SMBC Nikko Bank (Luxembourg) S.A.

Annual accounts
for the financial year
ended March 31, 2023
(with the report of the Réviseur
d'Entreprises agréé thereon)

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BOARD OF DIRECTORS' REPORT
SMBC NIKKO BANK (LUXEMBOURG) S.A.
Financial year from 01.04.2022 to 31.03.2023

Since the integration of SMBC Nikko Bank (Luxembourg) S.A. (the "Bank") within the group Sumitomo Mitsui Financial Group, Tokyo ("SMBC Group" or the "Group") on October 1, 2009, the Bank's core business of funds administration and custody services is driven and continues to be driven by the Group's Japanese offshore investment fund product offering. The Bank has no branch as at March 31, 2023. The transfer of 363,526 shares with a nominal value of EUR 248, representing 100% of the share capital of the Bank in an aggregate nominal amount of EUR 90,154,448 from SMBC Nikko Securities Inc., to SMBC Bank EU AG. has been completed on 30 May 2023 according to the IPU regulation.

During the year ended March 31, 2023, SMBC Group has been engaging continuous efforts in maintaining and developing its investment funds business, including offshore funds, in reaction to a standing demand by Japanese investors for diversified investment possibilities.

This year the Bank experienced decrease of 8.6% of the net assets of the funds under administration (AUA) on a USD basis. This occurred mainly due to the market impact and FX impact.

AUA decreased due to the negative market impact (USD▲ 660 mm) and FX impact (▲ 1,456 mm) in spite of the net inflow (USD 261 mm). The Bank's budget is linked to the group strategy and so far, the group has not amended the budget.

The Bank continues to be fully operational as of the date of this report with no disruptions. The Bank also hasn't detected any operational incidents, liquidity, credit risks or any other relevant issues that might have an impact on the liquidity, profitability or capital situation of the Bank.

At the same time, market risk remains immaterial considering the Bank's business and as per the Bank's ICAAP. The portfolio of the Bank is mainly represented by long-term investments in debt securities. At the same time, the Bank doesn't have a trading portfolio or is involved in short sales.

The Bank is not engaged in proprietary trading activities. The Board of Directors of the Bank has adopted a low risk appetite approach in any of the Bank's operations and maintains its risk exposure internal limits largely above the minimum regulatory requirements.

The Bank is not exposed to any significant price risk. The Bank has a securities portfolio in its books, which is valued at historical acquisition cost.

The credit risk to which the Bank is exposed is mainly deriving from counterparty risk in its treasury activity. The credit and counterparty risk are managed by the Bank within its dedicated credit policy. The Bank's exposure to counterparties, for interbank lending, nostro accounts and foreign exchange transactions, is subject to Bank limits.

The Bank's policy does not authorise significant asset and liability mismatches. Given the liquidity profile of the Bank, the main source of liquidity risk is linked to the Liquidity Coverage Ratio with evolution of the client's deposits that influences indirectly the overnight nostro accounts on the asset side, which leads overall to possible variations and changes in the cash outflows and inflows, however not in the High-Quality Liquid Asset.

To control operational risk, including IT risk, the Bank has set up an overall organisational process, policies and procedures applicable within each department and a data processing system, among others aimed at ensuring proper segregation of duties.

The disclosure report according to part eight of EU Regulation No 575/2013 (CRR) is available by contacting the Bank Accounting department as indicated on the Bank's website (http://www.nikkobank.lu/en/basel-ii-pillar-iii-disclosure.html).

The net income from custodian and fund administration services commissions for the financial year remains stable at EUR 20.8 million.

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General administrative expenses amounted to EUR 19.2 million and increased by 13% compared to the previous financial year. Staff costs increased 4% and rent expense decreased 17%.

The net result after taxes amounts to EUR 35,7 million (EUR 5,083,600 for the previous financial year) which includes the sale of SMBC Nikko Investment Fund Management Company S.A. ("SNIF") share for EUR 27.7 million.

It will be proposed to the sole shareholder to transfer the current year profit to reserves of the Bank. Currently, the Bank does not have any client relationship engaged in commercial banking activities. The Bank has undertaken no research and development activities.

During the financial year from April 1, 2022 to March 31, 2023, the Bank did not acquire any own shares.

On July 12 2022, the Board of Directors resolved to appoint Mr. Takahiro YAZAWA as a new Chairman of Board of Director of the Bank, in replacement of Mr. Hitoshi MINAMI, and appointed Mr. Toshiaki MATSUI as a member of Board of Director of the Bank in replacement of Mr. Kohei MITAMURA. The both appointments have been effective from 26 August 2022 subject to the approval of the Commission de Surveillance du Secteur Financier ("CSSF").

During the fiscal year 2023, the Bank kept developing the 4 key areas; (1)Business development (2)Improvement of operations (3)Improvement of internal control frameworks (4)Initiative for Sustainable Growth.

For Business development, the Bank continues to expand stable revenue source and increase asset under administration for both traditional funds and alternative funds, while keeping profitability, by closing the gap with competitors at service level and acquiring new capabilities. For Improvement of operations, the Bank continues the activities to improve the quality of operations in order to reduce operational errors as well as to have a room to accept funds with complex operational processes.

For Improvement of internal control frameworks, the Bank continuously enhance internal control framework, including the compliance with growing regulatory requirements and necessary arrangements for new business opportunities.

For Initiative for Sustainable Growth, the Bank continues to seek opportunities for ESG funds, by working with group companies to address ESG business opportunities, including in the form of investment funds. For the ESG governance side, keep abreast of the regulatory requirements for the fund and company governance and embed best practice into the governance framework.

Luxembourg, July 26, 2023

THE BOARD OF DIRECTORS

Marcello DE PAOLA
Chief Operating Officer
Deputy Managing Director

Kyosuke Makiyama
Managing Director

To the Board of Directors
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2, rue Hildegard von Bingen
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of SMBC Nikko Bank (Luxembourg) S.A. (the "Bank"), which comprise the balance sheet as at 31 March 2023, and the profit and loss account for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Bank as at 31 March 2023 and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of "réviseur d'entreprises agréé" for the audit of the annual accounts » section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. ***Completeness, existence and accuracy of commission receivable related to the investment funds' activities***

Description

The Bank has a total amount of EUR 21.8 million of commission receivable mainly related to the investment funds' activities, being the biggest caption on the Bank's profit and loss account. The main categories of these commissions are administration fees, safekeeping fees and agency fees.

We identified the completeness, existence and accuracy of commission receivable as a key audit matter due to the size of this caption and therefore its significance to the financial results of the Bank. Adequate information in that respect has to be disclosed in the notes to the annual accounts.

Please refer to the related disclosure in note 19 'Commission receivable' of the annual accounts.

How our audit addressed the area of focus

Our audit procedures in relation to the recognition of commission receivable included the following:

- We obtained an understanding of the commission receivable recognition process, and we tested the design and implementation including tests of operating effectiveness of key controls.
- Furthermore, we obtained and assessed the International Standard on Assurance Engagements report (ISAE) performed by a third-party audit firm on the Bank's controls, ensuring that for the key controls relating to the commission receivable recognition process no exception was identified.
- We performed substantive audit procedures covering the main categories of commission receivable including:
  - We developed expectations for the commission receivable relating to administration fees and safekeeping fees of the financial year based on the evolution of the relevant drivers for these commissions and compared the expectations to the amounts recorded by the Bank.
  - We have recalculated the monthly agency fees for the period and compared the result to the amount recorded by the Bank. In addition, we traced a sample of transactions against relevant supporting documentation.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the management report but does not include the annual accounts and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the réviseur d'entreprises agréé for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the “réviseur d'entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. 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 accounts.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the annual accounts, 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 opinion. 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 control.

— Obtain an understanding of internal control relevant to the audit 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 the Bank’s internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of the Board of Directors' 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 Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the “réviseur d'entreprises agréé” to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the “réviseur d'entreprises agréé”. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

Report on other legal and regulatory requirements

We have been appointed as “réviseur d'entreprises agréé” by the Board of Directors on 16 August 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is fourteen years.

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Luxembourg, 27 July 2023

KPMG Audit S.à r.l.
Cabinet de révision agréé

M. Weber
Partner

SMBC Nikko Bank (Luxembourg) S.A.

Balance sheet
as at March 31, 2023
(expressed in EUR)

	Notes	31/03/2023	31/03/2022
ASSETS			
Cash in hand, balances with central banks and post office banks	5	45,829,758	26,593,148
Loans and advances to credit institutions	6.2		
- repayable on demand		219,024,537	407,502,645
- other loans and advances		265,817,646	165,728,038
		484,842,183	573,230,683
Loans and advances to customers	6.2	1,159,027	92,684
Debt securities and other fixed-income securities	7, 8		
- issued by public bodies		74,628,445	72,615,175
- issued by other borrowers		22,804,463	22,683,496
		97,432,908	95,298,671
Shares and other variable-yield securities	7	10,060	10,058
Shares in affiliated undertakings	6.1, 6.2, 7, 8	-	5,439,942
Intangible assets	8	1,079,869	931,578
Tangible assets	8	57,230	100,466
Other assets	9	82,534	1,486,797
Prepayments and accrued income	6.2, 8	9,623,356	9,056,078
TOTAL ASSETS		**640,116,925**	**712,240,105**

The accompanying notes form an integral part of these annual accounts.

SMBC Nikko Bank (Luxembourg) S.A.

Balance sheet
as at March 31, 2023
(expressed in EUR)
(continued)

	Notes	31/03/2023	31/03/2022
LIABILITIES			
Amounts owed to credit institutions			
- repayable on demand	6.2	12,969,787	-
Amounts owed to customers	6.2		
- other debts			
repayable on demand		400,651,569	516,433,067
with agreed maturity dates or periods of notice		-	-
		400,651,569	516,433,067
Other liabilities	11	1,523,417	6,712,015
Accruals and deferred income		1,656,817	1,834,240
Provisions			
- provisions for taxation		3,491,087	3,678,812
- other provisions	12, 2.9	4,784,973	4,229,207
Subscribed capital	13	90,154,448	90,154,448
Reserves	14	89,198,316	84,114,716
Profit for the financial year		35,686,511	5,083,600
TOTAL LIABILITIES		**640,116,925**	**712,240,105**

The accompanying notes form an integral part of these annual accounts.

Off-balance sheet
as at March 31, 2023
(expressed in EUR)

Off-balance sheet information as at March 31, 2023

	Note	31/03/2023	31/03/2022
Fiduciary transactions	17	361,047,135	256,053,816

The accompanying notes form an integral part of these annual accounts.

SMBC Nikko Bank (Luxembourg) S.A.

Profit and loss account
for the year ended March 31, 2023
(expressed in EUR)

	Notes	31/03/2023	31/03/2022
Interest receivable and similar income	18	5,655,364	842,154
- *of which arising from debt securities and other fixed-income securities*		*391,487*	*386,478*
Interest payable and similar charges	19	(4,061,489)	(661,815)
Income from transferable securities	6.1, 6.2	1,300,000	1,300,000
Commissions receivable	21	21,791,282	21,452,752
Commissions payable		(942,957)	(421,117)
Net profit on financial operations		2,760,074	4,159,966
Other operating income	22	28,050,026	289,530
General administrative expenses		(19,189,070)	(17,015,997)
- Staff costs	24	(10,209,739)	(9,788,551)
of which:			
wages and salaries		*(8,397,417)*	*(8,004,021)*
social security costs		*(1,001,742)*	*(995,278)*
of which: social security costs relating to pensions		*(612,331)*	*(574,953)*
- Other administrative expenses		(8,979,331)	(7,227,446)
Value adjustments in respect of tangible and intangible assets		(530,327)	(524,115)
Other operating charges	23	(385,395)	(670,668)
Value adjustments in respect of loans and advances, and provisions for contingent liabilities and for commitments		-	(290,000)
Value re-adjustments in respect of loans and advances, and provisions for contingent liabilities and for commitments	2.9	1,353,000	-
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	7	-	(2,121,496)
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	7	2,121,496	-
Tax on profit or loss on ordinary activities	25	(2,235,494)	(1,255,594)
Profit on ordinary activities after tax		35,686,511	5,083,600
Profit for the financial year		**35,686,511**	**5,083,600**

The accompanying notes form an integral part of these annual accounts.

1 General

SMBC Nikko Bank (Luxembourg) S.A. (the "Bank") was incorporated as a limited liability company ("Société Anonyme") in the Grand Duchy of Luxembourg on February 14, 1974 in accordance with Luxembourg law.

Nikko Bank (Luxembourg) S.A. changed, with effect from April 1, 2011, its name to SMBC Nikko Bank (Luxembourg) S.A. upon approval of an extraordinary general meeting of the Bank's shareholders held on March 17, 2011.

The Bank requested the Registre de Commerce et des Sociétés on April 5, 2016 to publish the change of the Bank's registered address to 2, rue Hildegard von Bingen L-1282 Luxembourg.

The object of the Bank is the undertaking for its own account as well as for the account of third parties, either within or outside the Grand Duchy of Luxembourg, of any banking or financial operations as well as other operations, whether industrial or commercial or in real estate, which directly or indirectly relate to the main object described above.

The principle activities of the Bank are fund administration and custody business.

The Bank is a wholly owned subsidiary of SMBC Nikko Securities, Inc. (the "Parent Company"), whose registered address is at 3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8325, Japan. The Bank's annual accounts are included in the consolidated accounts of the Parent Company. (refer to note 29)

From October 2016, the Parent Company became a wholly owned subsidiary of Sumitomo Mitsui Financial Group, Inc. ("SMFG"), an entity listed respectively in the Tokyo, Nagoya and New York Stock Exchange and whose registered address is 1-2, Marunouchi 1-chome, Chiyoda-Ku, Tokyo, 100-0005, Japan. SMFG prepares consolidated annual accounts for the largest body of undertakings which includes the Bank as a subsidiary company. The consolidated annual account may be obtained in the following URL: SMFG Home Page (Top Page>IR information): http://www.smfg.co.jp/english/investor/.

2 Summary of significant accounting policies

2.1 Basis of presentation

These annual accounts are prepared in conformity with accounting principles generally accepted in the banking sector in the Grand Duchy of Luxembourg. The accounting policies and the valuation principles are determined by the Board of Directors, except those which are defined by law and by the regulations in Luxembourg.

On the basis of the criteria set out by the Luxembourg law, the Bank is exempted from establishing consolidated accounts and a consolidated management report for the year ended March 31, 2023. In accordance with the law of June 17, 1992, as amended, the said accounts were consequently presented on an unconsolidated basis for approval by the annual general meeting of shareholders of the Bank.

2.2 Foreign currencies

The Bank uses a multi-currency accounting system, as a result of which assets and liabilities are recorded in the currencies in which they were created. For the preparation of the annual accounts, amounts in foreign currencies are translated into Euro (EUR), the base currency of the Bank, on the following bases:

2.2.1 Spot rate transactions

Monetary assets and liabilities in foreign currencies are translated into EUR at the exchange rate applicable at the balance sheet date. Non-monetary assets are recorded in EUR and are maintained at their historical exchange rates.

Exchange gains and losses arising from the Bank's net open currency positions are taken to the profit and loss account in the current year.

2.2.2 Forward transactions

Unsettled forward foreign exchange transactions are translated into EUR at the forward rate prevailing at the balance sheet date for the remaining term of the contract.

Forward foreign exchange contracts are entered into on a back-to-back basis. Net unrealised exchange losses are recognised in the profit and loss account. Net unrealised exchange gains on forward foreign exchange contracts are recognised upon their realisation.

2.2.3 Swap transactions

Gains and losses on currency swap transactions are accrued on a straight-line basis over the period of the swap contract and are included in interest receivable or payable in the profit and loss account, as appropriate.

2.3 Loans and advances

Loans and advances are stated at disbursement value less repayments made and any value adjustments required. Accrued interest is recorded in the balance sheet caption "Prepayments and accrued income".

The policy of the Bank is to establish specific value adjustments for doubtful debts in accordance with the circumstances and for amounts specified by the Management Committee. These value adjustments are deducted from the appropriate asset account balances.

2.4 Securities portfolio

The Bank has recorded its securities portfolio in the investment portfolio.

This portfolio comprises fixed-income securities with a maximum maturity or remaining maturity of 10 years or below, intended to be held on a long-term basis, term to be understood as buy and hold investment strategy. It may also include participating interests and shares in affiliated undertakings of a fixed asset nature.

The Bank values the securities included in the investment portfolio at historical acquisition cost in their original currency and value it at cost. A value adjustment is made where the market value at the balance sheet date is lower than the acquisition cost. During the year 2022-2023, the Management of the Bank decided to align the valuation methodology to its current business strategy which led to a change in the valuation methodology of the investment portfolio by applying the cost method instead of the historically used "Lower of cost or market" method. The fixed income securities being valuated at cost, the value adjustment is made when the Management committee considers the depreciation as permanent.

In cases where fixed-income securities are acquired at a premium, the difference between acquisition cost and redemption value is written off in instalments to profit and loss and recorded as "interest payable and similar charges". Instalments are charged *pro rata temporis* over the life of the security. The cumulative amortisation from the date of acquisition is included in "Accruals and deferred income" on the liability side of the balance sheet.

In cases where fixed-income securities are acquired at a discount and cost is used as the basis of valuation, the difference between acquisition cost and redemption value is taken to the profit and loss account at the date of maturity or date of disposal, if earlier.

2.5 Shares and other variable-yield securities

At the balance sheet date, shares and other variable-yield securities are stated at the lower of cost or market value. If the valuation is lower than the purchase price, value adjustments are recorded to account for the unrealised loss.

2.6 Shares in affiliated undertakings

Shares in affiliated undertakings held as fixed assets are valued at purchase price. Value adjustments are made where there is considered to be a permanent diminution in value.

(expressed in EUR)

2.7 Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at cost less accumulated depreciation/amortisation. Depreciation/amortisation is calculated on a straight-line basis over the estimated useful life of individual assets.

The depreciation/amortisation rates used for this purpose are:

	Rate
Tangible assets - Furniture, fixtures and fittings	20%
Tangible assets - Others	28%
Tangible assets - Computer equipment	25%
Intangible assets - Software	25%

2.8 Derivative instruments

Gains or losses on matched positions on currency options which are traded on an organised market are directly credited or charged to the profit and loss account. Unrealised losses on matched positions on over the counter transactions are accrued for and the unrealised gains are not accounted for until the exercise or expiration date of the option.

In cases where currency options are contracted for hedging purposes, they are neutral with respect to currency fluctuations and hence not revalued at the year end.

2.9 Lump-sum provision

A general reserve for potential risks on balance sheet and off-balance sheet items has been recorded. This tax-deductible provision is deducted from the relevant assets. The lump-sum provision relating to off-balance sheet items is included in “Provisions: other provisions” on the liability side.

As of March 31, 2023, a partial reversal of the lump-sum provision of 1,353,000 EUR has been booked.

2.10 Income taxes

Income taxes are recorded on an accrual basis based on the profit and loss account of the current financial year.

3 Risk management objectives, strategies and policies

The Bank does not undertake traditional private banking customer operations. The principal activities of the Bank are its role as administrative agent, transfer agent and custodian bank for investment funds.

The risk management system of the Bank comprises a comprehensive framework of risk monitoring principles. Organizational structure and risk monitoring processes are aligned with the activities. The main risks are subject to limits which are approved by the Board of Directors and monitored on a regular basis. In addition, current geopolitical situation between Russia and Ukraine has no significant impact for our custody business.

3.1 Credit risk

Credit risk represents the risk that the counterparty will be unable to pay amounts due to the Bank in full when the debts fall due.

Exposure to banks is subject to bank limits. These bank limits are reviewed, updated and approved. Interbank credit lines are monitored on a daily basis both locally and by the Parent Company.

Credit exposure to banks is governed by the limits approved by the Board of Directors and will be reviewed on a regular basis by the local Risk Management department and the Risk Management division of the Parent Company. The limits to monitor the Bank’s credit exposures are reviewed and updated at least annually by the Bank, including counterparty limits for deposits, nostri and foreign exchange transactions.

3.2 Market risk

Market risk represents the exposure arising from the movements in market prices of financial assets in which the Bank invested.

The Bank has no trading portfolio and is not involved in short sales. The portfolio of the Bank is mainly represented by long-term investments in debt securities (mainly fixed income securities issued by government, supranational bodies and private companies within zone A) for interest yield purposes.

3.3 Liquidity risk

The liquidity risk is defined as the risk that the Bank will not be able to meet its obligations as they fall due.

The Bank’s policy does not authorise significant asset and liability mismatches. The liquidity of the Bank is reviewed and monitored regularly by the Management.

Furthermore, the Management ensures that the Bank’s liquidity ratio complies with the locally required minimum level of 100% as from January 2018. During the financial year ended March 31, 2023, the minimum liquidity ratio was fully complied with.

3.4 Interest rate risk

Interest rate risk exists in case of funding mismatches between assets and liabilities. The income and operating cash flows of financial operations are dependent on changes in market interest rates and the Bank's profitability could be affected by adverse interest rate movements.

The policy of the Bank is to make short term matched placements and deposits to minimise the potential exposure to adverse movements in interest rates. As at March 31, 2023, approximately 83% of the Bank's total assets were represented by short-term interbank placements and 63% of the Bank's total liabilities by short-term interbank and customer deposits, thus not giving rise to a major funding mismatch.

The interest margin is reviewed on a monthly basis by the Management. Hedging instruments may be considered by the Management for any significant long-term fixed rate commitments, such as the portfolio investments of the Bank.

3.5 Foreign exchange risk

Foreign exchange risk is the risk of losses arising from adverse movements in exchange rates affecting assets, liabilities and off-balance sheet transactions of the Bank which are denominated in foreign currencies.

The Bank's foreign currency positions are subject to a global limit authorized by the Board of Directors and the Bank's internal control function monitors compliance with the limits on a daily basis. In this regard, the Management's underlying principle is to minimize significant foreign exchange exposures.

3.6 Administrative risk

The administrative risk refers to the complexity of transactions processed by the Bank in the normal course of business.

As the Bank operates mainly in the investment funds industry, the administrative risk appears to be the major risk the Bank faces.

In order to optimize the control over this risk, among other measures, the Bank has set up an overall organizational process that includes chief officers for each department, procedures applicable to each department, and a data processing system aimed at ensuring proper segregation of duties.

4 Use of financial instruments

4.1 Analysis of financial instruments

4.1.1 Information on primary financial instruments

The tables below analyse the level of primary financial instruments (non-trading instruments) of the Bank, in terms of carrying amounts and maturity groups based on their remaining lives at balance sheet date.

Aggregate fair values of financial instruments are disclosed where they differ materially from the carrying values in the balance sheet. Fair value is understood to be the amount at which an asset could be exchanged, or a liability settled as an ordinary transaction entered into under normal terms and conditions between independent, informed and willing parties, other than in a forced or liquidation sale.

4.1.2 Analysis of financial instruments - Primary non-trading instruments

As at March 31, 2023	**Less than 3 months EUR**	**> 3 months to 1 year EUR**	**> 1 year to 5 years EUR**	**More than 5 years**	**No maturity EUR**	**Total EUR**
Instrument class (financial assets)						
Cash in hand, balances with central banks and post office banks	45,829,758	-	-	-	-	45,829,758
Loans and advances to credit institutions	484,842,183	-	-	-	-	484,842,183
Loans and advances to customers	1,149,667	8,045	1,315	-	-	1,159,027
Debt securities and other fixed-income securities	-	9,981,439	48,948,273	38,503,196	-	97,432,908
Shares and other variable-yield securities	-	-	-	-	10,060	10,060
Shares in affiliated undertakings	-	-	-	-	-	-
Total financial assets	***531,821,608***	***9,989,484***	***48,949,588***	***38,503,196***	***10,060***	***629,273,936***
Non financial assets	-	-	-	-	-	10,842,989
Total assets						***640,116,925***
Amounts owed to credit institutions	-	-	-	-	-	-
- repayable on demand	12,969,787	-	-	-	-	12,969,787
Amounts owed to customers	-	-	-	-	-	-
- other debts	400,651,569	-	-	-	-	400,651,569
- repayable on demand				-		
- with agreed maturity dates or periods of notice	-	-	-		-	-
Total financial liabilities	***413,621,356***	**-**	**-**	**-**	**-**	***413,621,356***
Non financial liabilities	-	-	-	-	-	226,495,569
Total liabilities						***640,116,925***

As at March 31, 2023, the Bank had not engaged in primary trading instruments.

4.1.2 Analysis of financial instruments - Primary non-trading instruments (continued)

As at March 31, 2022	**Less than 3 months EUR**	**> 3 months to 1 year EUR**	**> 1 year to 5 years EUR**	**More than 5 years**	**No maturity EUR**	**Total EUR**
Instrument class (financial assets)						
Cash in hand, balances with central banks and post office banks	26,593,148	-	-	-	-	26,593,148
Loans and advances to credit institutions	573,230,684	-	-	-	-	573,230,684
Loans and advances to customers	84,699	6,717	1,268	-	-	92,684
Debt securities and other fixed-income securities	-	-	53,396,094	41,902,577	-	95,298,671
Shares and other variable-yield securities	-	-	-	-	10,058	10,058
Shares in affiliated undertakings	-	-	-	-	5,439,942	5,439,942
Total financial assets	***599,908,531***	***6,717***	***53,397,362***	***41,902,577***	***5,450,000***	***700,665,187***
Non financial assets						11,574,918
Total assets						***712,240,105***

Amounts owed to credit institutions	-	-	-	-	-	-
- repayable on demand	-	-	-	-	-	-
Amounts owed to customers	-	-	-	-	-	-
- other debts	-	-	-	-	-	-
- repayable on demand	516,433,067	-	-	-	-	516,433,067
- with agreed maturity dates or periods of notice	-	-	-	-	-	-
Total financial liabilities	***516,433,067***	**-**	**-**	**-**	**-**	***516,433,067***
Non financial liabilities						195,807,038
Total liabilities						***712,240,105***

As at March 31, 2022, the Bank had not engaged in primary trading instruments.

4.1.3 Information on derivative financial instruments

4.1.3.1 Description of derivative financial instruments used

The Bank enters into currency spot and forward transactions for hedging purposes.

Currency forwards represent commitments to purchase foreign and domestic currencies at predetermined rates and on future dates.

Treasury Swaps represent commitments to exchange one set of cash flows for another and result in an economic exchange of currencies.

4.1.3.2 Analysis of derivative financial instruments

The tables below analyses the level of derivative financial instruments (non-trading) within the Bank, in terms of notional amount and maturity groups based on their remaining lives at the balance sheet dates.

The notional amounts of certain financial instruments in which the Bank engages provide a basis for pricing and do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The changes in the fair values of derivative instruments are caused by the fluctuations in market interest rates or foreign exchange rates relative to their contractual terms. The contractual or notional amount of derivative financial instruments and the fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

4.1.3.2 Analysis of derivative financial instruments (continued)

The Bank does not have trading positions in derivative financial instruments as at March 31, 2023 (March 31, 2022: no trading positions in derivative financial instruments).

As at March 31, 2023, the Bank had the following off-balance sheet commitments:

	31/03/2023 EUR	**31/03/2022 EUR**
Operations linked to exchange rates		
- forward foreign exchange transactions	1,788,314,680	2,631,908,980
- other operations linked to exchange	50,584,135	4,340,363
	1,838,898,815	**2,636,249,343**

The above operations are engaged for the purposes of hedging the adverse fluctuations of exchange rates and interest/market rates arising on transactions entered into with customers.

As at March 31, 2023 (expressed in Euro):

	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	**Total**	Fair value Assets	Fair value Liabilities
Operations linked to exchange rates	1,838,898,815	-	-	**1,838,898,815**	12,841,404	12,789,263
Total	**1,838,898,815**	**-**	**-**	**1,838,898,815**	**12,841,404**	**12,789,263**

As at March 31, 2022 (expressed in Euro):

	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	**Total**	Fair value Assets	Fair value Liabilities
Operations linked to exchange rates	2,636,249,343	-	-	**2,636,249,343**	48,602,107	48,568,994
Total	**2,636,249,343**	**-**	**-**	**2,636,249,343**	**48,602,107**	**48,568,994**

4.2 Credit risk

4.2.1 Description of credit risk

The credit policy of the Bank mainly permits interbank lending and foreign exchange transactions. Exposures to banks are subject to limits approved by the Board of Directors.

The Bank implemented new dealing counterparties credit rules on the December 1, 2012 that included the update of all existing credit lines in line with the new adapted "Internal Credit Rating"(ICR) model which is based on the three main credit rating agencies Standard & Poor's (S&P), Moody's, and Fitch Group risk evaluation.

The ICR equal to or lower than the lowest credit ratings of S&P, Moody's and Fitch. ICR is assigned to each counterparty on "entity" basis and in principle the aggregate credit lines of the counterparty cannot exceed the Credit Limit Corresponding to ICR. For specific business need the Bank may require ad-hoc extension of credit lines from the maximum limit derived from the ICR model.

Prior to entering into a commitment with a new counterparty, the Bank requests a pre-approval from the Risk Management division of the Parent Company.

The Bank may manage credit risk by obtaining collateral in the form of cash or listed securities.

The Bank restricts its exposure to credit risk losses by entering into master netting arrangements with counterparties with which it undertakes significant volumes of transactions. Master netting arrangements do not generally result in offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with the settlements of favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposures are driven by its daily financial operations and fluctuate substantially from time to time.

At the request of the Bank, the Commission de Surveillance du Secteur Financier ("CSSF") approved the full exemption of risks taken on its parent company Sumitomo Mitsui Banking Corporation and its subsidiary Sumitomo Mitsui Banking Corporation Europe Limited in relation to the large exposure limits, in accordance with article 400.2 of the EU Regulation No 575/2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation).

In principle the Bank does not undertake traditional credit activity. The Bank allows, on exceptional basis, temporary overdrafts on Funds' current accounts to face cash shortage resulting from transactions' value date mismatch.

The Bank's potential risk of losses deriving from overdraft amounts is generally mainly mitigated by the Bank's General Terms and Conditions, which include the possibility of pledging the customer's assets.

4.2.2 Measures of credit risk exposure

Credit risk relating to financial instruments is disclosed on the basis of the carrying amount that best represents the maximum credit risk exposure at the balance sheet date.

With respect to derivative instruments dealt in other than on a recognised, regulated market (OTC), the maximum exposure to credit risk is determined as described below.

The tables below disclose the level of credit exposure in terms of notional amounts, risk-equivalent amount calculated in accordance with the EU Regulation No 575/2013 and net risk exposure adjusted for any collateral and credit worthiness of the counterparty based on internal or external ratings.

Primary financial assets as at March 31, 2023 (expressed in EUR)

	Notional amount (1)	Collateral (2)	Net risk exposure (3) = (1) – (2)
Loans and advances to credit institutions and balances with central banks	531,288,893	-	531,288,893
Loans and advances to customers	1,170,276	-	1,170,276
Debt securities and other fixed-income securities	86,023,354	-	86,023,354
Shares and other variable-yield securities	29,100	-	29,100
Others	14,244,704	-	14,244,704
Total	**632,756,327**	**-**	**632,756,327**

Credit risk on OTC derivative instruments (use of the original exposure method) as at March 31, 2023 (expressed in EUR)

	Notional amount as per COREP requirement (1)	Risk-equivalent amount (2)	Collateral (3)	Net risk exposure (4) = (2) – (3)
Forward exchange contracts				
- weighted at 2%	1,865,361,710	33,145,712	-	33,145,712

4.2.2 Measures of credit risk exposure (continued)

Primary financial assets as at March 31, 2022 (expressed in EUR)	Notional amount (1)	Collateral (2)	Net risk exposure (3) = (1) – (2)
Loans and advances to credit institutions and balances with central banks	600,518,463	-	600,518,463
Loans and advances to customers	92,751	-	92,751
Debt securities and other fixed-income securities	93,132,406		93,132,406
Shares and other variable-yield securities	9,818,697	-	9,818,697
Others	13,891,720	-	13,891,720
Total	**717,454,037**	**-**	**717,454,037**

Credit risk on OTC derivative instruments (use of the original exposure method) as at March 31, 2022 (expressed in EUR)	Notional amount as per COREP requirement (1)	Risk-equivalent amount (2)	Collateral (3)	Net risk exposure (4) = (2) – (3)
Forward exchange contracts				
- weighted at 2%	2,519,550,330	79,717,716	-	79,717,716

Concentration of credit risk

The tables below show credit risk concentration calculated in accordance with the EU Regulation No 575/2013, arising from financial instruments from on- and off-balance sheet exposures by geographic location and economic sector.

Geographical concentration of credit risk (expressed in Euro)

	Loans and other balance sheet items March 31, 2023	**Derivative instruments March 31, 2023**
E.U.	393,799,726	885,196
Japan	204,850,216	-
United States	1,578,319	-
Others	32,528,066	32,260,515
Total	**632,756,327**	**33,145,712**

	Loans and other balance sheet items March 31, 2022	**Derivative instruments March 31, 2022**
E.U.	326,567,540	4,268,694
Japan	286,004,442	-
United States	2,324,770	-
Others	102,557,285	75,449,022
Total	**717,454,037**	**79,717,716**

Derivative instruments as at March 31, 2023 under the line “Others” consists 100% of exposures towards Cayman Islands (March 31, 2022: 100 %).

Economical concentration of credit risk (expressed in Euro)

	Loans and other balance sheet items March 31, 2023	**Derivative instruments March 31, 2023**
Financial	532,445,941	33,145,712
Private	13,747	-
Others	100,296,639	-
Total	**632,756,327**	**33,145,712**

	Loans and other balance sheet items March 31, 2022	**Derivative instruments March 31, 2022**
Financial	611,868,330	79,717,716
Private	12,777	-
Others	105,572,930	-
Total	**717,454,037**	**79,717,716**

The line “Others” consists mainly of supranational and public institutions.

4.2.3 Market risk

During the financial year ended March 31, 2023, the Bank had no trading portfolio and was not involved in short sales of securities. The Bank’s exposure to market risks mainly arises from its securities portfolio.

5 Cash in hand, balances with central banks and post office banks

As at March 31, 2023, the total amount of cash in hand and balance with central bank, net of Lump sum provision amounted to EUR 45,829,758 (March 31, 2022: EUR 26,593,148)

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented effective January 1, 1999, a system of mandatory minimum reserves, which applies to all Luxembourg credit institutions. The minimum reserve balance as at March 31, 2023 held by the Bank with the Luxembourg Central Bank amounted to EUR 4,078,939 (March 31, 2022: EUR 4,752,373).

6 Affiliated undertakings

6.1 Summary of affiliated undertakings

As at March 31, 2023, the Bank does not held any affiliated undertakings as the participation has been sold at 33,100,000 EUR to SMBC Nikko Securities on February 10th 2023. The sale's price has been agreed between the seller namely "SMBC Nikko Securities Inc." and the buyer namely "SMBC EU AG", based on a valuation performed on the dividend discount model, on the basis of the 5 years forecast and the market approach using multiples from comparable listed companies or transactions on comparable companies.

During the year 2022-2023, SMBC Nikko Investment Funds paid a dividend of EUR 1,300,000 to the Bank.

SMBC Nikko Investment Fund Management Company S.A. has its registered office at 2, rue Hildegard von Bingen, L-1282 Luxembourg. The annual accounts of this management company are not consolidated by the Bank, however, are included in the consolidated accounts of the Parent Company (refer to note 1), and its shares are not quoted.

6.2 Transactions with other Group companies

These may be summarised as follows:

	31/03/2023	**31/03/2022**
	EUR	**EUR**
Assets		
Loans and advances to credit institutions	213,004,768	384,907,335
Loans and advances to customers	1,824	-
Shares in affiliated undertakings	-	5,439,942
Prepayments & accrued income	21,961	3,032
	213,028,553	**390,350,309**
Liabilities		
Amounts owed to credit institutions repayable	11,731,735	-
Amounts owed to customers	9,969,027	9,487,337
	21,700,762	**9,487,337**

	31/03/2023 EUR	31/03/2022 EUR
Profit and loss accounts		
Interest receivable and similar income	226,595	7,809
Interest payable and similar charges	(455,904)	(291,286)
Income from transferable securities	1,300,000	1,300,000
Commissions receivable	18,000	19,500
Commissions payable	(608,927)	(110,847)
General expenses	(70,475)	(76,145)
	409,289	**849,031**

7 Securities

Listed securities	**31/03/2023 EUR**	**31/03/2022 EUR**
Debt securities and other fixed-income securities	**97,432,908**	**95,298,671**

Unlisted securities		
Shares and other variable-yield securities	10,060	10,058
Shares in affiliated undertakings	-	5,439,942
	10,060	**5,450,000**

As of March 31, 2023, the fair value of debt securities shown under “Listed securities” amounts to EUR 86,023,354 (March 31, 2022: EUR 93,132,406). The decline in market value is attributable to the recent change in interest rates. The amortization of premiums on these securities amounted to EUR 1,596,456 (March 31, 2022: EUR 1,316,800) and was recorded under “Accruals and deferred income” on the liabilities side of the Balance Sheet.

As of March 31, 2023, the fair value of shares shown under “Unlisted securities” amounts to EUR 29,100 (March 31, 2022: EUR 9,794,477). The drop of the shares portfolio is linked to the sale of SNIFMC (SMBC Nikko Investment Fund Management Company) shares to SMBC Nikko Securities Japan on February 10th 2023.

All listed debt securities and other fixed-income securities will reach maturity within less than 8 years.

As at the end of March 2022, the Bank's fixed income securities were valued at the lower of cost or market value and the global economic situation was such that the fair value of securities fell considerably and was lower than the acquisition cost which led to a value adjustment of EUR 2,121,496. For the financial statements ending March 2023, the Management assessed this methodology as no longer applicable to the current Bank's strategy and considered the measuring at cost the most appropriate method. Please refer to note 2.4 for the change in policy. Debt securities included in the investment portfolio are intended to be held until maturity in the respect of the Bank's strategy to maintain high level of High Quality Liquid Assets (HQLA), consequently the value adjustment deriving from the interest rate risk is not a permanent decline in value and shall be ignored. Consequently to this decision a re-value adjustment of EUR 2,121,496 has been recorded as at March 2023 accounts.

8 Movements in fixed assets

	Cost					Value adjustments		
	Gross value at the beginning of the financial year	**Reclassification**	**Additions**	**Disposals**	**Gross value at the end of the financial year**	**Cumulative value adjustments**	**Lump-sum provision**	**Net value at the end of the financial year**
	EUR	**EUR**	**EUR**		**EUR**	**EUR**	**EUR**	**EUR**
Debt securities and other fixed income transferable securities	97,530,140	-	-	-	97,530,140	-	(97,232)	97,432,908
Shares in affiliated undertakings	5,446,220	-	-	-5,446,220	0	-	-	-
Intangible assets (software)	4,438,250	-	621,876	(47,741)	5,012,385	(3,932,516)	-	1,079,869
Tangible assets	1,193,907	-	13,447	(97,474)	1,109,880	(1,052,593)	(57)	57,230
of which:								
-computer equipment	*411,182*	*-*	*6,082*	*(77,209)*	*340,055*	*(301,312)*	*(39)*	*38,704.00*
-furniture, fixture and fittings	*430,674*	*-*	*7,365*	*(20,265)*	*417,774*	*(404,194)*	*(13)*	*13,567.00*
-others	*352,051*	*-*	*0*	*-*	*352,051*	*(347,087)*	*(5)*	*4,959.00*

9 Other assets

Other assets consist of the following:

	31/03/2023 EUR	31/03/2022 EUR
Short term receivables	69,520	1,475,417
Other	13,096	13,096
	82,616	1,488,513
Lump-sum provision	(82)	(1,716)
	82,534	**1,486,797**

The short-term receivables balance is mainly composed as at March 31, 2023 and March 31, 2022 of short-term transitory accounts linked to the custodian activity of the Bank.

10 Assets pledged by the Bank as security for its own liabilities

The Bank has pledged debt securities and other fixed-income securities (the Bank's own proprietary investments) for a total amount of EUR 97,432,908 (March 31, 2022: EUR 95,298,671) as collateral for permitted secured borrowings on an intra-day basis as a participant in an international clearing institution.

As at March 31, 2023 and March 31, 2022, the Bank has not made any borrowings under the facility.

Besides this pledge, the Bank may sign general terms and conditions for account opening with financial banking depositary counterparties that include a general lien clause entitling the counterpart, until satisfaction of any liabilities or obligations the Bank may have with the counterpart, to any cash balances the Bank has deposited with these counterparties.

11 Other liabilities

Other liabilities consist of the following:

	31/03/2023 EUR	31/03/2022 EUR
Short term payables	1,185,077	6,534,148
Preferential creditors	338,340	177,867
	1,523,417	**6,712,015**

As at March 31, 2023 and March 31, 2022, the short-term payables balance was mainly composed of redemption fees related to the activity of the funds under the Bank's administration and custody.

12 Other provisions

Other provisions consist of the following:

	31/03/2023 EUR	31/03/2022 EUR
Lump sum-provision related to off-balance sheet items	1,734,282	2,904,163
Other provisions	3,050,691	1,325,044
	4,784,973	**4,229,207**

The other provisions balance is mainly composed as at March 31, 2023 and March 31, 2022 of the provision for bonus, and the provision for general administrative expenses.

13 Subscribed capital

As at March 31, 2023, the authorized, issued and fully paid-up subscribed capital of the Bank is EUR 90,154,448 made up of 363,526 nominative shares each with a par value of EUR 248 (March 31, 2022 EUR 90,154,448).

14 Reserves

Reserves include:

14.1 Legal reserve

In accordance with Luxembourg law, the Bank must transfer at least 5% of its annual profit to the legal reserve until this equals 10% of the subscribed capital. The legal reserve is not distributable.

14.2 Free reserve

The free reserve represents profits of prior financial years which have been appropriated by Annual General Meetings of Shareholders to a special reserve referred to as “free reserve”. This reserve may be distributed after approval by the Annual General Meeting of Shareholders.

14.3 Other reserves

In accordance with the tax law in force since January 1, 2002, the Bank reduced its Net Wealth Tax (“NWT”) burden by crediting it against the amount of the Corporate Income Tax (“CIT”). In order to comply with the law, the Bank decided to allocate to non-distributable reserves (item “special reserve”) an amount that corresponds to five times the amount of reduced Net Wealth Tax. This reserve is non-distributable for a period of five years from the year following the one during which the Net Wealth Tax was credited.

14.4 Movements in reserves and profit brought forward

	Legal reserve	**Free reserve**	**Other reserves**	**Total reserves**	**Profit brought forward**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Balance at the beginning of the year	6,854,476	55,365,665	21,894,575	84,114,716	-
Net profit for the year ended March 31, 2022	-	-	-	-	5,083,600
Appropriation of prior result	254,500	3,611,200	1,217,900	5,083,600	(5,083,600)
Allocation AGM	-	-	-	-	-
Balance at the end of the year	**7,108,976**	**58,976,865**	**23,112,475**	**89,198,316**	**-**

The Annual General Meeting of Shareholders dated September 16, 2022 approved the appropriation of the result of the Bank as at March 31, 2022.

15 Assets and liabilities denominated in foreign currencies

As at March 31, 2023, assets denominated in foreign currencies amounted to EUR 399,315,609 (March 31, 2022: EUR 504,628,753) and liabilities amounted to EUR 399,187,954 (March 31, 2022: EUR 504,766,794)

16 Commitments

Deposit guarantee and investor compensation scheme

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (“the Law”), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.

The deposit guarantee and investor compensation scheme through the “Association pour la Garantie des Dépôts Luxembourg” (AGDL) was replaced by a new contribution-based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the “Fonds de résolution Luxembourg” (FRL) shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount is collected from the credit institutions through annual contributions during the years 2015 to 2024. The target level of funding of the “Fonds de Garantie des Dépôts Luxembourg” (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018.

When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

The law of 23 December 2016 on the tax reform 2017 has introduced a tax neutral reversal of the existing AGDL provisions in successive annual tranches from 2016 to 2026, under the condition that each annual tranche is at least equal to the contributions to the FGDL and FRL for that fiscal year. Any remaining balance of the AGDL provision not yet reversed at the end of this transitional period will have to be reversed and added to the taxable income of the year 2026.

On 18 January 2017, CSSF issued a circular letter relating to the abrogation of the AGDL and to the consequent accounting treatment of the AGDL reversal to enable the banks to follow from an accounting point view the tax treatment foreseen in the law of 23 December 2016.

As a consequence, the Bank reversed the AGDL provision for an amount of EUR 277 in Other operating income and recorded a 2016 contribution of EUR 1,779 and EUR 150,723 to the FGDL and FRL respectively in the Other administrative & Other operating expenses. During the financial year ended March 2023, the contributions paid by the Bank for the FRL and SRB amounted EUR 245,728 and EUR 2,112 respectively.

16 Commitments (continued)

The Bank has entered into certain commitments which are not disclosed either in the balance sheet or in the off-balance sheet, but which are relevant for the purposes of assessing the financial situation of the Bank.

In January 1, 2021 the rental contract ending in December 2021, and which was signed by the Bank in 2015, has been automatically renewed for 3 additional years.

In particular, the Bank's commitments in respect of fixed rental payments for premises and assets under leasing contracts are:

	31/03/2023	31/03/2022
	EUR	EUR
Amounts committed to be paid within 12 months	711,575	1,092,508
Amounts committed to be paid between one and five years	504,474	1,216,049
	1,216,049	**2,308,557**

17 Fiduciary transactions

As at March 31, 2023 and March 31, 2022, there are no assets and liabilities resulting from fiduciary transactions which are not expressively governed by the law of July 27, 2003, as amended.

18 Interest receivable and similar income

The increase of interest receivable and similar income is due to the increase of interest rates attributed to the rise of benchmark rates in international financial markets. As the global economy recovers from the recent downturns, central banks around the world have been adjusting their monetary policies by raising interest rates to control inflation and stimulate economic growth.

19 Interest payable and similar charges

The increase of interest payable and similar charges is due to the rise of benchmark rates in international financial markets that had a significant impact on the return on cash from investment funds deposited with banking counterparties.

20 Management and representative services

The Bank provides mainly the following management and representative services to third parties during the financial year:

- Custody services for investment funds;
- Central administration services for investment funds;
- Fiduciary representations for funds; and
- Other services:
  - Administration services for its subsidiary.

21 Commission receivable

As at March 31, 2023 the total of commission related to the investment Funds activities amounts EUR 21,791,282 (2022: EUR 21,452,752) and consists of the following:

- Custodian bank: EUR 4,236,123
- Central Administration: EUR 15,286,067
- Other: EUR 2,269,092

The commission remains quite stable despite the decrease of the level of assets held in custody, which is mainly due to the impact of the foreign exchange rates against Euro.

22 Other operating income

Other operating income consists of the following:

	31/03/2023	**31/03/2022**
	EUR	**EUR**
Tax reimbursement	66,398	32,731
VAT reimbursement	126,212	-
Custody settlement differences	11,468	1,460
Other income/reversal of provisions	192,168	255,339
Gain on sale of affiliated undertakings (see Note 6.1)	27,653,780	-
	28,050,026	**289,530**

23 Other operating charges

Other operating charges consist of the following:

	31/03/2023	**31/03/2022**
	EUR	**EUR**
VAT payment and provision	92,232	80,120
Custody settlement differences	273	650
Other charges	292,890	589,898
	385,395	**670,668**

As at March 31, 2023, other operating charges mainly include the amounts related to VAT payable for year 2017 to 2021 (EUR 92,232) and the contribution to the new Luxembourg banking resolution fund (“Fonds de résolution Luxembourg (FRL)”) to the CSSF (EUR 247,840).

24 Staff costs

24.1 Directors

The average number of directors having been mandated during the financial year was as follows:

	31/03/2023	**31/03/2022**
	EUR	**EUR**
Board of Directors' members	6	6

There were no remuneration, pension, loans, advances or guarantees given to directors for the years ended March 31, 2022 and March 31, 2023 as regards to their mandate of director.

As of March 31, 2023, the number of members of the Board of Directors is 6 (2022: 6).

24.2 Personnel

The average number of persons employed during the financial year was as follows:

	31/03/2023	**31/03/2022**
	EUR	**EUR**
Category		
Senior management (*)	14	13
Middle management	15	15
Employees	53	53
	82	**81**

* *Are considered within this category the Managing Director, the Deputy Managing Director, the Members of the Management Committee and the Vice Presidents of the Bank.*

The remuneration of the Senior management was as follows:

	31/03/2023	**31/03/2022**
	EUR	**EUR**
Remuneration	2,560,833	2,185,334
Pension	30,167	29,376
Loans, advances, guarantees given	13,079	13,686
	2,604,079	**2,228,396**

Since 2009, the Bank introduced to the staff a supplementary pension scheme with defined contributions as defined by the legal Act of 8 June 1999. This scheme is managed by an external insurance company under Luxembourg regulation.

25 Tax charge

The Bank is liable to taxes on income and net assets. The Luxembourg tax authorities have issued assessments for the financial years up to 2021. Tax liabilities are recorded under "Provisions for taxation" in the balance sheet.

26 Breakdown of income by geographic markets

The Bank's income is derived mainly from Luxembourg, Cayman, France and Italy.

27 Audit fees

Audit fees billed (excluding VAT) to the Bank by KPMG Audit S.à r.l and other member firms of the KPMG network for the year are as follows:

	31/03/2023	31/03/2022
	EUR	EUR
Audit fees	143,423	136,585
Audit related fees	63,344	42,546
Others	10,000	-
	216,767	**179,131**

Such fees are presented under "Other administrative expenses" in the profit and loss account.

28 Return on assets ("ROA")

The Bank return on assets is as follows:

	31/03/2023	31/03/2022
	EUR	EUR
Net profit for the financial year	35,686,511	5,083,600
Total assets	640,116,925	712,240,105
Return on assets	**5.57%**	**0.71%**

29 Subsequent events

The transfer of shares of SNBL, representing 100% of the share capital of the Bank, from SMBC Nikko Securities Inc. to SMBC Bank EU AG, has been completed on 30 May 2023.