MUFG Bank (Europe) N.V. Pillar 3 Report

For the year ended 31 March 2022

Introduction

Basis of disclosure

This Pillar 3 report provides the disclosures of MUFG Bank (Europe) N.V. (hereinafter MBE) as required by Capital Requirements Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (hereinafter CRR) and the Implementing Technical Standards (ITS) on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

As a non-listed institution MBE has compiled the Pillar 3 disclosure in accodance with the relevant disclosure requirements set out in Article 433(c)(2) of CRR.

The following table summarises where the reader can find the specific disclosures applicable for MBE.

CRR article	Pillar 3 disclosure obligations	Table	Pillar 3 reference
435(1) points (a), (e) and (f) 435(2) points (a), (b) and (c)	Risk management objectives and policies	EU OVA EU OVB	Sections 2, 4, 5, 6 & 7
437 point (a)	Own funds	EU CC1 EU CC2	Section 3
438 points (c) and (d)	Capital requirements	EU OV1	Section 3
447	Key metrics	EU KM1	Section 2.2
450(1) points (a) to (d) and (h) to (k)	Remuneration policy	REMA REM1 REM2 REM3 REM4	Section 8

Note: Certain figures disclosed in this report may not fully match due to rounding.

Governance

The Pillar 3 disclosures have been prepared in accordance with MBE's formal policies and internal processes, systems and controls to ensure disclosures have been made in accordance with the applicable laws and regulations. The Pillar 3 disclosures are approved by both MBE's Management Board and Supervisory Board prior to publication. This disclosure is not required to be, nor has it been, audited by MBE's external auditor.

1. Disclosure requirements

1.1 Frequency and scope of disclosures

MBE has adopted a formal policy to periodically assess the appropriateness, verification and frequency of the current disclosures. This policy ensures that the disclosure conveys the bank's risk profile comprehensively to market participants.

As a non-listed institution MBE has compiled the Pillar 3 disclosure on an annual basis in compliance with the scope as detailed in Article 433(c)(2) of CRR.

1.2 Means of disclosures

MBE has chosen to publish these disclosures on an annual basis. Both MBE's annual report (hereinafter AR) and Pillar 3 documents are made publicly accessible on the website of MBE.

2. Risk management objectives and policies

EU OVA - Institution risk management approach
EU OVB - Disclosure on governance arrangements

Applicable requirements of EU OVA and EU OVB disclosures are included in this section of the disclosure. Further information on MBE's risk management objectives and policies for each separate category of risk can also be found in note 28 of MBE's annual report (AR) and in the following sections of this Pillar 3 disclosure:

- Section 4: Credit risk
- Section 5: Liquidity risk
- Section 6: Market risk
- Section 7: Operational risk

2.1 Overview of MBE's risk management objectives and policies

Risk management plays an important role in MUFG bank's global operations. MUFG Bank identifies risks arising from businesses based on uniform criteria, and has implemented integrated risk management to ensure a strong financial condition at all times and to maximise shareholder value. Using this integrated approach from the parent bank, MUFG Bank Ltd.

MBE has in place a Risk Management Framework. The Risk Management Framework (RMF) of MBE is a strategic document that sets the boundaries and principles for risk management. The RMF encompasses risk principles, risk culture and governance and provides MBE's risk taxonomy. The objective of the RMF is to establish sound risk management practices within MBE to ensure adequate, timely and continuous identification, assessment, management, monitoring and reporting and evaluation of the risks posed by its activities at the business line and institution-wide levels, and to ensure an adequate level of capital and liquidity in relation with MBE's risk profile, in both the short and longer term.

The RMF is governed by a system of policies, procedures, committees and line- and staff functions. To formalise this governance, MBE has in place a Risk Management Policy House, which explains the interrelations between all risk management documentation, provides a structure to position new documentation and helps with implementing new sets of regulations or rules. As a result, risk management documents are better manageable and follow a clear structure that allow proper management of risks based on defined roles and responsibilities.

As part of a risk cycle defined in the RMF, MBE continuously identifies risks, which are recorded in the risk register and when significant highlighted in the MBE Risk Taxonomy. The Risk Taxonomy is a comprehensive, common and stable set of risk categories that is used within MBE. It supports the consideration of all (material) risks types that could affect the organization's objectives and it serves as a platform for communication. Risks are then periodically assessed, monitored, managed and evaluated.

Together with the Risk Management Framework, the Risk Appetite Statement (RAS) is a strategic component in risk management. It expresses the types and amounts of risk that MBE is willing to accept in order to meet its business strategies and financial plans.

Risk management objectives and policies

Overview of MBE's risk management objectives and policies

MBE aims to achieve a proper balance between earnings and risks, and targets a healthy and well diversified capital and liquidity position that supports its business strategy and long-term rating ambition of MUFG Group.

Lastly, next to providing integrated risk management structure and guidance, the parent bank is an important outsourcing partner for MBE. It provides risk mitigation and support through group arrangements regarding risk transfer, capital, funding and liquidity. Where appropriate, specific tailoring to the local (regulatory) environment is applied.

For further information on risk management approach applied at MBE, please refer to the AR note 28 (Risk management).

2.2 Overview of risk management , key prudential metrics and RWA

Please find below a detailed overview of MBE's key risk management metrics:

Table EU KM1 - Overview of risk management, key prudential metrics and RWA

in thousands of €s		31-3-2022	31-12-2021	30-9-2021	30-6-2021	31-3-2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,714,543	1,701,554	1,695,699	1,705,338	1,728,920
2	Tier 1 capital	1,714,543	1,701,554	1,695,699	1,705,338	1,728,920
3	Total capital	2,014,543	2,001,554	1,995,699	2,005,338	2,028,920
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	10,687,034	10,128,458	8,904,571	9,531,995	9,838,336
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	16.04%	16.80%	19.04%	17.89%	17.57%
6	Tier 1 ratio (%)	16.04%	16.80%	19.04%	17.89%	17.57%
7	Total capital ratio (%)	18.85%	19.76%	22.41%	21.04%	20.62%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.30%	3.30%	3.30%	2.90%	2.90%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.90%	1.90%	1.90%	1.60%	1.60%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.50%	2.50%	2.50%	2.20%	2.20%
EU 7d	Total SREP own funds requirements (%)	11.30%	11.30%	11.30%	10.90%	10.90%

Risk management objectives and policies

Overview of risk management , key prudential metrics and RWA

Table EU KM1 - Overview of risk management, key prudential metrics and RWA (continued)

in thousands of €s		31-3-2022	31-12-2021	30-9-2021	30-6-2021	31-3-2021
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.03%	0.03%	0.03%	0.04%	0.01%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.00%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.53%	2.53%	2.53%	2.54%	2.51%
EU 11a	Overall capital requirements (%)	13.83%	13.83%	13.83%	13.44%	13.41%
12	CET1 available after meeting the total SREP own funds requirements (%)	4.74%	5.50%	7.74%	6.99%	6.67%
	Leverage ratio					
13	Total exposure measure	22,386,032	19,607,036	18,823,980	20,013,826	19,054,155
14	Leverage ratio	7.66%	8.68%	9.01%	8.52%	9.07%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%	0.00%	
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.21%	3.18%	3.18%	
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	
EU 14e	Overall leverage ratio requirements (%)	3.00%	3.21%	3.18%	3.18%	
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	3,504,143	2,513,733	2,168,070	2,159,686	2,099,908
EU 16a	Cash outflows - Total weighted value	5,764,226	5,461,768	5,219,162	5,151,354	5,040,623
EU 16b	Cash inflows - Total weighted value	4,655,956	4,656,293	4,592,724	4,540,084	4,448,588
16	Total net cash outflows (adjusted value)	1,541,782	1,391,444	1,527,181	1,510,229	1,482,546
17	Liquidity coverage ratio (%)	215.14%	175.09%	166.62%	167.91%	166.28%
	Net Stable Funding Ratio					
18	Total available stable funding	9,561,864	9,918,952	9,156,499	9,285,889	9,209,854
19	Total required stable funding	8,953,624	8,044,674	7,281,181	7,410,043	7,792,175
20	NSFR ratio (%)	106.79%	123.30%	125.76%	125.31%	118.19%

Figures are based on amounts reported to MBE's regulators.

Overview of risk management , key prudential metrics and RWA

2.3 Recruitment policies for members of the management board

MBE's aim is to have an adequate composition of the management board in terms of relevant knowledge, experience and gender diversity (30% rule), by assessing individual experience and skills against the core behavioural competencies for the Management Board role. Recruitment will be undertaken in a fair, transparent, and professional manner, whilst ensuring that the bank's equal opportunities commitment is adhered to in the shortlisting, interviewing and selection of candidates, without regard to race, colour, nationality, ethnic or national origin, sex, sexual orientation, gender reassignment, marital status, disability, age, religion or belief, or trade union membership.

At present, the Management Board does not comply with the gender diversity ratio of 30% but will comply with this percentage as of 15 April 2022. The current composition is made up of 5 males and 1 female, including the President of MBE. As of 15 April 2022, this will be 3 males and 2 females.

Pursuant to MBE's articles of association Management Board and Supervisory Board members are nominated at the General Shareholders Meeting. Prior to the nomination a profile containing the required suitability and availability of such future board member is composed, taking into account the composition and functioning of the collective board. The Shareholder informs the Management Board of the name and key personal data of a Management Board candidate, the likely target date for the nomination and other relevant information to enable the Management Board to prepare the prospective appointment notification to Dutch Central Bank. The nomination procedure is laid down in Supervisory Board and Management Board bylaws. The nomination is subject to the prior declaration of 'no objection' issued by the DNB. The Management Board is responsible for the application for the declaration of 'no objection' and for informing the Shareholder upon receiving the declaration.

For Directorships held by members of the Management Board we refer to AR section Composition of Management Board. Besides, Mr. Hideaki Takase held non-executive directorship outside MBE in DUJAT (Dutch & Japanese Trade Federation) and executive directorship in Japanese Trade Federation and JCC (The Japanese Chamber of Commerce and Industry in The Netherlands).

2.4 Risk organization

For this section we refer to the AR note 28 (Risk management).

2.5 Risk reporting to the management body

The Management Board and Supervisory Board of MBE are regularly informed about risks and status of risk management.

Members of the Management Board serve on the various committees, which keep them informed of developments in the relevant focus area. For further information please refer to the AR note 28 (Risk management).

3. Own funds & capital

MBE targets a healthy capital position that supports its strategy, its long term rating ambition of MUFG Group and suits its risk profile.

3.1 Composition of regulatory own funds

This section of the Pillar 3 disclosures are related to AR note 28.7 (Capital management). For terms and conditions of CET1 and T2 we refer to AR note 15 (Issued capital and reserves).

Own funds & capital

Composition of regulatory own funds

EU CC1 - Composition of regulatory own funds

in thousands of €s		Amounts	Reference*
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	1,434,306	EU CC2 - 20, EU CC2 - 21
	of which: Issued capital	1,434,306	
2	Retained earnings	337,885	
3	Accumulated other comprehensive income (and other reserves)	-11,879	EU CC2 - 23, EU CC2 - 24, EU CC2 - 25
5	Minority interests (amount allowed in consolidated CET1)	41	EU CC2 - 27
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,760,355	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-426	
8	Intangible assets (net of related tax liability) (negative amount)	-20,321	
EU-25a	Losses for the current financial year (negative amount)	-25,064	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-45,811	
29	Common Equity Tier 1 (CET1) capital	1,714,543	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		
44	Additional Tier 1 (AT1) capital		
45	Tier 1 capital (T1 = CET1 + AT1)	**1,714,543**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	300,000	
51	Tier 2 (T2) capital before regulatory adjustments	**300,000**	
	Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital		
58	Tier 2 (T2) capital	300,000	
59	Total capital (TC = T1 + T2)	2,014,543	
60	Total Risk exposure amount	10,687,034	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.04%	
62	Tier 1 (as a percentage of total risk exposure amount)	16.04%	
63	Total capital (as a percentage of total risk exposure amount)	18.85%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	8.93%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.03%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.90%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0.00%	
	Applicable caps on the inclusion of provisions in Tier 2		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	130,103,681	

* Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation

3.2 Reconciliation of regulatory own funds to balance sheet in the audited financial statements

EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	in thousands of €s	Balance sheet as in published financial statements 31-3-2022	Under regulatory scope of consolidation 31-3-2022	Reference
	Assets			
1	Cash and balances with central banks	904,077	904,077	
2	Loans and advances to banks	3,236,564	3,236,564	
3	Loans and advances to customers	7,606,880	7,606,880	
4	Derivatives	47,372	47,372	
5	Financial Investments	332,771	332,771	
6	Property and equipment	14,953	14,953	
7	Intangibles assets	12,761	12,761	
8	Current tax assets	49,600	49,600	
9	Deferred tax assets	36,232	36,232	
10	Other assets	28,630	28,630	
11	**Total assets**	**12,269,840**	**12,269,840**	
	Liabilities			
12	Due to banks	4,797,067	4,797,067	
13	Due to customers	5,256,296	5,256,296	
14	Derivatives	45,585	45,585	
15	Current tax liabilities	204	204	
16	Subordinated debt	300,116	300,116	
17	Provisions	20,230	20,230	
18	Other liabilities	115,052	115,052	
19	**Total liabilities**	**10,534,550**	**10,534,550**	
	Shareholders' Equity			
20	Issued capital	100,003	100,003	EU CC1 - 1
21	Share premium	1,334,304	1,334,304	
22	Retained earnings	312,820	312,820	EU CC1 - 2, EU CC1 - 25a
23	Fair value reserve: financial instruments measured at FVOCI	156	156	EU CC1 - 3
24	Foreign currency translation reserve	383	383	
25	Actuarial reserve	-12,417	-12,417	
26	**Shareholder's equity**	**1,735,249**	**1,735,249**	
27	Non-controlling interest	41	41	EU CC1 - 5
28	**Total equity**	**1,735,290**	**1,735,290**	

3.3 Restrictions applied to the calculation of Own Funds

MBE only has a restriction regarding the payment of dividend. In note 15 (Issued capital and reserves) of the AR, this restriction is explained.

3.4 Summary of the institution's approach on ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) comprises the entire continuous capital management process and focuses on the capital adequacy requirements set by the supervisory authorities.

Summary of the institution's approach on ICAAP

Upon request of its supervisor 'De Nederlandsche Bank' (DNB) MBE submits its ICAAP as part of the yearly Supervisory Review and Evaluation Process (SREP) on an annual basis.

MBE prepares an ICAAP package using the standardised approach (SA) for Pillar 1 risks and internal quantitative analysis to determine additional capital requirements under Pillar 2 risks.

In addition, the developments of the bank's risk profile, according to the strategic plan as well as in a stressed environment are taken into account to determine (sufficient) capitalisation (e.g. capital adequacy). The capital adequacy is evaluated for a three-year outlook at minimum. In case of major business changes or internal/ external shocks more frequent analyses will be made.

MBE manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of its activities. In order to maintain or adjust the capital structure, MBE may adjust the amount of dividend payment to shareholders, return capital to shareholders or request for a capital injection from MUFG Bank Ltd. These capital injections are planned based on the annual internal capital adequacy evaluation. In case of significant unexpected losses which require recovery measures, the Recovery Plan might be invoked and based on the situation at hand additional capital might be requested from MUFG Bank Ltd.

The yearly ICAAP is part of the yearly Supervisory Review and Evaluation Process (SREP) submission to DNB. The SREP is a yearly supervisory assessment of a bank in which the supervisor assesses and measures the risks for the bank. Specifically, the SREP aims to show where a bank stands in terms of capital and liquidity requirements and the way in which it deals with risks. The SREP is approved and signed off by MBE's Management Board. For the 2022 SREP the Management Board declared that the 2022 SREP 'gives a fair and adequate assessment of MBE's business and risks as well as of our capital and liquidity & funding adequacy'.

3.5 Results ICAAP

The ICAAP results presented below are based on the latest submitted ICAAP, as part of the 2022 SREP submission (March 2022). The reference date of the 2022 ICAAP was 30 September 2021.

The table below shows MBE's internal capital allocation for its Pillar 1 risks based on the Standardised Approach. In addition, capital allocation for Pillar 2 risks are added for (material) risks which are not (adequately) covered in Pillar 1 capital, using internal quantitative and qualitative analysis.

Own funds & capital

Results ICAAP

EU OVC - ICAAP information

in thousands of €s	Pillar 1 Capital Basel 2	ICAAP Capital ICAAP (own confidence level)	SREP Capital Total
Pillar 1 risks			
Credit and dilution risk (CRR 92.3 a)	677,715	677,715	677,715
Position risk and large exposures (CRR 92.3 b)			
FX, settlement and commodities risk (CRR 92.3 c)			
Credit valuation adjustment risk (CRR 92.3 d)	551	551	551
Operational risk (CRR 92.3 e)	21,014	21,014	21,014
Counterparty risk (CRR 92.3 f)	13,087	13,087	13,087
Total Pillar 1 risk	**712,366**	**712,366**	**712,366**
Pillar 2 risks			
Concentration risk:		124,000	124,000
countries		91,000	91,000
sectors		19,000	19,000
single name		14,000	14,000
other			
Other credit risk			
Market risk			
Operational risk		64,500	64,500
Interest rate risk banking book		45,600	45,600
Business model risk & profitability		49,000	49,000
Pension risk		13,700	13,700
Integrity risk			
Total Pillar 2 risk		**296,800**	**296,800**
Total Pillar 1 + Pillar 2		**1,009,166**	**1,009,166**

This results in total required capital for Pillar 1 and 2 of € 1.01 billion, resulting in a bottom up ICAAP-ratio of 11.3% given the RWA of €8.9 billion. A forward looking analysis of the capital requirements is presented in the Medium Term Business Plan of MBE.

3.6 Overview minimum capital requirements for each exposure class

The table in this section presents an overview of the capital requirements using the stanardised approach (SA) for each exposure class:

Overview minimum capital requirements for each exposure class

EU OV1 – Overview of risk weighted exposure amounts

in thousands of €s		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31-3-2022	31-3-2021	31-3-2022
1	Credit risk (excluding CCR)	10,102,729	9,292,046	808,218
2	Of which the standardised approach	10,102,729	9,292,046	808,218
4	Of which slotting approach			
EU 4a	Of which equities under the simple riskweighted approach			
5	Of which the advanced IRB (AIRB) approach			
6	Counterparty credit risk - CCR	192,849	96,339	15,428
7	Of which the standardised approach	176,790	83,192	14,143
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA	16,059	13,147	1,285
9	Of which other CCR			
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)	128,782	164,232	10,303
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach	128,782	164,232	10,303
EU 19a	Of which 1250%/ deduction			
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardised approach			
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk	262,673	285,719	21,014
EU 23a	Of which basic indicator approach	262,673	285,719	21,014
EU 23b	Of which standardised approach			
EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	93,808	91,453	7,505
29	Total	10,687,034	9,838,336	854,963

4. Credit risk

Credit risk is the potential that a borrower in a loan contract or counterparty in a derivative contract will fail to meet its obligations in accordance with agreed terms, resulting in a financial loss for MBE. This includes risks arising from counterparty, country, transaction structure, collateral mismatch and also concentrations on various levels.

Credit risk is managed in compliance with MBE's Credit Risk Management Policy, EMEA Regional Credit Policy and broader MUFG Bank's risk control framework. Internal policy framework defines standards and requirements for managing credit risk, while Risk Appetite Statement defines amount of risk MBE is willing to take within its Risk Capacity in order to fulfil its Business Strategies and Financial Plans.

MBE applies MUFG Bank Ltd. group-wide uniform credit rating system for asset evaluation and assessment, loan pricing and quantitative measurement of credit risk. This credit rating system also underpins the calculation of credit provisions, credit risk monitoring and management, and steering of credit portfolios. Where deemed necessary the credit risk is mitigated by obtaining collateral.

All individual credit decisions are taken by an authorised Credit Committee within MUFG Group or MUFG-staff with proper credit delegations. Transactions that involve the booking of an asset on, or the sale of an asset from the MBE balance sheet are within the scope of the Credit Committee and the MBE Credit Process. Focus of the MBE credit committee is defined using the internal credit committee criteria.

Second line Credit Risk management, is involved in the monitoring of the credit risk limits as derived from the internal RAS, as well as, analysis and reporting of exposures on individual and portfolio level. Hence, overall credit risk management is evaluated by the Risk Management Committee. Daily monitoring of positions and/or limits is performed by the Credit Management Division, while periodic evaluation of compliance with the policy framework, credit risk assessments and credit stress testing is performed by the Risk Management Division.

5. Liquidity risk

Funding liquidity risk is the risk that the firm will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the firm. Market liquidity risk is the risk that a firm cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

Funding liquidity risk and market liquidity risk are managed in compliance with the MUFG Bank's Balance Sheet Risk Management policy, procedures and control framework. MBE's liquidity and interest rate risk and investment portfolio are evaluated by the Asset-Liability Committee (ALCO). Daily, weekly, monthly, quarterly, and annual monitoring of positions and/or limits and execution of periodical stress tests are performed by Risk Management Division.

MBE has a well-established liquidity risk management framework (LRMF) in place. The LRMF has been set up to allow the bank to achieve its strategic and operational objectives in an efficient, safe and profitable manner. The LRMF has been established through extensive coordination between the first and second lines of defence within MBE.

The LRMF ensures that MBE maintains sufficient liquidity to withstand various stress scenarios which have been calibrated to the MBE-specific portfolio, keeping in mind the buffer assets (high-quality liquid assets) held by the bank. The LRMF explains the methodology for managing liquidity risk within the bank. The LRMF has been established to include a full liquidity risk management cycle, aligned with the risk cycle steps as described in the MBE Risk Management Framework (RMF). These steps include the following:

1. Risk Identification: Identification and substantiation of liquidity risk drivers.
2. Risk Assessment: Assessment of the materiality of liquidity risk drivers.
3. Risk Management: Establishment of liquidity risk appetite and liquidity risk appetite indicators (RAIs) and liquidity risk metrics to management liquidity risk drivers.
4. Risk Monitoring and Reporting: Monitoring of reported liquidity RAIs and liquidity risk metrics.
5. Risk Evaluation: Annual (at minimum) evaluation of liquidity risk drivers through review and calibration of RAIs against risk appetite to establish updates to risk appetite (if required).

Each step of the liquidity risk cycle is covered under the various governance documents in the Risk Management Policy House (RMPH).

6. Market risk

Market risk is defined as the potential for sustaining a loss due to a change in the price of (an open position of) assets or liabilities held (including off-balance sheet assets and liabilities) resulting from changes of risk factors like interest rates, exchange rates, equity prices, commodity prices and others.

MBE is not performing proprietary trading activities on its own account in the financial markets and is therefore not exposed to substantial market risk. Market risk arising from transactions with customers are immediately squared with MUFG Bank EMEA headquarters on a back-to-back basis as much as possible.

The securities investments are subject to the investment policy as well as limits, which are strictly monitored and reviewed periodically. These securities are not for trading purposes and as such the risk is managed as part of the interest rate risk in the banking book.

MBE has an averse risk appetite for market risk. MBE will not take active open positions to produce gains (proprietary positions) and will reduce potential open positions stemming from its operations to a bare minimum (frictional positions).

Market risk management (MRM) within MBE complies with external regulations and parental bank rules. Within the MBE context, the Risk Management Committee is the primary forum for discussions on market risk including but not limited to methodologies, limits, risk appetite and positioning/profile.

Every product introduced, suspended, decommissioned or modified can affect market risk significantly and therefore a market risk assessment is part of the Product Approval Process (NPA).

7. Operational risk

Operational risk is the risk of loss resulting from either internal control issues, such as inadequate operational processes or misconduct, system failures, or external factors, such as a natural disaster. The term includes a broad range of risks that could lead to losses, including operations risk, information asset risk, reputation risk, legal risk, and tangible asset risk.

MBE has defined seven level 2 risks for Operational risk: IT risk, information security risk, operations risk, crisis risk, vendor/outsourcing risk, product/service risk and model risk. The capitalisation for operational risk is analyzed on two levels. In Pillar 1 MBE applies the Basic Indicator Approach (BIA) and for Pillar 2 MBE capitalises for an additional EUR 64.5mln.

Operational risk is managed in compliance with the MBE's Operational Risk Management Policy and broader MUFG risk control framework. Internal policy framework defines standards and requirements for managing operational risk, including written workflows, business process manuals and internal control measures; while Risk Appetite Statement defines amount of risk MBE is willing to take within its Risk Capacity in order to fulfill Business Strategies and Financial Plans.

The objective of operational risk management is not to remove operational risk entirely but to minimise it, and to ensure to the extent possible that the control environment is sufficiently strong to prevent any high value losses that have the potential to damage the bank.

Overall operational risk is evaluated by the Risk Management Committee to which the Operational Risk Management Department (ORM) provides a monthly update of the so-called internal Operational Risk Assessment (ORA). Daily monitoring of operational risk is performed by the 1st line-of-defense divisions, while periodic evaluation in compliance with the policy framework, operational risk assessments and operational stress testing are performed by the Risk Management Division.

8. Remuneration policy

EU REMA - Remuneration policy

The disclosures in this section are supplementary to those included in MBE's AR (note 27 - Key management remuneration).

8.1 Introduction

The remuneration report covers the remuneration of MBE, and the compensation of the Supervisory Board. MBE's remuneration policy (Reward Policy) takes into account the bank's strategy, size, nature and complexity, whilst ensuring alignment to its risk appetite, values, the international context it is working in, its stakeholders and wider societal acceptance.

The Reward Policy is the cornerstone of MBE's approach to rewarding its employees. It promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the bank. Its objective is to align MBE's and MUFG's strategic objectives and core values with the reward for employee performance, whilst ensuring compliance with regulatory requirements. The Reward Policy allows MBE to provide locally competitive pay to attract and retain employees, while operating a consistent framework that rewards the achievement of business objectives and the delivery of shareholder value in a sustainable way.

This Policy has been drafted taking MUFG Group's policies and principles on remuneration into account, with deviations applied as necessary to align to local requirements. The policy complies with all local and EU regulation including: MiFID II, the 'Act on remuneration Policies of Financial Undertakings'[1], the 'Guidelines on Sound Remuneration Policies' as issued by the European Banking Authority (EBA), Capital Requirements Directive (CRDIV and CRDV), the 'Regulation on Sound Remuneration Policies under WFT 2014[2] as issued by the De Nederlandsche Bank and the 'Dutch Banking Code' as issued by the Dutch Association of Banks (DBA).

The Supervisory Board is responsible for approving MBE's Reward Policy whilst the Management Board is responsible for implementing activities in accordance with the Reward Policy.

This Policy is reviewed and assessed on an annual basis or whenever changes in local laws and regulations, Head office circulars or other relevant Head office official documents have been issued. The Policy is maintained by the Head of HR, MBE who makes sure it aligns with relevant laws and regulations and safeguards continuing effectiveness.

Each year, the bank's internal audit function also conduct an independent review of the annual remuneration process in order to ensure compliance with the Reward Policy and all regulatory requirements.

As well as the quarterly standard meetings of the Supervisory Board, an additional two meetings were scheduled around the end of the performance year to specifically review and approve the annual compensation review for MBE. The Supervisory Board meetings act in a 'pseudo Remuneration Committee' capacity as the size of MBE does not warrant a separate formal Remuneration Committee at this time.

[1] Wet beloningsbeleid financieleondernemingen' : law of January the 28th, 2015.
[2] Regeling beheerst beloningsbeleid 2014':decree of the Dutch Central Bank of July the 21st, 2014.

8.2 Remuneration of the Management Board

Remuneration elements

The Management Board consists of six members for the performance year (PY) 2021, including the newly appointed Chief Business Officer / Deputy President in October 2021. Two of the board members are expatriates from Tokyo Head Office, one of which is the President (CEO) and the remaining four members are employed locally and have an employment contract for an indefinite period with the bank. The existing President resigned and will be replaced by the current Chief Business Officer effective 1 April 2022.

The board members remuneration consists of a fixed annual income, pension contribution and fringe benefits, such as the salary supplement as compensation for the loss of pension accrual above € 114,866 and car allowance.

Fixed annual income

The fixed pay of the Management Board members are set according to their skills and experience, taking into account local market practice.

For the Fixed Pay rates of the expatriate Management Board members (the President and one other Management Board member), the bank follows the conditions as provided by the bank's shareholder. Both the Supervisory and Management Board understand that the shareholder in principle applies to its staff principles of sound remunerations based on CRDIV and V.

For the avoidance of doubt, the bank will explain in its annual report if this leads to a deviation from the Banking Code and the bank will apply this policy to these Management Board Members in proportion to the amount of time such person spends on the bank in a relevant year.

Benchmarking

For the local Management Board members' Fixed Pay, the bank aligns with prevailing market conditions and best practices, to be agreed upon individually; for secondary labour conditions the bank applies the Dutch banking industry collective labour agreement (CAO). As part of the annual review, the bank compares the remuneration of the Board with peer positions in the general market, consisting of a combination of comparable financial and non-financial corporations.

Performance objectives

Each year, the Supervisory Board agrees the performance objectives with the Management Board, which are derived from the MUFG Bank (long-term) strategic objectives. In setting these objectives, the desired risk profile and the sustainability of the bank are taken into account. These two themes are included in the objectives every year. Moreover, the Supervisory Board takes into account the interests of all stakeholders of MBE.

The financial performance criteria are both quantitative and qualitative (split equally 50%) and are used to measure and adjust for both risk and performance. Examples of financial performance criteria are; (i) financial targets such as profit targets; (ii) client targets; and (iii) risk related targets. The Risk Management function shall have the opportunity to provide input to the setting of Key Performance Indicators (KPIs).

At the end of each performance period, the Supervisory Board determines the extent to which the Management Board has achieved its performance targets. The Supervisory Board also evaluates the progress on the long-term financial and non-financial objectives.

Remuneration policy

Remuneration of the Management Board

Pension

The local Management Board members participate in the same pension scheme as all other staff of MBE. This is a percentage of the income based on salary and age, capped at a salary of EUR 114,866. Additional pension supplement may be granted to compensate over this salary.

Other

- The fringe benefits provided to the Management Board members are in line with the fringe benefits that apply to all other employees. In the event of termination of employment at the initiative of MBE, Management Board members are entitled to compensation with a maximum of one year's fixed annual income.
- 50% of identified staff's variable pay is paid in share price linked awards (SPL) which consists of a number of units linked to MUFG shares.
- There was no performance adjustment made to Identified staff within PY2021.
- MBE does not apply any derogation laid down in Article 94(3) of Directive 2013/36/EU relating to the regulations surrounding variable elements of remuneration.

EU REM1 - Remuneration awarded for the financial year

monetary values in thousands of €s			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	5	6		15
2		Total fixed remuneration	185	2,426		2,153
3		Of which: cash-based	185	2,426		2,153
EU-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments				
7		Of which: other forms				
9	Variable remuneration	Number of identified staff		5		9
10		Total variable remuneration		443		256
11		Of which: cash-based		221		128
12		Of which: deferred		89		51
EU-13a		Of which: shares or equivalent ownership interests				
EU-14a		Of which: deferred				
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments		221		128
EU-14b		Of which: deferred		89		51
EU-14x		Of which: other instruments				
EU-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	Total remuneration (2 + 10)		185	2,869		2,409

Remuneration policy

Remuneration of the Management Board

EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	monetary values in thousands of €s	MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff				
2	Guaranteed variable remuneration awards - Total amount				
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff				
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount				
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff				1
7	Severance payments awarded during the financial year - Total amount				594
8	Of which paid during the financial year				594
9	Of which deferred				
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
11	Of which highest payment that has been awarded to a single person				

Remuneration policy

Remuneration of the Management Board

Template EU REM3 - Deferred remuneration

	monetary values in thousands of €s	Total amount of deferred remuneration awarded for previous performance periods	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function						
2	Cash-based						
3	Shares or equivalent ownership interests						
4	Share-linked instruments or equivalent non-cash instruments						
5	Other instruments						
6	Other forms						
7	MB Management function					44	24
8	Cash-based					24	
9	Shares or equivalent ownership interests						
10	Share-linked instruments or equivalent non-cash instruments					21	24
11	Other instruments						
12	Other forms						
13	Other senior management						
14	Cash-based						
15	Shares or equivalent ownership interests						
16	Share-linked instruments or equivalent non-cash instruments						
17	Other instruments						
18	Other forms						
19	Other identified staff					179	90
20	Cash-based					90	
21	Shares or equivalent ownership interests						
22	Share-linked instruments or equivalent non-cash instruments					89	90
23	Other instruments						
24	Other forms						
25	Total amount					224	114

Remuneration policy

Remuneration of the Management Board

Template EU REM4 - Remuneration of 1 million EUR or more per year

	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	
2	1 500 000 to below 2 000 000	
3	2 000 000 to below 2 500 000	
4	2 500 000 to below 3 000 000	
5	3 000 000 to below 3 500 000	
6	3 500 000 to below 4 000 000	
7	4 000 000 to below 4 500 000	
8	4 500 000 to below 5 000 000	
9	5 000 000 to below 6 000 000	
10	6 000 000 to below 7 000 000	
11	7 000 000 to below 8 000 000	

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