looking perspective which calculates the expected capital requirement in a three-year period under a base and several adverse scenarios. The base case was aligned with the multi-year planning exercise underpinning the corporate strategy. The Bank planned four adverse scenarios planning, three macroeconomic stress scenarios and one business model and operation based scenario. The macroeconomic scenario based on an EU recession mainly driven by the Russian-Ukraine crisis, as well as improving but still ongoing risk from the Coronavirus pandemic resulted in the most severe results for all four adverse scenarios. However, the base case scenario resulted in the highest capital requirements due to the growth figures and was the leading scenario in the financial year 2022/2023 capital planning. In the capital exercise approved by the Supervisory Board in March, the total required capital amount to sustain the quantified risks under the normative approach for the first year of operations was determined as EUR 1,410 million, driven by the base case scenario and a CET 1 ratio target of 18.0%. The three-year risk capital requirement will be closely monitored and benchmarked against plan as the Bank's business develops. In April 2021, the Bank received a capital injection of EUR 4,000 million.

The expected capital requirements are:

31 March 2023: EUR 2,378 million
31 March 2024: EUR 2,819 million
31 March 2025: EUR 3,302 million

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

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

Results of the Economic Perspective as of 31 March 2022

As of the end of March 2022, the quantification and distribution of risks under the economic approach was as follows:

	Risk type	Amount (in million EUR)
Material risks	Credit and concentration risk	452.4
	Market risk	0.1
	Operational risk	124.1
	IRRBB	7.5
Total capital requirements		584.1

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.

Results of the Economic Perspective of CM Europe as of 31 March 2022

As of the end of March 2022, the quantification and distribution of risks under the economic approach was as follows:

	Risk type	Amount (in million EUR)
Material risks	Credit risk	1.2
	Market risk	–
	Operational risk	18.1
	IRRBB	–
Total capital requirements		19.3

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 capital assessment process (ICAAP) and continuous risk-bearing capacity assessment and monitoring is overseen by appropriate governing bodies within the Bank. The ALM and Prudential Risk Management Committee 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 ALM and Prudential Risk Management Committee. The continuous monitoring of the Bank's risk-bearing capacity is also within the remit of the ALM and Prudential Risk Management committee. The reporting of the risk-bearing capacity assessment is split into three parts:

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

As a key element of the annual ICAAP process, risk appetite tolerances are defined to set the framework for capital use under the two capital measurement approaches. These tolerances and the associated limits and control measures are used for monitoring and controlling the risk-bearing capacity and the underlying assumptions.

Stress Testing:

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

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

Further Details of CM Europe Capital Requirements and Risk Potentials

Results of Capital Requirements and Risk Potential of CM Europe as of 31 March 2022

The normative total capital adequacy ratio is at 86.9% and own funds at EUR 69.5 million. The total risk weighted asset at EUR 79.9 million is mainly driven by credit risk and operational risk. The total capital adequacy ratio is far beyond the regulatory minimum of 14.5%.

The economic capital adequacy ratio is at 359.8%, reflecting EUR 19.3 million risk potential which is mostly driven by EUR 18.1 million for operational risk. Therefore, the economic capital adequacy ratio is far above the regulatory minimum of 100.0%.

The internal economic view of CM Europe is a conservative consideration of the actual and future risk profile of CM Europe, which results in a high provision of EUR 18.1 million for the operational risk compared to the EUR 5.19 million in the normative perspective.

Following amounts are in million EUR:

Risk Type	Normative (P1)	Economic (P2)
Credit risk	1.2	1.2
Market risk	–	–
Operational risk	5.2	18.1
Total capital requirements	6.4	19.3

The capital requirement for the market risk is driven by settlement risk.

Operational Risk of CM Europe as of 31 March 2022

Operational risk	Amount (in million EUR)
RWA	64.9
Risk potential	18.1

Credit Risk of CM Europe as of 31 March 2022

The credit risk of CM Europe is mainly driven by deposit risk. CM Europe has Group internal accounts with a total deposit of KEUR 4,373 EAD/KEUR 875 RWA. For its settlement business CM Europe has KEUR 40,608 EAD / KEUR 8,122 RWA at central depositaries. Further KEUR 39,842 EAD/KEUR 0 RWA are deposited at the Bundesbank as liquidity reserve. Additionally, KEUR 4,292 EAD/KEUR 2,184 RWA has to be taken into account due to potential default of Group internal cost allocations. Further KEUR 3,304 EAD/KEUR 1,947 RWA due to outstanding provisions from DCM business and KEUR 357 EAD/KEUR 333 RWA from Fixed Income & Equities trading-business are to be considered.

Also, other positions like tangible assets and other outstanding receivables of KEUR 1,557 EAD/KEUR 1,558 RWA must be added to credit risk.

Credit risk	RWA (in million EUR)
Deposit risk	9.0
CCR (LTS)	–
Debt risk	4.4
Other	1.6
Total	15.0

This risk profile is already captured in the economic perspective by KEUR 1,204.

Liquidity risk of CM Europe as of 31 March 2022

In 2021, CM Europe has replaced the LiqV liquidity ratio by the Liquidity Coverage Ratio (LCR) in its risk appetite dashboard. The LCR is at 1,658.43% as of 31 March 2022. The liquidity buffer consists of KEUR 39,841 as deposit at the Bundesbank. The net liquidity outflow is at KEUR 2,402 consisting of KEUR 9,609 total outflows and KEUR 47,188 inflows. Inflows were only taken into account in the amount of KEUR 7,207 or 75.0% of the outflows. The outflow is mainly driven by funding of settlements of the DCM business with a maturity of less than 30 days. The inflow is mainly drive by own cash account for ongoing settlement activities.

4. Summary and Outlook

The Bank started this financial year of business operations in a business environment characterised by a lasting high degree of stress and uncertainty due to the lack of clarity over the impact of the coronavirus pandemic. However, throughout this year and in this backdrop the Bank managed its risk profile well within its risk appetite and available capital and liquidity resources. In addition, the Bank continued with the development of its risk management framework. The further enhancement of the risk management system will be continued in the next financial year, alongside the close management of the risk profile under the still challenging current economic backdrop. The Bank's focus on risk management in the next year is on improving the framework for the merged entity in all areas of the new Universal Bank. The current market environment will be monitored constantly and action will be taken within the Bank's risk appetite to address the situation sufficiently.

VI. Internal control system and risk management system in the financial reporting process

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

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

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

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

VII. Additional Disclosures

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

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

The report issued in this respect concludes with the following statement: "The Executive Board declares that SMBC Bank EU AG has received appropriate consideration for each legal transaction with the controlling or other affiliated company in accordance with the circumstances known at the respective time when the legal transactions took place. No other measures have been taken or omitted that would have been disadvantageous for SMBC Bank EU AG."

2. Assurance of the Legal Representatives

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

Frankfurt-Main, 29 July 2022

SMBC Bank EU AG
Frankfurt-Main

Executive Board

Naoki Okubo

Stanislas Roger

Tetsuji Ueno

Dr. Niklas Dieterich

Isabelle Saadjian

Balance Sheet

Assets

EUR	Notes	31.03.2022 SMBC EU incl. Merger	31.03.2022 SMBC EU excl. Merger	31.03.2021
Cash reserves	III. 1	2,699,264,744.12	2,659,423,054.91	3,218,893,587.79
a) Cash on hand		–	–	–
b) Balances at central banks		2,699,264,744.12	2,659,423,054.91	3,218,893,587.79
thereof:				
at the Deutsche Bundesbank		2,699,264,744.12	2.659,423,054.91	3.218,893,587.79
c) Balances with post office giro institutions		–	–	–
Loans and advances to banks	III. 2	731,178,862.09	685,040,605.63	676,252,895.45
a) Payable on demand		144,946,866.69	99,995,822.73	71,158,777.17
b) Other loans and advances		586,231,995.40	585,044,782.90	605,094,118.28
Loans and advances to customers	III. 3	5,943,169,554.33	5,941,029,583.32	2,925,023,651.51
Debt instruments and other fixed-income securities	III. 4	98,846,611.52	98,846,611.52	43,049,327.60
a) Money market instruments		98,846,611.52	98,846,611.52	43,049,327.60
aa) Of public-sector issuers		–	–	–
ab) Of other issuers		98,846,611.52	98,846,611.52	43,049,327.60
Assets held for trading	III. 5	472,960,209.08	472,756,911.62	143,228,827.66
Intangible assets	III. 6	22,121,120.05	22,121,120.05	25,050,224.41
a) Self-created property rights and similar rights and assets		–	–	–
b) Concessions, industrial property rights and similar rights and assets as well as licences to such rights and assets acquired for consideration		267,194.44	267,194.44	374,913.01
c) Goodwill		21,853,925.61	21,853,925.61	24,675,311.40
d) Advance payments made		–	–	–
Property and equipment	III. 6	4,676,292.70	4,401,645.30	4,426,861.82
Other assets	III. 7	62,207,810.56	59,920,884.25	82,959,367.10
Prepaid expenses	III. 8	256,921.00	256,921.00	53,170.00
Total assets		10,034,682,125.45	9,943,797,337.60	7,118,937,913.34

Liabilities and Equity

EUR	Notes	31.03.2022 SMBC EU incl. Merger	31.03.2022 SMBC EU excl. Merger	31.03.2021
Liabilities to banks	III. 9	1,590,173,209.66	1,581,056,169.56	4,991,687,468.04
a) Payable on demand		237,633,49	237,633.49	–
b) With agreed maturities or notice periods		1,589,935,576.17	1,580,818,536.07	4,991,687,468.04
Liabilities to customers	III. 10	2,569,524,354.02	2,569,288,896.85	816,395,370.07
a) Saving deposits		–	–	–
aa) With agreed notice period of three months		–	–	–
ab) With agreed notice period of more than three months		–	–	–
b) Other liabilities		2,569,524,354.02	2,569,288,896.85	816,395,370.07
ba) Payable on demand		485,017,486.54	485,017,486.54	237,671,092.01
bb) With agreed notice period of three months		2,084,506,867.48	2,084,271,410.31	578,724,278.06
Liabilities held for trading	III. 11	468,599,358.21	468,395,249.88	142,310,556.28
Other liabilities	III. 12	214,516,034.08	211,560,325.09	82,604,450.97
Deferred income	III. 13	4,091,232.56	4,091,232.56	2,418,978.72
Provisions	III. 14	60,005,964.71	51,357,114.02	34,496,806.98
a) Provisions for pensions and similar obligations		–	–	–
b) Tax provisions		7,029,076.88	5,814,426.88	2,038,828.00
c) Other provisions		52,976,887.83	45,542,687.14	32,457,978.98
Fund for general banking risks	III. 15	1,980,276.34	1,980,276.34	1,041,998.30
Equity	III. 16	5,125,791,695.87	5,056,068,073.30	1,047,982,283.98
a) Called capital		5,100,000,000.00	5,100,000,000.00	1,100,000,000.00
Subscribed capital		5,100,000,000.00	5,100,000,000.00	1,100,000,000.00
Less uncalled outstanding capital		–	–	–
b) Capital reserves		73,537,837.78	–	–
c) Revenue reserves		–	–	–
ca) Legal reserves		–	–	–
cb) Reserves for shares in a controlling company or majority owned company		–	–	–
cc) Reserves required under the articles of association		–	–	–
cd) Other revenue reserves		–	–	–
d) Accumulated deficit		(47,746,141.91)	(43,931,926.70)	(52,017,716.02)
Total liabilities and equity		10,034,682,125.45	9,943,797,337.60	7,118,937,913.34

Contingent Liabilities and Other Obligations

EUR	Notes	31.03.2022 SMBC EU incl. Merger	31.03.2022 SMBC EU excl. Merger	31.03.2021
Contingent liabilities	V. 2	1,963,063,584.54	1,963,063,584.54	1,280,765,017.83
a) Contingent liabilities from rediscounted bills		–	–	–
b) Contingent liabilities from guarantees and indemnity agreements		1,963,063,584.54	1,963,063,584.54	1,280,765,017.83
c) Liability from the collateralisation of third party liabilities		–	–	–
Other obligations	V. 2	6,919,951,434.63	6,919,951,434.63	5,582,143,230.48
a) Repurchase obligations from reverse repurchase agreements		–	–	–
b) Placement and underwriting obligations		–	–	–
c) Irrevocable loan commitments		6,919,951,434.63	6,919,951,434.63	5,582,143,230.48

Income Statement

EUR	Notes	01.04.2021 – 31.03.2022 SMBC EU incl. Merger	01.04.2021 – 31.03.2022 SMBC EU excl. Merger	01.04.2020 – 31.03.2021
Interest income	IV. 1	56,438,947.58	56,438,947.58	37,402,219.07
a) Lending and market business		56,168,361.35	56,168,361.35	37,402,219.07
thereof: Negative Interests on Credit and Money Market Transactions		(32,885,238.00)	(32,714,641.71)	(16,961,323.86)
b) Fixed-income securities and book-entry securities		270,586.23	270,586.23	–
thereof: Negative interest income from fixed-income securities and book-entry securities		–	–	–
Interest expenses	IV. 1	(8,761,828.75)	(8,728,691.23)	(2,946,047.38)
Negative interest expenses		16,717,468.73	16,717,468.73	4,062,670.54
Commission income	IV. 2	85,580,127.51	70,484,583.97	60,614,386.41
Commission expenses	IV. 2	(13,141,653.02)	(13,074,261.74)	(17,688,808.02)
Net trading result	IV. 3	9,499,034.45	9,040,956.79	4,644,433.64
Other operating income	IV. 4	14,180,846.76	14,841,345.65	10,352.185.97
General administrative expenses	IV. 5	(114,978,489.96)	(100,412,788.33)	(71,469,486.68)
a) Personnel expenses		(50,502,057.68)	(45,027,839.82)	(36,440,641.27)
aa) Wages and salaries		(40,121,467.97)	(35,173,388.70)	(29,176,467.75)
ab) Social security, pension, and other benefits		(10,380,589.71)	(9,854,451.12)	(7,264,173.52)
thereof:				
For pensions		–	–	–
b) Other administrative expenses		(64,476,432.28)	(55,384,948.51)	(35,028,845.41)
Amortisation, depreciation and write-downs on intangible assets and property and equipment	IV. 6	(6,817,879.38)	(4,099,569.59)	(3,935,792.04)
Other operating expenses	IV. 7	(161,210.86)	(133,472.89)	(22,085.71)
Write-downs and allowances on receivables and certain securities / additions to provisions for loan losses	IV. 8	(23,764,155.25)	(23,764,155.25)	(10,594,924.94)
Income from write-ups of loans and certain securities as well as releases of provisions for loan losses	IV. 9	11,700,000.00	11,700,000.00	–
Total Operating Income		9,773,739.08	12,292,894.96	6,356,080.32
Income taxes	IV. 10	(5,450,647.16)	(4,155,587.83)	(2,085,438.43)
Other taxes	IV. 11	(51,517.81)	(51,517.81)	(10,836.14)
Net income for the year	–	4,271,574.11	8,085,789.32	4,259,805.75
Accumulated deficit brought forward	–	(52,017,716.02)	(52,017,716.02)	(56,277,521.77)
Accumulated deficit		(47,746,141.91)	(43,931,926.70)	(52,017,716.02)

SMBC Bank EU AG, Frankfurt-Main, as of 31 March 2022
Registered court: District Court Frankfurt am Main
Commercial register number: HRB 110214

I. General Information on the Annual Financial Statements

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

The annual financial statements of SMBC EU as of 31 March 2022, have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Regulation on the Accounting for Banks and Financial Services Institutions (RechKredV) as well as the provisions of the German Stock Corporation Act (AktG). In addition to the annual financial statements – comprising the balance sheet, income statement and notes – a management report was prepared in accordance with Section 289 HGB.

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

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

Due to the merger of all assets and liabilities as well as all rights and obligations of the former Group sister companies Capital Markets Europe GmbH, Frankfurt (CM Europe) into SMBC EU effective from 1 November 2021, changes in the net assets, financial, and profit position resulted. The associated branch of CM Europe in France, established in June 2021, was merged into SMBC EU at the same time.

As a result of the merger last year the presentation was partly modified. To illustrate differences resulting from the merger and to maintain comparability of disclosures with last year's financial report, a comparison within the balance sheet and income statement over three columns is shown. Presentation in three columns means comparing the previous year's values of SMBC EU as per 31 March 2021 with the current year's stand-alone balances of SMBC EU, and as a third column merged balances of SMBC EU and CM Europe taking into account consolidated assets, liabilities, equity, as well as profits and expenses. Merged balances as per 31 March 2022 incorporate income and expenses of former CM Europe between 1 November 2021 and 31 March 2022. Due to materiality reasons, we disregarded a presentation of three columns in the explanatory notes to the balance sheet and to the income statement. For material parts of CM Europe in respective positions of the financial statements the comparability of previous year's balances is ensured by appropriate additional disclosures.

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), which is included in the consolidated financial statements of Sumitomo Mitsui Financial Group, Tokyo/Japan (SMFG). The consolidated financial statement of the SMFG is available under the following link:

https://www.smfg.co.jp/english/investor/financial/disclosure.html#link2022

II. Accounting and Valuation Methods

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

The cash reserve is shown at nominal amounts.

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

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

Security transactions with no intention of trading are allocated to the liquidity reserve, which is subject to the strict lower of cost or market principle pursuant to Section 253 (4) HGB. In case of material differences in the book value and the market value of a security a write-off is made to the lower value.

Repurchase transactions are reported in accordance with the applicable principles of Section 340b HGB.

Positive and negative market values of derivative financial instruments held for trading are reported in assets and liabilities held for trading. No financial instruments held for trading were reclassified.

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

The subsequent valuation of the financial instruments held for trading is carried out at fair value less a risk adjustment in accordance with Section 340e (3) HGB. The subsequent valuation is based on publicly listed market prices on an active market. If these are not available, the assessment is based on recognised valuation methods. Standard valuation models are used.

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

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

Intangible assets as well as property and equipment are reported at cost and, where a finite useful life is applicable, reduced by amortisation/depreciation. Amortisation/depreciation is spread over the economic useful life. In the event of an expected permanent impairment, a write-down (impairment loss) is recognised.

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

Other assets are recognised at nominal amounts. Differences between costs and nominal amounts are recognised as deferred income or prepaid expenses and amortised over the lifetime of the asset.

Liabilities to banks and liabilities to customers are stated at the settlement amounts plus accrued interest.

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

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

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

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

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

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

According to the EU-Benchmarking Regulation of the IBOR Reform (Interbank Offered Rate) in the financial year further modifications to reference interest rates were made. Besides changes on the credit portfolio of SMBC EU additional changes were applied to derivative financial instruments.

The modification of discount rates resulted in a change of the fair value of derivatives held for trading. To neutralise such effects, an insignificant one-off compensation was made in the course of implementing the IBOR Reform.

III. Explanatory Notes to the Balance Sheet

1. Cash Reserves and Balances at Central Banks

KEUR	31.03.2022	31.03.2021
Cash reserves	2,699,265	3,218,894
Cash on hand	–	–
Balances at central banks	2,699,265	3,218,894
thereof at Deutsche Bundesbank	2,699,265	3,218,894

2. Loans and Advances to Banks

KEUR	31.03.2022	31.03.2021
Loans and advances to banks	731,179	676,253
thereof: Loans and advances to affiliated companies	676,443	381,919
Maturity breakdown:		
Payable on demand	144,947	70,857
Up to three months	391,049	605,081
More than three months and up to one year	114,301	13
More than one year and up to five years	80,882	255
More than five years	–	46

Loans and advances to banks include receivables from inter-banking lending business of EUR 584.99 million (PY: EUR 100.00 million).

3. Loans and Advances to Customers

KEUR	31.03.2022	31.03.2021
Loans and advances to customers	5,943,170	2,925,024
thereof: Loans and advances to affiliated companies	2,386	269
Maturity breakdown:		
Payable on demand	952	68
Up to three months	1,643,542	780,323
More than three months and up to one year	720,001	186,807
More than one year and up to five years	2,678,476	1,322,040
More than five years	900,200	635,787

Loans and advances to customers mainly result from lending business.

The increase in loans and advances to affiliated companies mainly results from receivables to affiliated companies of the merged CM Europe amounting to KEUR 2,065.

4. Debt instruments and other fixed-income securities

KEUR	31.03.2022	31.03.2021
Debt instruments and other fixed-income securities	98,847	43,049

Debt instruments and other fixed-income securities exclusively include money market instruments from other issuers that mature within the next financial year.

5. Assets Held for Trading

KEUR	31.03.2022	31.03.2021
Assets held for trading	472,960	143,229
Derivative financial instruments	472,837	143,229
Receivables	–	–
Debt securities and other fixed-income securities	203	–
Equities and other non-fixed-income securities	–	–
Other assets	–	–
Risk adjustments	(80)	–

6. Intangible Property, Property and Equipment

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

	Cost					Amortisation					Residual book value	
KEUR	01.04.2021	Additions	Reductions	Transfers	31.03.2022	01.04.2021	Additions	Reductions	Transfers	31.03.2022	01.04.2021	31.03.2022
Self-created property rights and similar rights and assets	–	1,303	–	–	1,303	–	1,303	–	–	1,303	–	–
Concessions, property rights and similar rights and assets as well as licences to such rights and assets acquired for consideration	679	1,540	16	–	2,204	305	1,632	–	–	1,936	375	267
Goodwill	28,213	–	–	–	28,213	3,538	2,821	–	–	6,360	24,675	21,853
Intangible assets	28,892	2,844	16	–	31,720	3,843	5,756	–	–	9,599	25,050	22,121
Leasehold improvement	5,748	308	–	–	6,056	2,700	639	–	–	3,339	3,048	2,717
Operating and other equipment	3,083	878	–	127	4,089	1,706	424	–	–	2,129	1,378	1,959
Property and equipment	8,831	1,186	–	127	10,145	4,406	1,063	–	–	5,468	4,425	4,676
Total	37,724	4,030	16	127	41,864	8,249	6,819	–	–	15,067	29,475	26,797

In the self-created property rights and similar rights and assets a self-created software was taken on with the merger amounting to EUR 2.21 million. Post-merger this software is no longer used and therefore fully written off.

7. Other Assets

Other assets mainly include:

KEUR	31.03.2022	31.03.2021
Other assets	62,208	82,959
thereof:		
Receivables from intra-group clearing	34,819	29,008
Received cash collateral (margins)	19,298	34,400
Other	8,090	19,552

8. Accrued Expenses and Deferred Revenues

KEUR	31.03.2022	31.03.2021
Prepaid expenses	257	53

9. Liabilities to Banks

KEUR	31.03.2022	31.03.2021
Liabilities to banks	1,590,173	4,991,687
thereof: liabilities to affiliated companies	1,564,203	4,991,389
Maturity breakdown:		
Payable on demand	238	2,399
Up to three months	1,378,320	2,089,422
More than three months and up to one year	130,737	299,984
More than one year and up to five years	80,878	2,599,882
More than five years	–	–

Liabilities to banks mainly consist of liabilities from time deposits of EUR 1,586.73 million (PY: EUR 60.40 million).

10. Liabilities to Customers

KEUR	31.03.2022	31.03.2021
Liabilities to customers	2,569,524	816,395
thereof: liabilities to affiliated companies	829	5,580
Maturity breakdown:		
Payable on demand	485,017	237,671
Up to three months	1,749,004	408,404
More than three months and up to one year	331,507	169,737
More than one year and up to five years	3,874	473
More than five years	122	110

Liabilities to customers mainly consist of liabilities arising from customer deposits amounting to EUR 2,082.92 million (PY: EUR 578.42 million) and current accounts of EUR 485.02 million (PY: EUR 237.67 million).

Previous year's liabilities to affiliated companies mainly resulted from liabilities of SMBC EU to CM Europe. The reduction of this year's value compared to the value of previous year is therefore explained by the merger.

11. Liabilities held for Trading

KEUR	31.03.2022	31.03.2021
Liabilities held for trading	468,599	142,311
Derivative financial instruments	468,395	142,311
Liabilities	204	–

12. Other Liabilities

KEUR	31.03.2022	31.03.2021
Other liabilities	214,516	82,604
thereof:		
Provided cash collateral (margins)	165,834	61,870
Liabilities from intra-group clearing	25,935	14,211
Differences in spot rates from unsettled forward transactions	14,717	–
Liabilities from security trading	3,778	–
Tax liabilities	2,212	1,279
Other	2,040	5,245

13. Deferred Income

KEUR	31.03.2022	31.03.2021
Deferred income	4,091	2,419
thereof:		
Discount (disagio)	2,155	1,459
Accrual of commitment fees	1,619	206
Other	317	754

The item includes the discount between the nominal amount and the issued amount (disagio) for receivables in the amount of EUR 2.16 million (PY: EUR 1.46 million) as the receivable is recognised at nominal amount.

14. Provisions

KEUR	31.03.2022	31.03.2021
Provisions	60,006	34,497
thereof:		
Tax provisions	7,029	2,039
Other provisions	52,977	32,458

The merger of CM Europe into SMBC EU results in an increase of tax provisions amounting to EUR 1.21 million. Other provisions mainly consist of provisions for intra-group clearing in the amount of EUR 17.30 million (PY: EUR 11.60 million) as well as bonus provisions of EUR 13.62 million (PY: EUR 9.93 million), from which an amount of EUR 3.50 million is attributable to the merged CM Europe. Furthermore, provisions for value adjustments on off-balance items in the amount of EUR 11.06 million (EUR 1.93 million) are included.

Some employees are entitled to early retirement benefits depending on their seniority.

The following valuation assumptions and methods were used:

	31.03.2022	31.03.2021
Actuarial interest	1.05%	1.08%
Salary trend	1.50%	1.50%
Health insurance contribution	0.00%	0.00%
Social security contributions (general)	19.975%	19.975%
Fluctuation	5.00%	5.00%
Utilisation	100.00%	100.00%
Biometrics	RT 2018 G	RT 2018 G
Valuation method	PUC	PUC

KEUR Early retirement commitments	31.03.2022	31.03.2021
Early retirement commitments	2,056	2,202
Ongoing early retirement	170	679
Potential early retirement	1,887	1,523

The early retirement obligations are offset by compensation claims in the amount of EUR 1.18 million (PY: EUR 1.16 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 resulted in an expense of KEUR 20.01 (PY: KEUR 24.99) in the financial year.

15. Fund for General Banking Risks

In accordance with Section 340e (4) Sentence 1 HGB in conjunction with Section 340g HGB, the fund for general banking risks was allocated an amount of KEUR 938.28 (PY: KEUR 795.90) in the past financial year, a total value of KEUR 1,980.28 (PY: KEUR 1,042.00) results. The addition was offset against the net income from the trading portfolio.

16. Equity

KEUR	31.03.2022	31.03.2021
Equity	5,125,792	1,047,982
Subscribed capital	5,100,000	1,100,000
Capital reserves	73,538	–
Change	73,538	–
Revenue reserves	–	–
Change	–	–
Accumulated deficit	(47,746)	(52,018)

In April 2021, a capital increase of EUR 4.00 billion was made. For this purpose, 4,000,000,000 registered no-par shares were acquired by SMBC Tokyo. The subscribed capital of the Bank amounted to EUR 5.10 billion as of the balance sheet day, which is divided into 5,100,000,000 registered no-par shares (notional value of EUR 1.00 per share).

An increase of the capital reserves is resulting from the merger of CM Europe into SMBC EU amounting to EUR 73.54 million.

It will be proposed to the Annual General Meeting that the accumulated deficit is carried forward.

IV. Explanatory Notes to the Income Statement

1. Net Interest Income

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Net interest income	47,677	34,456
Interest income from:	56,439	37,402
Lending and money market business excluding negative interest	89,053	54,364
Negative interest on lending and money market business	(32,885)	(16,961)
Fixed-income securities and book-entry securities	271	–
Negative interest on fixed-income securities and book-entry securities	–	–
Interest expenses from:	(8,762)	(2,946)
Interest expenses	(25,479)	(7,009)
Less negative interests on interest expenses	16,717	4,063

EUR 44.89 million (EUR 18.75 million) of interest income is attributable to SMBC EU and EUR 11.55 million (PY: EUR 18.66 million) to the Milan branch.

2. Net Commission Income

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Net commission income	72,438	42,926
Commission income	85,580	60,614
Loan service fees	68,691	56,111
Commissions from security business	12,453	–
Guarantee fees received	4,221	4,173
Other	215	330
Commission expenses	(13,142)	(17,689)
Commissions from security business	(1,180)	–
Guarantee fees paid	(2,366)	(8,531)
Interbank commissions	(7,365)	(8,877)
Other	(2,230)	(281)

EUR 77.89 million (PY: EUR 56.40 million) of commission income is attributable to SMBC EU, EUR 7.63 million (PY: EUR 4.22 million) to the Milan branch and KEUR 54.05 (PY: EUR 0.00) to the Paris branch.

An increase of net commission income is resulting from the merger of CM Europe into SMBC EU amounting to EUR 12.45 million.

3. Net Trading Result

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Net trading result	9,499	4,644

The net trading result includes the allocation to the Section 340e HGB reserve amounting to KEUR 938.28 (PY: KEUR 795.90).

4. Other Operating Income

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Other operating income	14,181	10,352
thereof:		
Income from recharging affiliated companies	10,696	9,317
Rental income	2,380	888
Income from the reversal of provisions	360	129
Other	745	18

The gain from currency conversion of receivables and liabilities denominated in foreign currency amounts to KEUR 11.31 (PY: KEUR 65.29).

5. General Administrative Expenses

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
General administrative expenses	(114,978)	(71,469)
thereof:		
Personnel expenses	(50,502)	(36,440)
Wages and salaries	(40,121)	(29,176)
Social security, pensions, and other benefits	(10,381)	(7,264)
thereof for pensions	–	–
Other administrative expenses	(64,476)	(35,029)

The merger of CM Europe into SMBC EU results in an increased number of employees that is reflected in the personnel expenses, compared to previous year the expenses increased by EUR 5.47 million.

Other administrative expenses mainly consist of expenses from intra-group clearing of EUR 29.19 million (PY: EUR 9.22 million), VAT expenses in the amount of EUR 8.67 million (PY: EUR 4.45 million), bank levy of EUR 3.28 million (PY: EUR 2.33 million), expenses for temporary staff of about EUR 4.43 million (PY: EUR 1.78 million) as well as external consulting services amounting to EUR 2.91 million (PY: EUR 1.29 million).

Intra-group clearing includes EUR 4.77 million which can be allocated to the merged CM Europe. The significantly increased VAT expenses of about EUR 1.17 million can be attributed to CM Europe.

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

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Amortisation, depreciation and write-downs on intangible assets and property and equipment	(6,818)	(3,936)
thereof:		
Leasehold improvement	(746)	(828)
Goodwill	(2,821)	(2,547)
Software no longer used post-merger	(2,673)	–
Other	(577)	(561)

7. Other Operating Expenses

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Other operating expenses	(161)	(22)

The increased other operating expenses include among others realised losses from the currency conversion amounting to KEUR 27.74 resulting from the merged CM Europe.

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

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Write-downs and allowances on receivables and certain securities and additions to provisions for loan losses	(23,764)	(10,595)

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

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Income from Write-ups of Loans and certain Securities as well as Releases of Provisions for Loan Losses	11,700	–

In the reporting year the fund for general banking risks were reduced by EUR 10.00 million. Furthermore, an individual risk provision for bad debts was released by EUR 1.70 million.

10. Income Taxes

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Income taxes	(5,451)	(2,085)
Trade tax	(1,087)	(872)
Corporate tax	(4,364)	(1,216)

Corporate tax shows income taxes of Frankfurt and its branches.

In Germany the combined income tax rate equals to 31.558%. The Italian income tax rate is 24.0%, for France 26.5%. The income tax rate in the Czech Republic is 19.0%, in the Netherlands depending on the taxable profit 15.0% or 25.0% in 2021 and 25.8% in 2022. In Spain the income tax rate equals to 25.0% and for Ireland 12.5%.

Income taxes of about EUR 1.30 million can be attributed to the merged CM Europe.

11. Other Taxes

In the financial year other taxes of KEUR 51.52 (PY: KEUR 10.84) arose for bank levy in the Spanish branch amounting to KEUR 23.70 (PY: KEUR 10.84) and in the French branch of KEUR 27.82 (PY: KEUR 0.00).

V. Other Explanatory Notes

1. Held for trading

Derivative Financial Instruments held for Trading

KEUR	Nominal value	Market value positive	Market value negative
OTC products			
Interest-related transactions	20,278,415	297,394	(297,394)
Currency-related transactions	9,993,294	175,551	(175,436)

2. Off-Balance-Sheet Transactions

Derivative Financial Instruments not held for Trading

KEUR	Nominal Value	Market Value Positive	Market Value Negative
Interest rate risk			
Interest rate swap	1,090,784	23,150	(6)
Currency Risks			
Currency swap	1,209,976	15,797	(13,688)

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

Contingent Liabilities and Other Obligations

KEUR	31.03.2022	31.03.2021
Contingent liabilities		
Liabilities from guarantees and indemnity agreements	1,963,064	1,280,765
Other obligations		
Irrevocable loan commitments	6,919,951	5,582,143

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.

3. Assets and Liabilities denominated in Foreign Currency

KEUR	31.03.2022	31.03.2021
Assets and liabilities denominated in foreign currency		
Assets	5,508,204	2,942,328
Liabilities	(6,029,122)	(2,932,712)

VI. Other Information

1. Number of Employees

Number	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Annual average	289	217
Düsseldorf	108	101
Back office	69	61
Front office	39	40
Frankfurt	114	69
Back office	60	41
Front office	54	28
Milan	15	15
Back office	6	7
Front office	9	8
Amsterdam	10	10
Back office	2	2
Front office	8	8
Prague	9	9
Back office	2	2
Front office	7	7
Madrid	6	5
Back office	2	2
Front office	4	3
Dublin	5	4
Back office	3	3
Front office	2	1
Paris	22	4
Back office	2	0
Front office	20	4

Due to the merger of CM Europe into SMBC EU effective from 1 November 2021, the annual average number of employees increased by 25 in Frankfurt and by three in Paris.

2. Auditor's Fee

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Auditor's fee	880	541
Audit services	728	481
Provision	728	481
Other assurance services	152	60
Provision	152	60
Tax advisory services	–	–
Other services	–	–

Increased auditor's fees include fees for audit services of KEUR 228.00 resulting from the merged CM Europe.

3. Explanatory Notes on Other Financial Commitments

The minimum rental expenses up to the earliest termination date for the business premises in Frankfurt, Milan, Amsterdam as well as Madrid, Paris, and Prague amount to EUR 10.78 million (PY: EUR 8.11 million).

4. Governing Bodies

Members of the Executive and the Supervisory Board

Executive Board
Ryuichi Nishizawa
Chairman, CEO until 30.09.2021
Hiroki Kamijo
Deputy CEO until 30.06.2021
Stanislas Roger
Chairman, CEO since 01.10.2021
Tetsuji Ueno
Head of Planning Department since 01.07.2021
Dr. Niklas Dieterich
CFO, COO
Isabelle Saadjian
CRO
Jörg Legens
Country Coordinator

Supervisory Board
Keiichiro Nakamura
Chairman since 12.05.2020, CEO, SMBC Bank International
Hideo Kawafune
Deputy since 12.05.2020, COO, SMBC Bank International plc
Shinichi Okamoto
Deputy-General Manager EMEA, SMBC Bank International plc

Total Remuneration

KEUR	01.04.2021 – 31.03.2022	01.04.2020 – 31.03.2021
Salaried employees		
Executive Board	2,588	2,084
Members of the Executive Board	2,588	2,084
Former members of the Executive Board or their surviving dependants	–	–
Supervisory Board	–	–
Members of the Supervisory Board	–	–
Former members of the Supervisory Board or their surviving dependants	–	–

The Supervisory Board refrained from any remuneration for the financial year.

5. Mandates on Supervisory Boards and Other Control Bodies

Executive Board
Ryuichi Nishizawa
No further mandates
Hiroki Kamijo
No further mandates
Stanislas Roger
Deputy Head SMBC EMEA Division, non-executive Director of SMBC Leasing UK Ltd.
Tetsuji Ueno
No further mandates
Dr. Niklas Dieterich
No further mandates
Isabelle Saadjian
No further mandates
Jörg Legens
No further mandates
Supervisory Board
Keiichiro Nakamura
SMBC Bank International plc,
JSC Sumitomo Mitsui Rus Bank (Supervisory Board Director),
SMBC Nikko Capital Markets Limited (non-executive Director),
SMBC Nikko Capital Markets GmbH (Supervisory Board Director),
Shimano Europe B.V. (Supervisory Board Member),
The Japanese School Limited.
Hideo Kawafune
SMBC Bank International plc (executive Director)
JSC Sumitomo Mitsui Rus Bank (Supervisory Board Director)
SMBC Nikko Capital Markets Limited (non-executive Director)
JRI Europe, Ltd (non-executive Director)
SMBC Advisory Services Saudi Arabia (SASSA)
Shinichi Okamoto
Co-General Manager of Risk Management Department, SMBC Bank International plc.
Co-General Manager of Risk Management Department EMEA, Sumitomo Mitsui Banking Corporation
Regional Chief Risk Officer, EMEA, Sumitomo Mitsui Financial Group
Senior General Manager of Corporate Risk Management Department, Sumitomo Mitsui Banking Corporation / Sumitomo Mitsui Financial Group

6. Subsequent Events

As of 24 April 2022, Mr. Jörg Legens resigned from the Execution Board, Mr. Naoki Okubo was appointed to the Execution Board with effect of 26 April 2022.

As of 25 April 2022, Mr. Hideo Kawafune and Mr. Shinichi Okamoto resigned from the Supervisory Board. With effect of 26 April 2022, Mr. Takahiro Yazawa, Mr. Antony Yates and Mr. Glenn Swanton were appointed to the Supervisory Board.

SMBC EU, in a lender consortium, is financing two LNG Vessels fully owned by a Japan-domiciled sponsor corporation. After the outbreak of the Russian invasion into Ukraine, the lender community and the sponsor successfully managed the immediate sanctions risk by buying out the previous (sanctioned) co-sponsor. In parallel, the role of the charterer, a company with a registered branch in Russia was analysed. On 30 June 2022, the situation was confronted with additional complexity by a newly issued decree of the President of the Russian Federation. By way of this decree, the vessel charterer factually is to be converted into a Russian corporation, and certain assets are to be transferred to the Russian federation. Further, co-owners of the vessel charterer are asked to express their will whether to stay invested or not, which is subject to approval by Russian authorities. The decree gives rise to several legal questions currently analysed by specialised outside counsel. SMBC EU is awaiting the result of this analysis to evaluate the situation and potential exit options.

Sustained disruptions to commodity markets represent an acute risk. The ultimate economic impact would depend on various factors, including Europe's capacity to source alternative supplies, roll out energy efficiency measures, and manage rationing schemes effectively. In the event of a sudden stop or a persistent significant reduction of natural gas supplies a sharp recession would likely take hold in several countries in the EU. Potential effects on the business activities of the Bank as well as its risk profile are analysed on an ongoing basis.

Frankfurt-Main, 29 July 2022

SMBC Bank EU AG
Frankfurt-Main

Executive Board

Naoki Okubo

Stanislas Roger

Tetsuji Ueno

Dr. Niklas Dieterich

Isabelle Saadjian

Country-by-Country Reporting

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

In this Country-by-Country Reporting, SMBC Bank EU AG discloses the information listed below in accordance with Section 26a (1) nos. 1 to 6 KWG as of 31 March 2022:

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

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

Revenues are the sum of net interest, commission income, trading income and other operating income. The number of employees is provided as of 31 March 2022. Taxes present the income taxes of the branch. The branches received no public aid in the financial year.

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

Country	Revenues in KEUR	Profit or loss before tax in KEUR	Tax on profit or loss in KEUR	Public aid received in KEUR	Number of employees
Germany	127,552	3,440	(2,474)	0	257
Italy	17,237	7,299	(2,665)	0	15
Czech Republic	1,689	(41)	(78)	0	10
Netherlands	3,522	(2)	(112)	0	11
Spain	1,524	257	(109)	0	6
Ireland	1,895	31	(37)	0	7
France	7,664	(398)	(28)	0	26

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

The return on capital to be disclosed in accordance with Section 26a (1) sentence 4 KWG is calculated as the ratio of the net income/loss for the year and the balance sheet total. In accordance with this definition, the return on capital amounted to 0.04% in the financial year.

Publisher

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SMBC

Independent Auditor's Report

To SMBC Bank EU AG, Frankfurt am Main

Report on the audit of the annual financial statements and management report

Opinions

We have audited the annual financial statements of SMBC Bank EU AG, Frankfurt am Main, which comprise the balance sheet as at 31 March 2022 and the income statement for the financial year from 1 April 2021 to 31 March 2022 as well as the notes to the financial statements, including the accounting policies presented therein. In addition, we have audited the management report of SMBC Bank EU AG for the financial year from 1 April 2021 to 31 March 2022.

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

- the accompanying annual financial statements comply in all material respects with the requirements of German commercial law applicable to financial institutions and give a true and fair view of the company's assets, liabilities and financial position as at 31 March 2022 and of its financial performance for the financial year from 1 April 2021 to 31 March 2022 in accordance with the German legally required accounting principles.
- the accompanying management report as a whole provides an appropriate view of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer

[Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 April 2021 to 31 March 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Calculation of the specific valuation allowances on receivables from customers

Please refer to Section II for information on the accounting policies of SMBC BANK EU AG that are applied. "Accounting policies" in the company's notes.

THE FINANCIAL STATEMENT RISK

SMBC Bank EU AG reports receivables to customers totalling EUR 5,943 million as at 31 March 2022. Specific valuation allowances on receivables to customers have been recognised for acute counterparty credit risks in the annual financial statements.

The identification and calculation of the specific valuation allowances for receivables to customers is subject to accounting judgements. It requires assumptions about the contractual cash flows that are still expected and/or about the expected cash flows from the realisation of the loan collateral that has been furnished. The assumptions that are made depend on the selected recovery and resolution strategy. In addition, there was increased uncertainty in the period under review in connection with the determination of the impact of the Covid-19 pandemic and the Russia/Ukraine crisis on the expected cash flows.

The financial statement risk is in particular that necessary specific valuation adjustments are not recognised in good time because no objective criteria for identifying exposures that require a specific valuation adjustment have been defined or there is no procedure in place to ensure that these exposures are identified. The financial statement risk is additionally that no objective assumptions are made about the amount of the contractual cash flows that are still expected and/or about the amount of the expected cash flows from the realisation of the loan collateral that has been furnished when the individual valuation allowance is calculated. Flawed assumptions about the amount of the expected flows and/or the realisation of the loan collateral that has been furnished can mean that receivables are incorrectly measured and thus that the counterparty credit risks are not taken into account in an appropriate amount.

OUR AUDIT APPROACH

Based on our risk analysis and the assessment of the risks of error, we supported our audit opinion using control-based and substantive audit procedures. We accordingly 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 appropriateness of the internal control system in relation to the identification, management and monitoring of receivables to customers, we inspected the relevant organisation policies and made enquiries. In addition, we satisfied ourselves of the appropriateness, implementation and effectiveness of relevant controls.

For the IT systems that are used, we consulted our IT specialists and reviewed with them the effectiveness of the regulations and procedures that relate to a large number of IT applications and support the effectiveness of application controls.

Using a specific, selected sample of individual exposures based on materiality and risk aspects, we conducted substantive audit procedures and assessed the recoverability of the receivables to customers. In particular, we audited whether criteria that suggest a need for a specific valuation allowance are met in the case of the selected exposures and whether this need was properly identified. We satisfied ourselves that the loan loss provisions recognised for these exposures are recognised on an accrual basis and are appropriate. In this process, we assessed assumptions about the contractual cash flows that are still expected and/or the expected cash flows from the realisation of the loan collateral that has been furnished. If loan collateral has been furnished for an exposure and is relied on for the evaluation, we assessed the legal validity and the recoverability of this collateral. Where guarantees have been provided, we assessed the credit rating of the guarantor. For the selected exposures we additionally verified the mathematical calculation of the specific valuation allowance that has been posted.

OUR OBSERVATIONS

Appropriate criteria and precautionary measures were defined in order to identify exposures requiring a specific valuation allowance. The assumptions about the amount of the expected returns arising from the economic performance of the borrower or from the realisation of collateral that form the basis for calculating the specific valuation allowance have been properly chosen and are consistent with the accounting principles to be applied for the measurement of specific valuation allowances.

Proper accounting presentation of the merger with the absorption of SMBC Nikko Capital Markets Europe GmbH

Please refer to Section I. "General information on the annual financial statements" in the company's notes to the financial statements for information on the accounting policies that have been applied concerning the merger and the inclusion of the transactions. Further information on the merger of SMBC Nikko Capital Markets Europe GmbH can be found in Section 2. "Organisational and governance structure" in the company's management report.

THE FINANCIAL STATEMENT RISK

SMBC Nikko Capital Markets Europe GmbH was merged with SMBC Bank EU AG on 25 April 2022 with retroactive effect from 1 November 2021, with carrying amounts being continued.

There is a risk for the annual financial statements of SMBC Bank EU AG that the accounting impact, including tax effects, of the merger is not identified in full and also that the impact on the annual financial statements and the management report of SMBC Bank EU AG is not properly recognised.

Furthermore, for the period from 1 November 2021 to 31 March 2022 the ongoing business transactions of the former SMBC Nikko Capital Markets Europe GmbH were essentially included manually in the annual financial statements of SMBC Bank EU AG as at 31 March 2022.

For the annual financial statements of SMBC Bank EU AG there is a risk that the business transactions of the former SMBC Nikko Capital Markets Europe GmbH for the period from 1 November 2021 to 31 March 2022 are not fully or not properly included and reported in the annual financial statements of SMBC Bank EU AG.

OUR AUDIT APPROACH

We examined the basis of the merger under company law, assessed the relevant company law documents and gained an understanding of the processes involved in the course of including the former SMBC Nikko Capital Markets Europe GmbH in order subsequently to verify that the merger is properly presented in the annual financial statements.

We reconciled the carrying amounts taken over with the underlying closing balance sheet of the transferring legal entity as at 31 October 2021 and additionally verified that the assets and liabilities taken over are properly recognised in the balance sheet of SMBC Bank EU AG.

With the support of our employees specialising in local and international tax law, we gained an understanding of existing tax effects.

Moreover, we integrated these employees in our audit team in order to assess the tax calculation, including the risk assessment, of SMBC Bank EU AG, as well as the competence and objectivity of the external tax experts that were involved and to evaluate the documents they had produced.

We familiarised ourselves with the basis of the inclusion of the business transactions of the former SMBC Nikko Capital Markets Europe GmbH for the period from 1 November 2021 to 31 March 2022 in the annual financial statements of SMBC Bank EU AG as at 31 March 2022, analysed the relevant documentation and gained an understanding of the processes involved relating to the inclusion in order subsequently to verify that the transactions are properly and completely presented in the annual financial statements. In the process, reconciliation took place using a specific, selected sample of transactions and the proper allocation of the general ledger accounts of the former SMBC Nikko Capital Markets Europe GmbH in the balance sheet and income statement of SMBC Bank EU AG was verified.

OUR OBSERVATIONS

The transfer of the assets and liabilities necessary during the merger of SMBC Nikko Capital Markets Europe GmbH with SMBC Bank EU AG has been properly implemented.

The procedure for including and presenting ongoing business transactions of the former SMBC Nikko Capital Markets Europe GmbH for the period from 1 November 2021 to 31 March 2022 in the annual financial statements of SMBC Bank EU AG was carried out properly.

Responsibilities of management and the Supervisory Board for the annual financial statements and the management report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the company in compliance with

German Legally Required Accounting Principles. In addition, management is responsible for such internal control as it, in accordance with German Legally Required Accounting Principles, has determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Supervisory Board is responsible for overseeing the company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

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

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

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

From the matters that we discussed with those charged with governance, we determine which 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 the independent auditor's report, unless laws or other legal regulations preclude their public disclosure.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditors by the annual general meeting on 18 November 2021. We were engaged by the Supervisory Board on 9 December 2021. We have been the auditor of SMBC Bank EU AG without interruption since 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 (long-form audit report).

In addition to the audit of the annual financial statements and management report, we provided the company or its subsidiaries with the following services that are not disclosed in the annual financial statements or the management report:

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

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, 29 July 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Fox	Borgmann
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]