MUFG Bank (Europe) N.V. Annual Report

For the year ended 31 March 2020

Contents

Who we are

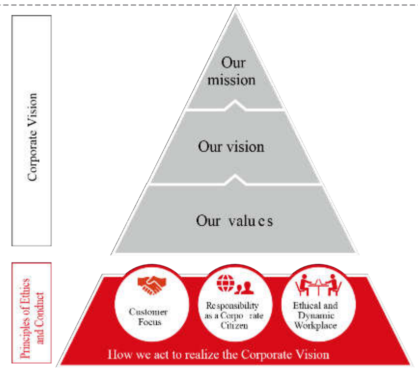
MUFG Bank (Europe) N.V. (hereinafter 'MBE') is the fully-owned subsidiary of MUFG Bank, Ltd. (hereinafter 'MUFG Bank'), one of the world's largest banks in terms of assets. MUFG has more than three centuries of experience in Japan and the rest of the world. For more than 45 years, MBE has been offering commercial banking services in the Netherlands and through its branches and subsidiaries, accross continental Europe.

MUFG Bank is the premier commercial banking arm of Mitsubishi UFJ Financial Group (hereinafter 'MUFG'), one of the world's largest and most diversified financial groups, offering a wide range of financial services, including commercial banking, trust banking, securities services, project finance, consumer finance and asset management. MUFG has the largest overseas network of any Japanese bank, comprising offices and subsidiaries in more than 50 markets.

The corporate vision serves as the Basic Policy in conducting our business activities, and provides guidelines for all group activities.

The corporate vision also is the foundation for management strategies and management plans, and serves as the core value for all employees.

MUFG has established Principles of Ethics and Conduct based on its Corporate Vision. These principles provide standards for all MUFG employees to guide their decisions and actions, thereby leading them to realise the Corporate Vision.



Our mission

To be a foundation of strength, committed to meeting the needs of our clients, serving society, and fostering shared and sustainable growth for a better world.

Our vision

1. Work together to exceed the expectations of our clients.
2. Provide reliable and constant support to our clients.
3. Expand and strengthen our global presence.

Our values

1. Integrity and Responsibility.
2. Professionalism and Teamwork.
3. Challenge Ourselves to Grow.

Our business model

MUFG's vision is to become the world's most trusted financial group by providing the highest quality service for clients while building sustainable trust with the communities in which we operate. In this way, we can serve clients, society, and foster shared and sustainable growth. This corporate vision serves as the underlying policy in conducting all of our activities, and provides guidelines for all MUFG activities as we grow our business.

To achieve our mission, our highest priority is protecting the interests of our clients, while maintaining a robust organisation that is effective, professional, and responsive. This requires a high level of understanding and responsiveness to the individual needs of our clients, ensuring we provide them with reliable and constant support.

MBE is incorporated as a commercial bank under Dutch law and being part of a prominent Japanese banking group of high international reputation, MBE aims at fulfilling both our Japanese and non-Japanese corporate clients' needs in close cooperation with the parent bank.

MBE offers a broad range of products, among others corporate lending, trade finance, international syndicated finance, lease and trust activities and serves the growing number of companies which are active in Continental Europe through its offices in the Netherlands, Belgium, Austria, Czech Republic, Poland, Germany, Spain and Portugal.

In close co-operation with and support of the European Business Division of MUFG Bank, located in London, MBE participates in international syndicated finance activities both through its offices in Amsterdam and its UK-based subsidiary, MUFG Funding (UK) Limited.

MBE offers trust services to Dutch-based Japanese holding and finance companies through its subsidiary, MUFG Business Services (Holland) B.V.(MBS). MBS has outsourced the operational activities to TMF Netherlands B.V.(TMF).

As of 1 December 2020, MUFG Business Services (Holland) B.V., will stop servicing its clients. Instead the same services will be continued by TMF directly to the clients.

MBE's competitiveness derives from its capacity to fully meet the financial needs of its clients through a variety of international financing services and products, the extensive global network and client base of MUFG, its expertise and experience in corporate banking, and most importantly its commitment to build long-standing relations with clients rooted in its vision to "be the world's most trusted financial group".

Key figures

Amounts in millions of €s

Key figures	31 March 2020	31 March 2019	31 March 2018*	31 December 2016	31 December 2015
Statement of financial position					
Loans & advances to customers	9,603	9,571	6,639	5,886	4,711
Shareholder's equity	1,784	1,849	1,235	616	587
Total assets	14,670	16,519	16,762	8,699	7,880
Results					
Net interest income	86	88	35	24	24
Total operating income	148	140	63	47	47
Credit loss expense (recovery)	63	11	1	0	1
Operating expenses	163	124	71	44	38
Result (loss) for the year	-64	-10	-6	1	8
Other					
Risk-weighted assets	12,227	13,606	4,300	3,772	3,981
Leverage ratio	8.6%	7.3%	6.7%	6.8%	4.3%
BIS Total capital ratio	16.9%	15.7%	35.6%	16.3%	14.7%
Operating expense/income ratio	110.4%	88.6%	112.8%	93.9%	80.3%
Number of employees (FTE)	783	630	255	225	161
> Domestic	407	252	194	177	109
> Abroad	376	378	61	48	52

(*) During the period ended 31 March 2018 MBE extended its financial year to align with its parent company (MUFG Bank). This change facilitated the integration of offices in Germany, Spain and Portugal as per 1 April 2018. As a result the figures for the 15 month period ended 31 March 2018, are not entirely comparable to the amounts for the 12 months comparative reporting periods.

General information

Registered office
World Trade Centre Amsterdam (I Tower 5th floor)
Strawinskylaan 1887
1077 XX Amsterdam
Netherlands

Report of the Supervisory Board

Supervisory Board

The Supervisory Board approves the risk profile and control framework of MBE. The Supervisory Board supervises, advises and challenges the Management Board in the exercise of their duties, and is responsible for the general course of business of MBE and its related companies pursuant to MBE's Articles of Association, MUFG principles of Ethics and Conduct and prevailing legal and regulatory requirements, including the Dutch Banking Code.

The Supervisory Board has drawn up a profile to be used as a basis for its composition. As of the 31st March 2020 the Supervisory Board consists of four members. Gisella van Vollenhoven-Eikelenboom was appointed to the Supervisory Boad on 31 March 2020. The Supervisory Board has two members who are employed by MBE's parent, MUFG Bank and as of 31 March 2020 the Chairmanship resides with an independent member.

In terms of expertise, the Supervisory Board members have extensive know-how in fields such as banking and finance, corporate governance and risk management.

The Supervisory Board has an established audit, compliance and risk (ACR) committee, which assembles on a quarterly basis. The Committee is composed of the independent Supervisory Board Members.The task of the Committee is to prepare the Supervisory Board for making final decisions by holding prior and separate meetings with Internal Audit, the Chief Risk Officer and the Chief Financial Officer, we well as the external auditors of MBE. The activities of this Committee do not affect the collective responsibility of the Supervisory Board itself. Ms. van Vollenhoven-Eikelenboom took over the role of Chairman of the ACR from Mr. Nagel upon her appointment on 31 March 2020.

Information from various committees is provided to the Supervisory Board on a regular basis in line with the committee structure within MBE. More information of the committees can be found in section Meetings of the Supervisory Board. The Management Board consults with the Supervisory Board on a regular basis outside of the regular Supervisory Board meetings as and when required to keep the Supervisory Board informed of important developments within the Bank.

The Supervisory Board members are included in the lifelong learning programme. In the year ended 31 March 2020, training was offered on key regulatory themes for 2019, as well as Risk Appetite and Data Quality.

Composition of Supervisory Board

Composition of Supervisory Board

Chairman - Mr.Wietze Reehoorn (effective 3 June 2020)

Mr. Reehoorn joined the Supervisory Board of MBE on 3 June 2020 taking over the position of Chairman from Mr. Nagel. A highly experienced figure in the Dutch banking sector, Mr. Reehoorn spent 30 years at ABN AMRO, where he worked across the company in a variety of roles, including Head of Corporate Banking, Head of Financial Restructuring and Recovery, Group Strategist, and Chief of Risk and Strategy. He was also a member of ABN AMRO's management board for eight years, concluding his tenure end of 2017. Currently, Mr. Reehoorn is also a member of the Board of the National Bank of Greece.

Vice Chairman - Mr. Takanori Sazaki *(effective 5 June 2019)*

Mr. Sazaki joined the Supervisory Board on 5 June 2019. He is the successor of Mr. Osawa, and has taken over the role of Vice Chairman from Mr. Peacock. Mr. Sazaki is currently MUFG's Regional Executive for EMEA and in this role he is responsible for safety, soundness and governance. He has worked for MUFG over 30 years across Asia, the US and EMEA and has broad experience in investment banking and governance matters.

Member - Mr. Kerry Peacock

Mr. Peacock joined the Supervisory Board of MBE in September 2016 as vice chairman. Mr. Peacock has over 30 years experience in the banking sector as well as specific knowledge regarding MUFG as he has been leading the Operations division of EMEA for MUFG Bank since 2008. He has been a member of several committees within MUFG, which gives him a broad and in-depth understanding of MUFG, its internal codes and procedures. As mentioned above Mr. Peacock handed over his function as vice chairman to Mr. Sazaki on 5 June 2019.

Member - Ms Gisella van Vollenhoven-Eikelenboom (effective 31 March 2020)

Ms van Vollenhoven-Eikelenboom has been appointed to MBE's Supervisory Board, and as Chair of MBE's Audit, Compliance and Risk Management Committee, effective 31 March 2020. Ms van Vollenhoven-Eikelenboom currently holds several non-executive positions among others with a.s.r. Insurances and Waarborgfonds Sociale Woningbouw, and most recently worked for De Nederlandsche Bank (DNB), where she worked closely with the European Central Bank on a range of risk-related issues. Prior to this, Ms van Vollenhoven-Eikelenboom worked for ING for 16 years, where she began her career. At ING, Ms van Vollenhoven-Eikelenboom held a variety of roles, but most notably managing its Risk Management function between 2006 and 2012.

Mr. Marius van Nieuwkerk (resigned on 1 September 2019)

Mr. Van Nieuwkerk joined the Supervisory Board of MBE in 2007 and took over the role of Chairman from Mr. Sodderland effective from 1 October 2017. His high level of knowledge and experience is evidenced by his long employment with the Dutch Central Bank in national and international top senior management positions. This is not only demonstrated by his close involvement in the development of new regulations, but also by his active membership in a number of monitoring committees, such as the committee of supervisors for the international banking sector and the committee that monitored the international financial markets (BIS in Basel). As he has been an independent member of the Supervisory Board of MBE for 12 years, he developed substantial knowledge of the organisation. Mr. van Nieuwkerk resigned from the Supervisory Board on 1 September 2019 and was succeeded as chairman by Mr. Nagel.

Mr. Wilfred Nagel (resigned 15 May 2020)

Mr. Nagel joined the Supervisory Board on 6 November 2017 and took over the role of Chairman from Mr. van Nieuwkerk effective from 1 September 2019. During his career at ING he gained experience through a variety of senior Management Board positions as well as Supervisory Board positions, both in the Netherlands and abroad. In his last role he was the CRO of ING Groep NV. Mr. Nagel was also the chairman of the SB Audit, Compliance and Risk Management Committee of MBE until handing over to Ms Gisella van Vollenhoven-Eikelenboom on 31st March 2020. He has experience as a CEO of sizeable financial institutions managing major subsidiaries abroad. Through this he has experience with both local and foreign regulatory

Composition of Supervisory Board

supervision. He has deep knowledge of the markets where MBE operates and has been involved in wholesale banking, project finance and leasing. Mr Nagel gave notice of his resignation and was replaced by Mr. Reehoorn effective 3 June 2020.

When appointing a member to the Supervisory Board MBE follows the Dutch Corporate Governance Code as detailed under Principle 2.2 Appointment, succession and evaluation.

Meetings of the Supervisory Board

In the year ended 31 March 2020, the Supervisory Board held seven meetings. During the meetings, all members were either physically present or represented or attended by means of video conferencing access.

The Supervisory Board discussed with the Management Board a great number of subjects, including but not limited to risk management, credit provisioning, integrity, corporate governance, business development and the Dutch Banking Code, in order to assure itself by means of its own examination as to the adequate management of risk and the control framework of MBE. Members of the Supervisory Board consulted with the external auditor Deloitte, the head of the Internal Audit division, the division heads in charge of Risk Management and Compliance, the head of the Finance Division and representatives of the Works Council.

In its role as providing overall governance for reward in MBE, the Supervisory Board reviewed MBE's Reward Policy, individual remuneration for the Management Board and all other staff identified as Material Risk Takers (MRTs). Additionally, the Chairman of the Supervisory Board discussed relevant topics related to the Dutch Banking Code, Basel III, the ICAAP/ILAAP process and IT issues with the Management Board.

The Supervisory Board and/or its Chairman had meetings with representatives of DNB on issues such as capitalisation and liquidity, risk assessment, outsourcing, governance, Asset & Liability Management Committee (ALMC) and Know-Your-Customer (KYC).

During the year, the Supervisory Board had the following focus areas and activities:

- MBE's business development, financial position and results.
- Internal projects relating to the integration of branches within existing MBE structures.
- MBE's compliance with legislation, codes and regulations.
- MBE's Risk Appetite and Risk Framework, strategy, as well as MBE's governance.
- The development of functional lines in the newly established continental European organisation
- A number of actions have been taken to enhance MBE's governance and internal control framework, including the implementation of new policies and procedures.
- The remuneration policy, which was, under the guidance of the ACR, substantially modified to comply with local legal and regulatory requirements as well as EBA guidelines.

Audit, Compliance and Risk Committee

The ACR Committee is responsible for supervising matters related to financial reporting, controlling, risk, and compliance. After the appointment to Chairman of the Supervisory Board, as Mr. Nagel was the only independent member, he retained the Chairmanship of the ACR committee. Upon appointment of Ms. van Vollenhoven Eikelenboom to the Supervisory Board she took over the Chairmanship of the ACR. The Committee is regularly consulted and involved in the progress made on the challenges imposed by MBE's considerable expansion, ensuring that MBE is positioned to strengthen the internal organisation by adding staff and to cope with increased regulatory demands.

The committee consists of the independent members of the Supervisory Board that have the relevant experience. External Audit is also represented for the relevant topics.

The ACR has also extensively discussed the following subjects:

- MBE's Risk appetite.
- Increased regulatory requirements.
- SOx, internal controls and compliance.
- The annual report.
- Actions have been taken to enhance MBE's governance and internal control framework.

Remuneration

Reward policy

The Reward Policy for MBE is the cornerstone of the approach to rewarding 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 the Bank'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 the Bank to provide locally competitive pay to attract and retain employees, while operating a consistent framework that rewards.

The Policy complies with the Act on Financial Supervision, the 'Regeling beheerst beloningsbeleid Wft 2014', and the principles under CRD IV and MIFIDII. MBE has also taken the EBA's Guidelines on Sound Remuneration Policies ('Guidelines') into consideration. It is recognised that MBE's scope and scale has increased. Therefore a full review and update of the MBE Reward Policy was completed in 2018 ensuring compliance with all appropriate regulations and guidelines, including the introduction of a shared price linked deferral scheme for Material Risk Takers (MRT), which was implemented in preceding year. The Supervisory Board confirms the introduction of the share price linked deferred incentivised long term commitment to MBE. As part of annual goverance, the Reward Policy is subject to an annual review of the Policy to ensure on-going effectiveness and alignment with regulation and MUFG remuneration practice. As such, a further review and update has been made for this performance year. The Supervisory Board is responsible for the evaluation of the Reward Policy adopted in regards to the Management Board members and all senior staff in control functions (including risk management, compliance and audit), and approves overall remuneration pools. The Supervisory Board also oversees the implementation of the Reward Policy by the Management Board.

In establishing the MBE Reward Policy, the following MUFG guiding principles were taken into account:

- It shall have a clear link between performance and reward;
- It shall support the Bank's and MUFG's high standards of business ethics;
- It shall embed effective risk and compliance disciplines and to be in accordance with a prudent risk management system;
- It shall ensure overall competitiveness such that the Bank can attract, retain and reward employees across its markets;
- It shall comply with all applicable regulatory and legal requirements including, but not limited to, applicable employment, tax and equality legislation, and European and local country remuneration regulation; and
- It shall be transparent, easy to understand, and clearly communicated to all employees.

The remuneration of Supervisory Board members is set by the annual general meeting of the shareholder. The remuneration is deemed to be proportional to the time required to perform the supervisory activities and to be independent of MBE's financial results, and Supervisory Board members are not eligible for variable compensation.

Details on the remuneration of the Supervisory Board members, Management Board members and MRT's can be found in Note 27 to the Consolidated Financial Statements.

Dutch Banking Code

The Dutch Banking Code sets out principles that banks with a corporate seat in the Netherlands should observe in terms of corporate governance, risk management, audit and remuneration.

MBE implements the principles of the Dutch Banking Code. The principles fit within the corporate governance principles applied by MUFG Bank Ltd. and the ultimate parent MUFG Inc. It is the group's corporate vision to 'be the world's most trusted financial group'. The Dutch Banking Code application is available on MBE's website: here.

All important issues addressed in the Banking Code and similar rules and regulations are being discussed in the meetings including risk management, especially credit risk and provisioning, compliance, audit and internal control framework, remuneration and new product approval process.

Mindful of the characteristics of and circumstances surrounding MBE as explained below, MBE has

Dutch Banking Code

decided not to apply the following provisions of the Dutch Banking Code:

- No remuneration is paid to supervisory members employed by MUFG Bank, pursuant to the MUFG Bank group policy in this respect.
- In terms of the composition of the Supervisory Board in relation to independence, the composition of the Supervisory Board is such that up to a maximum of 50 percent are Supervisory Board members who would not be considered independent. Pursuant to the by-laws of MBE, the chairperson of the Supervisory Board is independent and in each meeting the independent members are jointly capable of casting at least half of the votes.

The reasons for not applying these provisions of the Dutch Banking Code are the result of following characteristics and circumstances of MBE:

- MUFG Bank Ltd. is the sole (100%) shareholder of MBE; consequently the shares of MBE are not listed.
- The shareholder, MUFG Bank, also acts as the global head office of MBE, implying central oversight on key areas like risk management, compliance, internal audit and financial and management accounting.
- Important statutory authorities are assigned to the shareholder, like appointment of supervisory and managing board members and external auditor.
- MBE is organisation-wise and management control-wise part of a larger, internationally operating banking group, supervised by the financial supervisory authorities of the home country (Japan).
- The size and nature of MBE's commercial activities, reflected by the limited complexity of client/product combinations.

Financial Statements

In accordance with article 15 of MBE's articles of association, we hereby submit to the shareholder the Financial Statements for the year 1 April 2019 to 31 March 2020, which includes among others the report of the Management Board and the Financial Statements drawn up by the Management Board, examined by the Supervisory Board and audited by Deloitte Accountants B.V.

Despite the growth in revenues, a challenging macro-economic environment together with higher regulatory and integration costs have resulted in a loss for the Financial Year. MBE's strategy is to further enhance efficiency opportunities throughout Europe to serve its clients and improve efficiency as was announced on 13th November 2019 with the intention to transfer the booking accounts of its branches in Spain and Austria into the MUFG Bank (Europe) Head Office in the Netherlands.

MBE expects next year to continue to be a challenging environment with the full effects of the global pandemic of Covid-19 being uncertain at time of writing. The Supervisory Board has been regularly informed of immediate impact of the Covid-19 pandemic in relation to MBE's liquidity, capital and credit risks as well as its operational resilience. There has been no short term request from the Management Board to reconsider the bank's risk appetite or risk management policy. Notwithstanding the initial limited impact, the Supervisory Board discussed with the Management Board in its first meeting in FY2020 the potential further impact. In addition to the information shared upon and major and adverse developments, the medium term impact of the pandemic has influenced the assumptions underlying the next medium term business plan, planned to commence in FY21. The Supervisory Board will actively discuss the strategic agenda of MBE and assess the potential impact and underlying scenarios of a prolonged effect of the pandemic.

We propose the shareholder to approve the Financial Statements as submitted by the Management Board and to discharge the members of the Management Board and the Supervisory Board for their management and supervisory duties respectively during the year ended 31 March 2020. We endorse the proposal by the Management Board to have no dividend payment as there is no net profit for the year ended 31 March 2020.

Information, consultation and conclusion

All important issues addressed in the Banking Code and similar rules and regulations are being discussed in the meetings including risk management, especially credit risk and provisioning, compliance, audit and internal control framework, remuneration and new product approval process. Contact between the

Information, consultation and conclusion

Supervisory Board and the Works Council took place in a constructive and professional atmosphere. It is the role of the Supervisory Board to advise and challenge the Executive Board and Management Board. The relationship between the Management Board and the Supervisory Board is good by challenging and supporting one another in this regard.

The conduct and effectiveness of each of the members of the Supervisory Board was discussed explicitly. The Supervisory Board concluded that the Supervisory Board and each of its members function properly.

The Supervisory Board acknowledges that the Management Board has duly provided the Board with adequate and up-to-date information and has been consulted on MBE's policy and controls where needed, enabling the Supervisory Board to perform its supervisory tasks adequately. The Supervisory Board approves the Financial Statements of MBE as presented by the Management Board.

Amsterdam, 22 July 2020

W. Reehoorn

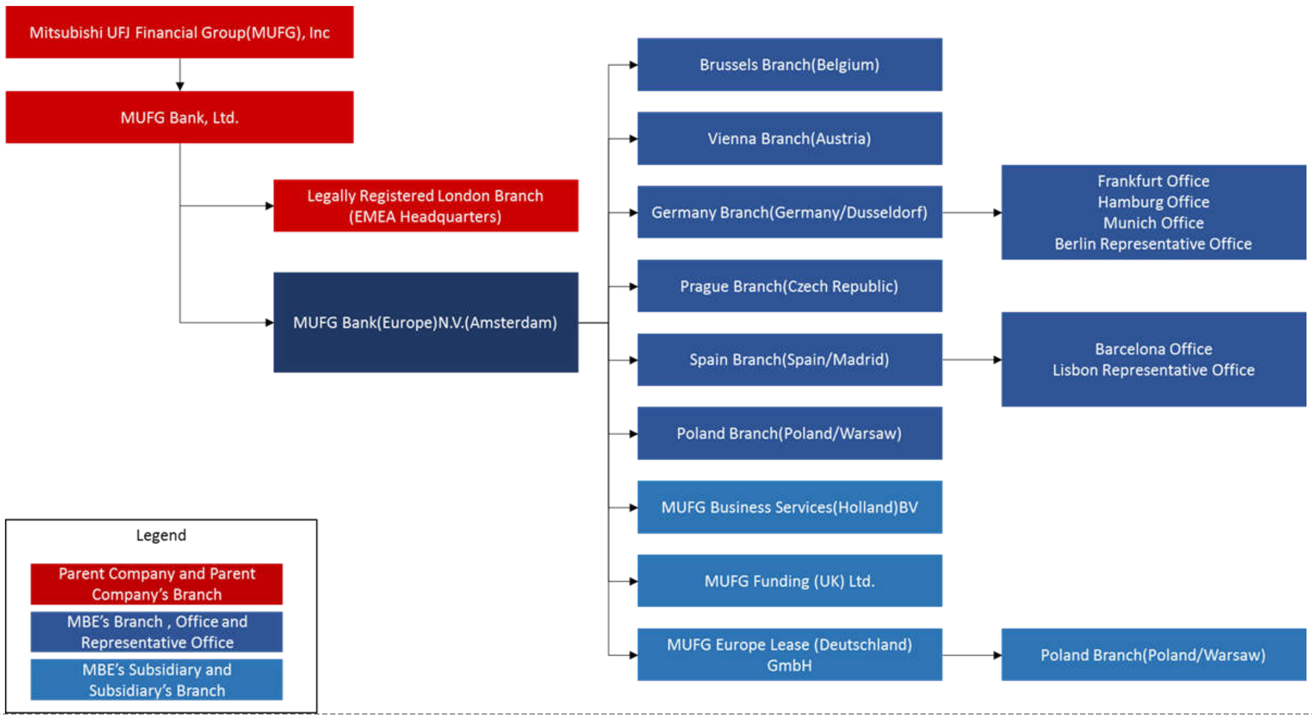
T. Sazaki

K.W. Peacock

G. van Vollenhoven-Eikelenboom

Report of the Management Board

The successful on boarding of the German and Spanish/Portuguese offices as per 1st April 2018 reinforces MBE and MUFG's commitment to continental Europe in order to better serve our clients' needs. Further re-organisation has been announced with intention to transfer the booking accounts of its branches in Spain and Austria into the MUFG Bank (Europe) Head Office in the Netherlands.



Business activities

MBE's activities comprise corporate banking including the introduction of our corporate clients to other members or affiliates of our group. Our corporate client portfolio consists of Japanese related and Global clients. We work in partnership with other entities within MUFG, allowing us to offer tailor made solutions to our clients. The strength and global presence of MUFG, of which we form part of, enables us to provide a strong business case to prospective companies.

We continue, in line with our parent bank MUFG Bank, to focus on growing the corporate client portfolio in our chosen markets, with a special focus on global corporate business opportunities. The Global Markets Division for EMEA of our parent bank, MUFG Bank, London, remains our sole counterparty for executing our inter-bank market transactions.

Risk Management

The Risk and Control Framework is based on the three Lines of Defence model with the Risk Management Division fulfilling a critical second line function, enabling the organisation to grow in a sustainable and balanced manner within its Risk Appetite, which is set by the Management Board and approved by the Supervisory Board. Last year, MBE further invested in its Risk and Control to support MUFG's ambition to be 'the world's most trusted financial group'. MBE targets a healthy and well diversified capital and liquidity position that supports its business strategy and long-term rating ambition of MUFG. An important element is an ongoing and comprehensive assessment of the key risks and uncertainties that MBE is facing.

Risk Appetite Statement

MBE's risk appetite is drive by her Client-centric strategy and long term rating ambition. MBE has a moderate appetite for credit risk and interest rate risk, in line with her business model; MBE is risk averse on other risk types. MBE determines here risk appetite conservatively within the constraints of her capital and liquidity capacity.

Towards the end of the reporting period, MBE has proposed to the Supervisory Board to transit from a 'No appetite', 'Low', 'Low to moderate', 'Moderate', 'Moderate to high' and 'High' range of risk appetite levels, to a range of 'Avoid', 'Averse', 'Conservative' and 'Receptive'.

Applying this new scale is in adherence to MUFG terminology and risk appetite levels.

Strategic Risk

Strategic Risk relates to the viability of MBE's business model and its ability to adequately respond to changes in its external and competitive environment. Several developments are impacting the strategic risk profile of MBE, of which Brexit is one of the main drivers for change. Although there are still uncertainties around Brexit, it inevitably leads to a reconsidering of MBE within the wider (EMEA) organisation of MUFG. Another driver is the EU regulation on Intermediate Parent Undertaking (IPU), applicable to non-EU banking groups with large EU operations, which might lead to a restructuring of MBE's balance sheet. Furthermore, profitability within MBE is under pressure. On the revenues side it is challenging to generate profitable business growth whereas the low-yield interest rate environment further complicates balance sheet decisions. The expense side is also challenging with high regulatory costs and investments in the IT infrastructure.

Mitigating actions: considering the above, Strategic Risk for MBE is currently high. Therefore, strategy is high on the agenda of the Management Board. In 2020, the aim is to update the strategic roadmap for MBE which is fully aligned with MUFG's global plans. Several (intragroup) outsourcing projects are initiated to increase profitability and operational excellence. Furthermore, MBE holds a solid Pillar 2 capital buffer for Strategic Risk.

Covid-19

In the final quarter of the financial year, MBE was confronted with the worldwide outbreak of the Covid-19 pandemic. Although we are in the middle of the crisis now and the situation is fluid, it is expected that the impact will be high. Whereas credit risk on the current portfolio is considered moderate, this is expected to change depending on the severity of the expected economic downturn. Already, the pressure on resources and IT infrastructure increased with offices closed and people working from home which has meant that the operational risk profile has increased.

Risk Management

Mitigating actions: MBE has a solid crisis management structure in place, closely monitoring and managing the situation in alignment with MUFG headquarters and the regional head office for EMEA. Efforts on remote IT infrastructure accelerated to ensure continuation of critical operations and enable staff members to work from home or alternative office locations. Parallel to this, additional controls have been implemented to monitor IT and cyber risks both through the Systems division and oversight by the second line of defence Operational Risk Management division. Furthermore, the first line of defence businesses -supported and challenged by the second line of defence Credit Risk Management division- perform additional sensitivity analysis and stress testing on the credit risks within the loan portfolio, closely monitoring specific names deemed to be on close credit watch due to Covid-19. Steep credit deterioration is simulated and the impact on expected credit losses assessed. In addition to that, extra care and attention is given to economic and business projections described in credit applications.

IT and Cybercrime Risk
Cybercrime remains a constant and significant threat to the financial services industry. Due to its specific product offering and client portfolio, MBE is typically less sensitive than universal retail and wholesale banks. Although MBE was confronted with phishing and CEO fraud attempts, no hacking incidents have taken place and no financial losses were suffered as a result. IT Risk in general is considered high. Significant investments are needed to improve IT governance and IT infrastructure as well as the surrounding control environment. Partly this is about replacing legacy systems but for the larger part MBE needs to keep up to date with regulatory requirements and industry standards.

Mitigating actions: MUFG has resources in place that are dedicated to monitoring and mitigating cybercrime risks. A two year improvement plan on IT governance and infrastructure has been initiated in order to address weaknesses and to achieve the required maturity level. Additionally, a new leadership team within IT has been appointed to further accelerate initiatives.

Operational Risk
Operational risk refers to the risk of losses caused by inadequate operational processes, human errors, misconduct, system failures, or external factors. Within MBE, a broad range of sub risk types are considered in this category, of which vendor and outsourcing risk, IT risk, product risk and model risk. There are two main causes why Operational Risk within MBE is currently high. The risk and control awareness within the business divisions (1st-line of defence) needs further improvement. Secondly, there are many projects, outsourcing and change initiatives running parallel, putting severe pressure on resources and change capacity. Whilst most of these initiatives will reduce the operational risk profile on the longer term, for the short term processes and systems are not stable and key person risk is high.

Mitigating actions: Operational Risk is one of the key focus areas within Risk Management. Additional resources have been recruited and a framework for Risk & Control Self Assessments and Issue Management have been developed. This framework will be implemented in business as usual across MBE in 2020 and will result in more risk and control focus and ownership within the business divisions. Additional training will be provided to increase awareness among staff.

Regulatory Environment
MBE operates in a complex regulatory environment and faces ongoing significant changes in the regulatory landscape. As a result, regulatory changes remain a focus for senior management and consume significant part of MBE's resources. Furthermore, the dynamic regulatory landscape and enhanced requirements may adversely affect MBE's performance or capital and may require adjustment of a business model and risk management strategies. In the year ahead, we expect the regulatory agenda to be dominated by increase of requirements in the area of environmental, social and governance (ESG), data and technology and implementation of CRR2/CRD5 banking package.

Mitigating actions: MBE maintains an ongoing dialogue with the supervisors on new regulations. A specialised department (Regulatory & Programme Office) monitors and assesses all regulations and uses a project-based approach together with Strategic Change and Control Office. Finally, MBE is part of a large global financial institution and leverages headquarter frameworks and practices as much as possible.

MBE is working diligently on improving its AML framework and enhancing its capabilities to contribute to a sound and effective financial crime compliance operations and culture. Supported by MUFG group, MBE is leveraging group wide investments in this area in addition to specific undertakings under guidance and instruction from the Dutch Central Bank (DNB). Over the reporting period MBE has invested extensive resources in support of the enhancement programs and continues to do so over the coming period. MBE puts much emphasis on embedment of the enhanced frame and strengthening our compliance awareness.

Organisation & operations

Considering that MBE becomes the hub of EU business in MUFG and the number of regulations and reporting requirements have been increasing, in line with our strict policy to comply with the requirements, we have increased our investment in staff, systems and control-functions. As a result of ever changing market circumstances and (new) regulatory requirements the Management Board regularly assesses whether changes to MBE's organisation are required. Our in house and outsourced IT processes continue to deliver a solid and stable performance.

Our Staff

The average number of employees on a consolidated level was 783 for the year ended 31 March 2020. The majority of the employees are based in Amsterdam (407 FTE) and in Germany (242 FTE). As of end of March 2020, the ratio of female employees to all employees was approximately 41%. Furthermore MBE employs more than 30 different nationalities across its branch network.

Corporate Social Responsibility (CSR)

MBE –in the Netherlands- has a partnership with CSR partner JINC. JINC strives for a society in which a child's background does not determine a child's future, and this is in line with MUFG's CSR strategy to equip the next generation of young people with the skills and knowledge required to gain and sustain employment, generate wealth and create jobs. Over the coming year JINC and MBE will work together to reach local youth and help them to a good start in the labour market. MBE reached 105 students through the JINC projects, examples of initiatives are: Flash Internship, Job Application Training, Career Coach and Tomorrow's Boss. In addition the MBE branches engage their staff in various CSR activities, supporting local communities.

Inclusion & Diversity (I&D)

MBE provides a platform for the MBE Inclusion & Diversity Team, a volunteer-based employee network group spread across the different offices, to proactively run inclusion and diversity-related initiatives to address opportunities to improve gender equality and cultural diversity in the bank.

To this end, the team launched various initiatives during the past financial year, most notably partnering with the Professional Women's Network (PWN) mentoring programme as well as opportunities to join Business Women Programme workshops to provide our female colleagues the opportunity to develop their leadership skills, running in-house cultural awareness workshops and organising world food day events to celebrate the diversity we find across the bank. We have established a culture that embraces I&D by setting standards of integrity, respect, inclusion and diversity. We have ERGs and inclusion and Diversity Councils to help support these standards

Learning & Development

The key principles of our L&D Policy are:

- Support the strategic development of MBE through its people.
- Support MBE in achieving its strategic objectives.
- Create positive, inclusive and effective employment relationships amongst all employees.

MBE is committed to continuously improving business performance by harnessing the full potential of all its employees. MUFG provides the framework, investment and resources to enable employees to improve their capabilities and knowledge in order to remain proficient and deliver on business objectives in their current role, to acquire the competencies needed to develop their career and to demonstrate appropriate behaviours to support a high performing culture.

The goal is to ensure MBE employees have the right skills, knowledge and attitude to drive productivity, create efficiencies and grow the business and ensure

Organisation & operations

that a high quality and a diverse work-force is being retained.

Corporate governance

MBE implements principles and best practice provisions regarding corporate governance (established in the Dutch Corporate Governance Code) in so far these are applicable to MBE, being a non-listed financial institution.

MBE has a two-tier system, consisting of a Supervisory Board and a Management Board. The Management Board and the Supervisory Board underpin the importance of good corporate governance and have undertaken initiatives to further strengthen the corporate governance. Examples are the establishment of a separate Compliance Division, Risk Management Division and Internal Audit. The Compliance Division reports to the Chief Risk Officer and has an independent line to the Supervisory Board.

MBE has established a Code of Conduct and governance-related policies such as a whistle blowing policy and insider regulations which apply to all its employees and others working with MBE. All members of the Management Board and Supervisory have taken the 'Banker's Oath'. All employees joining MBE in the Netherlands have to take the Banker's Oath. Both the Code of Conduct and the Banker's Oath emphasise the role of banks in society, their commitment to meet the expectations of the society and to contribute to public trust in banks within society. On a regular basis, meetings and trainings are organised for all staff comprising amongst others awareness of our core values and behaviours.

Anti-corruption and bribery

MBE is committed to keep abreast of developments in laws and regulations of the jurisdictions in which it operates, including anti-bribery & corruption, as well as paying attention to trends in financial crimes. MBE approved the Global Anti-Bribery and Corruption Policy in September 2019, which is applicable to all its branches, consistent with the Bank's zero-tolerance approach to Bribery, as established in the Principles of Ethics and Conduct. This Policy is designed to promote a corporate culture of ethical business practices and compliance with the letter and spirit of all applicable ABC laws, which are broad and prohibit offering, giving, soliciting or receiving, directly or indirectly, Anything of value to or from any public official or private party in exchange for an improper business benefit or advantage.

Management Board

The Management Board is responsible for the day-to-day operations of the business and the long-term strategy. The Management Board also ensures that MBE complies with the relevant legislation and regulatory requirements.

The Management Board by-laws reflects the Dutch Banking Code principles. Focusing on principles regarding composition and expertise requirements, lifelong learning programme, risk management and responsibility to ensure the interests of all stakeholders of MBE are considered in all actions by the Management Board. Currently the Management Board does not comply with the gender diversity ratio of 30%, however, aims to show progress in this area by 2021.

The members of the Management Board have thorough and in-depth knowledge of the financial sector and the banking sector in particular. Collectively they have broad experience in the fields of governance, organisation and communication, products, services and markets within MBE's scope of activities.

The Management Board collectively manages MBE and is responsible for its objectives, strategy and related risk appetite, as well as the development of financial results. The Management Board is assisted with its duties by the IT & Operation Control Committee, Business Continuity Committee, Risk Management Committee, Credit Committee, Compliance Committee, Anti Money Laundering Committee, Asset Liability Management Committee, Change Control Committee, New Product Committee, Data Management Committee and Outsourcing Committee.

The Management Board is responsible for developing, communicating and enforcing standards on integrity, morals and leadership in MBE. The Management Board encourages a healthy culture both at the top of MBE and throughout the organisation.

Management Board

A life-long education for members of the Management Board is established. The Management Board participates in the MBE wide E-learning trainings on for example the code of conduct and several compliance items. Moreover, the Chief Compliance Officer holds monthly study sessions with the CEO, which are open to other members of the Management Board. The programme is designed to keep the members' expertise up to date and in line with regulatory developments.

Composition of Management Board

President – Mr. Shichito Tobari (resigned on 9 August 2019)
Mr. Tobari joined the Management Board of MBE on 16 June 2017. He transferred to MBE from Dubai where he was Managing Director and Regional Head of MUFG Banks' Middle East branch organisation. Throughout his career with MUFG, he gained experience in various managerial positions in different branches and departments both in Japan and internationally. He has vast experience in M&A, corporate banking and transaction services. He also has experience in the areas of risk control, operations, (internal) audit, legal accounting and systems. Mr. Tobari resigned from the Management Board on 9 August 2019 and was succeeded by Mr. Takase.

President – Mr. Hideaki Takase (effective 9 August 2019)
Mr. Takase joined the Management Board of MBE on 9 August 2019, taking over the role of Mr. Tobari. Mr. Takase has deep industry experience in corporate banking and business management, having served MUFG in distinguished leadership positions in Japan and the United States as part of his 28-year career. As Chair of the Management Board, he will oversee and further develop the bank's business strategy and internal controls.

Deputy President & Chief Risk Officer – Mr. Maarten Rosenberg
Mr. Rosenberg joined the Management Board of MBE on 1 November 2016. He gained most of his experience and knowledge of the risk area at various national and international managerial positions at Rabobank. At MBE Mr. Rosenberg is the Chief Risk Officer. He has vast experience in risk management, administrative organisation and internal control procedures. He has in-depth knowledge of KYC and CDD procedures. He also has experience in financial markets, financial products and corporate lending.

Chief Strategy and Planning Officer – Mr. Kiyoshi Kuzuhara (resigned 6 January 2020)
Mr. Kuzuhara joined the Management Board of MBE on 17 March 2017 transferring from his position as Deputy Head of Germany which was at the time still a branch of MUFG Bank. Throughout his career with MUFG, he has gained experience in various treasury related areas and in total worked over 10 years in Germany. During this time he gained adequate knowledge of the relevant German and EU laws as wells as a better understanding of the EU market. He has vast experience in treasury/global markets, capital markets and transaction banking, including cash management. He also has experience in compliance, HR, risk management and planning. Mr. Kuzuhara resigned from the Management Board on 6 January 2020 and was succeeded by Mr. Hatano.

Chief Strategy and Planning Officer – Mr. Nobuki Hatano (effective 6 January 2020)
Mr. Hatano joined the Management Board of MBE on 6 January 2020. He has almost 25 years of experience in the financial sector. He held a variety of planning and project positions and worked on large strategic initiatives. Having a long history within MUFG in various divisions and overseas postings in the US, Japan and the UK, Mr. Hatano has gained in depth experience of our global organisation. He joined MBE in early 2019, and in that time has played a significant role in many key strategic initiatives, and has been a strong support to the Management Board on various regulatory matters, especially regulatory remediation projects.

Chief Operations Officer – Ms. Elena Shakhurina (effective 19 April 2019)
Ms. Shakhurina joined the Management Board of MBE on 19 April 2019. She joined MUFG in 2005 and has helped establish the bank's presence in Moscow over the past 14 years, most recently serving as President of MUFG Bank (Eurasia). Throughout her career Ms. Shakhurina gained broad experience in IT, Operations and internal control as well as Data Management. Next to her broad experience, Ms Shakhurina also holds strong leadership skills.

Composition of Management Board

Chief Financial Officer – Mr. Mark Selles (effective 1 September 2019)
Mr. Selles joined the Management Board effective 1 September 2019. He has a wealth of experience in the banking sector from major financial institutions across Europe. Mr. Selles has held several executive positions as CFO and COO as well as non-executive director positions. His areas of expertise include Finance, Accounting, Regulatory Reporting and Liquidity, Asset & Liability Management.

Sustainability

The international community, aiming at achieving the Sustainable Development Goals (SDGs) and Paris Agreement on climate change, is working towards the protection of the global environment, which is fundamental to the existence of humanity and all living creatures, and the realisation of a sustainable society. MBE as a provider of financial services, also recognises the importance of sustainable growth for a livable future, and is committed on a long-term basis to developing lasting relationships with both our clients and society. This is also in line with MUFG's mission statement that reads:

"To be a foundation of strength, committed to meeting the needs of our customers, serving society, and fostering shared and sustainable growth for a better world."

In addition, through the financial services we provide, we aim to more actively work towards finding solutions to environmental and social issues. Globally MUFG offers sustainable finance and has set a goal of ¥20 trillion for sustainable finance by fiscal year 2030 (of this, ¥8 trillion will be used for environmental finance). To reach that goal, MUFG will finance renewable energy projects and underwrite and distribute Green Bonds. MUFG will also finance incubation projects to nurture start-ups and regional revitalisation programmes. MBE has expanded its efforts to promote a sustainable future during the Financial Year 2019 and will continue doing so going forward.

FY 2019 Efforts

During FY 2019, MBE has started to actively roll-out sustainability related initiatives within MBE, and launched its internal working group on sustainability matters.The group consists of representatives from all three lines of defence. The group is then divided into three different workstreams, which integrate all risk and sustainable finance practices. Next, the group is divided in three different work streams, help integrating all risk and sustainable finance practices into MBE's business operations. The aim of this Working Group is to enhance internal awareness around ESG within MBE and encourage colleagues to adhere to the MBE ESG policy when creating and implementing new business initiatives.

Environmental, Social & Governance in MBE

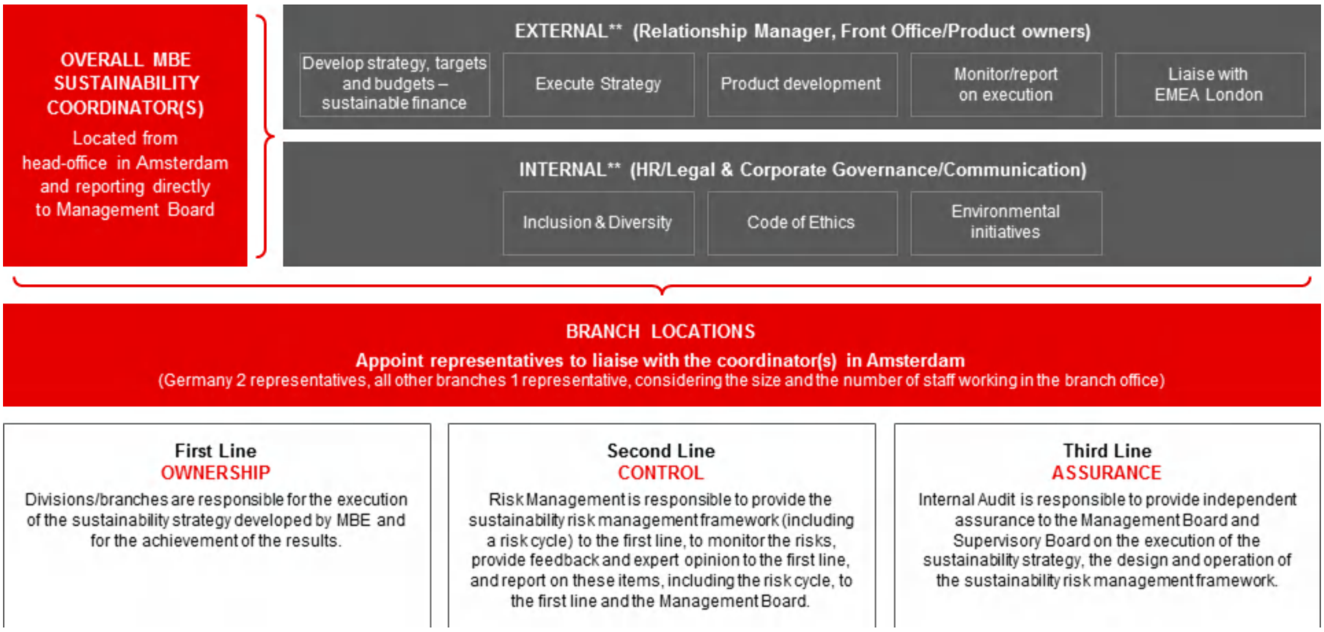
To be able to deliver sustainable growth to society, MUFG endorsed/ joined various International Sustainability Initiatives: The Equator Principles, the UN Principles on Responsible Banking; Member of the Task Force on Climate-related Financial Disclosures (TCFD); Participant of the UN Green Climate Fund. MUFG has also set up a Sustainable Business Office, which steers on these initiatives.

Out of the 17 UN Sustainable Development Goals, MUFG committed to seven specific ones: Good Health (3); Quality Education (4); Affordable & Clean Energy (7); Decent Work & Economic Growth (8); Industry, Innovation and Infrastructure (9); Sustainable Cities and Infrastructure (11); Climate Action (13). In its ESG policy, MBE specifies how it aims to adhere to these UNSDGs with respect to its clients, its employees and as the Bank itself in the below:

How MBE applies these seven UNSDGs:

- Good Health and Well-Being and Quality Education: MBE encourages its employees to participate in valuable training to sustain their personal growth. Further, workplace policies are in place to protect employees well-being.
- Affordable and Clean Energy, Industry, Innovation Infrastructure and Climate Action: In FY 2019, MBE engaged in and facilitated, together with EMEA London and MUSE several transactions for its clients that had ESG elements. These were both loan products and on the bond side.
- Sustainable Cities and Communities: MBE started internal awareness campaigns to become more sustainable as a bank and, hence, foster a sustainable community.

As it is crucial for MBE to set these ambitions into action, MBE acts under the MUFG Environmental & Social Policy Framework. This means that certain environmentally or socially harmful transactions are either prohibited or restricted within the Bank[1]. These can include transactions related to the palm oil sector, coal financing or forestry, for instance. In the future, this Framework may be tightened with respect to what is restricted and prohibited. At the same time, MBE does not only limit its potentially environmentally adverse transactions, but actively engages in sustainable finance. MUFG set a global goal of ¥20 trillion for sustainable finance by fiscal year 2030, to which MBE will also aim to contribute to. During the FY 2019, MBE also took a role in multiple sustainability linked transactions. These were undertaken together with MUFG Securities Plc.



Governance

MBE is developing its governance framework to ensure proper embedding of ESG in the business operations. It is MBE's ambition to assign a dedicated ESG coordinator in the near future to safeguard its continuous focus on the topic. This coordinator shall be the conduit within MBE for all external and internal developments and challenges regarding ESG. The graphical description below portrays the proposed positioning of ESG within MBE.

Risk Management

MBE recognises ESG risks and especially the risks that emerge from climate change and the concomitant change in our environment. MBE divides these risks in both physical and transition risks, in line with EBA Guidelines. While the former relate to MBE's operations, the latter have a stronger focus on the client base, yet they cannot entirely be attributed to either the Bank or its clients. For instance, clients could also be impacted by direct consequences of either an acute weather situation or chronic changes in the environment – both of which are physical risks.

Transition risks can stem from multiple origins. While these are largely the associated risks that occur from policy changes to low carbon economy, they also have a market risk dimension. Consumers may shift preferences towards products and services that are less damaging to the environment, while transitioning to a more sustainable future. Moreover, the transition towards a low carbon economy also bears legal and technological risks for companies. While these might not impact MBE directly, such risks may impact MBE's clients and in turn reflect on the Bank.

Therefore, MBE scrutinises these newly emerging risks that stem from climate change and continuously analyses the impact both physical and transition risks have, for instance, on its credit risk exposure. Furthermore, MBE evaluates its credit processes and its credit risk management framework to be able to accurately mitigate these risks.

[1] Specifications can be found here: MBE's policy.

Client care

MBE focuses on clients' interests, which is a careful balance between the interests of all parties, being the clients, shareholders, employees and the society in which we operate. When drawing that balance we make the client's interest central. The duty to put client interest as the highest priority is embedded in our corporate culture. Together with the group's initiative to promote Corporate Social Responsibility (CSR) this will lead to becoming the world's most trusted financial group. It is our common aim to create a sustainable franchise, by continuing to build long-term relationships with our clients and to deliver transparent and sustainable financial solutions.

Internal Audit

The Internal Audit function forms an essential part of the control mechanism of MBE. Internal Audit is independently positioned, reporting directly to the chairman of the Audit, Compliance and Risk Committee and hierarchically to the President of the Management Board.

In accordance with the Internal Audit Charter, the mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. Internal Audit helps MBE accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Once a year, the MBE Chief Auditor initiates a meeting with DNB and the external auditor (tripartite meeting), to discuss each other's risk analysis and findings and each other's audit plan at an early stage. In addition, Internal Audit meets at least quarterly with the External Auditor to share views on relevant developments and significant outcomes of respective assurance activities.

MBE Internal Audit also aims to contribute to, and benefit from, a group-wide strategic programme called Global Audit Transformation.

By integrating the third line of defence and operating a more consistent Internal Audit function across all parts of MUFG worldwide, Internal Audit can provide group-wide assurance more effectively, leveraging subject matter expertise, global tools and practices.

In fiscal year 2019, Internal Audit completed 24 individual engagements. This marks an increase since the previous year (17), caused in particular by the growth in scale, complexity and risk profile of the bank. Internal Audit actively seeks to influence the organisation towards a mature risk culture, where risks and control issues are timely identified, reported and remediated through a management self-identified issues framework, which should help to reduce the reliance on the third line of defence assurance work.

Internal Audit provides annual assurance over compliance with Sarbanes-Oxley (SOx) requirements, assessing internal controls over selected financial reporting prepared under US-GAAP and J-GAAP. The 2019 audit procedures resulted in the concluding opinion that processes and key controls supporting the SOx framework in MBE generally function effectively. The review of controls over two financial reporting packages did not identify any material control weakness or misstatement.

Product approval

The product approval and review process is carried out within the framework of the Group-wide (MUFG level) policy for new product approval. New products are assessed in detail and approved before they are being offered to clients. In addition, all products and services which are offered in the market are periodically reviewed to ensure they comply with relevant legislation and continue to meet client needs. The internal audit function verifies whether the product approval process has been designed properly, is present and is working effectively on an annual basis. The results are reported to the Management Board and Supervisory Board.

During this reporting period, in addition to new products having been approved and implemented, a number of existing products have been decommissioned or amended as a result of market and regulatory changes.

MBE continues to take initiatives to further enhance the governance and execution of the product approval and review process.

Current business situation

MBE, in close cooperation with MUFG Bank and taking full advantage of the exceptional resources of MUFG Inc., aims at fulfilling both our Japanese and non-Japanese corporate clients' needs. MBE recognises the Netherlands as an excellent home for (foreign-owned) financing and holding companies, European headquarters of sales, distribution and manufacturing companies. In 2017 DNB granted permission for the German and Spanish/Portuguese branches of MUFG Bank to be fully integrated within MBE. This was successfully executed on 1 April 2018.

Current business situation

By changing our internal organisation, we are able to provide better service through branches in eight countries: the Netherlands, Belgium, Austria, Czech Republic, Poland, Germany, Spain and Portugal. MBE considers the Central and Eastern European markets as a promising economy for its Japanese and non-Japanese clients.

In close co-operation with and support of the European Business Division of MUFG Bank, located in London, MBE participates in international syndicated finance activities both through its offices in the Netherlands, and its UK-based subsidiary MUFG Funding (UK) Limited.

The objectives are derived from the strategy and are set by the Management Board and are continuously monitored and evaluated. The Mid-Term Business Plan (MTBP) process, which incorporates plans for a three year period, is also driven by MBE's strategy in conjunction with the strategy of its shareholder MUFG Bank. The MTBP focusses on commercial banking businesses with Japanese Corporate Clients and Non-Japanese Corporate Clients, and specific objectives and strategies are formulated. FY2019 was the 2nd year of our MTBP FY2018-FY2020. Business profitability was improved but the expense was increased mainly due to the strengthening of internal control functions and as a result net profit was below the MTBP target.

MBE faces various risks not directly associated with its business activities. The current Covid-19 pandemic will most likely impact MBE's financial position and results. As the Covid-19 pandemic remains fluid, MBE is closely monitoring any financial impact on MBE´s revenue, its expenses and the cost of credit. Additionaly, due to a number of regulatory developments that directly relate to MBE, several projects have been launched to ensure compliance, which may result in an increase in cost.

Financial results

The market environment in which MBE operates continued to be very challenging across all branches, with the demand for credit by our clients remaining on the low end. The total operating income grew from € 140 million for the year ended 31 March 2019 to € 148 million for the year ended 31 March 2020. The net commission income grew from € 9.7 million to € 16.4 million for the year ended 31 March 2020. The total operating expenses increased to € 163 million for the year ended 31 March 2020 from € 124 million for the year ended 31 March 2019. The net result of MBE was negatively impacted by an exceptional credit provision of € 73 million resulting in a net loss of € 64 million.

The number of staff increased from 630 to 783. Furthermore, supervision cost as well as the increasing number of new regulations and changes to regulatory requirements demand more investment into IT systems and staff. Nevertheless, considering the nature and the expected temporary character of a substantial part of the cost increase in combination with the medium term business plan, the Management Board is of the opinion that the cost income ratio will return to more healthy levels in the future.

During this financial year we received a notification of an administrative fine of € 2.5 million imposed by DNB following a breach of applicable lending limits in the third quarter of 2018. The breach related to lending limits toward our parent company. Following this event, management improved the governance and internal controls around the related processes.

Liquidity and capital adequacy

The BIS total capital ratio was 16.9% at 31 March 2020 (31 March 2019: 15.7%). The amount of Own Funds remained stable from March 2019. Therefore, the increase of the total capital ratio is explained by the reduction of the Total Risk Exposure Amount from € 13.6 billion to € 12.2 billion. This decrease was mainly driven by a reduction of risk weighted exposure amounts of corporates from € 12.4 billion to € 10.1 billion.

The liquidity coverage ratio (LCR) decreased from 150% at 31 March 2019 to 144% at 31 March 2020. The average value of the LCR during the year ended 31 March 2020 was 146%. The Net Stable Funding Ratio was 109% at 31 March 2020, a decrease from 118% at 31 March 2019.The reduction of the deposits from Non-Financial corporates is the main reason for the decrease of the NSFR. The LCR has decreased mainly because of the reduction of High Quality Liquid Assets whereas the Net Liquidity outflow has remained stable throughout the year.

Liquidity and capital adequacy

MBE is placing and taking funds with the Global Markets Division for EMEA of the parent bank, MUFG Bank, London. At 31 March 2020, MBE had placed € 2.2 billion (31 March 2019: € 2.5 billion) with the parent bank and related parties.

MBE's liquidity and capital management continues to be focused on maintaining ratios in excess of externally required levels.

Proposed profit appropriation

As there is no net profit for the year ended 31 March 2020 there is no proposed dividend payment for this period.

Outlook

MBE is currently facing challenges from external factors, such as a competitive environment, negative interest rates, and regulatory changes. MBE's three year medium business plan FY2018 – FY2020 focuses on continuing to provide a high service level to our clients and improving MBE's position in the market in order to increase revenues and results, and projects further growth in the number of employees. Furthermore, no changes are expected in funding for the years ahead. Although the Management Board expects pressure on the financial results for the upcoming period, it is not expected that additional funding will be required from the sole shareholder of the bank. MBE was incorporated with the objective of performing banking activities and therefore did not engage in any research and development activities during 2018-2020. The Management Board does not anticipate research and development activities in the future. MBE expect to maintain a stable client base and strive to improve its financial results by enhancing efficiency of its activities across Europe and by implementing new business initiatives such as supply chain finance.

Impact of Covid-19

The Management Board has been regularly informed of immediate impact of the Covid-19 pandemic in relation to MBE's liquidity, capital and credit risks as well as its operational resilience. In the last month of FY2019, the Management Board has paid much attention to safeguarding health and safety of its staff, supporting a work-from-home environment and maintain a sound level of operations to support its clients and manage the bank's daily processes and risks. Although the Management Board had to make certain changes to procedures and authorities to facilitate remote operations / work-from-home, we have not reconsidered the risk appetite nor our risk management policy at this stage. Notwithstanding the initial limited impact, the Management Board is conscious of the potential negative medium term impact the pandemic might have on the assumptions underlying the next medium term business plan, planned to commence in FY2021. Therefore the Management Board foresees a heightened strategic and business risk in relation to the risk appetite.

Gratitude

We wish to express our sincere gratitude to our clients, employees, business partners and our parent banks, MUFG Bank and MUFG Inc., for their continuous support during the year ended 31 March 2020.

The Management Board declares to the best of its knowledge, that the annual Financial Statements provide a true and fair view of the assets and liabilities of MBE, its financial position and net profit. The Management Board also declares that to its best knowledge the Financial Statements provide a true and fair view of MBE about its position as at balance sheet date, the business performance during the year referred to in the Financial Statements and the material risks MBE is exposed to, to be duly described.

Amsterdam, 22 July 2020

H. Takase

M.F. Rosenberg

E. Shakhurina

M.A.B. Selles

N. Hatano

Consolidated Financial Statements

Consolidated Statement of Financial Position

As at 31 March

ASSETS	Notes	2020	2019
in thousands of €s			
Cash and balances with central banks	2	904,218	1,863,907
Loans and advances to banks	3	3,801,409	4,865,225
Loans and advances to customers*	4	9,603,475	9,570,568
Derivatives	5	54,042	44,402
Financial investments	6	164,777	60,439
Property and equipment	7	17,282	6,081
Intangible assets	8	18,655	15,836
Current tax assets	21	24,627	31,638
Deferred tax assets	21	48,916	25,604
Other assets	9	32,207	35,636
Total assets		14,669,608	16,519,336
LIABILITIES			
Due to banks	10	5,977,282	5,482,813
Due to customers	11	6,362,363	8,737,026
Derivatives	5	58,418	43,697
Current tax liabilities	21	8,097	151
Deferred tax liabilities	21	-	945
Subordinated debt	12	300,122	300,101
Provisions	13	61,486	35,782
Other liabilities*	14	117,719	69,934
Total liabilities		12,885,487	14,670,449
Equity			
Issued capital	15	100,003	100,003
Share premium	15	1,334,304	1,334,304
Retained earnings	15	357,430	421,880
Revaluation reserve of financial investments	15	-4	-2
Foreign currency translation reserve	15	72	148
Revaluation actuarial	15	-7,715	-7,476
Shareholder's equity		1,784,090	1,848,857
Non-controlling interest	15	31	30
Total equity		1,784,121	1,848,887
Total liabilities and equity		14,669,608	16,519,336

* Comparatives have been adjusted. The Loans and advances to customers and Other liabilities were overstated by € 220.721 due to incorrect accounting for trade receivable financing transactions.

Consolidated Statement of Profit or Loss

For the year ended 31 March

	Notes	2020	2019
in thousands of €s			
Interest income		182,007	206,808
Interest expense		96,507	119,168
Net interest income	16	**85,500**	**87,640**
Fee and commission income		31,403	25,723
Fee and commission expense		15,008	16,059
Net fee and commission income	17	**16,395**	**9,664**
Other operating income		1,159	-
Result on financial transactions	18	44,872	42,654
Total operating income		**147,926**	**139,958**
Personnel expenses	19	94,760	73,075
Depreciation of property and equipment	7	4,238	1,434
Amortisation of intangible assets	8	4,749	3,204
Other operating expenses	20	59,597	46,249
Total operating expenses		**163,344**	**123,962**
Credit loss expenses (recovery)	4	**63,364**	**10,765**
Impairment charges on non-financial assets		**-**	**-**
Profit (loss) before tax		**-78,782**	**5,231**
Income tax (expense)	21	14,334	-15,415
Net Result Continued Operations		**-64,448**	**-10,184**
Attributable to:			
Owners of MBE (equity attributed to the shareholder of MBE NV)		-64,449	-10,163
Non-controlling interest		1	-21

Consolidated Statement of Comprehensive Income

For the year ended 31 March

	Notes	2020	2019
in thousands of €s			
Result for the fiscal period		-64,448	-10,184
Items which will not be reclassified to the income statement			
Remeasurement of the net defined benefit asset/liability		-324	-1,534
Items which may be reclassified to the income statement in a subsequent period			
Foreign currency translation reserve	15	-76	191
Net (loss)/gain on financial instruments	22	-3	-1
Income tax relating to components of other comprehensive income	22	86	400
Other comprehensive income for the year, net of tax		-317	-944
Total comprehensive income, net of tax		-64,765	-11,128
Attributable to:			
Owners of MBE (equity attributed to the shareholder of MBE NV)		-64,766	-11,107
Non-controlling interest		1	-21

Consolidated Statement of Changes in Equity

For the year ended 31 March

in thousands of €s	Issued capital	Share premium	Retained earnings	Fair value reserve	Foreign currency translation reserve	Revaluation actuarial defined benefit	Non-controlling interests	Total equity
At 1 April 2018	100,001	706,696	434,515	- 1	- 43	- 6,342	-	1,234,826
IFRS 9 transition impact	-	-	- 1,199	-	-	-	-	- 1,199
Expected credit loss impact due to new branches*	-	-	14,957	-	-	-	-	14,957
Issue of share capital	2	- 2	-	-	-	-	-	-
Total comprehensive income	-	-	- 10,163	- 1	-	- 1,134	- 21	- 11,319
Foreign currency translation adjustment	-	-	-	-	191	-	-	191
Share premium issuance	-	627,610	-	-	-	-	25	627,635
Unearned revenue from new branch*	-	-	- 12,859	-	-	-	-	- 12,859
Pension liability from new branch*	-	-	- 3,371	-	-	-	-	- 3,371
Other non-controlling interest due to new subsidiary	-	-	-	-	-	-	26	26
At 31 March 2019	100,003	1,334,304	421,880	- 2	148	- 7,476	30	1,848,887
Total comprehensive income	-	-	- 64,449	- 2	-	- 239	1	- 64,689
Foreign currency translation adjustment	-	-	-	-	- 76	-	-	- 76
At 31 March 2020	100,003	1,334,304	357,431	- 4	72	- 7,715	31	1,784,122

*These amounts relates to the IFRS (IFRS 15, 9 & IAS 19) opening balance adjustments in of the incorporation of the German and Spanish/Portuguese branches as per 1 April 2018. Regarding the accounting standards IFRS 15 and IFRS 9 we refer to Note 1 ‘Accounting principles for the Consolidated financial statements – E Accounting principles - Incorporation of the new branches’.

Consolidated Statement of Cash Flows

For the year ended 31 March

	Notes	2020	2019
in thousands of €s			
Operating activities			
Result before tax		- 78,782	5,231
Adjusted for:			
Depreciation and amortisation fixed assets	7, 8	8,987	4,638
Credit loss expenses (recovery)	4	63,364	23,958
Changes in provisions	13	5,117	24,772
Unrealized revaluations		- 3,922	
Changes in deferred taxation	21	-	- 39,780
Changes in:			
Other additions due to new branches/subsidiary		-	45,512
Additional share premium (non- cash)	15	-	627,635
Loans and advances to banks, not available on demand	3	293,820	- 480,927
Derivatives	5	-	- 541
Loans and advances to customers	4	- 40,934	- 5,848,143
Other assets	9	3,433	- 51,954
Due to Banks	10	494,469	- 3,848,664
Due to customers	11	- 2,374,663	5,537,456
Provisions	12	- 3,156	
Other liabilities	14	45,315	250,391
Income tax paid		- 14,957	19,365
Net cash flow from (used in) operating activities		-1,601,909	-3,731,051
Investing activities			
Purchase of property and equipment	7	- 713	-632
Addition of property and equipment due to new branches	7	-	-3,039
Proceeds from sale of property and equipment	7	14	13
Purchase of intangible assets	8	- 7,583	-11,668
Addition of intangible assets due to new branches	8	-	-252
Purchase of financial investments	6	- 4,666,838	-60,440
Sale and redemption of Financial investments	6	4,552,989	35,612
Net cash flow from investing activities		-122,131	-40,406
Financing activities			
Repayments of principal portion of lease liabilities	14	-2,497	-
Cash flow from (used in) financing activities		-2,497	0
Net cash flow		-1,726,537	-3,771,457
Net foreign exchange differences		-3,029	191
Cash and cash equivalents as at 1 April		4,924,631	8,695,897
Cash and cash equivalents as at 31 March		3,195,065	4,924,631

Consolidated Statement of Cash Flows

Cash and cash equivalents comprise:		2020	2019
Due from banks, net balances on demand	3	2,290,847	3,060,726
Cash and balances with Central Banks	2	904,218	1,863,905
Cash and cash equivalents as at 31 March		3,195,065	4,924,631

Interest and dividend recieved and paid		2020	2019
Interest received		179,210	196,357
Interest paid		118,123	99,528
Dividend received		-	-
Dividend paid		-	-

Accounting policies

1. Accounting Policies for the Consolidated Financial Statements

A. General information

MBE is the fully-owned subsidiary of MUFG Bank, one of the world's largest banks in terms of assets with more than a century of experience in both Japan and in the international financial markets. For more than 45 years MBE has been offering commercial banking services to both Japanese and non-Japanese corporate customers in the Netherlands and, through its branches and subsidiaries, in Central and Eastern Europe. The principle activities of MBE are described in the section 'Our business model'.

MBE has its statutory seat in Amsterdam, the Netherlands. MBE's head office is located at Strawinskylaan 1887, 1077XX Amsterdam. Chamber of commerce number is 33.13.25.01.

MBE is a statutory two-tier company under Dutch law. All shares are held by MUFG Bank, Tokyo, Japan. The ultimate parent of the group is Mitsubishi UFJ Financial Group, Inc., Tokyo, Japan. MBE is incorporated and domiciled in Amsterdam, the Netherlands and operates through offices in Amsterdam, (the Netherlands), Vienna (Austria), Prague (Czech Republic), Brussels (Belgium), Warsaw (Poland), Dusseldorf (Germany), Madrid (Spain) and Lisbon (Portugal) and MBE owns three subsidiaries: MUFG Business Services (Holland) B.V. (hereinafter 'MUFG BS'), MUFG Funding (UK) Limited (hereinafter 'MUFG Funding') and MUFG Europe Lease (Deutschland) GmbH (hereinafter 'MUFG Lease').

B. Authorisation of the consolidated financial statements

These consolidated Financial Statements of MBE for the year ended 31 March 2020 have been issued by the Management Board, examined by the Supervisory Board, accompanied by the Supervisory Board's recommendation and adopted by the General Shareholder's Meeting on 22 July 2020.

C. Statement of compliance

The consolidated Financial Statements of MBE have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code. IFRS as adopted by the EU are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

D. Basis of preparation of the consolidated Financial Statements

The consolidated Financial Statements of MBE have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss ('FVTPL'), debt and equity at other comprehensive income ('FVOCI') and derivative financial instruments, which have all been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The consolidated Financial Statements are presented in Euros (€) and all values are rounded to the nearest € thousands, except when otherwise indicated. Amounts may not add up due to rounding.

MBE presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Notes to the consolidated Financial Statements.

The consolidated Financial Statements of MBE have been prepared on a going concern basis.

Accounting Policies for the Consolidated Financial Statements

E. Accounting policies

Accounting principles

Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to MBE and deconsolidated from the date control ceases. Control is achieved when MBE is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The consolidated Financial Statements for the year ended 31 March 2020 comprise the Financial Statements of MBE and the subsidiaries in the following table.

Name of the subsidiary	Country of incorporation	Place	% equity interest 2020	% equity interest 2019
MUFG Business Services (Holland) B.V.	the Netherlands	Amsterdam	100	100
MUFG Lease	Germany	Dusseldorf	95	95
MUFG Funding (UK) Limited	United Kingdom	London	100	100

The Financial Statements of MBE's subsidiaries are prepared for the same reporting period as MBE, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

Incorporation of the new branches

As per 1 April 2018 the German and Spanish/Portuguese branches were incorporated in MBE. The incorporation is a transaction under common control, therefore pooling accounting is used, meaning that the transfer of assets and liabilities are at book value. In accordance with the pooling of interest method, assets and liabilities of the acquired branches are consolidated into the financial information of the group at their carrying amounts at transaction date (1 April 2018).

The following assets and liabilities where incorporated (the table below presents the carrying amounts of assets and liabilities on 1 April 2018):

	Germany (*)	Spain	Total
Assets	7,347,323	4,643,788	11,991,111
Liabilities	6,914,953	4,448,548	11,363,501
Branch equity	432,370	195,240	627,610
Share capital			2
Share premium			627,608

The Company applies "predecessor accounting" to business combinations under common control, including group restructurings. Under the predecessor accounting, the assets and liabilities of the transferred entity are stated at predecessor values, without re-measurement at fair value. No goodwill is recognised, and any difference between the consideration given and the aggregate carrying value of the assets and liabilities transferred is included in equity in a separate reserve.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated Financial Statements, unless otherwise indicated.

Accounting Policies for the Consolidated Financial Statements

Functional and reporting currency
The consolidated Financial Statements are presented in Euros (€). Each entity in the group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency.

Foreign currency
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency at the spot rate of exchange at the date of statement of financial position. All differences arising on non-trading activities are taken to the 'Results on financial transactions'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Group companies
As at the reporting date, the assets and liabilities of subsidiaries and foreign branches are translated into MBE's presentation currency at the rate of exchange as at the date of the statement of financial position. Results of the foreign branches and subsidiaries are translated at the weighted average rates over the period in which the results are recognised.

Our branch in the Czech Republic uses the Czech Koruna (CZK) as a reporting currency and Euros as functional currency. Our Polish branch uses Polish Zloty (PLN) as reporting currency and Euros as functional currency. Our subsidiary MUFG Funding uses Pound Sterling (GBP) as functional currency. Translation differences of subsidiaries are accounted for under 'foreign currency translation reserve' in other comprehensive income.

Going concern
MBE's management has made an assessment of MBE's ability to continue as a going concern and is satisfied that MBE has –if and when required- access to enough resources to continue in business for the foreseeable future. Despite the losses for the year ended 31 March 2020 the management is not aware of any material uncertainties that may cast significant doubt upon MBE's ability to continue as a going concern. Furthermore, a letter of intent is issued by MUFG Bank stating that support will be provided to MBE in order to comply with its regulatory capital requirements and liquidity requirements imposed by DNB now and in the future. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Significant accounting assumptions, judgements and estimates
In the process of applying MBE's accounting policies, management has exercised assumptions, judgements and estimates in determining the amounts recognised in the Financial Statements. Existing circumstances and assumptions about future developments may change due to circumstances beyond MBE's control and are reflected in the assumptions if and when they occur. The most significant uses of judgement and estimates are as follows:

Fair value of financial instruments
The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a valuation technique that includes the use of mathematical models. The inputs to these models are derived from observable market data.

Reference is made to section (III) Determinination of fair value within this note and Note 23 Fair value measurement.

Accounting Policies for the Consolidated Financial Statements

Expected credit losses on financial assets
The measurement of expected credit losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit impairments and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors and changes, in which can result, in different levels of allowances.

MBE's expected credit loss ('ECL') calculations are outputs of models based on certain assumptions. Elements of the ECL models that are considered accounting judgements and estimates include:

- MBE's internal credit grading model, which assigns credit grades to the customers.
- MBE's criteria for assessing if there has been a significant increase in credit risk.
- The ECL models, including the various formulas and the choice of inputs.
- The associations between macroeconomic scenarios on GDP and the effect on Probability Default, Exposure at Default and Loss Given Defaults.
- The selected forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Reference is made to section (IV) Impairment of financial assets within this note, Note 4 Loans and advances and Note 28 Risk Management (II) Credit risk.

Classification of financial instruments
Certain judgements, assumptions and estimates are exercised in determining the business model of MBE and assessing the criteria of 'Solely Payment of Principle and Interest' ('SPPI').

Reference is made to section (I) Financial instruments – initial recognition and subsequent measurment – Classification and mueasurement if financial assets within this note.

Net defined benefit pension asset/liability
The net defined benefit pension asset/liability represents the difference between the fair value of the plan asset and the present value of the defined benefit obligation at the reporting date.

In determining the present value of defined benefit obligation, MBE applies actuarial valuation techniques using the projected unit credit method. This method requires making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty and are sensitive to changes in assumptions used. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds denominated in EUR with at least an 'AA' rating, set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the country. Future salary increases and pension increases are based on expected future inflation rates for the country.

Reference is made to section (XIV) Pension benefits plan within this note and Note 13 Provisions – Pension expenses and plan assets.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

Accounting Policies for the Consolidated Financial Statements

Reference is made to section (XVI) Taxes within this note and Note 21 Income tax (expense).

Summary of significant accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these consolidated Financial Statements, unless otherwise indicated.

I. Financial instruments – initial recognition and subsequent measurement
Date of recognition
All financial assets and liabilities, except nostro accounts, are initially recognised on the trade date, i.e., the date that MBE becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. For nostro accounts, settlement date accounting is applied.

Classification and measurement of financial assets
The classification of financial assets depends on the business model of the portfolio in which they are held.

Portfolios are based on how groups of financial assets are managed together to achieve a particular business objective.
MBE determines its business model of the portfolio taking into consideration:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from its original expectations, MBE does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Measurement of debt instruments depend on the Business Model of the portfolio in which the assets are held and whether the contractual cash flows of the financial instrument are solely payments of principle and interest (SPPI) at initial recognition.

An entity first performs the Business Model assessment and then determines whether the contractual cash flows of the financial asset meet the SPPI test. The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk and cost.

Based on the Business Model and the SPPI assessment the following assessment categories are identified:

Amortised cost: Debt instruments that are held for collection of contractual cash flows under a 'hold to collect' business model where those cash flows represent SPPI are measured at amortised cost. Amortised cost is determined using the effective interest rate less any impairment. The effective interest takes into account discount or premium on acquisition and fees and costs that are an integral part of the interest rate. Interest income from these financial assets is included in interest income using the effective interest rate method.

FVOCI: Debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a 'hold to collect and sell' business model, where the assets' cash flows represent SPPI, and the Fair value option was not elected are measured at FVOCI. FVOCI is the Fair value less any impairment. Unrealised changes

Accounting Policies for the Consolidated Financial Statements

in Fair value are recognised in other comprehensive income. Interest income using the effective interest rate, impairment gains or losses and foreign exchange gains and losses are recognised in profit and loss.

FVTPL: Other Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. These include financial asset held for trading and derivatives. Changes in Fair value are directly recognised in the statement of profit or loss.

For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of deducting the carrying amount of the asset.

Impairment gains and losses are recorded in the statement of profit or loss on the line impairment losses on financial assets.

Derivatives
Derivatives are measured at fair value through profit or loss, irrespective of the business model of the portfolio. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the statement of profit or loss.

Financial assets - due from banks and loans and advances to customers
'Due from banks' and 'Loans and advances to customers', are measured at amortised cost if both of the following conditions are met:

- The financial assetss are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial assets give rise on specified dates to cash flow that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Classification of Financial liabilities
Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Single unit of account
As of 1 April 2019 MBE implemented a change in accounting policy providing further guidance on the application of the 'single unit of account'-principle. Clients with notional pooling contracts that meet the following criteria are considered to be a 'single unit of account' as of implementation date:

- All accounts are included in one notional pooling and interest allocation contract;
- All accounts involved are owned by the same legal entity;
- All accounts within one contract are in the same currency; and
- Interest is calculated on the net balance of the accounts in scope.

If all these criteria are met the related assets and liabilities are presented as being one single unit of account on a net basis in the statement of financial position.

The impact on implementation date is presented below:

Accounting Policies for the Consolidated Financial Statements

Single unit of account	31 March 2019	Implementation impact	1 April 2019
Loans and advances to customers			
Corporate current accounts	2,962,566	-2,629,805	332,761
Due to customers			
Current accounts	9,779,611	-2,630,269	7,149,342

Comparatives have been adjusted accordingly.

The impact of the changed accounting policy on 'single unit of account' as per current year end on Loans and advances to customers - Corporate current accounts and Due to customers - current accounts amounted € 2.728 million.

II. Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised to the extent of MBE's continuing involvement in the asset when:

- The rights to receive cash flows from the asset have expired; or
- MBE has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- MBE has transferred substantially all the risks and rewards of the asset, or
- MBE has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When MBE recognises a financial asset to an extent, an associated liability is also recognised. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that MBE has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that MBE could be required to repay.

Any gain or loss arising on derecognition of financial assets at amortised cost or FVTPL is recognised directly in profit or loss. When a financial asset at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating income.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

III. Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Accounting Policies for the Consolidated Financial Statements

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques. These valuation techniques include the discounted cash flow method by making use of market observable data.

An analysis of fair values of financial instruments and further details as to how they are measured or at which level they are provided in the Notes to the consolidated Financial Statements and MBE evaluates them at each reporting date.

IV. Impairment of financial assets
MBE records expected credit loss provisions ('ECL') on financial assets measured at amortised cost or financial assets at FVOCI as well as loan commitments, financial guarantees given and other commitments given. The ECL is calculated using Expected Credit Loss Models.

MBE calculates ECL based on different scenarios to measure the expected cash shortfalls which is the difference between the cash flows that are due to MBE in accordance with the contract and the cash flows that MBE actually expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of Default ('PD')
  It is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at Default ('EAD')
  It is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- Loss Given Default ('LGD')
  It is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan.

Macroeconomic scenarios
MBE has established a semi-annual process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. MBE applies data from its parent company enriched with the internal views. A baseline, up-scenario and a down-scenario are determined to reflect an unbiased and probability-weighted ECL amount. As a baseline scenario, MBE applies the market neutral view combining consensus forecasts for economic variables (e.g. GDP growth). Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed events in the past. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

The ECL model is subject to regular validation and back-testing to ensure the ECLs are in-line with observed actual losses. The ECL models classify these financial assets in the following stages:

- Stage 1: Performing assets – 12-month ECL
  Financial instruments that are not "close monitoring" and have not experienced significant increase in credit risk since initial recognition. Provision is determined based on probability of default event occurring within the next 12 months ('12-month ECL').
- Stage 2: Under-performing assets – Lifetime ECL

Accounting Policies for the Consolidated Financial Statements

Financial instruments that are "close monitoring'' or where a significant increase in credit risk has been identified but it is not in default. Provision is determined based on probability of default event over the expected life of the financial instrument ('Lifetime ECL'). A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk (SICR) since initial recognition. MBE established an ECL model based on the internal credit rating of the customer.
An asset can move back from Stage 2 to Stage 1 when the level of credit risk improves. The change in internal credit rating since origination is the main trigger for movement between Stage 1 and Stage 2.

- Stage 3: Non-performing assets – Lifetime ECL
  Financial instruments are classified as Stage 3 where a default has been identified. Stage 3 provisions are determined based on a Lifetime ECL using a Discounted Cash Flow (DCF) method. MBE uses the definition for defaulted financial assets which is used for internal risk management purposes and has aligned the definition of credit impaired under IFRS 9 (Stage 3) with the definition of default for prudential purposes. The definition of default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due. A default occurs when the borrower is more than 90 days past due on any material obligation to MBE, and/or MBE considers the borrower unlikely to make its payments in full without recourse action on MBE's part, such as taking formal possession of any collateral held.

Renegotiated loans
Where possible, MBE seeks to restructure loans rather than to take possession of collateral. This might involve extending the payment arrangements and the agreement of new loan conditions, which was also referred to as forbearance. Once the terms had been renegotiated any impairment was measured using the original effective interest rate as calculated before the modification of terms and the loan was no longer considered past due. Management continuously reviewed renegotiated loans to ensure that all criteria were met and that future payments are likely to occur. The loans continued to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write-off and debt forgiveness
Loans and the related ECL are written off, either partially or in full, when there is no realistic prospect of recovery. Write-offs are made:

- After a restructuring has been completed and there is no reasonable expectations of recovering the remaining loan exposure (including partial debt waivers) in its entirety or a portion thereof;
- In a bankruptcy liquidation scenario (not as a result of a reorganisation);
- When there is no reasonable expectations of recovering of the remaining loan exposure or certainty that no recovery can be realised;
- After a sale of a credit facility at a discount in relation to bad debt collection efforts;
- Upon conversion of a credit facility into equity as forbearance measurement and part of debt forgiveness; and
- When MBE releases a legal (monetary) claim it has on its customer.

V. Hedge accounting
In order to manage particular risks, MBE applies hedge accounting for transactions which meet the specified criteria. At inception of the hedge relationship, MBE formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Accounting Policies for the Consolidated Financial Statements

For the purposes of evaulating whether the hedging relationship is expected to be highly effective (i.e. prospective effectiveness assessment), MBE assumes that the interest rate is not altered as a result of the IBOR reform. If MBE concludes that the actual result of the hedging relationship is outside the range of 80-125% (i.e. retrospective assessment), then MBE determines if the hedging relationship continues to qualify for hedge accounting or whether it must be discontinued. This includes, for example, determining that the hedge is expected to be highly effective prospectively and that effectiveness of the hedging relationship can be reliably measured.

Fair value hedges
For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the statement of profit or loss under interest (interest rate swap). Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss for highly effective hedges.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of profit or loss.

VI. Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

VII. Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to MBE and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense
For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income
MBE makes judgements in the determination of the timing of satisfaction of performance obligations and the transaction price. MBE recognises revenue from contracts with customers in the amount of consideration it expects to receive upon the transfer of control of a good or service. The timing of recognition is dependent on whether MBE satisfies a performance obligation by transferring control of the product or service to a customer over time or at a point in time. The following is an explanation of MBE's key revenue from contracts with customers and the timing of its recognition.

Accounting Policies for the Consolidated Financial Statements

MBE's key revenue from contracts with customers and the timing of its recognition are explained hereafter.

Fees and commissions on fund transfer and letter of credit consist of fees and commissions charged for settlement transactions, fund collection and trade-related financing services related to foreign trading business, and are recognised in the period in which the related service is provided. If they arise from settlement transactions or foreign trading business activities under which the customer consumes the related services at a point in time, such fees are recognised at the same point in time. If they arise from letter of credit under which the customer consumes the related services equally over the period of service, such fees are recognised over the same period.

Commission on guarantees related to the guarantee business such as providing guarantees on loans and other loans are recognised over the contractual periods of the respective guarantees.

Brokerage and advisory fees consist of fees and commissions for sales and transfers of securities, including investment funds, underwriting, brokerage and advisory services, securitisation arrangement services, and agency services for the calculation and payment of dividends. Brokerage and advisory fees are recognised in the period in which the related service is provided. If they arise from security-related services under which the customer consumes the related services at a point in time (e.g. sales and transfers of securities are executed at the customer's direction; under-writings of debt and equity securities or securitisations are completed at the trade date; advice is provided to the clients; and dividends are calculated and then paid to investors), such fees are recognised at the same point in time. If they arise from security-related services under which the customer consumes the related services equally over the period of service (e.g. retainer fees on M&A advisory fees), such fees are recognised over the same period. The advisory fees which are paid upon meeting certain performance goals (e.g. success fees on M&A advisory fees) are recognised at the point in time when the performance goals are met.

Commission on corporate management services primarily consist of fees and commissions earned on managing investment funds on behalf of clients. Such fees and commissions are recognised equally over the period of service at the amount calculated primarily based on the outstanding amount of each entrusted asset, the percentage of fees, and the extent of the service provided to administer the investment funds.

Other fees and commissions include various fees and commissions earned on services to customers which have performance obligations that MBE completes in order to recognise revenue.

Expenses
Expenses are recognised in the statement of profit or loss as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in liability has arisen that can be measured reliably.

VIII. Cash and cash equivalents
Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand and non-restricted current accounts with central banks. Cash and cash equivalents are carried at amortised costs in the statement of financial position.

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that became available during the year, and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, investment and financing activities. Movements in loans and receivables and deposits are included in cash flows from operating activities. Investment activities comprise sales and redemptions in respect of financial investments, property and equipment and intangible assets. The issuing of shares, dividends and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences and the

Accounting Policies for the Consolidated Financial Statements

effects of the consolidation of business acquisitions, where of material significance, are eliminated from the cash flow figures.

IX. Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

- Operations Equipment: 3-5 years
- Leasehold improvements: 2-16 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of profit or loss in the year the asset is derecognised.

X. Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to MBE. MBE's intangible asset consists computer software licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each fiscal year-end. The amortisation expense on intangible assets is recognised in the statement of profit or loss in the expense category 'Amortisation of intangible assets'. Amortisation is calculated using the straight-line method to their residual values over their estimated useful lives, being 1-5 years.

XI. Impairment of non-financial assets

MBE assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, MBE estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs to sell, an appropriate valuation model is used.

XII. Other assets and Other liabilities

Other Assets and Other Liabilities no longer include accrued interest. Accrued interest are included within the corresponding balance sheet item of the host contract. Comparatives have been adjusted accordingly.

XIII. Contingent liabilities and commitments

In the ordinary course of business, MBE issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Financial Statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, MBE's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the statement of profit or loss, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Accounting Policies for the Consolidated Financial Statements

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment charges on financial assets'. The premium received is recognised in the statement of profit or loss in 'Net commission income' on a straight line basis over the life of the guarantee.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of MBE; or a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position, but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

Commitments

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 April 2018, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

XIV. Pension benefits plan

A defined benefit plan is a pension or early retirement plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary. A full actuarial valuation by a qualified independent actuary is carried out every year. Pension benefit plans are implemented in the Netherlands and Germany.

Pension plan the Netherlands

The defined benefit pension plan in the Netherlands is funded through an insurance company, regulated by Dutch law. The net defined benefit pension asset/liability represents the difference between the fair value of the plan asset and the present value of the defined benefit obligation at the reporting date.

The return on plan assets is measured using the interest rates of corporate bonds denominated in EUR with at least an 'AA' rating, the same one which is used to discount the defined benefit obligation. The current and past service costs as well as interest expense attributable to the defined benefit obligation are recognised as personnel expenses in the statement of profit or loss. Changes due to re-measurement of plan assets and defined benefit obligation (actuarial gains and losses) are accounted for in 'Other comprehensive income' and not recycled through the statement of profit or loss. Upon occurrence, any gains and losses on curtailments are recognised in the statement of profit or loss.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Pension plan Germany

The pension obligations of MBE Germany Branch comprise the pension obligations of MBE Germany Branch as well as the pension obligations towards company pensions (Betriebsrentner) and former employees with accrued non-forfeitable pension rights pertaining (Arbeitnehmer mit unverfallbaren Rentenanwartschaften) to former German Branches of MUFG Bank.

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By way of cumulative assumption of liability (Schuldbeitritt) MBE assumes liability for the performance of all obligations arising under or relating to these pension obligations. According to German law MBE and MUFG Bank are jointly and severally liable by virtue of the cumulative assumption of liability. Furthermore MUFG Bank and MBE have agreed that MBE alone shall be responsible for the performance of these pension obligations towards pension beneficiaries. MBE shall fulfil any obligations arising from or in relation to these pension obligations in due time as they fall due, keeping MUFG Bank fully harmless from and indemnified against any pension benefit obligations towards the beneficiaries of these obligations.

XV. Provisions, continent liabilities and commitments

Provisions other than expected credit losses provisions are recognised when MBE has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

Reorganisation provision include employee termination benefits when MBE is demonstrably committed to either terminating the employment of current employees according to a formalised plan without possibility of withdrawal.

A liability is recognised for a levy when the activity that triggers payments, as identified by the relevant legislation occurs. For a levy that is triggered upon reaching a certain threshold, the liability is recognised only upon reaching the specified minimum threshold.

XVI.Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted.

Deferred tax

Deferred tax is calculated based on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at statement of financial position date. Current tax and deferred tax relating to items recognised in other comprehensive income are also recognised in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

XVII. Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by MBE's shareholder. Dividends for the year that are approved after the balance sheet date are disclosed as an event after statement of financial position date.

Accounting Policies for the Consolidated Financial Statements

XVIII. Equity reserves
The reserves recorded in equity on MBE's statement of financial position include:

- Revaluation reserve of financial investments; which comprises changes in fair value of financial investments recognised at fair value through other comprehensive income.
- Foreign currency translation reserve; which comprises changes in the Euro equivalents of different presentation currencies of branches and subsidiaries.
- Revaluation actuarial defined benefit reserve; which comprises the actuarial gains and losses of the defined benefit obligations of the Netherlands and Germany.

New and amended standards and interpretations to IFRS adopted per 1 April 2019
MBE has applied the following new or amended standards as endorsed by the EU which are effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on MBE's consolidated Financial Statements. MBE has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

IFRS 16 Leases
MBE adopted IFRS 16 "Leases" from 1 April 2019, using a modified retrospective approach and did not re-state the comparative information. IFRS 16 requires lessees to record leases in the Statement of Financial Position as an asset (the right to use the leased item) and a financial liability (the discounted value of future lease payments). An optional exemption exists for short-term and low-value leases. The income statement is affected by these changes, and the operating lease expenses are replaced by depreciation of the right of use asset and interest accretion representing the reversal of discounting against future lease payments. Operating lease payments were previously included within Operating cash flows under current accounting standards, under IFRS 16, cash payments against operating leases are reflected as financing cash flows within the MBE's cash flow statement, with any interest on the lease liability recorded as operating cash flows.

The impact of adoption at 1 April 2019 was an increase in liabilities of € 14.9 million and corresponding increase in assets of € 14.9 million.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 1,1 %.

The company applied the following practical expedients relating to operating leases available under modified retrospective approach:

- operating leases with a remaining lease term of less than 12 months as at 1 April 2019 treated as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

In applying IFRS 16, the Company has elected not to reassess whether existing contracts contain a lease and rely on the assessment made previously following IAS 17 and Interpretation 4 *Determining whether an arrangement contains a Lease*.

The difference between operating lease commitments disclosed in the annual financial statement for the year ended 31 March 2019 and the lease liabilities recognised at the date of initial application under IFRS 16, discounted using the incremental borrowing rate at the date of initial application, was € 0.8 million due to low-value leases, short term leases and the impact of discounting.

Accounting Policies for the Consolidated Financial Statements

Lease liabilities	
Operating lease commitments disclosed as at 31 March 2019*	15,743
Discounted using the lessee's incremental borrowing rate of at the date of initial application	-430
(Less): short-term leases recognised on a straight-line basis as expense	-285
(Less): low-value leases recognised on a straight-line basis as expense	-105
Lease liabilities recognised as at 1 April 2019	14,922

* Includes an adjustment of prior year reported operating lease commitments of € 1,023.

Right-of-use assets are included in the line item 'Property and Equipment' and the lease liability in 'Other financial liabilities'

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
MBE has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires MBE to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  If yes, MBE should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  If no, MBE should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

MBE has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes
The amendments clarify that MBE should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where MBE originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations
The amendments clarify that when MBE obtains control of a business that is a joint operation,MBE applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements
The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, MBE does not remeasure its PHI in the joint operation.

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Amendments to IFRS 9: Prepayment Features with Negative Compensation
MBE has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the ‘solely payments of principal and interest’ (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
MBE has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. MBE will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

New and revised IFRS Standards issued but not yet effective
Below are described the new standards and interpretations that are issued and effective for periods beginning on or after 1 January 2020, which were not early adopted by MBE. MBE is currently assessing the detailed impact of these amendments, however the implementation of these amendments is expected to have no significant impact on the Consolidated Financial statements of MBE.:

- IFRS 17 Insurance contracts.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendment to IFRS 3 Business Combinations.
- Amendments to IAS 1 and IAS 8: Definition of Material.

The changes that are most relevant and may have material impact are described below:

Interest Rate Benchmark Reform
The IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 on September 26, 2019, to amend certain requirements for hedge accounting in order to support the provision of useful information by entities during the period of uncertainty arising from the phase out of interest rate benchmarks (e.g. interbank offered rates – IBORs). The amendments aim to provide relief for financial instruments qualifying for hedge accounting which are affected during the period of uncertainty leading up to contractual rate replacement. The amendments would no longer apply once uncertainties arising from IBOR reform are no longer present. The amendments require providing specific disclosures for the affected hedging relationships. The amendments apply for annual periods beginning on or after 1 January 2020, with earlier permission permitted. MBE has elected to early adopt the ‘Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform’ issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period, 1 April 2019, and all those designated thereafter that are directly affected by interest rate benchmark reform. MBE has elected as an accounting policy choice under IFRS 9 to continue to apply hedge accounting requirements under IAS 39.

Accounting Policies for the Consolidated Financial Statements

The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. MBE does not have any cash flow hedges, and hence the reliefs are applicable to the fair value hedges. The impact and extent of the interest benchmark refom was not considered to be significant. The limited impact can be summarised below:

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, MBE has assumed that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.
- MBE will not discontinue hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range and therefore continues to apply hedge accounting even if the ranges are outside the 80-125% range .
- MBE has assessed whether the hedged interest rate risk component is a separately identifiable risk only at inception of the hedging relationship and not on an ongoing basis.

The calculation methodology of Euribor changed during 2019 from a quote based to a hybrid based methodology. This allows market participants to continue to use Euribor after 1 January 2020 for both existing and new contracts. MBE does not anticipate changing the hedged risk to a different benchmark and for these reasons, MBE does not consider its fair value hedges of the Euribor benchmark interest rate to be directly affected by interest rate benchmark reform at 31 March 2020.

Refer to section (V) in the accounting policies and Note (5) for related disclosures about risks and hedge accounting.

Notes to the consolidated Financial Statements

Assets

2. Cash and balances with central banks

Cash and balances with central banks	2020	2019
Balances with central banks	904,218	1,863,907
Cash and balances with central banks	904,218	1,863,907

Balances with central banks include mandatory reserve deposits amounting to € 141,467 (2019: € 165,360), which are not immediately available for MBE's day-to-day operations. The requirement for banks to maintain a minimum reduces MBE's exposure to liquidity risk.

3. Loans and advances to banks

Loans and advances to banks	2020	2019
Placements with banks - on demand	2,290,847	3,060,729
Placement with banks - term deposits	658,222	702,264
Loans and advances	852,520	1,102,298
	3,801,589	4,865,291
Allowance for expected credit losses	-180	-66
Loan and advances to banks	3,801,409	4,865,225

The amount receivable from MUFG Bank London branch is €2,663,540 (2019: € 2,460,769). MBE entered into a financial collateral agreement with MUFG Bank London branch, whereby eligible government bonds are pledged by MUFG Bank to MBE. €3,855,233 (2019: € 2,904,383) was used as credit risk mitigation to reduce MBE´s total risk exposure amount and to maintain its exposure to MUFG Bank within the legal lending limit.

4. Loans and advances to customers

This item includes amounts receivable in connection with commercial loans and advances (such as loans, overdrafts in current account, bills discounted), due from counterparties other than banks.

Loans and advances to customers – by class	2020	2019
Corporate term loans**	8,064,800	7,902,984
Corporate current accounts*	228,630	332,761
Bills of exchange**	1,415,126	1,416,551
	9,708,556	9,652,296
Allowance for expected credit losses	-105,081	-81,728
Loans and advances to customers by class	9,603,475	9,570,568

*As of 1 April 2019 MBE implemented a refined accounting policy providing further guidance on the application of the 'single unit of account'-principle. We refer to Note 1 Accounting principles - I Financial instruments - initial recognition and subsequent measurement.

Loans and advances to customers

**Comparatives include a reclassification of € 609.828 from Bills of exchange to Corporate term loans. In prior year trade receivable financing transactions were incorrectly presented as Bills of exchange.

A substantial part of the loans and advances is granted to Japanese-owned companies established in countries in which MBE is present.

The following table analyses the loan portfolio by collateral type. Assets are allocated to categories to the extent covered by collateral received.

Loans and advances to customers – by collateral type	2020	2019
Guarantees received from credit insurance angencies and banks	51,183	-
Pledged deposits received from MUFG Bank	1,854,790	3,475,519
Unsecured	7,802,582	6,176,777
	9,708,556	9,652,296
Allowance for expected credit losses	- 105,081	- 81,728
Loans and advances to customers by collateral type	9,603,475	9,570,568

The movement of the allowance for expected credit losses for loans and advances to banks (Note 3) loans and advances to customers, and for off-balance facilities (Note 25), is as follows:

Expected credit loss allowance for loans and advances to customers	2020	2019
Opening balance	-85,050	-2,285
IFRS 9 transition impact	-	-1,199
Adjusted, before impact of new branches	-85,050	-3,484
Addition due to new branches	-	-79,169
IFRS 9 transition impact	-	21,561
Impact of new branches	-	-57,608
Adjusted, including impact of new branches	-85,050	-61,092
Expected Credit loss (expenses) recovery	-63,365	-10,765
Amounts written off	15,781	
Recovery of amounts previously written off	-1	-13,193
As at 31 March	-132,635	-85,050

During this financial year MBE sold an impaired loan facility. This agreement led to a recovery of expected credit losses of € 12.8 million, upon transfer of the loan a write-off was recognised of € 15.8 million.

In June 2020 MBE was informed on severe financial difficulties of one of our clients. As per 31 March 2020 a credit loss provision was recognised of € 50.3 million on the drawn exposure and a credit loss provision of € 22.9 million was recognised on the undrawn committed exposure.

For further details on expected credit losses we refer to Note 28 Risk Management - 28.2 Credit Risk.

5. Derivatives

The table below shows the fair values of derivatives, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional

Derivatives

amounts indicate the volume of transactions outstanding at year end and are not indicative of neither market nor credit risk.

	2020			2019		
Derivatives	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
Derivatives used as fair value hedge						
Interest rate swaps	-	7,456	563,369	11,420	12,508	193,217
	-	7,456	563,369	11,420	12,508	193,217
Derivatives held for trading						
Forward foreign exchange contract	54,042	50,777	2,332,442	32,959	31,189	2,782,174
Currency swaps	-	-	-	23	-	775
Interest rate swaps	-	185	15,000			
	54,042	50,962	2,347,442	32,982	31,189	2,782,949
Derivative financial instruments	54,042	58,418	2,910,811	44,402	43,697	2,976,166

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or both.

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

Currency swaps relate to contracts taken out by MBE with other parties. MBE pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly settled gross.

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. MBE has a credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear liquidity risk. Forward contracts also result in market risk exposure.

Derivatives used as fair value hedge

As part of its asset and liability management, MBE uses derivatives for hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments and forecast transactions as well as strategic hedging against overall financial position exposures.

Fair value hedges are used by MBE to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans to clients. MBE uses currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

Derivatives

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as fair value hedges to reduce MBE's exposure resulting from variable interest rates on borrowings.

Hedging instruments	Notional principal amount		Carrying amount of the hedging instrument		Change in fair value used for recognising hedge ineffectiveness		Average contracted fixed interest rate (in %)	
in thousands of €s	2020	2019	2020	2019	2020	2019	2020	2019
Derivatives	563,369	193,217	- 7,456	- 1,088	-	-		

Hedged item	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item:		Change in fair value used for recognising hedge ineffectiveness		Accumulated amount of fair value hedge adjustments in SOFP for hedged items that have ceased to be adjusted for hedging gains and losses	
	2020	2019	2020	2019	2020	2019	2020	2019
Loans to customers	563,369	176,388	7,456	1,088	-	-	-	-

As at 31 March 2020, MBE recognised a negative fair value change of € 3,922 (2019: net loss € 6,852) on the hedging instruments. The total positive fair value change on hedged items attributable to the hedged risks amounted to € 3,906 (2019: net gain € 6,767).

Derivatives held for trading

Most of MBE's derivative activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for hedging purposes which do not meet the IAS 39 hedge accounting criteria.

6. Financial investments

Financial investments	2020	2019
Government Bonds	164,777	60,439
Financial investments	**164,777**	**60,439**

The financial investments consist only of short term Polish government bonds, which are pledged for liquidity purposes to the Polish central bank to secure any borrowings. The business model of the financial investments portfolio is hold to collect or sell. Financial investments are measured at Fair Value through Other Comprehensive Income.

The movement is as follows:

Financial investments - Movement	2020	2019
Opening balance	60,439	35,630
Additions	4,666,838	1,960,234
Disposals	-4,552,989	-1,934,608
Foreign exchange translation differences	-9,504	-813
Fair value movements	-7	-4
Closing balance	164,777	60,439

7. Property and equipment

	2020					
	Owned			Right-of-use assets		
Property and equipment	Operations equipment	Leasehold improve - ments	Total	Operations equipment	Buildings	Total
Opening balance	2,825	3,256	6,081	34	14,888	14,922
Additions	331	382	713	87	47	134
Disposals	- 7	- 7	- 14	-	-	-
Depreciation	- 774	- 526	- 1,300	- 22	- 2,916	- 2,938
Exchange rate adjustments	-	-	-	-	-	-
Other changes	19	- 334	- 315	-	-	-
Closing balance	2,394	2,771	5,165	98	12,019	12,117
Accumulated cost	10,968	9,061	20,029	120	14,935	15,056
Accumulated depreciation	- 8,574	- 6,290	- 14,864	- 22	- 2,916	- 2,938
Property and equipment	2,394	2,771	5,165	98	12,019	12,117

	2019		
	Owned		
Property and equipment	Operations equipment	Leasehold improve - ments	Total
Opening balance	1,167	2,691	3,858
Additions due to new branches/subsidiaries	2,000	1,039	3,039
Other additions	592	40	632
Disposals	-	-13	-13
Depreciation	-933	-501	-1,434
Exchange rate adjustments	-1	-	-1
Closing balance	2,825	3,256	6,081
Accumulated cost	11,364	9,130	20,494
Accumulated depreciation	-8,539	-5,874	-14,413
Property and equipment	2,825	3,256	6,081

MBE adopted IFRS 16 ‘Leases’ from 1 April 2019, using a modified retrospective approach and did not re-state the comparative information, no right-of-use assets were recognised in prior year. Reference is made to Note 1 ‘Accounting Policies for the Consolidated Financial Statements - New and amended standards and interpretations to IFRS adopted per 1 April 2019 - *IFRS 16 Leases*.

The property and equipment relates to small office equipment and improvements to offices (leasehold improvements). The depreciation period varies between 2 and 16 years.

Intangible assets

8. Intangible assets

Intangible assets	2020	2019
Opening balance	15,836	7,122
Addition due to new branches/subsidiaries	-	252
Additions	5,833	11,276
Amortisation	- 4,749	- 3,204
Under development	1,750	392
Exchange adjustments	- 12	- 2
Other changes	- 3	-
Closing balance	18,655	15,836
Accumulated cost	39,926	39,697
Accumutaled amortisation	-21,271	-23,861
Closing balance	18,655	15,836

The intangible assets consist of software and licenses. Contained within the additions are purchase of intangible assets amounting to € 641 (2019: € 3,651). The amortisation period varies between 1 and 5 years. MBE has not identified any events or circumstances, which would indicate intangible assets may be impaired for 31 March 2020 (2019: €0)

9. Other assets

Other assets	2020	2019
Prepayments and other receivables	27,374	33,601
Other accruals*	4,832	2,035
Other assets	32,207	35,636

*As per 1 April 2019 accrued interest is included in the corresponding balance sheet item of the host contract, reference is made to note 1 Accounting policies. The comparatives have been adjusted accordingly.

Other assets includes personnel loans previously included in Loans and advances to customers.

Liabilities

10 Due to banks

This item comprises debt to credit institutions and central banks.

Due to banks	2020	2019
Nostro accounts	70,867	48,662
Term deposits	5,906,415	5,434,151
Due to banks	5,977,282	5,482,813

MBE provides commercial loans to clients which in some cases exceed the maximum exposure of 25% of Tier 1 capital. All amounts higher than 25% of actual own funds are collateralised by MUFG Bank through pledge deposits. The term deposits from MUFG Bank, pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 3,139,558 (2019: € 3,855,186). The total amount owed to MUFG Bank, including pledged deposits, is € 5,876 274 (2019: € 5,477,281).

11 Due to customers

Due to customers	2020	2019
Term deposits	824,060	1,587,684
Current accounts*	5,538,303	7,149,342
Due to customers	6,362,363	8,737,026

*As of 1 April 2019 MBE implemented a refined accounting policy providing further guidance on the application of the 'single unit of account'-principle. We refer to Note 1 Accounting principles - I Financial instruments - initial recognition and subsequent measurement

12 Subordinated debt

Subordinated debt	2020	2019
Subordinated debt	300,122	300,101
Subordinated debt	300,122	300,101

MUFG Bank has granted MBE a subordinated bullet loan in order to strengthen the capital position of MBE. The maturity date is 23 March 2028 and the loan has an annual interest rate of 1.704%. The subordinated debt is part of the total capital amount of MBE as Tier 2 capital.

Liabilities

Provisions

13 Provisions

The provisions consist of the following:

Provisions	2020	2019
Expected credit losses on off-balance facilities **(Note 4)**	27,375	3,256
Defined benefit plan – the Netherlands **(13.1)**	5,953	6,701
Pension liability – Germany **(13.2)**	19,747	19,385
Restructuring provision **(13.3)**	8,075	-
Other provisions for early retirement and pensions**(13.4)**	336	6,440
Provisions	**61,486**	**35,782**

The expected credit losses for off-balance facilities are disclosed in Note 4.

13.1 Defined benefit plan – the Netherlands

The defined benefit plan of the Netherlands consists of:

Defined benefit plan – the Netherlands	2020	2019
Present value of defined benefit obligation	57,681	54,413
Fair value of plan assets	-51,728	-47,712
Retirement benefit liability / (asset) (Amsterdam)	**5,953**	**6,701**

The Dutch defined benefit plan is a defined benefit obligation pension plan for Netherlands based staff. The pension age is 68 and 4 months as of 1 January 2020. The benefits are based on a career average system. There is also a legacy plan for 8 staff members, which is based on a final pay system.

Changes in the present value of the defined benefit obligation are as follows:

Present value of the defined benefit obligation	2020	2019
Opening defined benefit obligation	54,413	49,997
Current service cost	2,797	2,265
Interest cost	806	865
Contributions by employees	234	293
Benefits paid	-1,306	-1,333
Actuarial losses on obligations	737	2,326
Closing defined benefit obligation	**57,681**	**54,413**

Changes in the fair value of plan assets are as follows:

Plan assets - Movement	2020	2019
Opening fair value of plan assets	-47,712	-43,183
Contributions by employer	-4,114	-3,964
Contributions by employees	-234	-293
Benefits paid	1,306	1,333
Actual Expenses, Taxes and Premiums Paid	217	219
Interest Income on Plan Assets	-715	-756
Return on Plan Assets excluding amounts included in Interest income	-476	-1,068
Closing fair value of plan assets	**-51,728**	**-47,712**

Liabilities

Provisions

Retirement benefit costs

The assets of the retirement benefit plan consist of insurance contracts as well as a cash deposit fund used for indexation of pensions paid.

Plan assets	2020	2019
Insurance contracts with subsequent profit sharing clause	100%	100%

The overall expected rate of return on assets is calculated based on three elements:

- The rate of return on the insurance contract which is effectively the discount rate;
- Surcharges on contribution by MBE which can be attributed to the year and which are caused by differences between market yields and yields used by the insurer;
- Execution costs.

The principal assumptions used in determining pension obligations for MBE's plan are shown below:

Defined benefit plan – the Netherlands - assumptions	2020	2019
Discount rate	1.50%	1.50%
Expected long-term rate of return on assets	1.50%	2.00%
Expected rate of salary increases	3.75%	3.75%
Expected rate of pension increases current participants	0.00%	0.07%
Exp. rate of pension increases former participants (indexation)	0.00%	0.07%
Expected rate of price increases	2.00%	1.90%

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of MBE at 31 March 2020. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

Sensitivity information – the Netherlands

The following table illustrates the sensitivity in the defined benefit obligation as in the projected IAS 19 expense to different discount rates. The sensitivity analysis calculates the financial impact on the defined benefit obligation if the discount rate would increase or decrease and all other assumptions were held constant. In practice the discount rate is seen as the assumption which would have the most significant impact on the defined benefit obligation.

Discount rate sensitivity information	Adjusted Assumption	2020	2019
Discount rate	1.50%	57,681	54,413
Discount rate +0.5%	2.00%	52,141	49,247
Discount rate -0.5%	1.00%	64,146	60,423

Changes in Life expectancy	Increase by 1 year	Decrease by 1 year
Life expectancy	DBO +4.3%	DBO -4.34%

Liabilities

Provisions

13.2 Pension liability – Germany

Pension liability – Germany	2020	2019
Opening balance	19,385	-
Additions due to new branches/subsidiaries	-	18,284
Contributions by employer	-489	-
Service costs	419	431
Interest expense	368	396
Actuarial gain/ (loss)	64	274
Closing balance	19,747	19,385

The pension obligations are based on a defined benefit plan. The plan is valued by independent qualified actuaries using the projected unit credit method. The key actuarial assumptions applied in determining the defined benefit obligations at 31 March are the following:

Pension liability – Germany	2020	2019
Discount rate current employees	2.00%	2.11%
Discount rate former employees	1.74%	1.66%
Expected rate of salary increases (for current employees)	3.00%	3.00%
Expected rate of pension increases current participants	1.75%	1.75%
Exp. rate of pension increases former participants (indexation)	1.75%	1.75%
Expected rate of price increases	1.75%	1.75%
Mortality	Richttafeln Heubeck 2018G	Richttafeln Heubeck 2018G
Disability	Richttafeln Heubeck 2018G	Richttafeln Heubeck 2018G
Marriage	Richttafeln Heubeck 2018G	Richttafeln Heubeck 2018G
Retirement age	62 or 63	62 or 63

The assumptions as at the reporting date are used to determine the present value of the defined benefit obligation. The discount rates are based on a high quality corporate bond yield curve.

The pension obligations are secured against insolvency by Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit.

Sensitivity information – Germany

The following table illustrates the sensitivity in the pension liability - Germany as in the projected IAS 19 expense to different discount rates. The sensitivity analysis calculates the financial impact on the defined benefit obligation if the discount rate would increase or decrease and all other assumptions were held constant. In practice the discount rate is seen as the assumption which would have the most significant impact on the defined benefit obligation.

Discount rate sensitivity information	Adjusted Assumption		2020	
Assumption	Current employees	Former employees	Current employees	Former employees
Discount rate	2.00%	1.74%	7,602	12,145
Discount rate +0.5%	2.50%	2.24%	7,160	10,900
Discount rate -0.5%	1.50%	1.24%	8,093	13,585

Liabilities

Provisions

13.3 Restructuring provision

Restructuring provision	2020	2019
Opening balance	-	-
Addition to the group	6,114	-
Current year charge	5,117	-
Payments made	- 3,156	-
Closing balance	8,075	-
Restructuring Spain	6,827	-
Restructuring Netherlands	1,248	-
Closing balance	8,075	-

In November 2019 MBE management announced a restructuring plan for MBE's Spanish Operations. In December 2019 MBE agreed a social plan with the Spanish working council. The number of people involved was determined at 35. It is expected that the restructuring plan will be completed mid-2021.The addition to the restructuring provision recognised was € 10 million. Due to the new restructuring plan the existing restructuring provision was reversed.

In November 2019 MBE management announced a restructuring plan for MBE's Netherlands Operations. In January 2020 MBE agreed a social plan with the Dutch working council. The number of people involved was determined at 22. It is expected that the restructuring plan will be completed during the second half of 2020.The amount of restructuring provision recognised was € 1.25 million.

13.4 Other provisions for early retirement and pensions

Pension liability – Other	2020	2019
Opening balance	6,440	-
Addition to the group	-	9,107
Interest expense	21	1,625
Benefits paid	- 11	- 4,292
Reversal	- 6,114	
Closing balance	336	6,440

The early retirement provision of the Spanish branch of MBE is based on an agreement with the works council in connection with changed requirements, relating to a defined number of employees.

14 Other liabilities

Other Liabilities	2020	2019
Accounts payable and accrued expenses	105,024	48,182
Lease liabilities	12,559	-
Unearned income*	136	21,752
Other liabilities	117,719	69,934

*As per 1 April 2019 accrued interest is included in the corresponding balance sheet item of the host contract, reference is made to note 1 Accounting policies. The comparatives have been adjusted accordingly.

Lease liabilities

MBE adopted IFRS 16 'Leases' from 1 April 2019, using a modified retrospective approach and did not re-state the comparative information, no lease liabilities were recognised in prior year. Reference is made to Note 1 'Accounting Policies for the Consolidated Financial Statements - New and amended standards and interpretations to IFRS adopted per 1 April 2019 - *IFRS 16 Leases*.

Equity

15 Issued capital and reserves

The authorised capital amounts to € 136,200 (2019: € 136,200) and consists of 300,000 ordinary shares of € 454 each (unit: one €). The number of issued and fully paid-up amounts to 220,270 (2019: 220,270). Issued and fully-paid capital amounts to €100 million (2019: € 100 million). All shares issued are held by MUFG Bank, a wholly-owned subsidiary of MUFG.

Changes in share premium

On 1 April 2018 MUFG Bank transferred the German and Spanish branches to MBE in exchange for 4 shares of MBE. The transaction was accounted for as a business combination under common control, using the predecessor accounting. The assets and liabilities of the German and Spanish business were transferred on 1 April 2018 at book value resulting in a share premium of € 627,610.

in thousands of €s	Issued capital	Share premium	Retained earnings	Fair value reserve	Foreign currency translation reserve	Revaluation actuarial defined benefit	Non-controlling interests	Total equity
At 1 April 2018	100,001	706,696	434,515	- 1	- 43	- 6,342	-	1,234,826
IFRS 9 transition impact	-	-	- 1,199	-	-	-	-	- 1,199
Expected credit loss impact due to new branches*	-	-	14,957	-	-	-	-	14,957
Issue of share capital	2	- 2	-	-	-	-	-	-
Total comprehensive income	-	-	- 10,163	- 1	-	- 1,134	- 21	- 11,319
Foreign currency translation adjustment	-	-	-	-	191	-	-	191
Share premium issuance	-	627,610	-	-	-	-	25	627,635
Unearned revenue from new branch*	-	-	- 12,859	-	-	-	-	- 12,859
Pension liability from new branch*	-	-	- 3,371	-	-	-	-	- 3,371
Other non-controlling interest due to new subsidiary	-	-	-	-	-	-	26	26
At 31 March 2019	100,003	1,334,304	421,880	- 2	148	- 7,476	30	1,848,887
Total comprehensive income	-	-	- 64,449	- 2	-	- 239	1	- 64,689
Foreign currency translation adjustment	-	-	-	-	- 76	-	-	- 76
At 31 March 2020	100,003	1,334,304	357,431	- 4	72	- 7,715	31	1,784,122

Equity

Issued capital and reserves

Restrictions with respect to dividend and repayment of capital

Pursuant to statutory provisions MBE can only pay dividend to the shareholder in as far as its paid-up capital and retained earnings are larger than the paid-up and called-up part of the capital increased by the reserves which have to be maintained by law or under MBE's articles of association.

By virtue of a resolution of the general meeting of the shareholder MBE may acquire fully paid-up shares in the authorised capital of MBE only if the paid-up capital and retained earnings, after deduction of the acquisition price, is not less than the paid-up and called-up part of the capital increased by the reserves which have to be maintained by law, and the par value of the shares to be acquired and already held by MBE in its capital does not amount to more than one/tenth of the issued capital.

Dividend payment

No dividend was paid in the year ended 31 March 2020 (2019: € 0).

Notes to the consolidated Statement of Profit or Loss

16 Net interest income

Net interest income	2020	2019
Cash and balances with central banks*	813	210
Loan and advances to banks*	6,328	7,328
Loans and advances to customers*	169,207	191,033
Financial investments	1,565	567
Interest rate swaps*	3,891	7,488
Others	203	182
Interest income	182,007	206,808
Due to banks	64,097	86,336
Due to customers	27,294	25,792
Interest rate swaps	3,922	6,966
Others	1,194	74
Interest expense	96,507	119,168
Net interest income	85,500	87,640

*Interest income calculated using the effective interest method.

17 Net fee and commission income

Net Fee and commission income	2020	2019
Commission on funds transfer and letters of credit*	12,103	10,073
Commission on guarantees	7,735	7,843
Brokerage and advisory fees*	235	1,129
Commission on corporate management services*	4,293	3,693
Other fee and commission income*	7,037	2,985
Fee and commission income	31,403	25,723
Commission on (credit replacing) guarantees	2,673	4,336
Commission on funds transfer and letters of credit	1,003	847
Commission on corporate management services	3,829	3,574
Other fee commission expenses	7,503	7,302
Fee and commission expense	15,008	16,059
Net Fee and commission income	16,395	9,664

* Fee and commision income in scope of IFRS 15 'Revenue from contracts with customers'.

Other fee and commission income includes Corporate advisory fees € 3.0 million (2019: € 1.7 million), Deposit commission income € 1.5 million (2019: € 0.1 million) and Custody related fees € 1.0 million (2019: -).

Result on financial transactions

18 Result on financial transactions

Result on financial transactions	2020	2019
Result on financial transactions	44,872	42,654

This item includes the foreign currency results of MBE amounting to € 40,170 (2019: € 25,242). MBE's policy is to eliminate currency risks on financial assets and liabilities.

19 Personnel expenses

Personnel expenses	2020	2019
Wages and salaries	55,818	50,250
Social securities costs	6,841	7,735
Pension costs	3,907	3,419
Restructuring expenses	5,118	1,922
Other staff costs	23,076	9,749
Personnel expenses	94,760	73,075

The number of employees during the year ended 31 March 2020 is 783 (2019: 630), of which 407 (2019: 252) are employed in the Netherlands and 242 (2019: 227) are employed in Germany. Other staff costs include mainly the costs related to contracted employees and/or agency employees.

20 Other operating expenses

Other operating expenses	2020	2019
Occupancy expenses	3,466	5,642
Office expenses	22,351	13,914
Professional fees	10,899	7,522
Business promotion expenses	5,414	4,621
VAT and sundry taxes	14,937	10,127
Other operating expenses	2,529	4,423
Other operating expenses	59,597	46,249

The decrease in occupancy expenses is due to the adoption of IFRS 16 'Leases'. Depreciation expenses of right-of-use assets as recognised under IFRS 16 'Leases' are reported within Depreciation of property and equipment.

Office expenses relate to IT services, regulatory supervision expenses and other office expenses.

The Other Operating Expenses included an administrative fine imposed by the Dutch Central Bank (DNB) of € 2.5 million due to a breach of the applicable large lending limits during financial year 2019.

The amount has been paid in full to DNB in April 2020.

The Professional fees include fees charged by audit organisations and auditors, as defined in Article 382a, Part 9 of the Dutch Civil Code, Book 2, which can be specified as follows:

Notes to the consolidated Statement of Profit or Loss

Other operating expenses

	2020			2019		
Fees charged by external auditor	Netherlands	Other offices	Total	Netherlands	Other offices	Total
Audit of financial statements	1,227	755	1,982	1,445	864	2,308
Other assurance services	70	258	328	40	150	190
Tax advisory services	-	217	217	-	263	263
Other non-audit services	-	176	176	-	260	260
Fees charged by external auditor	1,297	1,406	2,703	1,485	1,537	3,022

This summary reflects fees charged by MBE's external auditors in respect of audit services and other assurance services provided. No audit fees were paid for Tax Advisory and Non-audit services. Fees in the Netherlands amounting to € 1,227 (2019: € 1,445) relate to Deloitte Accountants B.V.

21 Income tax (expense)

The net tax position is analysed in the following table:

Income tax position	2020	2019
Current tax assets	24,627	31,638
Deferred tax assets	48,916	25,604
Tax assets	73,543	57,242
Current tax liabilities	- 8,097	- 151
Deferred tax liabilities	-	- 945
Tax liabilities	-8,097	-1,096
Net tax position	65,446	56,146

Current tax assets and liabilities relate to amounts receivable and payable in relation to pending tax declarations. The components of income tax expense for the years ended 31 March 2020 and 31 March 2019 are:

Income tax (expense)	2020	2019
Current income tax	- 10,508	- 15,985
Adjustment of current income tax of prior years	-	- 10
Tax adjustments previous years	1,750	-
Current tax	- 8,758	- 15,995
Reversal of carry forward losses	-	- 2,935
Restructuring and pension provisions	200	- 557
Allowance for expected credit losses	22,965	1,275
Other	- 73	2,797
Deferred tax	23,092	580
Income tax	14,334	-15,415

The reconciliation between the tax expense and the accounting profit multiplied by MBE's domestic tax rate is as follows:

Notes to the consolidated Statement of Profit or Loss

Income tax (expense)

Income tax (expense) / reported	2020	2019
Accounting profit before tax	- 78,782	5,231
Statutory tax rate of the Bank (25%)	19,696	- 1,308
Effect of different tax rates in other countries	1,911	- 1,268
Unused tax losses	- 9,102	- 4,591
Tax adjustments previous years	- 1,750	- 10
Other permanent differences	3,579	- 8,238
Income tax (expense) reported	14,334	-15,415

The effective income tax rate is -18% for the year ended 31 March 2020 (2019: 295%). The amount included in 'Other permanent differences' of € 3,579 (2019: 8,238) consist mainly of other tax relating differences between accounting and fiscal books; such as exchange rates, fixed assets, unearned revenue and non-deductible expenses.

The following table shows deferred tax recorded on the balance sheet in 'Deferred tax asset' and 'Deferred tax liabilities' and changes recorded in the income tax expense:

	2020			2019		
Deferred tax	Asset	Liability	Profit or (loss)	Asset	Liability	Profit or (loss)
Pensions	5,960	-	- 13	2,429	-	247
Restructuring provision	2,048	-	214	5,293	-	- 804
Credit loss expenses	39,543	-	22,965	16,673	-	1,275
Revaluation of financial investments	1	-	- 4	-	-	-
Tax loss carry forward	-	-	-	-	-	- 2,935
Fixed assets	18	-	-	21	-	- 5
Amortised fees	1,193	-	- 159	1,341	-	40
Other temporary differences	153	-	90	- 153	- 945	2,762
Deferred tax	48,916	-	23,092	25,604	- 945	580

	2020	Expiry	2019	Expiry	2018	Expiry
Tax losses	38,162	2028-2029	20,210	2027-2028	12,231	2026-2027

Unused tax losses for which no deferred tax asset has been recognised mainly relates to tax losses incurred by the Amsterdam Branch. The tax loss amounted to € 38 million in 2020 which expires in 2028-2029 and € 20 million in 2019 which expires in 2027-2028. MBE does not recognise a deferred tax asset for the tax losses as it is uncertain to be recovered.

Deferred tax related to items charged or credited directly to equity during the year is as follows:

Deferred tax (charged/ credited to equity)	2020	2019
Net gain (loss) on financial investments	1	-
Net gain (loss) on pension	85	400
Deferred tax (charged) / credited to equity	86	400

Components of comprehensive income

22 Components of comprehensive income

Components of comprehensive income	2020			2019		
in thousands of €s	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Re-measurement of the net defined asset/liability	- 324	85	- 239	- 1,534	400	- 1,134
Foreign currency transation reserve	- 76	-	- 76	191	-	191
Net (loss)/gain on financial instruments	- 3	1	- 2	- 1	-	- 1
Deferred tax	-403	86	-317	- 1,344	400	- 944

Additional notes to the Consolidated Financial Statements

23 Fair value measurement

The fair value measurement hierarchy of MBE's assets and liabilities is based on valuation techniques.

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The technique that is being used for the derivative financial instruments under level 2 is the market to market (MtM) calculation, which looks at the contract rates against the forward rates in the current market. The fair value of financial instruments carried in the consolidated balance sheet at fair value:

	2020			2019		
Financial assets	Level 1	Level 2	Total	Level 1	Level 2	Total
Interest rate swaps	-	-	-	-	11,420	11,420
Foreign exchange forward contracts	-	54,042	54,042	-	32,959	32,959
Foreign exchange swap contracts	-	-	-	-	23	23
Derivative financial instruments	-	54,042	54,042	-	44,402	44,402
Government debt securities	164,777	-	164,777	60,439	-	60,439
Financial instruments FVOCI	164,777	-	164,777	60,439	-	60,439
Financial assets	164,777	54,042	218,819	60,439	44,402	104,841

	2020			2019		
Financial liabilities	Level 1	Level 2	Total	Level 1	Level 2	Total
Interest rate swaps	-	7,641	7,641	-	12,508	12,508
Foreign exchange forward contracts	-	50,777	50,777	-	31,189	31,189
Financial liabilities	-	58,418	58,418	-	43,697	43,697

Set out below is a comparison, by class, of the carrying amounts and fair values of MBE's financial instruments that are not carried at fair value in the Financial Statements, separately for assets and liabilities. This table does not include the fair values of non-financial assets and non-financial liabilities. There have been no transfers of financial instruments between levels.

Fair value measurement

Fair value of financial instruments - assets	2020				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Cash balances with central banks	904,218	904,218	904,218	-	-
Loan and advances to banks:					
Placements with banks - on demand	2,290,847	2,290,847	2,290,847	-	-
Placements with banks - term deposits	658,222	657,139	-	-	657,139
Loans and advances	852,520	848,484	-	-	848,484
	3,801,589	3,796,470	2,290,847	-	1,505,623
Loans and advances to customers:					
Corporate current accounts	228,630	228,630	228,630	-	-
Corporate term loans	8,064,800	8,112,916	-	-	8,112,916
Bills of exchange	1,415,126	1,415,233	-	-	1,415,233
	9,708,556	9,756,779	228,630		9,528,149
Other financial assets	4,832	4,832	4,832	-	-
Financial assets	14,419,195	14,462,299	3,428,527	-	11,033,772

Fair value of financial instruments - assets	2019				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Cash balances with central banks	1,863,907	1,863,905	1,863,905	-	-
Loan and advances to banks:					
Placements with banks - on demand	3,060,729	3,060,726	3,060,726	-	-
Placements with banks - term deposits	702,264	703,634	-	-	703,634
Loans and advances	1,102,298	1,110,982	-	-	1,110,982
	4,865,291	4,875,342	3,060,726		1,814,616
Loans and advances to customers:					
Corporate current accounts	332,761	332,956	332,320	-	636
Corporate term loans	7,902,984	7,936,820	-	-	7,936,820
Bills of exchange	1,416,551	1,417,741	-	-	1,417,741
	9,652,296	9,687,517	332,320	-	9,355,197
Other financial assets	2,035	2,035	-	-	2,035
Financial assets	16,383,529	16,428,799	5,256,951	-	11,171,848

Fair value measurement

Fair value of financial instruments - liabilities	2020				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Due to banks	5,977,282	5,942,654	70,867	-	5,871,787
Due to customers	6,362,363	6,359,507	250	-	6,359,257
Other financial liabilities	136	136	136	-	
Subordinated debt	300,122	312,437	-	-	312,437
Financial liabilities	12,639,903	12,614,734	71,253	-	12,543,481

Fair value of financial instruments - liabilities	2019				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Due to banks	5,482,813	5,496,318	48,662	-	5,447,656
Due to customers	8,737,026	8,734,132	7,148,729	-	1,585,403
Other financial liabilities	21,752	21,752	-	-	21,752
Subordinated debt	300,101	300,318	-	-	300,318
Financial liabilities	17,175,312	17,196,151	9,828,273	-	7,367,878

Fair value determination
The following is a description of the determination of fair value for financial instruments which fair value is determined using valuation techniques (effective interest method). These incorporate MBE's estimate of assumptions that a market participant would make when valuing the instruments.

Interest rate swaps
For interest rate swap contracts the 'discounted cash flow method' is used to calculate for the fair value. The interest rate used to discount future cash flows is the defined reference rate in the market for the contract for the applicable period (where needed interpolation is done to obtain the proper interest rate).

Foreign exchange contracts
For foreign exchange contracts the calculation of the fair value is done by adding the spot rate and applicable forward points (valuation currency is USD). The result of the valuation is discounted by applicable USD interest rate and if needed interpolation is done to obtain the proper forward points.

Fair value of financial assets and liabilities not carried at fair value
The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

24 Maturity analysis of assets and liabilities

The table below shows the assets and liabilities according to when they are expected to be recovered or settled based on discounted cash flows.

in millions of €s			2020			
Maturity analysis	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	830	74	-	-	-	904
Loans and advances to banks	2,284	587	188	690	53	3,802
Loans and advances to customers	467	3,325	1,046	3,838	1,033	9,709
Derivatives	78	-17	-1	-5	-	55
Financial investments	-	165	-	-	-	165
Total assets	3,659	4,134	1,233	4,523	1,086	14,635
Liabilities						
Due to banks & subordinated debt	71	1,652	1,414	2,430	710	6,277
Due to customers	5,549	598	79	136	-	6,362
Derivatives	76	-17	-	-	-	59
Total liabilities	5,696	2,233	1,493	2,566	710	12,698
Net	-2,037	1,901	-260	1,957	376	1,937

in millions of €s			2019			
Maturity analysis	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	1,827	37		-	-	1,864
Loans and advances to banks	3,067	613	403	694	88	4,865
Loans and advances to customers	253	2,828	896	4,639	955	9,571
Total assets	5,147	3,478	1,299	5,333	1,043	16,300
Liabilities						
Due to banks & subordinated debt	49	1,479	1,097	2,527	330	5,482
Due to customers	7,527	1,210	0	0	-	8,737
Total liabilities	7,576	2,689	1,098	2,527	330	14,220
Net	-2,429	789	201	2,806	713	2,080

Additional notes to the Consolidated Financial Statements

Maturity analysis of assets and liabilities

	2020					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	34	119	594	495	431	1,675
Letters of credit	1	4	1	-	-	6
Undrawn commitments to lend	147	17	2,912	6,287	38	9,400
Total guarantees & commitments	182	140	3,507	6,782	469	11,080

	2019					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	3	1	7	-	-	11
Letters of credit	141	109	632	516	509	1,908
Undrawn commitments to lend	93	144	1,078	7,113	354	8,782
Total guarantees & commitments	238	254	1,717	7,629	864	10,701

25 Contingent liabilities, commitments and leasing arrangements

To meet the financial needs of customers MBE issues various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk.

Contingent liabilities and commitments	2020	2019
Letters of credit	5,897	10,728
Financial guarantees	1,674,803	1,907,888
Undrawn commitments to lend	9,399,549	8,782,497
Other uncommitted facilities	4,715,587	6,241,720
Contingent liabilities and commitments	15,795,835	16,942,833

Letters of credit, guarantees and acceptances commit MBE to make payments on behalf of customers that fail to perform under the terms of the contract, generally related to the export or import of goods. Guarantees carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. In general commitments have fixed expiration dates or termination clauses. MBE is potentially exposed to losses to a maximum amount of the total unused commitments.

Other uncommitted facilities includes loan committments to our client that are revocable, previously these facilities were included in the undrawn commitments to lend. Comparatives have been adjusted accordingly.

Operating lease commitments

As per 1 April 2019 MBE adopted IFRS 16. This standard requires lessees to record leases in the Statement of Financial Position as an asset (the right to use the leased item) and a financial liability (the discounted value of future lease payments). MBE used the modified retrospective approach and did not re-state the comparative information.

Contingent liabilities, commitments and leasing arrangements

As per 31 March 2019 MBE has entered into commercial leases as lessee of premises and rental commitments. The non-cancellable operating lease rentals are payable as follows:

Operating lease commitments	2019
Within one year	3,020
After one year but not more than 5 years	8,742
More than 5 years	2,958
Operating lease commitments	14,720

26 Related party disclosures

26.1 Transactions with key management

As per 31 March 2020 no loans where outstanding to members of the Supervisory Board and / or Management Board (2019: € 0). Loans-if granted- are at MBE's standard terms of staff loans. Interest of staff loans it set at 3% per annum to be paid monthly. Amount is capped at 1.2 times monthly salary in case of service up to one year to be repaid in one year by equal monthly instalments or 3.6 times monthly salary in case of service excess of one year to be repaid in 3 years by equal monthly instalments. No other transactions or arrangements have been entered into with key management.

26.2 Transactions with related parties

MBE enters into transactions with entities with significant influence over MBE, being MUFG Bank. The following table shows the amounts receivable and payable as at the end of the fiscal year and the corresponding interest amounts during the fiscal year in connection with transactions with group companies:

Additional notes to the Consolidated Financial Statements

Related party disclosures

	2020	2019
Loan and advances to banks	2,892,761	3,720,511
Derivative assets	37,212	18,281
Other assets	204	15,641
Assets	2,930,177	3,754,433
Due to banks	5,881,031	5,410,216
Subordinated debt	300,122	300,101
Derivative liabilities	31,035	25,016
Other liabilities	329	183,732
Liabilities	6,212,517	5,918,964
Interest income	5,704	7,176
Interest expense	48,347	69,638
Net interest	-42,643	-62,462
Fee and commission income	-2,660	2,465
Fee and commission expense	8,608	11,727
Net commission	-11,269	-9,262
Result on financial transactions	7,787	
Total operating income	-46,125	-71,724
Personnel expenses	16	14
Other operating expenses	5,167	
Total operating expenses	5,183	14
Net result	-51,308	-71,738
Commitments and contingents	208,306	247,250

Interest income and interest expense relates to amounts due from/due to MUFG Bank. Interest expense mainly relates to pledge deposits and guarantees for loans and advances to our clients provided for MUFG Bank, detailed in Note 4. Please also refer to Note 4 for cash collateral received from MUFG Bank for loans and advances to our clients. Administrative expenses relate to IT services provided by MUFG Bank. There are no administrative services provided by the ultimate parent company.

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. There is no allowance for expected credit losses relating to amounts owed by related parties (2019: nil).

27 Key management remuneration

This section sets out the remuneration of the Supervisory Board, Management Board and Material Risk Takers (MRTs). Key management is defined as those persons being member of the Supervisory Board or the Management Board of MBE. For details on MBE's Remuneration Policy and processes, please see the Remuneration Policy section.

Key management remuneration

Remuneration
The following table shows the compensation paid to Key Management personnel. Compensation includes salaries, non-cash benefits and contributions to post-employment defined benefit plans.

	Senior Management	
Key Management Remuneration	2020	2019
Short-term employee benefits	2,255	1,784
Post-employment benefits	87	83
Long-term benefits	86	44
Termination benefits	-	-
Share-based payments	164	127
Total	2,592	2,037

Included in the short term employee benefits is the total remuneration of the Supervisory Board for the period amounting to € 92,000 (31 March 2019: € 115,000).

Material Risk Takers (MRT)
MBE's MRTs are identified through an annual identification process based on the Regulatory Technical Standards (RTS) developed by the European Banking Authority in 2014.

The RTS consist of qualitative and quantitative criteria to identify employees whose professional activities have a material impact on an institution's risk profile are defined in the Delegated Regulation on criteria to identify MRTs (Art. 2 and Art.3 of (EU) No 604/2014). As part of the annual review, MBE carefully considers how to apply these criteria for the applicable year and, based on this, identifies roles and individuals that qualify as MRTs. Furthermore, periodic checks and consideration of any new joiners / role changes throughout the year, are reviewed to ensure an up-to-date list of MRTs is maintained.

The Supervisory Board can identify any other employee in addition to employees who perform senior management functions, to have a material impact on MBE's risk profile in their opinion.

All MRTs receive individual communication notifying them that they have been identified as a MRT and the impact on their compensation.

The number of MRTs for Performance Year 2019 was 33, compared to 26 in 2018. The increase was mainly due to MBE's expansion and hence additional Control Function staff meeting the RTS criteria, as well as 5 leavers who remained on the MRT list along with their successor.

Remuneration Design and Structure
Remuneration consists of two key components:

- Fixed remuneration
- Variable remuneration

Remuneration consists broadly of fixed compensation (including salary, fixed allowances, non discretionary pension benefits and standard benefits) and variable remuneration in the form of a performance related bonus, a portion of which may be deferred on a mandatory basis. Material Risk Takers who are Non-Executive Directors receive set remuneration. A number of MRTs are seconded to MBE from Tokyo and their remuneration is determined by MUFG, or a subsidiary of MUFG, as appropriate. MBE continues to work with Tokyo to ensure that their variable remuneration is compliant with local regulation.

Key management remuneration

Fixed remuneration
Fixed remuneration is intended to remunerate employees for their skills and experience, taking into account local market practices. Fixed remuneration is reviewed on an annual basis in line with the performance review process. This ensures that performance from the previous performance year can also be taken into consideration when reviewing individual remuneration.

Variable remuneration
Variable remuneration rewards employees for their performance and the delivery of financial and non-financial targets, values and behaviours, whilst reflecting performance, affordability and the financial situation of relevant Global Business Functions where appropriate, and MBE. Individual performance is evaluated through MUFG's Performance Management process, and there is to be a direct correlation between remuneration outcomes and performance ratings.

Bonus Cap
The Bank applies the following maximum of Variable remuneration:

- Variable remuneration cannot exceed 20% of fixed remuneration for anyone who works 50% or more of their time in the Netherlands.
- For the branches and subsidiaries which the Bank operates in the EU, the ratio between Variable remuneration and fixed remuneration is at maximum 100%.

Deferred awards
MBE operates two mandatory deferral plans in relation to variable remuneration rewards:

- A General Deferral Plan for employees who have not been identified as MRTs; and
- A Material Risk Taker Deferral Plan for employees who have been identified as a MRT.

In line with regulatory requirements and to promote MBE's long-term interests, MBE applies deferral arrangements to variable remuneration for a MRT. All deferred awards granted to a MRT are governed under the Rules of the Material Risk Takers Deferral Plan.

Where the variable remuneration awarded to a MRT is less than € 10.000, the MRT Deferral Plan will not apply and the employee will be subject to the General Deferral Plan.

Under the rules of the Material Risk Taker Deferral Plan, a deferral rate of 40% is applied to variable remuneration awards of up to € 499,999 and a deferral rate of 60% is applied for variable remuneration awards above € 500,000, with the deferral vesting on a pro-rata basis for three years. Half of the total award (non-deferred and deferred is granted as cash with the remaining half granted as a share price linked award which is subject to one year retention.

Under the rules of the General Deferral Plan, the deferred award is granted as 100% cash and vests on a pro-rated annual basis over three years. The deferral is calculated on a table using various variable remuneration thresholds starting at 10% of any bonus over € 90,000.

Performance Adjustment and Clawback
The Supervisory Board has the authority to adjust or reclaim variable remuneration in exceptional circumstances ('clawback') for MRT's, including Management Board members, for four years from the date of award. In addition to clawback, the Supervisory Board may also make use of malus. This is an arrangement that permits MBE to prevent vesting of all or part of the amount deferred compensation in relation to risk outcomes of performance.

Key management remuneration

Individual adjustment of all or part of the variable remuneration, including deferred awards, can be done with the full discretion of the Supervisory Board generally, but not exclusively, along the following guidelines:

- There is a material downturn in the financial performance of the Bank and it is not sustainable / justified according to the financial situation to pay vested awards;
- MBE's risk related policies or limits have been breached;
- A compliance failure has been committed;
- A regulatory breach has taken place;
- Actions or behaviours which have damaged MBE's reputation;
- Where an award is inconsistent with MBE's long-term risk or compliance interests;
- Where vesting of a variable pay award is inconsistent with MBE's long-term risk or compliance interests; or
- Any incident which the Supervisory Board, in its sole discretion, determines to warrant an adjustment.

In regards to the evaluation of individual performance, MBE operates a robust performance management process which includes objective setting, formal evaluation against objectives, mid-year and year-end performance reviews, and the allocation of an overall performance rating. Non-financial performance criteria make up a significant portion of an individual's assessment.

MBE also assesses individuals on core competencies which are aligned to MUFG's values. Variable remuneration awards are allocated to employees taking into account performance against these aspects.

MBE does not award retention nor predefined severance pay to Management Board members and MRTs.

Remuneration Governance

Governance for reward is secured through the Supervisory Board. For locally hired staff, the Supervisory Board monitors and authorises the level of remuneration through MBE's approved policies and processes, with Management Board responsible for execution and management of the agreed processes. For expatriates, the Supervisory Board reviews and approves reward proposals with Head Office in Tokyo, via HR, prior to making a final determination.

The Supervisory Board is responsible for approving the Bank's Reward Policy, overall remuneration process and MRT recommendations. The Management Board is responsible for implementing activities in accordance with this Reward Policy.

Quantitative Remuneration Information
The following table discloses remuneration awards as required by EBA guidelines made to MBE's MRT's for the performance year 2019, split between Senior Management (Supervisory and Management Board) and all other MRTs .

The base salary of Senior Management for the period amounts to € 1,842,000 (2019: € 1.367,000). Total variable pay (bonus) for Senior Management and MRTs amounts to € 1,145,000 (2019: € 992,000). Salaries for the other MRT's staff (21 FTE) is € 4,473,000 (other identified staff (18 FTE) 2019: € 3,694,000).

Key management remuneration

	All Senior Management	All other MRT's	Total EURs
No of Employees	12	21	33
Fixed remuneration	1,842	4,473	6,315
Variable remuneration (total)	275	869	1,145
of which is cash	78	304	382
of which is share linked	78	300	378
of which is deferred	63	240	302
Outstanding deferred remuneration (vested)	-	-	-
Outstanding deferred remuneration (all unvested)	-	-	237
Deferred remuneration paid out in the 2019 performance year	-	-	23

Notes

- Fixed remuneration include base salary.
- Outstanding deferred remuneration is based on what has vested / outstanding from PY2018 plan at the end of PY2019. Payment is made typically in June of each year.
- Deferred remuneration paid out in the 2019 performance year related to 2018 awards which were actually paid in June 2020.

There were no individuals remunerated € 1 million or more during the performance year

Two severance payments, totalling € 380,000 were made to MRTs on the termination of their employment during FY2019. These were aligned with MBE severance process.

No sign-on payments or guarantees were paid to MRTs during the performance year.

28 Risk management

28.1 Risk Management Approach

Stemming from its business model, MBE is exposed to various risks. To reduce the effect these risks may have on business performance and MBE's reputation, MBE is actively identifying, managing, and evaluating the risks it is exposed to. MBEs risk management is a process embedded throughout its entire operation.

Risk management is embedded in MBEs culture as to ensure maximum effectiveness of its efforts to further refine and manage risks. At the same time, risk management may influence the culture of MBE by creating new insights, making it a potential driver for continuous change/adjustments. To ensure optimal benefit of the effort to continuously improve MBEs risk management, a careful balance needs to be found to sustainably implement the risk management improvements within its prevailing corporate culture.

Risk profile

MBE targets a healthy and well diversified capital and liquidity position that supports its business strategy and long-term rating ambition of MUFG. Given the current strategy of consolidation of business in Europe, MBE strives to limit its risks to the level defined in the Risk Appetite Statement. MBE is mainly exposed to credit, interest rate, liquidity, operational and integrity risk.

As a wholesale bank within the wider MUFG Group offering wholesale products to corporate clients, MBE's credit portfolio consist of Japanese and Non-Japanese clients that are predominantly based throughout the European Union. More than two thirds of MBE's client exposure has a credit risk equivalent to investment grade rating. Due to nature of the business the bank recognises some concentrations in the credit portfolio, which are actively

Risk management

managed within defined risk appetite levels. Defined provisions are adequate for any credit losses the bank reasonably expects, while capital position allows the bank to absorb unexpected losses.

Majority of MBE's income consist of net interest income, which is affected by interest rate levels and credit spreads on the market. MBE manages interest rate risk within the limits and risk appetite, but can not rule out possibility that changes in the interest rate environment will not impact bank's profitability.

The main source of MBE funding is linked to its Parent bank and to a smaller extent to the funding provided by MBE's corporate clients. Costs of funding is therefore driven by the credit rating of MUFG Bank and its ability to obtain funding in the market. MBE applies liquidity risk management to ensure adequate funding is available at all times.

In running day to day business activities, MBE may run a number operational risks that could harm the clients, bank or its reputation. MBE is continuously identifying these risks and assessing if risk controls are sufficient.

Risk Management Policy House

MBEs risk management focuses on clear lines of accountability.

In MBE, a risk documents governance structure, Risk Management Policy House (here: RMPH), was implemented in 2019. RMPH explains the interrelations between all risk management documents, provides a structure to position new documents, and describes the rules regarding risk documentations.

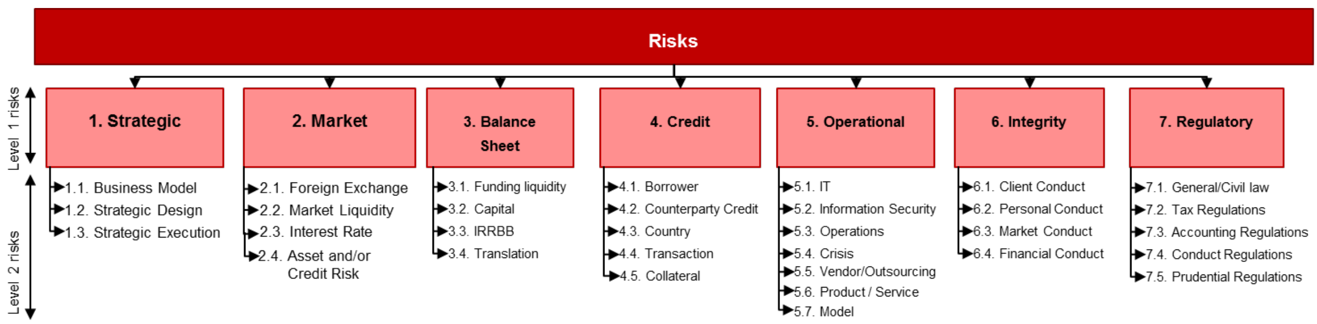
The RMPH complies with both local (European, Dutch) regulations and Parental policies. It has a clear link to both internal as well as external regulations. It efficiently manages and communicates amongst complex set of risk management documents and provides leading inter-relational framework for other related documents.

From the nature of the documents, their interrelations, dependencies on the various drivers, RMPH is designed to provide governance for these documents and to stay stable over time with limited changes.

Risk Management Framework

The Risk Management Framework (here: RMF) provides a consistent and detailed view of institution-wide risk management. MBE's RMF is designed to identify risks, determine the appetite for risk exposure, set limits to help management to keep risk exposure aligned to risk appetite and to monitor, analyse and report the development of risk exposure based on reliable risk assessments and information systems. Risk exposure may also be mitigated by risk transfer to the parent bank (group arrangements regarding capital, funding, liquidity or operational risk). The RMF is governed with Risk Management Policy House and interacts with the Risk Appetite Statement.

MBE Risk Taxonomy includes seven risk types (Level 1 risk), namely strategic, market, balance sheet, credit, operational, integrity and regulatory risk. Overview of Level 1 and Level 2 risk types is presented below:



Risk management

In addition to above risk types, MBE has also identified some emerging risks that will be assessed for potential inclusion into risk taxonomy going forward: climate risk and data risk.

MBE's overall risk exposure is subject to continuous identification, monitoring and mitigation by its day to day risk management. Annually, the adequacy of MBE's capital and liquidity going forward is evaluated considering the development of MBE's risk profile taking into account its strategic plan as well as (expected) market conditions. The adequacy of capital and liquidity is assessed both under normal as well as under stressed conditions.

Risk Appetite
Risk Appetite refers to the type and total amount of risk that MBE is willing to accept within its Risk Capacity in order to fulfil its Business Strategies and Financial Plans. In that context MBE defines Risk Capacity as an aggregated view of the maximum level of risk MBE can assume given its current level of resources before breaching constraints, which are determined by (regulatory) capital and liquidity needs, the operational environment, customers and stakeholders.

At least on an annual basis the Management Board of MBE sets its level of risk it is prepared to accept. This is called the MBE Risk Appetite Statement (here: RAS). The RAS is further specified to the main risk types as defined by the MBE Risk Taxonomy to form an integral part of the RAS. The Risk Appetite statement(s) defined by the Management Board are then translated into a set of risk appetite indicators to further detail the RAS and make it measurable. Risk Appetite statements and indicators are where possible aligned with parent policies, external regulations and SREP decision. Also, indicators are tested against historical observed values, business plan and results of stress testing. The Management Board is responsible for managing the risk appetite cycle, supported by the Risk Management Division; under MBE governance the RAS requires approval by the Supervisory Board. RAS is evaluated and re-aligned with the Strategy and Business Plan of MBE at least annually.

In the reporting period, MBE operated under the following overall Risk Appetite statement:

"MBE's risk appetite is driven by her Client-centric strategy and long term rating ambition. MBE has a moderate appetite for credit risk and interest rate risk, in line with her business model; MBE is risk averse on other risk types. MBE determines here risk appetite conservatively within the constraints of her capital and liquidity capacity."

MBE at no point in time wants to carry a level of risk that would bring MBE even close to risk capacity levels; doing so, would result in triggering the Recovery Plan.

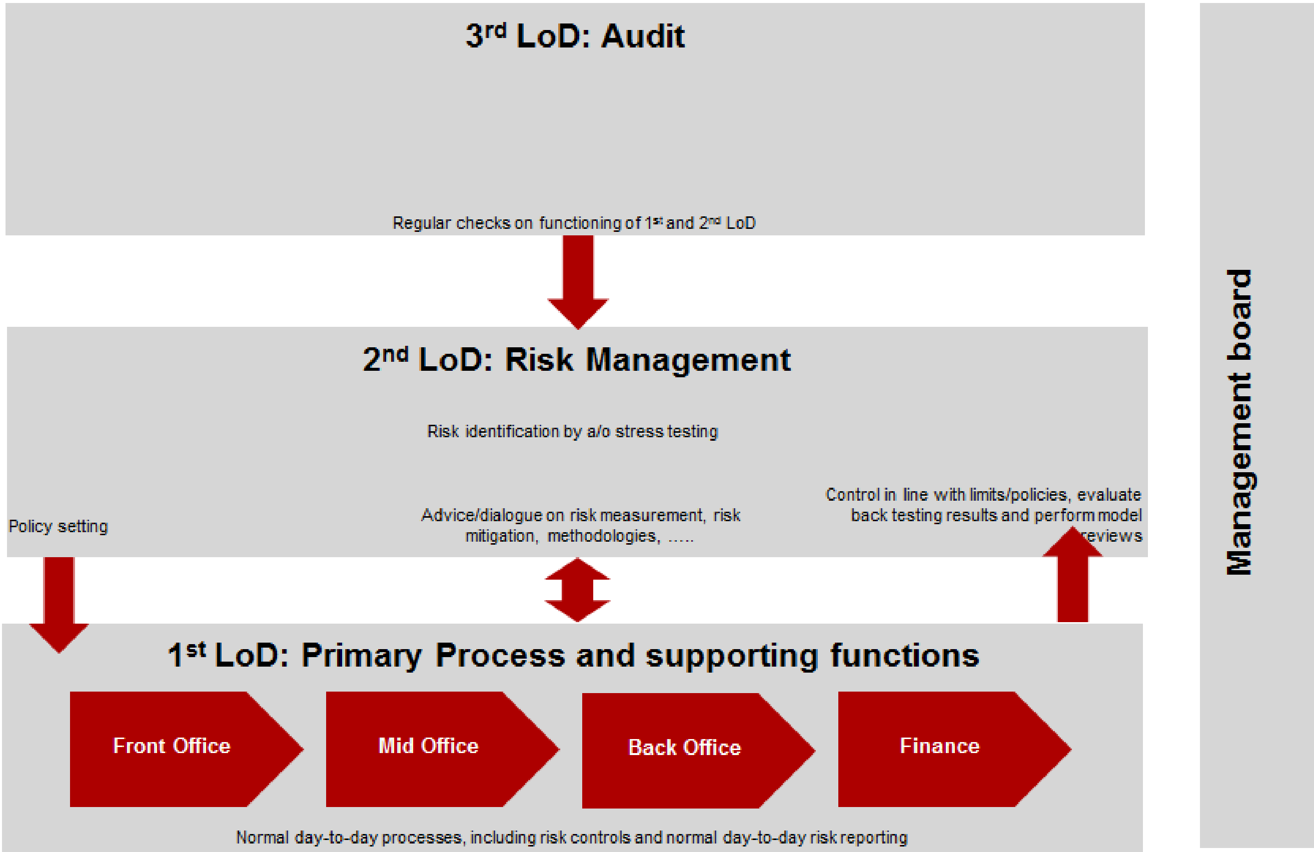
Every month risk appetite indicators actuals are reported to the Risk Management Committee for evaluation. The table below presents how MBE's risk profile compared to the. RAS as per end of FY2020:

Risk type	Assessment
Balance sheet risk	
Capital adequacy	Risk averse position, capital ratios higher than what would be consider optimal
Liqudity	Risk averse position, liquidity position higher than what would be consider optimal
Funding	Risk averse position, within the target range
IRRBB	Risk averse position, within the target range
Credit risk	
Credit portfolio	Risk averse position, within the target range
Concentrations	Acceptable risk, concentrations higher than what would be consider optimal
Market Risk	Risk averse position, within the target range
Operational risk	Acceptable risk, a number of areas need better processes and risk controls
Strategic risk	Outside of appetite, realized loss in FY2020 on back of increased operational costs
Integrity risk	Was not monitored in RAS in FY2019
Regulatory risk	Was not monitored in RAS in FY2019

Risk management

Three Lines of Defence (LoD)

MBE has implemented the 3 Lines of defence model. The 1st LoD executes the normal banking processes and supporting processes within MBE and is responsible for managing risks. The 2nd LoD sets risk policies and controls the implementation in the 1st LoD. Further it identifies risks and advises the 1st LoD on risk topics. The 3rd LoD verifies the proper functioning of the 1st and 2nd LoD. The MB is accountable for the proper functioning of the model and the control over the risks.



1st Line of Defence

The 1st LoD consists of the front-, mid- and back-offices, finance, and the business support areas, which the risks originating from their processes, people, systems and interaction with external parties. They are responsible to secure compliance on a day-to-day basis with MBE's Risk Management Framework (RMF) to ensure that risks are identified, mitigated and managed appropriately in line with MBEs RAS.

2nd Line of Defence

The 2nd LoD provides risk management guidance and policies with independent surveillance and challenge the effectiveness of the 'first line' management to further ensure that risks are identified, assessed, managed, monitored and reported. The 2nd LoD is responsible for the ownership, development and effective implementation of the RMF, policies, methodologies and associated tools, which the business uses to execute their risk related responsibilities under the governance of the Management Board. Whilst some control activities may be undertaken by the second line support areas, there should be a clear segregation within the areas to secure the boundaries between the first and second line activities so that they do not influence each other operationally but must synchronise when required.

Risk management

3rd Line of Defence
IA: Internal Audit (IA) function provides the '3rd line' objective assurance to local senior management and the Management Board on the adequacy and effectiveness of the existing RMF and related practices including the functioning of the 1st and 2nd LoD in coherence. It is also responsible for providing an independent assessment of the key risks MBE is facing and the status of the control environment. The internal audit function reports directly to the Chairman of the Management Board and via the Audit, Compliance and Risk committee to the Supervisory Board.

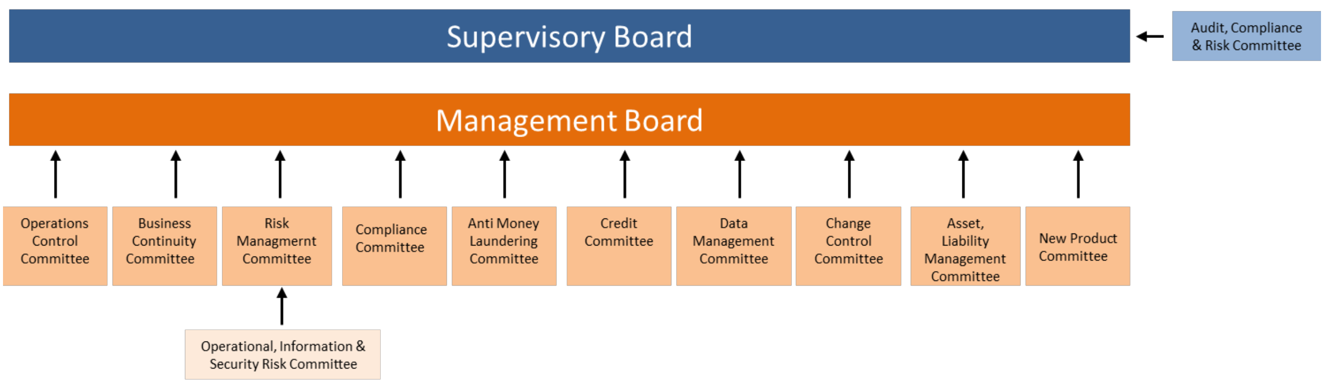
Risk Committees
The Management Board is ultimately responsible for risk management, supported by several risk committees. Below the committee structures of MBE per 31 March 2020.

Risk management, including systems and internal control, is evaluated in committees considering the full risk profile or more dedicated to a specific risk type:

1. Audit, Compliance & Risk Committee (ACR);
2. Risk Management Committee (RMC);
3. Credit Committee (CrC);
4. IT & Operations Control Committee (OCC);
5. Compliance Committee (CC);
6. Data Management Committee.

Encompassing the following dedicated committees:

1. Asset & Liability Management Committee (ALMC);
2. Operational, Information & Security Risk Committee (OISRC);
3. New Product Committee (NPC);
4. Anti-Money Laundering Committee (AMLC);
5. Business Continuity Committee (BCC).



28.2 Credit risk
MBE defines Credit risk as the potential that a borrower in 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 borrower or counterparty, country, transaction structure, collateral mismatch and also credit risk concentrations on various levels.

The business model of MBE is focused on offering corporate banking products and services to Japanese companies (subsidiary banking), global blue chip corporates (including European based multinational corporations, subsidiaries of non-European based multinational corporations known as inbound business

Risk management

and referral business), and financial institutions. In close co-work with and support of the Global Corporate Banking Division for EMEA of MUFG Bank, MBE participates in international syndicated loans both through its office in Amsterdam and its 100%, UK-based subsidiary, MUFG Funding.

Credit risk derived from above mentioned business activities relates to wholesale exposure for various types of loans, commitments, guarantees, trade finance, securitisations and counterparty derivatives contracts. Although the bank's relationship network is actively engaged in originating activities for specialised type of lending with complex transaction structures (i.e. project financing, asset based financing, supply chain financing, leveraged financing, etc.), MBE normally does not hold clean exposure towards these type of risks in its portfolio.

MBE manages its credit risks within the boundaries set by own policies, external regulations as well as (where relevant) internal policies from the MUFG Bank. The bank has in place an internal framework to assess credit quality, grant credit limits, monitor credit risk, manage the credit exposures and achieve earnings commensurate with the risks undertaken by the bank.

To assess the credit risk for each borrower or counterparty the bank uses internal credit rating system of the parent bank, applied by MUFG Bank group-wide, where each credit rating corresponds to a probability that counterparty will not meet contractual obligations (i.e. probability of default - PD). In the credit assessment process MBE uses MUFG Bank global standards, but has in place own independent credit approval authority (i.e. Credit Committee) to ensure borrower or counterparty credit profile meets MBE risk appetite criteria.

Where deemed necessary the credit risk is further mitigated by obtaining various types of collateral, primarily in the form of:

1. guarantees from parent companies for credit limits to their subsidiaries,
2. bank guarantees, mainly from MUFG Bank,
3. pledged, cash deposits,
4. credit insurance,
5. variety of tangible collateral types such as pledges on moveable assets (inventory and trade receivables) or immoveable assets (ship or aircraft).

MBE applies active collateral management and ensures residual risk remains within risk appetite and limits. Quality of collateral impacts assessed asset recovery in case of default, which translates to estimated loss in case of counterparty default (i.e. loss given default - LGD). It is MBE's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, MBE does not occupy repossessed properties for business use.

All obligors have individual credit limits based on their creditworthiness and used banking products. MBE applies credit conversation factors using product types, limits and exposure values to estimate potential credit exposures in case of counterparty default (i.e. exposure at default - EAD).

These credit risk drivers (i.e. PD, LGD and EAD) are used in quantitative measurement of credit risk for internal risk management purpose and portfolio steering, loan pricing and assessment of provisions. For calculation of Pillar 1 capital for credit risk, MBE uses standardised approach defined according to Capital Requirements Regulation.

Country risk (or sovereign, including transfer risk) is managed within framework and centrally managed limits of MUFG Bank. MBE country risk is concentrated in countries where it has a presence (i.e. European Union countries). Credit exposures in higher risk countries are managed within defined risk appetite. Where necessary country risk is mitigated by using cash collateral, or by transferring risk by means of corporate or bank (in particular by MUFG Bank) guarantees.

Risk management

Due to nature of the business model, the bank recognises some concentrations in the credit portfolio. These are actively managed within defined risk appetite levels. Where material, concentrations in the credit portfolio are capitalised under Pillar 2 capital as part of annual ICAAP. For further information on credit risk concentrations, please refer to the sub-chapter below.

On quarterly basis the bank performs internal credit stress testing to provide insight on credit risk in portfolio in case of idiosyncratic events or macroeconomic deterioration. Like other banks, MBE is sensitive to fluctuations in macroeconomic parameters (i.e. GDP). However, due to strong capital positon, conservative capitalization of credit risk and nature of credit portfolio, the bank has proven capable to withstand extreme (yet realistic) scenarios applied.

Counterparty credit risk in derivative financial instruments
Counterparty credit risk is a default risk of a counterparty before the final settlement date of an OTC derivative instrument. MBE determines the exposure value for derivative financial instruments (forward foreign exchange contracts, foreign exchange swaps and interest rate swaps) using the "Marked-to-market" method. Under this method, the exposure value per item is calculated as the sum of the positive current replacement cost and the potential future credit exposure. The current replacement cost is determined on the basis of the current market value of contracts with positive values. The value of potential future credit exposure is based, regardless of whether the current replacement cost is positive or negative, on the total of the notional principal amounts or on the underlying values, as appropriate, multiplied by the percentages given in table below:

Residual Maturity	Interest rate contracts	Contracts concerning foreign exchange rates
< 1 Year	0%	1.0%
Between 1 and 5 years	0.5%	5.0%
Over 5 years	1.5%	7.5%

Credit-related commitment risks
MBE makes guarantees available to its customers that may require MBE to make payments and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit MBE to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose MBE to similar risks as to loans and are mitigated by the same control processes and policies.

Commitments and guarantees
To meet the financial needs of customers, MBE enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of MBE.

Please see Note 25 for detailed information on the balance of contingent liabilities and commitments. The table in Note 25 shows MBE's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount MBE could have to pay if the guarantee is called on. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the balance sheet.

Risk concentrations
MBE defines concentration risk as any single (direct and/or indirect) exposure or group of exposures with the potential to produce losses, impacting bank's capital, liquidity and/or earnings, that may threaten bank's health, ability to maintain core operations or materially change bank's risk profile. With respect to Credit Risk, Concentration Risk arises from large (possibly connected) individual exposures and significant exposures to

Risk management

groups of counterparts whose likelihood of default is driven by common underlying factors, such as economic sector, geographic locations, mitigation measure or product.

The bank assesses how it is exposed to Credit Risk Concentrations by means of qualitative and quantitative analyses. On at least annual basis credit risk concentrations are assessed for inherit and residual risk. The outcome of the assessment is used in setting risk tolerances and appetite levels per credit risk concentration type, and included in the MBE Risk Appetite Statement. The level of concentration risk is measured and compared against risk appetite levels by means of relevant risk metrics.

Credit concentrations are managed by business units that are responsible for the credit risk. They must also ensure adequate risk control are in place at all times to remain within set appetite levels. On periodic basis 2nd LoD assesses that risk limits and controls are adequate to remain within risk appetite levels.

MBE is actively managing risk deriving from credit risk concentrations. Main risk mitigation is financial guarantees and/or pledged cash deposits from our parent bank. The bank monitors the market value of collateral and when relevant, requests additional collateral in accordance with the underlying credit agreements.

MBE also makes use of master pooling agreements with counterparties with whom a significant volume of transactions is undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master pooling arrangements do not normally result in an offset of balance-sheet assets and liabilities unless certain conditions for offsetting under IAS 32 apply. Although master pooling arrangements may significantly reduce credit risk, it should be noted that:

1. credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are released; and
2. the extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.
   The following tables shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives, by industry and by geographical region before the effect of mitigation through the use of master pooling and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Additional notes to the Consolidated Financial Statements

Risk management

Risk concentration: by industry sector

in millions of €s 2020 Financial assets	Oil & gas	Banks	Capital goods	Automotive	Transport & Logistics	Chemicals	Others*	Total
Cash and balances with central banks	-	904	-	-	-	-	-	904
	-	904	-	-	-	-	-	904
Placements with banks - on demand	-	2,291	-	-	-	-	-	2,291
Placements with banks - term deposits	-	658	-	-	-	-	-	658
Loans and advances to banks	-	853	-	-	-	-	-	853
	-	3,802	-	-	-	-	-	3,802
Derivative financial instruments	-	37	1	0	0	7	9	54
Loans and advances to customers	591	425	771	1,201	963	525	5,233	9,709
Financial investments	-	165	-	-	-	-	-	165
Other assets	0	19	- 0	1	0	0	12	32
	591	5,352	773	1,202	963	532	5,254	14,665

2019 Financial Assets	Oil & gas	Banks	Capital goods	Automotive	Transport & Logistics	Chemicals	Others*	Total
Cash and balances with central banks	-	1,864	-	-	-	-	-	1,864
	-	1,864	-	-	-	-	-	1,864
Placements with banks on demand	-	3,061	-	-	-	-	-	3,061
Fund placements	-	702	-	-	-	-	0	702
Loans and advances to banks	-	1,102	-	-	-	-	-	1,102
	-	4,865	-	-	-	-	0	4,865
Derivative financial instruments	-	44	-	-	-	-	-	44
Loans and advances to customers	487	259	1,096	1,348	1,022	619	4,740	9,570
Financial investments	-	-	-	-	-	-	60	60
Other assets	3	1	1	2	2	1	26	35
	491	7,033	1,097	1,350	1,023	619	4,826	16,440

*Others include exposures to the following major industries Media, Agriculture and Fishing, Real Estate and Food and Beverages which are not presented separately as the exposure is not considered to be material.

Risk management

Risk concentration: by geographical area

in millions of €s							
2020 Financial assets	Netherlands	Other EU	USA	Switzerland	Japan*	Other	Total
Cash and balances with central banks	574	331	-	-	-	-	904
	574	331	-	-	-	-	904
Due from banks							
Placements with banks - on demand	-	2,061	9	9	204	8	2,291
Placements with banks - term deposits	0	653	-	-	-	5	658
Loans and advances to banks	-	853	-	-	-	-	853
	0	3,567	9	9	204	13	3,802
Derivative financial instruments	16	38	-	-	-	-	54
Loans and advances to customers	2,171	6,349	516	298	32	341	9,709
Financial instruments	-	165	-	-	-	-	165
Other assets	33	- 2	0	0	0	0	32
	2,794	10,448	525	308	236	354	14,665
2019 Financial Assets	Netherlands	Other EU	USA	Switzerland	Japan*	Other	Total
Cash and balances with central banks	1,748	116	-	-	-	-	1,864
	1,748	116	-	-	-	-	1,864
Due from banks							
Current accounts	-	2,974	10	4	67	6	3,061
Fund placements	-	698	-	-	-	4	702
Loans and advances to banks	-	1,102	-	-	-	-	1,102
	-	4,774	10	4	67	10	4,865
Derivative financial instruments	4	40	-	-	-	-	44
Loans and advances to customers	2,125	5,989	476	238	603	140	9,571
Financial instruments	-	60	-	-	-	-	60
Other assets	4	12	0	0	0	19	36
	3,881	10,991	486	242	670	169	16,440

*Given the nature of our banking activities the ultimate exposure to Japan can considered to be higher than presented in the table above as a significant portion of our clients have their parent's headquarter in Japan. For presentation purposes we considered the country of residence of our clients only.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and risk appetite defined in the Risk Appetite Statement.

Credit quality by class of financial assets
The credit quality of financial assets is managed by MBE using a 15-grade, internal credit rating system of the parent bank, which is applied MUFG Bank group-wide. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on MBE's internal credit rating system. Grades 8.3, 9 and 10 are considered to be individually impaired. The amounts presented are gross of impairment allowances.

Additional notes to the Consolidated Financial Statements

Risk management

<table>
<tr><th>Credit Quality Step (*) (CQS)</th><th>Meaning of the rating category</th><th>MBE Ratings</th><th colspan="2">Status</th><th>S&P Credit Rating equivalent as an example</th></tr>
<tr><td>1</td><td>The rated entity has extremely/very strong capacity to meet its financial commitments and is subject to minimal/ very low credit risk.</td><td>1</td><td rowspan="11" colspan="2">Performing</td><td>AAA - / AA-</td></tr>
<tr><td>2</td><td>The rated entity has strong capacity to meet its financial commitments and is subject to low credit risk but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than rated entities in CQS 1.</td><td>2</td><td>A+ / A-</td></tr>
<tr><td>3</td><td>The rated entity has adequate capacity to meet its financial commitments and is subject to moderate credit risk. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the rated entity to meet its financial commitments.</td><td>3</td><td>BBB+ / BBB-</td></tr>
<tr><td rowspan="3">4</td><td rowspan="3">The rated entity has the capacity to meet its financial commitments but is subject to substantial credit risk. It faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the rated entity's inadequate capacity to meet its financial commitments.</td><td>4</td><td>BB+</td></tr>
<tr><td>5-1</td><td>BB</td></tr>
<tr><td>5-2</td><td>BB-</td></tr>
<tr><td rowspan="3">5</td><td rowspan="3">The rated entity has the capacity to meet its financial commitments but is subject to high credit risk. Adverse business, financial, or economic conditions will likely impair the rated entity's capacity or willingness to meet its financial commitments.</td><td>6-1</td><td>B+</td></tr>
<tr><td>6-2</td><td>B</td></tr>
<tr><td>7</td><td>B-</td></tr>
<tr><td rowspan="6">6</td><td rowspan="6">The rated entity is currently vulnerable or highly vulnerable and is subject to very high credit risk, including in or very near to default. It is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.</td><td>8-1</td><td rowspan="2" colspan="2">Watch List</td><td>CCC</td></tr>
<tr><td>8-2</td><td>CC / C</td></tr>
<tr><td>8-3</td><td rowspan="2">Likely to become bankrupt</td><td rowspan="4">NPE</td><td rowspan="4">D</td></tr>
<tr><td>9</td></tr>
<tr><td>10-1</td><td>Considered to be virtually bankrupt</td></tr>
<tr><td>10-2</td><td>Legally bankrupt</td></tr>
</table>

Risk management

in millions of €s	Credit quality					
2020 Financial assets	Normal	Close watch	Likely to become bankrupt	Bankrupt or virtually bankrupt	Total	ECL
Cash and balances with central banks	904	-	-	-	904	
Loans and advances to banks	3,802	-	-	-	3,802	0
Derivative financial assets	54	0	-	-	54	
Loans and advances to customers	9,205	402	101	-	9,709	- 105
	13,965	402	101	-	14,468	- 105
Financial instruments	165	-	-	-	165	-
Other assets	32	0	0	-	32	-
Total	14,162	402	101	-	14,665	- 105

in millions of €s	Credit quality					
2019 Financial assets	Normal	Close watch	Likely to become bankrupt	Bankrupt or virtually bankrupt	Total	ECL
Cash and balances with central banks	1,864	-	-	-	1,864	-
Loans and advances to banks	4,865	-	-	-	4,865	-
Derivative financial assets	44	0	-	-	44	-
Loans and advances to customers	9,233	247	90	-	9,571	82
	16,007	247	90	-	16,344	82
Financial instruments	60	-	-	-	60	-
Other assets	36	-	-	-	36	-
Total	16,103	247	90	-	16,441	82

Credit risk exposure for each internal credit risk rating

It is MBE's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are derived in accordance with MUFG rating policy and procedures. The following table provides detailed information on the credit risk for each internal credit risk rating.

Additional notes to the Consolidated Financial Statements

Risk management

Balance sheet items

in millions of €s	2020			2019		
Balance sheet items	Gross carrying amounts	Net carrying amounts	ECL	Gross carrying amounts	Net carrying amounts	ECL
Normal						
1	1,303	1,303	-	2,140	2,140	-
2	5,099	5,099	-	6,193	6,193	-
3	3,473	3,472	1	3,338	3,338	-
4	2,194	2,193	1	1,776	1,776	-
5-1	957	957	-	1,184	1,184	-
5-2	387	387	-	502	502	-
6-1	317	317	-	277	277	-
6-2	78	78	-	122	122	-
7	304	353	1	494	493	1
Total 1-7	14,112	14,159	3	16,025	16,024	1
Close watch						
8-1	211	210	1	177	176	1
8-2	191	189	2	70	68	2
Total 8	402	399	3	247	244	3
Likely to become bankrupt						
8-3	101	52	49	125	74	51
9	0	0	-	43	16	27
Total 9	101	52	49	168	89	78
Bankrupt or virtually bankrupt						
10-1	-	-	-	-	-	-
10-2*	50	-	50	-	-	-
Total 10	50	-	50	-	-	-
Total outstanding balance by risk class	14,665	14,610	105	16,440	16,358	82

Risk management

Off-balance facilities

in millions of €s	2020		2019	
Off-balance facilities	Carrying amounts	ECL	Carrying amounts	ECL
Normal				
1	332	-	448	-
2	1,572	-	1,653	-
3	6,634	1	5,965	-
4	1,550	-	1,217	-
5-1	383	-	542	-
5-2	277	-	568	-
6-1	166	-	160	-
6-2	19	-	40	-
7	46	1	63	-
Total 1-7	10,978	2	10,655	-
Close watch				
8-1	8	1	6	-
8-2	56	1	30	1
Total 8	64	2	36	1
Likely to become bankrupt				
8-3	-	1	2	1
9	3	-	9	1
Total 9	3	1	11	2
Bankrupt or virtually bankrupt				
10-1	-	-	-	-
10-2*	30	23	-	-
Total 10	30	23	-	-
Total outstanding balance by risk class	11,075	28	10,702	3

Credit risk exposure by internal risk class expressed in S&P rating equivalents

Please see Note 4 for more detailed information with respect to the allowance for expected credit losses on loans and advances to customers.

Collateral repossessed

During the 12 month period, MBE took no possession of any collateral at balance sheet date nor in the previous year.

Impairment assessment

MBE aims to maintain sufficient level of reserves to cover its incurred losses. For accounting purposes MBE recognises a loss allowance for expected credit losses on financial assets and loans measured at either amortised cost or fair value through other comprehensive income (FVOCI)) based on IFRS 9.

In Note 1 Accounting Policies for the Consolidated Financial Statements, expected credit loss approach is further elaborated. As of 31 March 2020, the breakdown of individually and collectively assessed expected credit losses for loans, cash and non-cash loans is as follows:

Risk management

	2020			
Expected credit loss	Stage 1	Stage 2	Stage 3	Total
Loan and advances to banks				
Opening balance	66	-	-	66
Net expected credit loss allowances	114	-	-	114
Closing balance	180	-	-	180
Loans and advances to customers				
Opening balance	1,650	1,815	78,263	81,728
Write off expenses	-	-	-15,781	-15,781
Net expected credit loss allowances	361	1,433	37,339	39,133
Closing balance	2,011	3,248	99,822	105,081
Off-Balance facilities				
Opening balance	679	1,335	1,242	3,256
Net expected credit loss allowances	1,512	218	22,388	24,119
Closing balance	2,191	1,553	23,630	27,375
Total expected credit loss allowances at closing balance	4,382	4,801	123,451	132,635

	2019			
Expected credit loss	Stage 1	Stage 2	Stage 3	Total
Loan and advances to banks				
Opening balance	18	-	-	18
Addition due to new branches	40	3	-	43
Net expected credit loss allowances	8	- 3	-	5
Closing balance	66	-	-	66
Loans and advances to customers				
Opening balance	928	2,045	-	2,973
Addition due to new branches	776	2,295	51,057	54,128
Net expected credit loss allowances	-54	-2,525	27,206	24,627
Closing balance	1,650	1,815	78,263	81,728
Off-Balance facilities				
Opening balance	183	247	63	493
Addition due to new branches	536	1,366	1,535	3,437
Net expected credit loss allowances	-40	-278	-356	-674
Closing balance	679	1,335	1,242	3,256
Total expected credit loss allowances at closing balance	2,395	3,150	79,505	85,050

ECL calculations

MBE calculates loan loss provisions in accordance with IFRS 9 requirements. The bank uses internal risk models to calculate monthly ECL amount for all exposures in scope of provisioning. For IFRS 9 purpose MBE considers credit portfolio to be homogeneous and uses one factor (i.e. EU GDP) PD model to estimate borrower or counterparty credit risk and the Expected Credit Loss (ECL). The PD model is a "point in time" model, which means it gives an estimate of current weighted PD based on current expectation of the economic state for the upcoming 3 year period, using three scenarios (base, up and down). Macroeconomic forecasts are prepared and updated semiannually by independent economic team within MUFG Bank, and approved by the Risk Management Committee. LGD and EAD models are static due to the nature of most of our collateral received and not sensitive to macroeconomic factors.

The approach impacts the volatility of provisions as a change in expected macroeconomic environment directly impacts the provision calculation via PD curves movement and asset classification into one of three stages. In

Stage 1 credit exposures are recognised with no significant deterioration in credit quality since initial recognition. Provisions are calculated based on a 12 month expected loss, using PD, LGD and EAD values specific to each transaction. In Stage 2 performing credit exposures are recognised where significant deterioration in credit quality since initial recognition has been identified. Provisions are calculated based on a lifetime expected loss, using PD, LGD and EAD values specific to each transaction. In Stage 3 non-performing credit exposures are recognised. Individual provision for each non-performing transaction is calculated based on weighted discounted cash flow of estimated recovery amount under different scenarios.

Assets can be transferred from one stage to another stage during its lifetime according to the change in credit quality (whether there is evidence of a significant increase in credit risk) since initial recognition. Definitions of the three stages and what MBE considers a significant increase of credit risk and what is considered as default are disclosed in section "Accounting Policies for the consolidated financial statements and Profit or Loss".

Past due assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Loans that are past due are monitored closely and a financial asset is, among others, considered to be defaulted if 90 days have passed since its repayment date (i.e. past due starts on the 91st day).

28.3 Balance Sheet Risk
Balance sheet risk is the risk inherent to the structure of the balance sheet. This includes risks arising from mismatches in own funding and liquidity, maintaining capital adequacy, interest mismatch position and translation of assets and liabilities held in another currency. MBE defines four categories of balance sheet risk, as follows:

1. **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.
2. **Capital risk:** the current and prospective risk that MBE cannot comply with appropriate level of capital balances (including risks associated with equity investments) without: a) hindering or limiting its operations (at high costs), and/or b) reputational damage.
3. **Interest rate risk (in the banking book):** the current or prospective risk to both the earnings and economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, basis risk, and option risk.
4. **Translation risk:** the risk that MBE's equity, assets, liabilities or income will change in value as a result of exchange rate changes. This occurs when a firm denominates a portion of its equities, assets, liabilities or income in a foreign currency.

Funding liquidity risk management
Funding liquidity risk is the risk of incurring losses if a poor financial position hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal. Liquidity risk is managed in compliance with the MUFG Bank's Balance Sheet Risk Management Policy, and liquidity risk procedures and control framework. MBE's liquidity risk, interest rate risk and investment portfolio are evaluated by the ALMC. Daily and weekly monitoring of positions and/or limits and execution of periodical stress tests are performed by Risk Management Division.

Diversification of funding sources
MBE maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. MBE's main funding source comprises its core deposit base as evidenced by a loan to deposit ratio of 106.51% as at 31 March 2020 (2019: 119.11%).

Risk management

Funding Source	As of 31 March 2020	
	Amount (mn. €)	%
Current Accounts	5,609	45%
Time Deposits Banks Inter-Group	5,881	48%
Time Deposits Corporates	824	7%
Time Deposits Banks	25	0%
Total	12,340	100%

Additional funding is available from one of MUFG Bank global centres where treasury activities are regionally centralised. Furthermore, MBE's bond investment portfolio represents high quality collateral, which could be used to secure additional funding if required. MBE's liquidity position is managed by Treasury Division, which is mindful of expected future cash flows and liquidity and is independently monitored/reported on a daily basis by the Treasury Back Office and the Risk Management Division. Funding concentration risk is closely monitored and monthly reported to the ALMC.

Contingency funding and liquidity

Funding liquidity risk is centrally managed by MUFG Bank with a hub and spoke funding structure. Main hubs and Risk Management Divisions are located in Tokyo, New York, Hong Kong, Singapore and London, the latter being responsible for EMEA region. MUFG Bank has set 3 main liquidity stages: Normal, Concern and Crisis with according actions to which MBE must adhere to. The Normal stage is further subdivided into 3 sub-stages: ordinary, pre-caution and caution.

MUFG Bank, providing unlimited liquidity support, is MBE's main source for contingency funding. MUFG Bank was proven to be sound and resilient during the liquidity crisis back in 2008.

As local funding contingency MBE maintains sufficient liquidity and funding buffers which allows MBE to report the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) well above the regulatory required minimum.

Interest rate risk in the banking book (IRRBB)

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates from positions booked in the banking book. The Supervisory Board has setup Risk Appetite for the IRRBB which is expressed through four metrics: outlier criterion (supervisory outlier test), present value of a basis point, Delta Economic Value of Equity and Delta Net Interest Income. In addition, MBE reports a separate metric to Tokyo's headquarters which is a repricing gap that is scaled down to a 3 month equivalent, multiplied by correlation factors.

In accordance with MBE's policy, IRRBB positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established appetite.

Only a monthly basis, MBE reports the following four risk appetite Indicators for IRRBB which are aligned with EBA guidelines on the management of interest rate risk arising from non-trading activities.

Risk management

Risk Appetite Indicator	Description
Outlier Criterion (Supervisory Stress Test)	Impact on EVE of a sudden parallel +/- 200 basis point shift in the yield curve
Present Value of a Basis Point (PV01)	Measurement of the absolute change of the equity value resulting from a 1 basis point (0.01%) parallel shift in the yield curve
Delta Net Interest Income (NII)	Measurement of the change of the net interest income over a two-year time horizon resulting from a sudden or gradual interest rate movement
Delta Economic Value of Equity (EVE)	Calculation of the impact on EVE of interest rate shocks prescribed by EBA

MBE's sensitivity to changes in interest rates is a measure of the sensitivities of its asset and liability mismatches to interest rate changes. The sensitivities include assumptions for product like in the case of current accounts. MBE calculates these measures as the change in the present value of its asset and liability portfolios resulting from an immediate and sustained interest rate shocks. The following table provides a sensitivity analysis of interest rate risk in relation to equity by currency for those currencies where the bank has material exposure. The calculation of the Economic Value of Equity (EVE) analysis as per 31 March 2020 shows that, in total an increase of 200 bp leads to an increase in € 55.403 of economic value of equity and a decrease of 200 bp leads to decrease of € (28.189) of economic value of equity.

	2020	
Interest rate sensitivity	Increase/(decrease) in basis points	Sensitivity of equity
in € million		
MBE (EVE)	200/(200)	55.403 / (28.189)
Currency		
EUR	200/(200)	2.205 / (22.215)
USD	200/(200)	3.898 / (1.974)
GBP	200/(200)	5.469 / (0.570)
PLN	200/(200)	(0.165)/ (3.326)
CZK	200/(200)	(0.008)/ (0.002)
JPY	200/(200)	7.874 / -
Others	200/(200)	(0.088)/ -

Analysis of financial assets & liabilities by remaining contractual maturity

The tables below summarises the maturity profile of MBE's financial assets and liabilities as at 31 March 2020. Trading derivatives, if any, are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations. Gross settled, non-trading derivatives are shown separately, by contractual maturity at the foot of the note.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, MBE expects that many customers will not request repayment on the earliest date MBE could be required to pay and the table does not reflect the expected cash flows indicated by MBE's deposit retention history.

Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket.

Additional notes to the Consolidated Financial Statements

Risk management

Financial assets and liabilities by remaining contractual maturity

in millions of €s	2020					
Maturity analysis	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	830	74	-	-	-	904
Loans and advances to banks	2,284	587	188	690	53	3,802
Loans and advances to customers	467	3,325	1,046	3,838	1,033	9,709
Derivatives	78	-17	-1	-5	-	55
Financial investments	-	165	-	-	-	165
Total assets	3,659	4,134	1,233	4,523	1,086	14,635
Liabilities						
Due to banks & subordinated debt	71	1,652	1,414	2,430	710	6,277
Due to customers	5,549	598	79	136	-	6,362
Derivatives	76	-17	-	-	-	59
Total liabilities	5,696	2,233	1,493	2,566	710	12,698
Net	-2,037	1,901	-260	1,957	376	1,937

in millions of €s	2019					
Maturity analysis	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	1,827	37		-	-	1,864
Loans and advances to banks	3,067	613	403	694	88	4,865
Loans and advances to customers	253	2,828	896	4,639	955	9,571
Total assets	5,147	3,478	1,299	5,333	1,043	16,300
Liabilities						
Due to banks & subordinated debt	49	1,479	1,097	2,527	330	5,482
Due to customers	7,527	1,210	0	0	-	8,737
Total liabilities	7,576	2,689	1,098	2,527	330	14,220
Net	-2,429	789	201	2,806	713	2,080

The table below shows the contractual expiry by maturity of MBE's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Risk management

Contingent liabilities & commitments by contractual maturity

	2020					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	34	119	594	495	431	1,675
Letters of credit	1	4	1	-	-	6
Undrawn commitments to lend	147	17	2,912	6,287	38	9,400
Total guarantees & commitments	182	140	3,507	6,782	469	11,080

	2019					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	3	1	7	-	-	11
Letters of credit	141	109	632	516	509	1,908
Undrawn commitments to lend	93	144	1,078	7,113	354	8,782
Total guarantees & commitments	238	254	1,717	7,629	864	10,701

Regarding MBE’s ability to cope with unexpected utilisation of these contingent liabilities or commitments, MBE has historical peak drawdown assumptions incorporated in its liquidity stress test scenarios.

28.4 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.

1. Foreign exchange risk (or currency risk): is the risk of loss resulting from an adverse movement in foreign exchange rates resulting from open positions in FX contracts. From MBE’s FX sales services to our customer open positions arise. These are normally hedged; however frictional positions from an operational efficiency point of view may remain with MBE.
2. Market liquidity risk: is the risk that a position cannot be easily unwound or offset at short notice without significantly influencing the market price because of inadequate market depth or market disruption. Additionally, it is the risk that funding of new client business may not be achievable in the market.
3. Interest rate risk: is the risk arising from changes in the market-driven interest rates used to value fixed income securities held in MBE’s portfolio. Interest rate risk includes risks arising from the change in the absolute level of interest rates, a change in the spread between two rates, a change in the shape of the yield curve, or a change in any other interest rate relationship that will affect the value of the security. Interest Rate Risk under the Market Risk Policy is intended to cover interest rate risk in the (potential) trading book; interest rate risk in the banking book (IRRBB) is covered under EBA guidelines.
4. Asset and/or credit risk: is the market value of counterparty credit spread risk arising from positions measured at fair value. This risk arises from movements in credit spreads of the contracting parties, compounded by changes to the value or variability in the value of the underlying of the derivative transaction. It is the risk of incurring losses from the default of issuers of tradable debt or equity instruments (such as bonds or shares); the default risk is the potential loss arising from a financial transaction should the business partner not fulfill their contractual obligations either due to specific, economic, or political reasons.

Pursuant to MBE's strategy, the policy is to minimise market risks. Therefore MBE does not have trading activity and minimises foreign exchange positions. Market transactions are limited to money market balance sheet

Risk management

funding operations, customer-driven foreign exchange cover transactions and bond investments, all deriving from and managed within the banking book. Consequently, no trading book is kept by MBE and therefore MBE is not exposed to material price risk.

MBE's bond investment portfolio is composed of bonds and bills issued by sovereigns and supranationals, typically with high credit ratings and shorter duration. The size of the portfolio is limited to the capital and reserves and is pledged to secure any borrowings under credit facility agreements with the Dutch, Czech and Polish central banks.

Most of MBE's derivative transactions relate to legacy transaction with customers which are normally offset by transactions with other (market) counterparties.

The risks are mitigated by strict quantitative limits, which are reviewed semi-annually, and effective segregation between 1st line and 2nd line of defence responsibilities; the risks are tracked and controlled on an ongoing basis to ensure they are within predefined limits.

End of day foreign currency and interest rate position reports are prepared by Treasury Division, the Back Office and Risk Management Division and reported to management. Monthly position reports are submitted to the ALMC for review.

MBE is not active in securities investments. Pursuant to MBE's investment policy, securities investments are limited to Dutch government bonds, European Investment Bank Floating Rate Notes and Foreign Government bonds, constrained to investing MBE's capital and reserves and are pledged to secure any borrowings under credit facility agreements with the Dutch, Czech and Polish central banks.

Foreign exchange (or currency) risk

Foreign exchange (or currency) risk may arise from adverse movements in currency exchange rates. MBE is a so-called "Non-Limit-Granted Unit" which means that the bank keeps FX positions within relatively narrow limits (of$ 0,5 million and $ 1,0 million 3 months equivalent respectively for FX spot and FX forwards). As a result the bank is not exposed to any material foreign currency risk. Limits frameworks are in place to facilitate daily management of currency positions and forward transactions and currency time options. In accordance with MBE's policy, positions are monitored on a daily basis by 1st line and 2nd line of defence and reported to the ALMC for review; hedging strategies are used to ensure positions are maintained within established limits. .

in millions of €s	2020			2019		
Currency	Total assets	Total liabilities	Position	Total assets	Total liabilities	Position
EUR	9,856	-8,025	1,831	12,444	-10,587	1,857
CZK	103	-103	-0	327	-337	-10
PLN	910	-906	4	784	-784	-0
USD	2,777	-2,777	-1	4,224	-4,226	-2
GBP	327	-327	0	659	-653	6
JPY	598	-598	-0	723	-724	-1
Other	127	-127	0	213	-213	0
Total	14,697	-12,863	1,834	19,374	-17,525	1,849

Risk management

Currency sensitivity

	2020		2019	
Currency	Increase	Decrease	Increase	Decrease
EUR	183	- 183	186	- 186
CZK	-	-	- 1	1
PLN	-	-	- 0	0
USD	-	-	- 0	0
GBP	-	-	1	- 1
JPY	-	-	- 0	0
Others	-	-	0	- 0
Total	183	- 183	185	- 185

(Traded) Interest rate risk

MBE does not maintain a trading book that can expose it to (traded) interest rate risk. The only material interest rate risk resides in the banking book which is described earlier in this section.

28.5 Operational risk

Operational risk refers to the risk of loss caused by 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.

Based on the Head Office risk categorisation, MBE has developed an operational risk categorisation with nine operational risk types, which constitute the Operational Risk Taxonomy. The Taxonomy may change as emerging or new risks are recognised.

MBE defines nine types of operational risk:

- **HR risk**: the risk of sustaining a loss due to a loss of human resources or degradation of morale.
- **Systems risk:** the risk of sustaining a loss or disruption to business operation, loss of key systems, data and infrastructure as a result inadequate security measures, technology and system inadequacy; and inability to recover from failures.
- **Information security risk:** the risk of sustaining a loss, and related risk, caused by information loss, unauthorised alteration, misuse, leakage, destruction, suspension, malfunction, misuse, and other events.
- **Legal/tax/accounting risk**: the risk of sustaining a loss due to inadequate or deficient legal documentation and incorrect tax or financial reporting.
- **Crisis management risk:** the risk of sustaining a loss due to unavailability of staff, systems and/or business premises due to unforeseen events (e.g. natural disaster, major infrastructure outage, terrorism) leading to inability to conduct business.
- **Vendor/outsourcing risk:** the risk of loss to Bank due to failure of or incidents caused by (including intragroup) outsourced providers and vendors.
- **Change/project risk:** the risk of loss arising from project/change activities with impact on business processes, resources or systems, which may prevent the business from meeting objectives.
- **Model risk**: the risk of sustaining a loss, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such model.
- **Operations risk**: the risk of incurring loss that might be caused by operational processing not being properly executed either through negligence or misconduct whether intentional or otherwise. The operational risk MBE is exposed to (including IT risk and information asset risk) is mitigated by a MUFG group-wide risk management control system that includes incidents registration, loss data collection, control self-assessment

(Global-CSA) and periodical Operational Risk Assessments (ORA), TRS updates; IT risks and information security risks through an extensive Self Inspection (SI) program.

The operational risk MBE is exposed to (including IT risk and information asset risk) is mitigated by a MUFG group-wide risk management control system that includes incidents registration, loss data collection, control self-assessment (Global-CSA) and periodical Operational Risk Assessments (ORA), TRS updates; IT risks and information security risks through an extensive Self Inspection (SI) program.

Operational risk is managed by written workflows, business process manuals and internal control measures. Within the framework of the MUFG bank-wide compliance with the Basel framework regarding operational risk, a web-based, operational risk loss database ('CORE') has been set up by MUFG, which is also used by MBE.

In the final quarter of the financial year, MBE was confronted with the worldwide outbreak of Covid-19. Crisis and related uncertainties continued also into the first quarter of new financial year, impacting MBE from an operational risk perspective. The pressure on resources and the IT infrastructure increased with offices closed and people working from home, which means that the operational risk profile has increased compared to previous reporting period. MBE has taken steps to mitigate the risk by putting in place a solid crisis management organisation, close monitoring and managing the situation in alignment with MUFG headquarters. Efforts on remote IT infrastructure have been accelerated to ensure continuation of critical operations and enable staff members to work from home or alternative office locations. Parallel to this, additional controls have been implemented to monitor IT and cyber risks. Employees' physical and mental health, as well as safety and well-being have continuously been one of MBE's top priorities.

28.6 Compliance and integrity risk

MUFG has established Principles of Ethics and Conduct as the guidelines for how the Group's directors and employees act to realise the Corporate Vision, in which MUFG has expressed its commitment to complying with laws and regulations, to acting with honesty and integrity, and to behaving in a manner that supports and strengthens the trust and confidence of society.

MBE recognises compliance and integrity as number one value as it is MUFG's mission to be the world's most trusted financial group. Compliance is therefore a high priority in the control systems of MBE.

MBE defines compliance and integrity risk as follows: The risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities.

In close consultation with the parent bank, the Management Board has paid attention to enhance an appropriate and effective compliance structure aiming at sound and appropriate business management and to maintain customer confidence. MUFG Bank group-wide Compliance Quality Improvement Programs for both the Financial Crime area and for Core Compliance.

The Chief Compliance Officer reports monthly to the Compliance Committee (CC), in which the full Management Board participates, on compliance issues and to the regional and global compliance offices of the parent bank located in London and Tokyo respectively.

28.7 Capital risk

The objective of MBE's capital management is to maintain healthy capital ratios aligned to business strategy and risk appetite and observing regulatory requirements in order to support its business expansion and contribute to shareholder's value. The minimum capital requirements under the European Capital Requirements Directive, based on the Basel Capital Accords framework and implemented in local laws for Financial Supervision (Wft) (CRD IV/CRR) are based on three pillars:

Risk management

- Pillar 1 capital calculated based on Standardised Approach (SA), Marked to Market (MtM) and Basic Indicator Approach (BIA) as specified in banking regulation to cover unexpected losses arising from credit, market and operational risk.
- Pillar 2 capital needed according to MBE's internal view, also including capital buffers to cover unexpected losses that may arise from risks not included in Pillar 1 calculations.
- Pillar 3 regards disclosure requirements promoting transparency to stakeholders and market discipline.

Current capital requirements compare total capital and Common Equity Tier 1 (CET1) capital with the total *risk exposure* amount (TREA, previously referred to as RWA: risk-weighted assets), including the off-balance sheet credit risk exposure arising from commitments and undrawn credit facilities. The minimum pillar I legal requirement for the total capital ratio is 8% of risk-weighted assets. The CRR also introduced a *non-risk based* capital ratio in 2013, the leverage ratio, to be further refined, calibrated and publicly disclosed as of 2016, before becoming a binding measure as of 2018. The minimum legal requirement for the leverage ratio is 3%.

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 the shareholder, return capital to the shareholder or issue capital securities. No changes have been made in the objectives, policies and processes from the previous years.

Capital available

MBE's capital consists of Common Equity Tier 1 (CET1) capital (also referred to as 'going concern' capital) and Tier 2 capital (Subordinated debt). After adjustment in order to calculate the capital ratio according to banking regulations the breakdown is as follows:

Capital requirements	2020	2019
in thousands of €s		
Common Equity Tier 1 capital		
Original Own funds:		
Issued capital	100,003	100,003
Share premium	1,334,304	1,334,304
Retained earnings	421,881	432,043
Result for the year	-64,446	-10,162
Capital requirements		
Common Equity Tier 2 capital		
Subordinated debt	300,000	300,000
Capital requirements		
Regulatory adjustments		
Revaluation reserve of financial investments	-	-
IAS 19R Pension adjustment	-	-
Other Intangible assets	-13,991	-11,877
Prudential filter	-277	-159
Defined benefit pension fund assets	-	-
Accumulated other comprehensive income	-7,674	-7,329
Non controlling interest	31	-
Total regulatory adjustments	2,069,831	2,136,823
Dividend proposed	-	-
Total capital after dividend proposed	2,069,831	2,136,823
Risk weighted assets	12,227,302	13,606,032

Risk management

MBE has complied with the regulatory capital requirements throughout the reporting period and maintained capital ratios above the regulatory minimum ratios.

Solvency ratios	2020	2019
Tier 1 ratio	14.5%	13.5%
Capital ratio	16.9%	15.7%

As at 31 March 2020 MBE's total capital before proposed dividend amounted to € 2,120,177 (2019: € 2,136,823). The capital ratio increased from 15.7 % on 31 March 2019 to 16.9% as per 31 March 2020 The leverage ratio, comparing Tier 1 capital (€ 1,820,117) to total non-risk weighted exposure (€ 20,632,643), was 8.8% (31 March 2019: 7.3%).

28.8 Strategic Risk

MBE defines Strategic Risk as the risk which is associated with strategic decisions and with changes in the entity's general conditions, which both have an important impact on its business model in both the mid and long term. The entity's business model is a key factor for strategic risk. The business model should be feasible and sustainable, deliver acceptable results each year and for at least the next three years. MBE further defines 3 types of strategic risk, which may lead to missed opportunities and/or higher costs than anticipated leading to losses:

- Business Model Risk: the risk associated with the entity's business model. This includes the risk of the business model being obsolescent, of it being irrelevant, and/or losing value, and so not being able to deliver the expected results. This risk is caused both by external factors (macroeconomic, regulatory, social and political factors, changes in the banking industry, etc.) and also internal ones (strength and stability of the income statement, distribution model/channels, revenue and expenses structure, operational efficiency, adequacy of human resources and systems, etc).
- Strategy Design Risk: the risk associated with the strategy set out in the entity's three-year strategic plan. Specifically, it includes the risk that the strategic plan may not be adequate per se, or due to its assumptions, and thus the Bank will not be able to deliver on its expected results. It is also important to consider the opportunity cost of designing another more adequate strategy or the lack of action resulting from not designing it.
- Strategy Execution Risk: the risk associated with the process of implementing three-year strategic plans. As the strategy is implemented in the mid and long term, it often has execution risk due to the complexity and many variables involved in it. Other risk areas to be borne in mind are possibly inadequate resources, change management, and, lastly, lack of capacity to cope with changes in the business environment.

To assess the risk for MBE of not achieving its strategic objectives, Risk Management performs a periodic Strategic Risk Assessment (SRA). In this strategic risk assessment business model risk, strategic design risk and execution risk are assessed. The output of the SRA is used to challenge the adequacy of MBE's business plan and strategic planning. It is also input to systematically monitor the strategy risks as part of Risk Appetite Statement.

Current circumstances, both internal (i.e. investments into safety and soundness) and external (i.e. low interest environment), put significant pressure on the financial viability of the business model. In combination with major uncertainties (Covid-19 impact on economy, Brexit, IPU), MBE has not managed to reduce strategic risk in past 12 months.

29 List of subsidiaries

Name of the subsidiary	Country of incorporation	Place	% equity interest 2020	% equity interest 2019
MUFG Business Services (Holland) B.V.	the Netherlands	Amsterdam	100	100
MUFG Lease	Germany	Dusseldorf	95	95
MUFG Funding (UK) Limited	United Kingdom	London	100	100

30 Proposed profit appropriation

The statutory provision regarding the profit appropriation reads as follows:

'The profit appearing from the confirmed Financial Statements shall be at the disposal of the General meeting of the shareholder.' The loss for the year ended 31 March 2020 amounts to € 14,161. The proposal to the General shareholder meeting to appropriate the loss is:

Appropriation of profit (loss)	
Transfer to reserves	-64,449
Profit (loss) for the year	**-64,449**

31 Subsequent events

Changes in Supervisory Board
On 15 May 2020, Mr Nagel stepped down as Chairman of the Supervisory Board and was succeeded by the appointment of Mr Reehoorn effective from 3 June 2020.

Impact of Covid-19
The Covid-19 pandemic has shook the world and put many company's daily operations and business model under immediate stress. And although the signs of a spreading pandemic kept the markets busy in the last quarter of our FY2019, it truly hit continental Europe and the corporate landscape. Whilst in general the various government's and central bank's actions and interventions are targeted at mitigating major economic downturn and restoring consumer confidence, the true impact on the credit worthiness of certain regions, sectors and subsequently companies shows a –potentially- delayed effect. In the last month of FY2019 and early FY20, MBE was faced with some demands for new credit, roll-overs and/or waivers of covenants to overcome short term liquidity shortage. Market and portfolio developments have been monitored closely and frequently and at the time of reporting, MBE's portfolio has not faced noteworthy credit stress or extraordinary demands. We did report some accelerated credit downgrades on already weakened credit, suffering from weaker outlooks due to the pandemic.

Although it is complicated to meet face-to-face, through our strong and long standing client relationship with our core Japanese customers and the relationship model with global corporates, we are in frequent contact with our clients to assess and understand impact to their business and short to medium term projections. MBE also leverages the group's wider involvement with our global clients to enhance our information on impact of Covid-19 to our customer's operations and earnings.

For ECL purposes, MBE has revised its various macro-economic scenarios downwards to reflect a short- to perhaps- medium term decline in GDP. Whilst it is understood that we will be facing further and prolonged economic slowdown and that effects of financial aid and stimuli provided by governments and central banks will –in due course- decrease, MBE will most likely need to anticipate an increase in credit cost. MBE's portfolio is not

Subsequent events

immune to the economic slowdown, especially in a sector like automotive. We do however have a certain level of diversification, both geographically and sector wise that has so far proved to have a dampening effect.

At the date of signing MBE did not have any indications that in the period between March and today, any further material deterioration took place.

Authorisation of Consolidated Financial Statements

Amsterdam, 22 July 2020

The Supervisory Board

W. Reehoorn, Chairman

T. Sazaki, Vice-Chairman

K.W. Peacock

G. Van Vollenhoven-Eikelenboom

The Management Board

H. Takase, chairman

M.F. Rosenberg

E. Shakhurina

M.A.B. Selles

N. Hatano

Parent Company Financial Statements
As at 31 March 2020

Parent Company Statement of Financial Position

As at 31 March

before appropriation of result

Assets	Notes	2020	2019
in thousands of €s			
Intangible assets	G	18,655	15,836
Property and equipment	H	17,281	6,073
Investments in subsidiaries	F	7,371	7,415
Deferred tax assets		48,916	25,604
Loans and advances to banks	C	742,904	782,300
Loans and advances to customers	D	4,924,867	5,579,827
Non-current assets		5,759,994	6,417,055
Financial investments	E	164,777	60,439
Cash and balances with central banks	B	904,218	1,863,907
Loan and advances to banks	C	3,051,902	4,078,038
Loans and advances to customers	D	4,677,520	3,989,697
Current tax asset		24,627	31,638
Other assets	I	84,924	79,106
Current Assets		8,907,968	10,102,825
Total assets		14,667,962	16,519,880
Liabilities			
Issued capital	O	100,003	100,003
Share premium		1,334,304	1,334,304
Retained earnings		343,319	409,947
Revaluation reserve of financial investments		-4	-2
Foreign currency translation reserve		72	148
Revaluation actuarial		-7,715	-7,476
Legal reserve - Intangible assets		14,111	11,933
Shareholder's equity		1,784,090	1,848,857
Subordinated debt	L	300,122	300,101
Provisions	M	61,149	35,456
Due to banks	J	2,840,416	2,852,065
Due to customers	K	135,646	145,529
Non-current liabilities		3,337,334	3,333,151
Due to banks	J	3,135,792	2,631,590
Due to customers	K	6,229,351	8,593,979
Current tax liabilities		7,973	65
Other liabilities	N	173,422	112,238
Current liabilities		9,546,538	11,337,872
Total liabilities and equity		14,667,962	16,519,880
Contingent liabilities	P	1,680,700	1,918,616
Credit commitments	P	14,007,794	14,895,175
		15,688,494	16,813,791

Parent Company Statement of Profit or Loss

For the year ended 31 March

	Notes	2020	2019
in thousands of €s			
Interest income		181,962	206,761
Interest expense		96,507	119,168
Net interest income	Q	85,455	87,593
Fee and commission income		27,403	21,904
Fee and commission expense		11,179	12,485
Net commission income	R	16,224	9,419
Other Operating Income		1,135	0
Result on financial transactions	S	44,871	42,654
Total operating income		147,685	139,666
Personnel expenses	T	94,748	73,063
Depreciation of property and equipment	H	4,238	1,434
Amortisation of intangible assets	G	4,749	3,204
Other operating expenses	U	59,380	45,993
Total operating expenses		163,115	123,694
Credit loss expenses (recovery)		63,394	-10,342
Impairment charges on non-financial assets		0	0
Profit (loss) before tax		-78,824	5,630
Income tax (expense)	W	14,342	-15,406
Net Result Continued Operations		-64,482	-9,776
Result of group Companies after taxation		32	-387
Net Result		-64,450	-10,163

Notes to Parent company Financial Statements

unless stated otherwise amounts in thousands of €

Accounting policies

A. Accounting Policies for the Parent company Financial Statements

1. General information

MUFG Bank (Europe) N.V. (hereafter: MBE) has its statutory seat in Amsterdam, the Netherlands and registered at the Commercial Register of Amsterdam under number 33.13.25.01.

2. Basis of preparation of the Parent company Financial Statements

The parent company financial statements of MBE are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in these Parent company Financial Statements are the same as those applied in the Consolidated Financial Statements, reference is made to Note 1 ʻAccounting policies of the Consolidated Financial Statements. Investments in group companies are accounted for using the equity method of accounting in the Parent company Financial Statements in accordance with article 389, section 2 of Book 2, of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserve of subsidiaries are reflected in the Parent company's Revaluation reserve, which forms part of Shareholder's equity. Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with IFRS-EU, are included in the profit and loss account. For information regarding the risk management policies, related party transactions and other explanatory notes reference is made to the consolidated Financial Statements.

Notes to the parent company Statement of Financial Position
Assets

B. Cash and Balances with central banks

Cash and balances with central banks	2020	2019
Cash on hand	0	9
Balances with central banks	904,218	1,863,898
Cash and balances with central banks	904,218	1,863,907

Balances with central banks include mandatory reserve deposits amounting to € 141,698 (2019: € 165,360), which are not immediately available for MBE's day-to-day operations. The requirement for banks to maintain a minimum reduces MBE's exposure to liquidity risk.

Notes to the parent company Statement of Financial Position Assets

C. Loans and advances to banks

Loans and advances to banks	2020	2019
Placement with banks - term deposits	100,914	110,825
Loans and advances	641,990	671,475
Non-current Loans and advances to banks	742,904	782,300
Placements with banks - on demand	2,290,076	3,062,325
Placement with banks - term deposits	551,667	584,956
Loans and advances	210,340	430,823
Allowance for expected credit losses	-180	-66
Current Loans and advances to banks	3,051,902	4,078,038
Loan and advances to banks	3,794,806	4,860,338

The amount receivable from MUFG Bank London branch is €2,663,540 (2019: € 2,460,769). MBE entered into a financial collateral agreement with MUFG Bank London branch, whereby eligible government bonds are pledged by MUFG Bank to MBE. €3,855,233 (2019: € 2,904,383) was used as credit risk mitigation to reduce MBE´s total risk exposure amount and to maintain its exposure to MUFG Bank within the legal lending limit.

D. Loans and advances to customers

Loans and advances to customers - by class	2020	2019
Corporate term loans	4,792,634	5,448,262
Bills of exchange	132,233	131,565
Non-current Loans and advances to customers	4,924,867	5,579,827
Corporate term loans	3,270,683	2,453,249
Corporate current accounts*	228,631	332,761
Bills of exchange	1,282,892	1,284,992
Allowance for expected credit losses	-104,687	-81,305
Current Loans and advances to customers	4,677,520	3,989,697
Loans and advances to customers by class	9,602,387	9,569,524

*As of 1 April 2019 MBE implemented a refined accounting policy providing further guidance on the application of the 'single unit of account'-principle. We refer to Note 1 Accounting principles - I Financial instruments - initial recognition and subsequent measurement.

This item includes amounts receivable in connection with commercial loans and advances (such as loans, overdrafts in current account, bills discounted), due from counterparties other than banks.

A substantial part of the loans and advances is granted to Japanese-owned companies established in countries in which MBE has a presence. Collateral is frequently obtained in connection with loans and advances.

The following table analyses the loan portfolio by collateral type:

Loans and advances to customers - by collateral type	2020	2019
Guarantees received from MUFG Bank	51,183	0
Pledged deposits received from MUFG Bank	1,854,790	3,475,519
Unsecured	7,801,101	6,175,310
	9,707,074	9,650,829
Allowance for expected credit losses	-104,687	-81,305
Loans and advances to customers by collateral type	9,602,387	9,569,524

Notes to the parent company Statement of Financial Position Assets

Allowance expected credit losses for loans and advances to customers

The movements in the allowances can be specified as follows:

	2020	2019
Opening balance	-84,627	-2,285
IFRS 9 transition impact	0	-1,199
Adjusted opening before impact new branches	-84,627	-3,484
Addition due to new branches	0	-79,169
IFRS 9 transition impact	0	21,561
Impact of new branches	0	-57,608
Adjusted, including impact of new branches	-84,627	-61,092
Expected credit loss expenses (recovery)	63,394	10,342
Write off expenses	15,780	0
Recovery amounts previously written off	-1	-13,193
Closing balance	-132,240	-84,627

During this financial year MBE sold an impaired loan facilitiy. This agreement led to a recovery of expected credit losses of € 12.8 million, upon transfer of the loan a write-off was recognised of € 15.8 million.

In June 2020 MBE was informed on severe financial difficulties of one of our clients. As per 31 March 2020 a credit loss provision was recognised of € 50.3 million on the drawn exposure and a credit loss provision of € 22.9 million was recognised on the undrawn committed exposure.

For further details on expected credit losses we refer to Note 28 Risk management - 28.2 Credit Risk.

E. Financial investments

Financial investments	2020	2019
Government Bonds	164,777	60,439
Financial investments	164,777	60,439

The financial investments consist only of short term Polish government bonds, which are pledged for liquidity purposes to the Polish central bank to secure any borrowings. The business model of the financial investments portfolio is hold to collect or sell. Financial investments are measured at Fair Value through Other Comprehensive Income.

F. Investments in subsidiaries

MBE has the following subsidiaries:

	2020		2019	
Investments in subsidiaries	Interest held %	Balance Sheet Value	Interest held %	Balance Sheet Value
MUFG Europe Lease (Deutschland) GmbH	95	597	95	573
MUFG Business Service (Holland) B.V.	100	434	100	227
MUFG Funding Limited	100	6,340	100	6,615
Investments in subsidiaries		7,371		7,415

The shares of the subsidiaries are not listed on any stock exchange. The movements are as follows:

Notes to the parent company Statement of Financial Position Assets

	2020	2019
Opening balance	7,415	6,848
Addition of MUFG Europe Lease (Deutschland) GmbH	0	928
Net profit for the period	32	-387
Dividend payment	0	-165
Translation differences	-76	191
Closing balance	7,371	7,415

G. Intangible assets

Intangible assets	2020	2019
Opening balance	15,836	7,122
Additions due to new offices	-	252
Additions	5,833	11,276
Amortisation	-4,749	-3,204
Under development	1,750	392
Exchange rate adjustments	-12	-2
Other changes	-3	0
Closing balance	18,655	15,836
Accumulated cost	39,926	39,697
Accumulated amortisation	-21,271	-23,861
Intangible assets	18,655	15,836

The intangible assets consist of software and licenses. The total purchase of intangible assets is € 641 (2019: € 3,651). The amortisation period varies between 1 and 5 years. MBE has not identified any events or circumstances, which would indicate intangible assets may be impaired for 31 March 2020 (2019: €0) .

Notes to the parent company Statement of Financial Position Assets

H. Property and equipment

	2020					
	Owned			Right-of-use assets		
Property and equipment	Operations equipment	Leasehold improve - ments	Total	Operations equipment	Buildings	Total
Opening balance	2,825	3,256	6,081	34	14,888	14,922
Additions	331	382	713	87	47	134
Disposals	-7	-7	-14	0	0	0
Depreciation	-774	-503	-1,277	-22	-2,916	-2,938
Exchange rate adjustments	-1	0	-1	0	0	0
Other changes	19	-357	-338	0	0	0
Closing balance	2,393	2,771	5,164	98	12,019	12,117
Accumulated cost	10,967	9,061	20,028	120	14,935	15,056
Accumulated depreciation	-8,574	-6,290	-14,864	-22	-2,916	-2,938
Property and equipment	2,393	2,771	5,164	98	12,019	12,117

	2019		
	Owned		
Property and equipment	Operations equipment	Leasehold improve - ments	Total
Opening balance	1,167	2,691	3,858
Additions due to new branches/subsidiaries	2,000	1,039	3,039
Other additions	592	40	632
Disposals	-	-13	-13
Depreciation	-933	-501	-1,434
Exchange rate adjustments	-1	-	-1
Closing balance 31 March 2019	2,825	3,256	6,081
Accumulated cost	11,364	9,130	20,494
Accumulated depreciation	-8,539	-5,874	-14,413
Property and equipment	2,825	3,256	6,081

MBE adopted IFRS 16 ‘Leases’ from 1 April 2019, using a modified retrospective approach and did not re-state the comparative information, no right-of-use assets were recognised in prior year. Reference is made to Note 1 ‘Accounting Policies for the Consolidated Financial Statements - New and amended standards and interpretations to IFRS adopted per 1 April 2019 - *IFRS 16 Leases.*

The property and equipment relates to small office equipment’s and improvements to the office (leasehold improvements). The amortisation period varies between 2-16 years.

I. Other assets

Other assets	2020	2019
Prepayments	25,916	32,676
Derivative financial instruments	54,191	45,178
Other accruals*	4,817	1,252
Other assets	84,924	79,106

Notes to the parent company Statement of Financial Position Assets

*As per 1 April 2019 accrued interest is included in the corresponding balance sheet item of the host contract, reference is made to note 1 Accounting policies. The comparatives have been adjusted accordingly.

Other assets includes personnel loans previously included in Loans and advances to customers.

Liabilities

J. Due to banks

This item comprises debts to credit institutions and central banks.

Due to banks	2020	2019
Term deposits	2,840,416	2,852,065
Non-current due to banks	**2,840,416**	**2,852,065**
Nostro accounts	69,794	48,662
Term deposits	3,065,998	2,582,928
Current due to banks	**3,135,792**	**2,631,590**
Due to banks	**5,976,208**	**5,478,123**

The term deposits from MUFG Bank, pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 3,139,558 (2019: € 3,855,186). The total amount owed to MUFG Bank, including pledged deposits, is € 5,876,274 (2019: € 5,478,123).

K. Due to customers

Due to customers	2020	2019
Term deposits	135,646	145,529
Non-current due to customers	**135,646**	**145,529**
Current accounts*	5,541,195	7,152,030
Term deposits	688,157	1,441,949
Current due to customers	**6,229,351**	**8,593,979**
Due to customers	**6,364,997**	**8,739,508**

*As of 1 April 2019 MBE implemented a refined accounting policy providing further guidance on the application of the 'single unit of account'-principle. We refer to Note 1 Accounting principles - I Financial instruments - initial recognition and subsequent measurement.

L. Subordinated debt

Subordinated Loan	2020	2019
Subordinated Loan	300,122	300,101
Subordinated debt	**300,122**	**300,101**

MUFG Bank has granted MBE a subordinated bullet loan in order to strengthen the capital position of MBE. The maturity date is 23 March 2028 and the loan has a variable annual interest rate of 1-months Euribor + 2.1%. The average interest rate for current financial year amounted 1.704%. The subordinated debt is part of the total capital amount of MBE as Tier 2 capital.

Liabilities

M. Provisions

Provisions	2020	2019
Expected credit loss on off-balance facilities	27,375	3,256
Defined benefit plan – the Netherlands	5,953	6,701
Pension liability – Germany	19,747	19,385
Restructuring provision	8,075	6,114
Provisions	61,150	35,456

For the defined benefit retirement and early retirement liability please refer to Note 13 to the consolidated Financial Statements. The pension plans as disclosed in the 'Consolidated Financial Statements' entirely relate to the parent company.

N. Other liabilities

Other Liabilities	2020	2019
Unearned income*	31,435	20,321
Accounts payable and accrued expenses	70,664	48,184
Lease liabilities	12,559	
Derivative financial instruments	58,764	43,733
Other liabilities	173,422	112,238

*As per 1 April 2019 accrued interest is included in the corresponding balance sheet item of the host contract, reference is made to note 1 Accounting policies. The comparatives have been adjusted accordingly.

Lease liabilities

MBE adopted IFRS 16 ‘Leases’ from 1 April 2019, using a modified retrospective approach and did not re-state the comparative information, no lease liabilities were recognised in prior year. Reference is made to Note 1 ‘Accounting Policies for the Consolidated Financial Statements - New and amended standards and interpretations to IFRS adopted per 1 April 2019 - *IFRS 16 Leases*.

Equity

O. Issued capital and other reserves

The authorised capital amounts to € 136,200 (2019: € 136,200) and consists of 300.000 ordinary shares of € 454 each (unit: one €). On 1 April 2018, MBE issued 4 shares for the transfer of the German and Spanish branches. The number of issued and fully paid-up shares has increased to 220,270 (31 March 2019: € 220,266). Issued and fully-paid amounts to € 100 million (2019: € 100 million). All shares issued are held by MUFG Bank, a wholly-owned subsidiary of MUFG Inc.

MBE has no share option schemes under which options to subscribe for MBE’s shares have been granted to executives and senior employees. The Revaluation reserve financial investments assets is a legal reserve under Dutch law.

Equity

	Issued capital	Share premium	Retained earnings	Fair value revaluation	Legal reserve - Foreign currency translation reserve	Legal reserve - Intangible assets	Revaluation actuarial defined benefit	Total equity
in thousands of €s								
Opening balance as at 31 March 2018	100,001	706,696	427,393	-1	-43	7,122	-6,342	1,234,826
IFRS 9 transition impact			-1,199					-1,199
Expected credit loss impact due to new branches			14,957					14,957
Issue of share capital	2	-2						0
Share premium issuance		627,610						627,610
Foreign currency translation reserve			0		191			191
Self developed software			-4,811			4,811		0
Total Comprehensive income			-10,163	-1			-1,134	-11,298
Pension liability from new branch			-3,371					-3,371
Unearned revenue from new branch			-12,859					-12,859
Closing balance as at 31 March 2019	100,003	1,334,304	409,947	-2	148	11,933	-7,476	1,848,857
Share premium issuance								0
Foreign currency translation reserve	-	-	-	-	- 76	-	-	- 76
Self developed software	-	-	- 2,178		-	2,178	-	-
Total Comprehensive income	-	-	- 64,450	- 2	-	-	- 239	- 64,691
Closing balance as at 31 March 2020	100,003	1,334,304	343,319	-4	72	14,111	-7,715	1,784,090

Contingent liabilities

P. Contingent liabilities and commitments

Contingent liabilities and commitments	2020	2019
With respect to letters of credit	5,897	10,728
With respect to letters of guarantees	1,674,803	1,907,888
Contingent liabilities	1,680,700	1,918,616
Irrevocable credit commitments	9,399,549	8,782,497
Other uncommitted facilities	4,608,245	6,241,720
Credit commitments	14,007,794	14,895,175

Letters of credit, guarantees and acceptances commit MBE to make payments on behalf of customers that fail to perform under the terms of the contract, generally related to the export or import of goods. Guarantees carry the same credit risk as loans.

Other uncommitted facilities includes loan committments to our client that are revocable, previously these facilities were included in the undrawn commitments to lend. Comparatives have been adjusted accordingly.

Notes to parent company Statement of Profit or Loss

Notes to parent company Statement of Profit or Loss

Q. Net Interest income

Net Iinterest income	2020	2019
Cash and balances with central banks	813	210
Loans and advances to banks	6,283	7,281
Loans and advances to customers	169,207	191,033
Financial investments	1,565	567
Interest rate swaps	3,891	7,488
Others	203	182
Interest income	181,962	206,761
Due to banks	64,097	86,336
Due to customer	27,294	25,792
Interest rate swaps	3,922	6,966
Others	1,194	74
Interest expense	96,507	119,168
Net Interest income	85,455	87,593

R. Net fee and commission income

Net Fee and commission income	2020	2019
Commission on funds transfer and letters of credit	12,105	10,073
Commission on guarantees	7,735	7,843
Brokerage and advisory fees	537	1,129
Commission on corporate management services	20	20
Other fee and commission income	7,006	2,839
Fee and commission income	27,403	21,904
Commission on (credit replacing) guarantees	2,673	4,336
Commission on funds transfer and letters of credit	1,003	847
Commission on corporate management services	0	0
Other fee and commission expenses	7,503	7,302
Fee and commission expense	11,179	12,485
Net Fee and commission income	16,224	9,419

S. Result on financial transactions

Result on financial transactions	2020	2019
Result on financial transactions	44,871	42,654

This item includes the foreign currency results of MBE amounting € 40,170 (2019: € 25,242). As explained in Note 28 to the consolidated Financial Statements, MBE's policy is to eliminate currency risks on financial assets and liabilities.

T. Personnel expenses

Personnel expenses	2020	2019
Wages and salaries	55,806	50,239
Social securities costs	6,841	7,734
Pension costs	3,907	3,419
Restructuring expenses	5,118	1,922
Other staff costs	23,077	9,749
Personnel expenses	94,748	73,063

Notes to parent company Statement of Profit or Loss

The number of employees during the year ended 31 March 2020 is 775 (2019: 622), of which 407 (2019: 241) are employed in the Netherlands and 234 are employed in Germany (2019: 208). Other staff costs include mainly the costs related to contracted employees and/or agency employees.

U. Other operating expenses

Other operating expenses	2020	2019
Occupancy expenses	3,466	5,642
Office expenses	22,232	13,782
Professional fees	10,864	7,494
Business promotion expenses	5,354	4,549
VAT and sundry taxes	14,934	10,123
Other operating expenses	2,530	4,403
Other operating expenses	**59,380**	**45,993**

The decrease in occupancy expenses is due to the adoption of IFRS 16 'Leases'. Depreciation expenses of right-of use assets as recognised under IFRS 16 'Leases' are reported within Depreciation of property and equipment.

Office expenses relate to IT services, regulatory supervision expenses and other office expenses.

W. Income tax expense

The components of income tax expense for the years ended 31 March 2020 and 31 March 2019 are:

Income tax (expense)	2020	2019
Current income tax	-10,500	-15,976
Adjustment of current income tax of prior years	0	
Tax adjustments previous years	1,750	-10
Current tax	**-8,750**	**-15,986**
Reversal of carry forward losses	0	-2,935
Restructuring and pension provisions	200	-557
Expected credit losses	22,639	1,275
Other	253	2,797
Deferred tax	**23,092**	**580**
Income tax	**14,342**	**-15,406**

Notes to parent company Statement of Profit or Loss

X. Maturity analysis of assets and liabilities

in millions of €s	2020					
Maturity analysis of assets and liabilities	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	830	74	-	-	-	904
Loans and advances to banks	2,278	586	188	690	53	3,795
Loans and advances to customers	406	3,271	1,000	3,889	1,036	9,602
Financial investments	-	165	-	-	-	165
Total assets	3,514	4,146	1,188	4,579	1,089	14,516
Liabilities						
Due to banks	70	1,652	1,414	2,430	410	5,976
Due to customers	5,552	598	79	136	-	6,365
Subordinated debt	-	-	-	-	300	300
Total liabilities	5,622	2,250	1,493	2,566	710	12,641
Net	-2,108	1,896	-305	2,013	379	1,875

Maturity analysis of assets and liabilities	2019					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	1,827	37	-	-	-	1,864
Loans and advances to banks	3,062	613	403	694	88	4,860
Loans and advances to customers	266	2,828	896	4,639	941	9,570
Financial investments	-	60	-	-	-	60
Total assets	5,155	3,538	1,299	5,333	1,029	16,354
Liabilities						
Due to banks	56	1,479	1,097	2,527	325	5,484
Due to customers	7,163	1,209	222	146	-	8,740
Subordinated debt	-	-	-	-	300	300
Total liabilities	7,219	2,688	1,319	2,673	625	14,524
Net	-2,064	850	-20	2,660	404	1,830

Notes to parent company Statement of Profit or Loss

Y. Proposed profit appropriation

Result from group companies and participating interest

The statutory provision regarding the profit appropriation reads as follows:

'The profit appearing from the confirmed Financial Statements shall be at the disposal of the General meeting of the shareholder.' The loss for the year ended 31 March 2020 amounts to € 14,120. The proposal to the General shareholder meeting to appropriate the loss is:

Appropriation of profit (loss)	
Transfer to reserves	-64,450
Profit (loss) for the year	-64,450

Z. Subsequent events

Changes in Supervisory Board

On 15 May 2020, Mr Nagel stepped down as Chairman of the Supervisory Board and was succeeded by the appointment of Mr Reehoorn effective from 3 June 2020.

Impact of Covid-19

The Covid-19 pandemic has shook the world and put many company's daily operations and business model under immediate stress. And although the signs of a spreading pandemic kept the markets busy in the last quarter of our FY2019, it truly hit continental Europe and the corporate landscape. Whilst in general the various government's and central bank's actions and interventions are targeted at mitigating major economic downturn and restoring consumer confidence, the true impact on the credit worthiness of certain regions, sectors and subsequently companies shows a –potentially- delayed effect. In the last month of FY2019 and early FY2020, MBE was faced with some demands for new credit, roll-overs and/or waivers of covenants to overcome short term liquidity shortage. Market and portfolio developments have been monitored closely and frequently and at the time of reporting, MBE's portfolio has not faced noteworthy credit stress or extraordinary demands. We did report some accelerated credit downgrades on already weakened credit, suffering from weaker outlooks due to the pandemic.

Although it is complicated to meet face-to-face, through our strong and long standing client relationship with our core Japanese customers and the relationship model with global corporates, we are in frequent contact with our clients to assess and understand impact to their business and short to medium term projections. MBE also leverages the group's wider involvement with our global clients to enhance our information on impact of Covid-19 to our customer's operations and earnings.

For ECL purposes, MBE has revised its various macro-economic scenarios downwards to reflect a short- to perhaps- medium term decline in GDP. Whilst it is understood that we will be facing further and prolonged economic slowdown and that effects of financial aid and stimuli provided by governments and central banks will –in due course- decrease, MBE will most likely need to anticipate an increase in credit cost. MBE's portfolio is not immune to the economic slowdown, especially in a sector like automotive. We do however have a certain level of diversification, both geographically and sector wise that has so far proved to have a dampening effect.

At the date of signing MBE did not have any indications that in the period between March and today, any further material deterioration took place.

Authorisation Parent Company Financial Statements

Amsterdam, 22 July 2020

The Supervisory Board

W. Reehoorn, Chairman	T. Sazaki, Vice-Chairman
K.W. Peacock	G. Van Vollenhoven-Eikelenboom

The Management Board

H. Takase, chairman	M.F. Rosenberg
E. Shakhurina	M.A.B. Selles
N. Hatano	

Articles of Association – Appropriation of results

The result is appropriated pursuant to Article 16 of the Deed of Amendment Article of Association of MUFG Bank (Europe) N.V.

16.1 The profit, which is apparent from the confirmed annual accounts, is at the disposal of the General Meeting of Shareholders.

16.2 The company can only pay dividends to shareholders and other entitled to the distributable profits, in as far as its paid- up and called up capital and retained earnings are larger than the paid up and called up part of the capital increased by the reserves which have to be maintained by law or under the articles of association.

16.3 The general meeting of shareholders can decide in the course of a financial year to pay out an interim dividend if the legal requirements set forth in article 16.2 of this article are fulfilled.

Independent Auditor's report

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Independent auditor's report

To the shareholders and the Supervisory Board of MUFG Bank (Europe) N.V

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS THE YEAR ENDED 31 MARCH 2020 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the accompanying financial statements the year ended 31 March 2020 of MUFG Bank (Europe) N.V, based in Amsterdam. The financial statements include the consolidated financial statements and the parent company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of MUFG Bank (Europe) N.V as at 31 March 2020, and of its result and its cash flows the year ended 31 March 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

- The accompanying parent company financial statements give a true and fair view of the financial position of MUFG Bank (Europe) N.V as at 31 March 2020, and of its result for the year ended 31 March 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position for the year ended 31 March 2020.

2. The following statements for the year ended 31 March 2020: the consolidated statement of profit or loss, the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.

3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company financial statements comprise:

1. The parent company statement of financial position as at 31 March 2020.

2. The parent company statement of profit or loss for the year ended 31 March 2020.

3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of MUFG Bank (Europe) N.V in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 6,400,000. The materiality is based on 2.5% of revenue. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 320,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

MUFG Bank (Europe) N.V is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of MUFG Bank (Europe) N.V.

Our group audit mainly focused on the identified significant branches.

We have:

- Performed audit procedures ourselves at MUFG Bank (Europe) N.V. in Amsterdam and performed audit procedures at group level on audit areas as allowance for expected credit losses (IFRS 9), deferred tax positions, consolidation process, disclosure requirements and regulatory compliance.
- Used the work of other auditors when auditing the branches in Germany, Spain and Poland.
- Performed review procedures at other group entities.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Scope of fraud and non-compliance with laws and regulations

In accordance with Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the auditing standards. Also, we are not responsible for preventing and cannot be expected to detect non-compliance with all laws and regulations.

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. Our audit procedures differ from those performed as part of a specific forensic investigation, which often has a more in-depth scope.

In determining the audit procedures, we made use of the evaluation of the Management Board in relation to Management Board's fraud risk assessment respectively the risk of non-compliance with laws and regulation (prevention, detection and response) including ethical standards that contribute to a culture of honesty.

We have exercised professional judgement and have maintained professional skepticism throughout our audit in identifying and assessing the risks of material misstatement of the financial statements due to fraud or non-compliance, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Consideration of fraud

In identifying fraud risks, we assessed fraud risk factors, which we discussed with the Management Board, the Supervisory Board and, amongst others, representatives from the Internal Audit division, the Risk Management division and the Compliance division. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Based on the auditing standards, we considered the presumed fraud risk in relation to management override of controls relevant to our audit.

We have not identified and addressed any other fraud risks which could have a material impact on the financial statements.

As part of audit procedures to respond to fraud risks, we evaluated the internal controls relevant to mitigate these fraud risks and performed supplementary substantive audit procedures, including detailed testing of journal entries and supporting documentation in relation to post-closing adjustments. Data analytics, including testing journal entries based on certain risk-based characteristics, is part of our audit approach to address fraud risks, which could have a material impact on the financial statements.

Consideration of laws and regulations

We assessed factors related to the risks of non-compliance with law and regulations that could reasonably be expected to have a material effect on the financial statements taken as a whole. From our general and industry experience, through discussions with the Management Board and by the inspection of selected documents regarding compliance with law and regulations.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the company is subject to laws and regulations that directly affect the financial statements including corporate tax law, financial reporting regulations and requirements under Part 9 of Book 2 of the Dutch Civil Code. We assessed the compliance with these laws and regulations as part of our procedures on the related financial statements.

Secondly, MUFG Bank Europe N.V. is subject to many other (sector specific and country specific) laws and regulations where the consequences of non-compliance with these laws could have a material effect on amounts and/or disclosures in the financial statements, for instance through imposing fines or litigation. We identified data and privacy legislation and the EU's fourth and fifth Anti-Money Laundering Directive ("AMLD4" and "AMLD5" respectively) as those most likely to have such an effect.

As required by auditing standards, we performed certain audit procedures that address the risk of non-compliance with these laws and regulations, including inquiries with the Management Board and the Supervisory Board, and inspecting (board) minutes, correspondence with the regulators and lawyers' letters. We also remained alert to indications of (suspected) non-compliance throughout the audit. Furthermore, we performed corroborative inquiry with the Internal Audit division, the Risk Management division and the Compliance division. Finally, we obtained written representations that all known instances of (suspected) non-compliance with laws and regulations have been disclosed to us.

We refer to the audit procedures as described in the separate Key Audit Matter in addressing the risk of regulatory compliance.

Emphasis of the impact of the coronavirus

The coronavirus also impacts MUFG Bank (Europe) N.V. The Management Board disclosed the current impact and her plans to deal with these events and circumstances on pages 101, 103 and 121 of the financial statements. The Management Board indicates that it is currently not possible for them to properly estimate the impact of the Coronavirus on the financial performance and health of MUFG Bank (Europe) N.V. Our opinion is not modified in respect of this matter.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	
Allowance for expected credit losses – IFRS 9 **Description** MUFG Bank (Europe) N.V. provides credit to corporate clients, with focus on both the European and Japanese market. Because of the inherent uncertainty and risk in a number of areas when determining	**How the key audit matter was addressed in the audit** As part of our planning and risk assessment we have held corroborative inquiries with representatives of MUFG Bank (Europe) N.V. in the Credit division and the Credit Management division to discuss the loan origination process. We have tested the design, implementation and operating effectiveness of the identified key controls in this process. We have obtained an understanding of the ongoing credit monitoring process. In addition, we have obtained an understanding of the process for determining the allowance for

the allowance for expected credit losses for the loan portfolio, the allowance for expected credit losses is considered to be an important area of judgment and estimate by the Management Board. The uncertainty and associated risks further increased following the outbreak of the COVID-19 pandemic. As a result of the significance of the allowance for expected credit losses and its dependence on assumptions and management judgement, we consider this area as a key audit matter for the audit as per 31 March 2020. The total allowance for expected credit losses as per 31 March 2020 amounts to EUR 132.7 million. Reference is made to disclosure note 4 and 28.2 in the financial statements.	expected credit losses and tested the design and implementation of the controls in this process. For the stage 1 and stage 2 exposures, we have also tested the operating effectiveness of the identified key controls. For the exposures in stage 3, we have applied a substantive audit approach. We have attended the meeting in which the provision as per 31 March 2020 is discussed and approved by the Management Board. As part of our substantive audit procedures on the exposures on stage 1 and stage 2, we have performed test of details on a sample of exposures to test the stage-allocation of the expected credit loss-model. We have tested the General IT controls on the IT-application in which the allowance for expected credit losses is determined. We have performed audit procedures on the calculation scripts in the IT-application. We have reviewed key judgements and estimated made by the Management Board, including a review of a sample of loan files to assess the requirement for any specific and/or collective allowance for expected credit losses. We have tested and challenged the assumptions of the Management Board in determining the macro-economic scenarios and the need for post-model adjustments. For the stage 3 exposures, we have performed tests of details on the discounted cashflow-calculations. We have traced and agreed the input for these calculations to underlying source information. We have challenged the assumptions of the Management Board in the discounted cashflow-calculations. Furthermore, we have assessed the adequacy of the disclosure notes in the consolidated financial statements in accordance with IFRS 9 and IFRS 7 (as adopted by the EU). *Our observation* The scope and nature of the procedures performed were appropriate and sufficient to address the key audit matter. We consider the disclosure adequate and appropriate.
Compliance with laws and regulations **Description** MUFG Bank (Europe) N.V. operates in a highly regulated environment and is required to comply with different laws and regulations. Some of these laws and regulations have a direct effect on the financial statements, others do not have a direct effect but set the provisions under which the entity is allowed to conduct its business.	**How the key audit matter was addressed in the audit** We have obtained an understanding of the regulatory requirements for MUFG Bank (Europe) N.V. We have taken notice of the policies, activities, internal controls and procedures the company have in place to comply with those requirements. We have held inquiry with the Audit, Compliance and Risk Committee, the Management Board, Internal Audit and have reviewed the communication of MUFG Bank (Europe) N.V. with the regulators. As part of our substantive audit procedures, we have reviewed the project plan related to the remediation in MUFG Bank (Europe) N.V.'s AML framework. We have held inquiry with the responsible project manager and reviewed the quarterly reports to the Dutch Central Bank on this project.

Last year, MUFG Bank (Europe) N.V. received an instruction from the Dutch Central Bank regarding remediation in its anti-money laundering (“AML”) framework. In addition, a fine was imposed during this financial year following a breach on the large exposure lending limits. MUFG Bank (Europe) N.V. has disclosed the facts and circumstances in the Report of the Management Board in the annual report.	As part of our subsequent procedures we have assessed the ongoing communication between the Dutch Central Bank and the company regarding potential public communication about the historic improvement needs in the company's AML framework and large exposure lending limit controls. Finally, we have assessed the appropriateness of the disclosures in the Report of the Management Board and the financial statements, based on the relevant facts and circumstances. Notwithstanding the foregoing, we are not responsible for preventing non-compliance and cannot be expected to detect all non-compliance with laws and regulations. *Our observation* Based on our procedures performed we have assessed the appropriateness and adequacy of the disclosures included in the financial statements. We consider the disclosure adequate and appropriate.
Reliability and continuity of the automated systems **Description** An adequate infrastructure ensures the reliability and continuity of MUFG Bank (Europe) N.V.’s business processes and financial reporting. In addition, the continuity of the operations is highly dependent on the IT-infrastructure as also explained in the Risk management paragraph of the annual report. Therefore, reliability and continuity of the automated systems has been a key audit matter during our audit.	**How the key audit matter was addressed in the audit** We have tested the reliability of the automated systems relevant for our audit of the financial statements. For this purpose, we have made use of IT auditors within our audit team. These procedures included testing the design, implementation and operating effectiveness of the relevant general IT and application controls. Our audit approach relies on automated controls and therefore on the effectiveness of controls over IT systems. For the access management area, we identified and reported that for certain applications within MUFG Bank (Europe) N.V. further improvements could be made. We determined that MUFG Bank (Europe) N.V. implemented (or started to implement) several remediation activities for these observations. Furthermore, we were able to identify and test mitigating (business) controls or to perform sufficient additional mitigating procedures in order to address the risks related to these observations. *Our observation* For the purposes of our audit of the financial statements we consider the reliability and continuity of the automated systems of MUFG Bank (Europe) N.V. at a sufficient level.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contain other information that consists of:

- Profile.
- Key figures.

- General information.
- Report of the Supervisory Board.
- Report of the Management Board.
- Other information.
- Annexes.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the Supervisory Board as auditor of MUFG Bank (Europe) N.V on 29 July 2016, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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.

- Obtaining 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 company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Concluding on the appropriateness of the Management Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements 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 auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the Audit, Compliance and Risk Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, July 22, 2020

Signed on the original

R.J.M. Maarschalk

Annexes

Corporate data

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MUFG Inc. Corporate Data

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