MUFG Bank (Europe) N.V. Annual Report

For the year ended 31 March 2021

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Message from the CEO

Mr Hideaki Takase

Year in review

The past year presented unique challenges, to which MUFG Bank Europe responded with agility and resilience. As a company, we showed our continued passion, resilience and commitment during this difficult year. And as we look ahead to the challenges and opportunities that inevitably await us, it is good to recognise the hard work and progress we have made over the last 12 months.

To me, one word stands out when I think of last year: teamwork. The power of teamwork is vitally important for MUFG Bank Europe. Our strengths lie in our diverse staff base, our broad network and the large scale of our organisation, which allows us to leverage MUFG's capabilities.

The global pandemic created an unprecedented situation and triggered lockdowns throughout Europe, posing multiple challenges for our employees. I am proud of how colleagues worked tirelessly to serve clients continuously and optimally, while managing business-as-usual requirements and important projects despite the tough circumstances. I deeply appreciate all my colleagues' efforts and commitment as they grappled with the challenges of Covid-19.

We actively support and encourage our people to stay healthy, both physically and mentally. Their mental health is essential to creating a safe environment in which we can continue to prosper. The wellbeing of our people is and will remain a priority, and we introduced various programmes to support them with personal and/or work-related challenges, such as working from home practices and our Employee Assistance Programme.

Working during a pandemic is far from easy, and Covid-19 is set to change the way we work in future, with more remote working expected and the challenge of striking an optimal work-life balance. We will continue to support employees as this trend plays out.

Client centricity

On behalf of MUFG Bank Europe, I would like to express my gratitude to all our clients and thank them for their continued support and business. We remain utterly committed to being a client-centric partner to them, working on the basis of mutual trust and understanding.

The future holds its uncertainties, but we are committed to supporting our stakeholders towards sustainable growth. We will be there for them, empowering a brighter future. This will be our unchanging purpose, now and into the future.

Performance

Our strong relationships with clients across the EU contributed strongly to our global franchise last year. With its EU banking passport, MUFG Bank Europe can further leverage MUFG's capabilities to grow revenue and enhance cost control.

We made good progress last year in important organisational projects. For instance, we progressed towards the completion of the booking consolidation from MUFG Bank Europe's Spain and Vienna branches to MUFG Bank Europe Head Office in Amsterdam. We also worked extremely hard to improve profitability despite the unprecedented and challenging negative interest rate environment. Despite our efforts to improve MUFG Bank Europe's profitability, the previous financial year resulted in a loss. I am confident that the new introduced three-year Medium Term Business Plan (MTBP), starting 2021, will help us return to becoming a profitable and a sustainable business.

Supply chain finance footprint

In February 2019, MUFG Union Bank in the US acquired Trade Payable Services (TPS), a leading supply chain finance platform, and the team from General Electric (GE). The platform supports the relationships between GE, including affiliates, and its suppliers worldwide, covering more than 2,000 European suppliers.

Our mission is to further expand MUFG Bank Europe's European supply chain finance footprint through the world-class TPS platform. This goal perfectly fits our strategy, as it will help accelerate our growth trajectory in supply chain finance, improve our sustainability and financial performance, and differentiate us from competitors. We envision expanding this product to clients in the near future.

Internal governance

The Management Board proactively contacted the Dutch central bank (DNB) on multiple occasions. At these meetings, we discussed the impact of Covid-19, the bank's business model, credit risk and liquidity risk management.

We worked diligently on improving our anti-money laundering (AML) framework and put in place sound and effective financial crime compliance procedures to improve the framework and company culture. The Management Board values embedding the enhanced framework and strengthening MUFG Bank Europe's compliance awareness. We maintain an active dialogue on enhancements to our AML framework and report our progress to DNB every quarter.

Message from the Supervisory Board Chairman

Mr Wietze Reehoorn

The past year was tough, to say the least. It was also a year which demonstrated not only the unwavering commitment of MUFG Bank Europe to its clients, but also that employee wellbeing remained of utmost importance. Ensuring the working environment was fit for purpose in the 'new normal' across all MUFG Bank Europe's offices was another focal point.

The Supervisory Board is proud of how MUFG Bank Europe and all its employees managed the Covid-19 pandemic that heavily influenced people's personal and professional lives. Working from home became the norm throughout the entire financial year, generating new challenges to which the organisation promptly adapted.

Throughout the year, the bank maintained a high level of service to its clients, which in turn meant that clients retained their trust in MUFG Bank Europe as a leading international bank.

As a Supervisory Board, we look back on a challenging year in which we covered many important topics such as Know Your Customer, Anti Money Laundering, Risk Management Governance, Capitalisation and Liquidity Risk Assessment - to name just a few.

We continuously supervised, monitored and advised the Management Board on the company's strategy, business practices, risk management and other matters that required our solicited or unsolicited attention.

During the year, the Supervisory Board specifically focused on these areas and activities: MUFG Bank Europe's business development, the bank's risk framework, development of functional lines within the European organisation, integrity risk and Supervisory Review and Evaluation Process (SREP) submissions to the DNB.

Besides regular meetings, the Supervisory Board conducted many expert and deep dive sessions together with the Management Board, related for example to MUFG Bank Europe's strategy and business plan. The Supervisory Board also reached out to MUFG in London and Tokyo to enhance the organisational business model.

Who we are

ABOUT MUFG BANK EUROPE

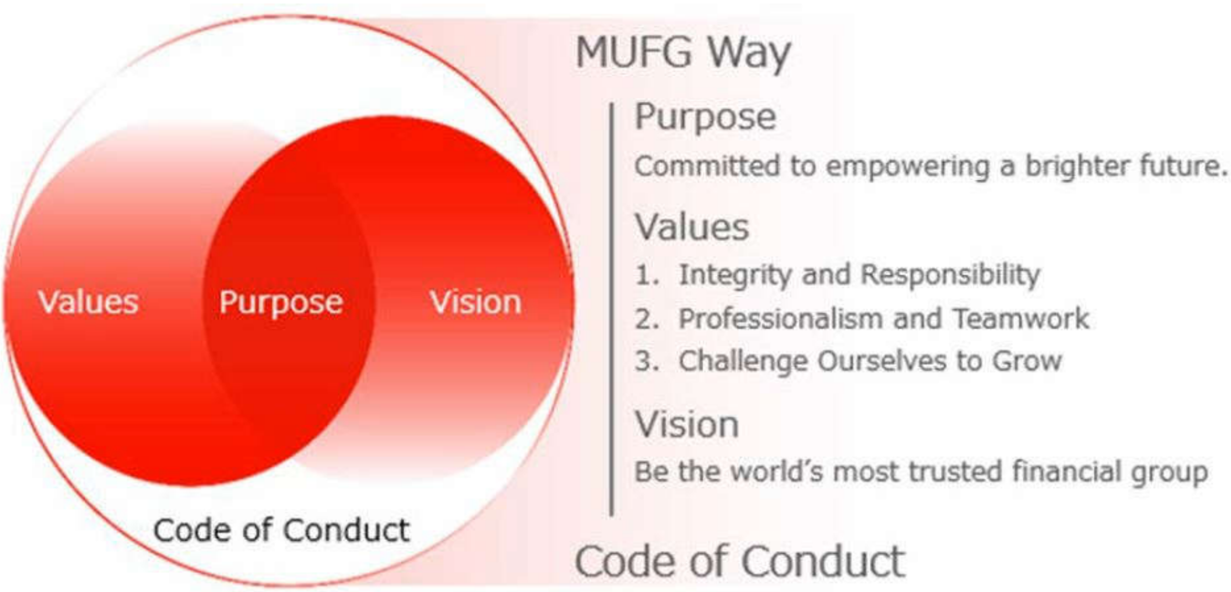
MUFG Bank Europe is a firmly established global player in EMEA, with more than 140 years of activity serving Japanese and global clients through MUFG in the Netherlands, branches and subsidiaries across Continental Europe. MUFG Bank Europe offers a broad range of products including corporate lending, foreign exchange, trade finance, derivatives, payment solutions, transaction banking and international syndicated finance in Continental Europe.

MUFG Bank Europe is a fully-owned subsidiary of MUFG Bank, Ltd, one of the world's largest banks in terms of assets. MUFG Bank has the largest overseas network of any Japanese bank, comprising offices and subsidiaries in more than 50 countries. It is the premier commercial banking arm of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's largest and most diversified financial groups.

About MUFG

Over **360** years of history	Global network with around **2,500 LOCATIONS** in more than **50 COUNTRIES**	**OVER 180,000 EMPLOYEES**	Services: Commercial banking • Trust banking • Securities • Credit cards • Consumer finance • Leasing and Asset management	**MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges**

Who we are_1


Values
Purpose
Vision
Code of Conduct
MUFG Way
Purpose
Committed to empowering a brighter future.
Values
1. Integrity and Responsibility
2. Professionalism and Teamwork
3. Challenge Ourselves to Grow
Vision
Be the world's most trusted financial group
Code of Conduct

Our business model & activities

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 where we operate. In this way, we can serve clients and society, and foster shared and sustainable growth. This corporate vision underlies all our activities and guides all MUFG activities as we grow our business. Our unchanging purpose now and into the future is to empower a brighter future for our stakeholders.

To achieve our vision, our highest priority is protecting the interests of our clients, while maintaining a robust organisation that is effective, professional and responsive. This requires a strong understanding of and responsiveness to the individual needs of our clients, so we can provide them with reliable and strategic support and help them achieve their business strategy.

MUFG Bank Europe is incorporated as a commercial bank under Dutch law. As part of a prominent Japanese banking group with a high international reputation, MUFG Bank Europe aims to fulfil both Japanese and non-Japanese corporate clients' needs in close cooperation with the parent bank.

MUFG Bank Europe's competitiveness derives from its capacity to fully meet clients' financial needs through a variety of international 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 building durable relationships with clients.

We offer a broad range of products, including corporate finance, treasury services, cash management and payment services, corporate lending, trade finance, international syndicated finance, lease and trust activities. Through offices in the Netherlands, Belgium, Austria, Czech Republic, Poland, Germany, Spain and Portugal, we serve a growing number of companies active in Continental Europe.

Our activities include the introduction of our corporate clients to other members or affiliates of MUFG. 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, in which we play a key role, enables us to provide a strong business case to prospective companies.

In close cooperation with and supported by the European Business Division of London-based MUFG Bank, MUFG Bank Europe participates in international syndicated finance activities through both its offices in Amsterdam and its UK-based subsidiary, MUFG Funding (UK) Limited.

In line with our parent bank MUFG Bank, we continue to focus on growing our 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 remains our sole counterparty for executing our inter-bank market transactions.

Until last December, MUFG Bank Europe offered trust services to Dutch-based Japanese holding and finance companies through subsidiary MUFG Business Services (Holland) B.V. (MBS).

On 1 December 2020, MBS stopped servicing its clients. These services are now directly provided to clients by TMF Group BV.

Our vision is for MUFG Bank Europe to serve our global clients seamlessly as a financially viable and sustainable entity which is an integral part of MUFG's EMEA business. To achieve this vision, the primary focus of our business plan for 2021-2023 is revenue generation. To this end, MUFG Bank Europe will introduce diversify its income stream by adopting supply chain finance and enhancing foreign exchange business, leveraged and structured finance. At the same time, we will analyse and rationalise our client base.

Client focus

With its EU banking passport, MUFG Bank Europe offers a wide range of products and services to clients across Continental Europe. To meet our clients' specific needs and offer optimal service, we operate in an integrated business model across EMEA, working closely together with other entities within MUFG in a multi-disciplinary approach.

Our operating environment has been affected by the Covid-19 pandemic, the growing awareness of environmental and social issues, and accelerating advances in digital technologies. As a financial services provider, we recognise the importance of sustainable growth and are committed to developing durable long-term relationships with our clients and with society. We strive to be the most trusted partner for all the clients we serve, especially in the current challenging circumstances, where the business environment is changing in significant ways and with unprecedented speed.

To learn more about how our clients experience working with MUFG Bank Europe, here are some testimonies.

"MUFG is a long-term relationship partner of JAB. While some financial institutions focus on the short term and simply try to make deals, MUFG builds relationships based on trust and works hard to have a deep understanding of clients' needs. MUFG's long-term approach typically results in support across economic cycles and in executing more deals than an average bank – especially in challenging environments."

"SBM Offshore considers MUFG as one of its most important business partners. Both companies have created a long-standing business relationship and built a solid record of accomplishment of transactions where MUFG supported SBM Offshore through industry cycles. Being an industry leader, MUFG has played a leading role in many of our transactions. The Treasury team at SBM Offshore specifically appreciates the support from the MUFG team, which is characterised by their deep understanding of our industry, results-mindedness and focus on bringing pragmatic solutions to the table."

"MUFG is a valuable partner for the SIG Combibloc Group. We like MUFG's relationship approach, where it strives to establish gradual long-term relationships. We also appreciate MUFG's strength in the global network, especially in the APAC region, and its high product competence, for example regarding corporate finance, securitisation and hedging. "

"Despite significant Covid market turmoils, MUFG was one of two underwriters for OMV's financing of the acquisition of a significant stake in Austrian chemicals company Borealis. MUFG was also key to rapidly mitigating the acquisition bridge leading Austria's leading oil & gas company's senior and hybrid bond issuances, despite extremely volatile capital market conditions."

"MUFG is a long standing and valuable partner for the Borealis Group. Borealis and MUFG have a very similar relationship approach to build a gradual long-term partnership based on mutual trust and understanding. We also appreciate MUFG's strength in the global network and its high product competence, for example regarding corporate finance, structured finance, hedging and financial advisory."

Organisational improvements

MUFG Bank Europe recognises the Netherlands as an excellent home for financing and holding companies, and for the European headquarters of sales, distribution and manufacturing companies.

Our new three-year medium-term business plan (MTBP) will transform EMEA into a client- driven franchise that consistently generates returns above our cost of capital. Our strategy involves generating profitable growth, enhancing efficiency, strengthening culture and simplifying governance.

Our vision is for MUFG Bank Europe to seamlessly serve our global clients as a financially viable and sustainable entity that is an integral part of MUFG's EMEA business. To this end, we intend to reduce the complexity of MUFG Bank Europe in the coming three years and to simplify our footprint in Continental Europe, in accordance with MUFG's global initiative on network optimisation.

As part of our strategic imperative to enhance efficiency, we have announced changes to MUFG Bank Europe. These involve the closure of two branches and further consolidation of our booking function. The booking function of our Brussels branch will be centralised at our Amsterdam head office, and our Polish and Czech branches will be closed. To achieve the objectives of the MTBP, cost reduction measures will also be implemented, so as to improve our cost/income to a sustainable level. An unavoidable part of this process is the reduction in headcount, which is being considered across our middle and back office functions. Overall, MUFG Bank Europe will reduce headcount by approximately 30%. Details of the reduction are subject to completion of the consultation process with the relevant Works Councils. These changes will enable us to continue to grow our business in a sustainable way.

Key figures

Key figures	31 March 2021	31 March 2020	31 March 2019	31 March 2018*	31 December 2016
Statement of financial position					
Loans & advances to customers	6,592	9,603	9,571	6,639	5,886
Shareholder's equity	1,753	1,784	1,849	1,235	616
Total assets	12,198	14,670	16,519	16,762	8,699
Results					
Net interest income	79	86	88	35	24
Total operating income	131	149	140	63	47
Credit loss expense (recovery)	(6)	63	11	1	0
Operating expenses	154	165	124	71	44
Result (loss) for the year	(24)	(64)	(10)	(6)	1
Other					
Risk-weighted assets	9,838	12,227	13,606	4,300	3,772
Leverage ratio	9%	9%	7%	7%	7%
BIS Total capital ratio	21%	17%	16%	36%	16%
Operating expense/income ratio	118%	110%	89%	113%	94%
Number of employees (FTE)	794	783	630	255	225
> Domestic	404	407	252	194	177
> Abroad	390	376	378	61	48

(*) During the period ended 31 March 2018 MUFG Bank Europe 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.

Financial results

The market environment in which MUFG Bank Europe operates continues to be very challenging across all branches, with credit demand from clients remaining low. Our total operating income declined to €131 million in the year to 31 March 2021 from €149 million in the year to 31 March 2020. Net commission income decreased to €14 million from €16 million, with total operating expenses declining to €154 million from €165 million in the previous year. The net result of MUFG Bank Europe improved in the year ending 31 March 2021 to a loss of €24 million versus a loss of €64 million in the year to end-March 2020.

Supervision costs, as well as the increasing number of new regulations and changes to regulatory requirements, demand increased investment in IT systems and staff. Nevertheless, considering the nature and the expected temporary character much of the cost increases, in combination with our medium-term business plan, the Management Board is confident that our cost/income ratio will return to more healthy levels in the near future.

During the financial year, MUFG Bank Europe changed its pension plan from defined benefit to defined contribution, in line with the practice in the market. This plan amendment reduced the net pension liability by €9 million. Changes in the actuarial assumptions led to a €3 million increase in the actuarial revaluation reserve recognised within equity.

Our people

As market circumstances evolve and new regulatory requirements emerge, the Management Board regularly assesses whether changes to MUFG Bank Europe's organisation are required.

The average number of employees was 794 for the year to 31 March 2021. The majority of our employees are based in the Netherlands (404 FTEs) and in Germany (247 FTEs). At the end of March 2021, the ratio of female employees to all employees was around 44%. MUFG Bank Europe employs more than 30 different nationalities across its branch network.

Inclusion & diversity

MUFG Bank Europe provides a platform for its Inclusion & Diversity Network, a volunteer-led employee network group from different offices, to proactively run initiatives aimed at improving both inclusion and diversity at the bank. Elena Shakhurina, Chief Operations Officer, is the sponsor of inclusion and diversity at MUFG Bank Europe.

Our Inclusion & Diversity (I&D) team, part of HR, launched various initiatives last year, also as a way to enable colleagues to interact and connect as they worked remotely due to Covid-19.

The I&D team organised five non-business related virtual lunch chat sessions, at which employees could talk to Management Board members. At these sessions, employees learned more about the views of senior leaders on non-business related and relevant topics, such as MUFG's culture principles, remote working and diversity. The lunch chat meetings enabled senior leaders and employees to stay connected despite the remote working environment and to share thoughts and ideas. This lunch chat series is continuing in the new financial year.

Thirty-two senior leaders joined an unconsciousness bias workshop last October to increase awareness of all kinds of bias in the workplace and find ways to eliminate bias. The training focused on how unconscious bias influences diversity and inclusion in the workplace, and what the role of senior leaders is to combat bias. Participants gained insights into how to use specific techniques to prevent bias in business life and how to make unbiased decisions.

World Food Day on 16 October is an annually recognised event that draws attention to the plight of the hungry. It is our tradition to mark this day across MUFG Bank Europe with the aim of bringing people together through food from various cultures. We did this virtually in 2020 by sharing colleagues' homemade recipes.

On 8 March 2021, we celebrated International Women's Day at MUFG Bank Europe, recognising the social, economic, cultural and political achievements of women. We strongly believe that all of us can choose to challenge and call out gender bias and inequality. The MUFG Bank Europe Inclusion & Diversity Team organised a virtual International Women's Day panel discussion to further embrace an inclusive culture at the bank. This year's global theme for International Women's Day was 'choose to challenge'. More than 100 employees joined the discussion, where four panellists shared their thoughts and experiences on this theme, generating an interactive and candid conversation.

Learning & development

Our goal is to ensure that MUFG Bank Europe employees have the right skills, knowledge and attitude to drive productivity, create efficiencies and grow the business, and that we retain a high quality and diverse workforce.

The key principles of our learning & development (L&D) policy are to support the strategic development of MUFG Bank Europe through its people; to support MUFG Bank Europe in achieving its strategic objectives; and to create positive, inclusive and effective employment relationships among all employees.

Learning & development

MUFG Bank Europe is committed to continuously improving business performance by harnessing the full potential of all employees. We provide the framework, investment and resources to enable people to improve their capabilities and knowledge 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.

Corporate governance

MUFG Bank Europe implements principles and best practice provisions regarding corporate governance, as laid down in the Dutch Corporate Governance Code. These are applicable to MUFG Bank Europe, being a non-listed financial institution.

MUFG Bank Europe has a two-tier system comprising a Supervisory Board and a Management Board. The Management Board and Supervisory Board highly value the importance of good governance to further strengthen corporate governance at MUFG Bank Europe, which include the establishment of a separate Compliance division, Risk Management division and Internal Audit team. The Compliance division reports to the Chief Risk Officer and has an independent line to the Supervisory Board.

MUFG Bank Europe has a code of conduct and governance-related policies such as a whistle blowing policy and insider trading regulations which apply to all employees and others working with MUFG Bank Europe.

All members of the Management Board and Supervisory Board have taken the ‘Banker’s Oath’. All employees joining MUFG Bank Europe in the Netherlands must also take this oath. Both the code of conduct and the Banker’s Oath emphasise the role of banks in society and their commitment to meeting societal expectations and contributing to public trust in banks. Meetings and trainings on our core values and behaviours are regularly organised for all staff.

Report of the Management Board

Management Board

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

The Management Board reflects the Dutch Banking Code principles by-law. It fulfils principles regarding composition and expertise requirements, lifelong learning programmes, risk management and the responsibility to ensure all stakeholders' interests are considered in everything the Management Board does. At present, the Management Board does not comply with the gender diversity ratio of 30%, although it aims to make progress here in 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 MUFG Bank Europe's scope of activities.

The Management Board collectively manages MUFG Bank Europe and is responsible for its objectives, strategy and related risk appetite, as well as the development of financial results. The Management Board is assisted in its duties by the IT Management Committee and Operations Control Committee, Business Continuity Committee, Risk Management Committee, Credit Committee, Compliance Committee, Client Acceptance & Review Committee, Asset Liability Management Committee, Change Control Committee, New Product Committee, Data Management Committee , Outsourcing Committee and Breach Control Committee.

In July 2019, the Dutch central bank (DNB) issued an instruction to MUFG Bank Europe addressing anti-money laundering/combatting the financing of terrorism (AML/CFT) deficiencies. DNB had issued an instruction to take remedial action to meet the relevant statutory requirements locally. This notice was made public by DNB in December 2020. MUFG Bank Europe had been working diligently to comprehensively address the findings and to improve its anti-money laundering operating framework. It has been enhancing its capabilities to contribute to a sound and effective financial crime compliance operation and culture.

The Management Board of MUFG Bank Europe requested the Internal Audit Department to conduct a validation. Internal Audit extensively and critically executed the validation and concluded that MUFG Bank Europe had taken clear and suitable measures, in line with the agreed action plan, restoring compliance in accordance with the requirements that were outlined in the instruction. In addition, Internal Audit identified other areas for improvement, for which concrete action plans have been defined by the Management Board of MUFG Bank Europe. The Dutch central bank (DNB) has been evaluating MUFG Bank Europe, to validate whether the instruction has been addressed in full. The examination has commenced in July 2021 and is expected to be finalised by October 2021.

The Management Board is responsible for developing, communicating and enforcing standards on integrity, morals and leadership at MUFG Bank Europe. It stimulates a healthy culture at both the top of the bank and throughout the organisation.

A lifelong education programme for members of the Management Board has been established. The board participates in MUFG Bank Europe's e-learning sessions on topics such as the code of conduct and compliance. 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 board members' expertise up to date and aligned with regulatory developments.

Composition of the Management Board

Composition of the Management Board

President and CEO – Mr Hideaki Takase

Mr Takase has deep experience in corporate banking and business management, having served MUFG in distinguished leadership positions in Japan and the United States during his 28-year career. As CEO, he oversees and develops the bank's business strategy and internal controls.

Deputy President and Chief Risk Officer – Mr Maarten Rosenberg

Mr Rosenberg gained vast experience and knowledge of risk management, administrative organisation and internal control procedures in various national and international managerial positions at Rabobank. As well as in-depth knowledge of Know Your Customer and Customer Due Diligence procedures, he has experience in financial markets, financial products and corporate lending.

Chief Strategy and Planning Officer – Mr Nobuki Hatano

Mr Hatano has almost 25 years of experience in the financial sector, having held a variety of planning and project positions and worked on large strategic initiatives. With a long history at MUFG in various divisions and postings in the US, Japan and the UK, Mr Hatano has in-depth experience of our global organisation. He joined MUFG Bank Europe in early 2019.

Chief Operations Officer – Ms Elena Shakhurina

Ms Shakhurina joined MUFG in 2005. Before becoming Chief Operations Officer of MUFG Bank Europe, she helped establish the bank's presence in Moscow, where she spent 14 years and most recently served as President of MUFG Bank (Eurasia). Ms Shakhurina has broad experience in IT, operations, internal control and data management. Besides her role as Chief Operations Officer, she is also the sponsor of inclusion and diversity at MUFG Bank Europe.

Chief Financial Officer – Mr Mark Selles

Mr Selles has a wealth of experience in the banking sector, having worked at major financial institutions across Europe in roles including several executive positions as CFO and COO and non-executive director positions. His areas of expertise include finance, accounting, regulatory reporting and liquidity, asset & liability management.

Contributing to sustainable development

Contributing to sustainable development

As a financial services provider, we recognise the importance of sustainable growth and are committed to developing durable long-term relationships with both our clients and society. As we say in the MUFG Way: *"We are committed to empowering a brighter future. All of our stakeholders are overcoming challenges to find a way to the next stage, towards sustainable growth. We at MUFG will make every effort to help realise these goals. This will be our unchanging purpose now, and into the future"*.

We actively seek solutions to environmental and social issues through the financial services we provide. Globally, MUFG has set a goal of 35 trillion yen for sustainable finance investment by 2030, of which 8 trillion yen will be used for environmental finance. We finance renewable energy projects and underwrite and distribute green bonds. In the social arena, we actively foster start-up companies, which creates jobs, and finance projects that help alleviate poverty. At MUFG Bank Europe, we are committed to contribute to meeting this sustainable finance investment of 35 trillion yen. MUFG issued a Carbon Neutrality Declaration, pledging to operating net-zero for own emissions in 2030 and to achieve net zero emissions of our finance portfolio by 2050. MUFG Bank Europe is committed to contribute to these targets with its best efforts.

International initiatives

MUFG is committed to supporting achievement of the United Nations Sustainable Development Goals (SDGs) and the goals set out in the Paris Agreement on climate change.

MUFG Bank Europe's ESG Policy is also spearheaded by the seven UN SDGs, focused on these seven UN SDGs.

In addition, MUFG endorses international frameworks and initiatives including:

Embedding ESG

Contributing to sustainable development

To effectively integrate sustainability considerations into MUFG as an organisation, we have a governance framework for sustainability that includes a global Chief Sustainability Officer and a sustainability committee. MUFG Bank Europe has two ESG coordinators who are part of MUFG's global ESG framework and participate in an MUFG Bank Europe-wide ESG working group which spans the multiple locations across MUFG Bank Europe and various functional areas. The ESG coordinators and ESG working group directly report into the MUFG Bank Europe Chief Strategy & Planning Officer, Nobuki Hatano. In 2020, MUFG Bank Europe adopted its own ESG policy, setting out its internal and external targets and ambitions for ESG.

The MUFG global Environmental & Social Policy Framework is a company-wide basis for realising environmental and social considerations. It also identifies transactions that MUFG no longer intends to pursue or aims to limit in the interests of the environment and society. In place since 2019, the framework establishes that we would not finance new coal-fired power plants. MUFG has added oil and gas (oil sands and Arctic development) to the list of restricted transactions, which also includes transactions involving the palm oil sector, coal mining and forestry. MUFG reviews this framework annually or whenever deemed necessary.

To enable our wider employee base to learn more about and contribute to ESG, we held MUFG's first Sustainability Week in January 2021. This fully virtual week offered a range of internal and external events on topics such as sustainability strategy & goals; plant-based eating; sustainable cities & transportation; and inclusion & diversity. The inspiring week showed employees not only what MUFG Bank Europe does as an organisation to contribute to a sustainable and social future, but also ways in which employees themselves can contribute with the organisation's support. The event was well received and the ESG working group plans to organise further ESG-related events for employees in the future.

ESG risk management

We recognise ESG risks, especially the risks arising from climate change and the accompanying change to the environment. The risks arising from climate change can be divided into physical risks and transition risks, both of which are crucial to how we assess and manage ESG risks.

Physical risks are a direct consequence of changes to our climate and environment due to global warming. They can be either acute risks such as floods, drought or extreme weather situations, or chronic risks that for example stem from land degradation or rising water levels.

Transition risks largely stem from policy changes to progress towards a low carbon economy, although they also have a market risk dimension. Transition risks arise due to policy changes, technology, reputational impacts and shifts in consumer or market preferences that arise due to climate change.

For the purposes of risk management, we consider climate risks as drivers for other risk types, such as credit risk, market risk or operational risk. At MUFG Bank Europe, we focus particularly on credit risks arising from climate change and the impact these risks may have on our portfolio.

MUFG Bank Europe is involved in a MUFG EMEA-wide project that is focused on data metrics and scenario analysis for climate risk. The project is expected to run until the end of 2021 to further develop and embed the climate risk factors into BAU.

- The goal of the 'scenario analysis' is to develop and implement short-term and long-term scenarios to identify risks from climate change and measure the impact of such risks on the company's overall risk profile and business strategy. The aim is to establish a suite of multi-decade scenarios that are climate dependent and that can be used to identify potential strategic actions, which management could consider for MUFG Bank Europe's portfolio;
- The aim of the 'data metrics' is to integrate climate risk into the credit lifecycle, from deal screening, onboarding and annual credit risk assessment as part of BAU and to effect the decision making process. This also includes the development of a 'specific climate change focused questionnaire', currently being trialed to be used for client engagement to better understand specific risks, transition plans and to assess the financial risk which are related to climate change for that specific client.

Social impact

Contributing to sustainable development

We encourage employees to participate in initiatives that help us at MUFG take responsibility in society. Last year, such initiatives included a competition that saw employees send in photos of their workstation at home and donate to charities involved in tackling the impact of COVID-19 across the globe. The contest generated 114 entries from 12 EMEA locations, with efforts included MUFG prize donations. These were donations made by MUFG to Covid-19 relief funds of charities chosen by the winners.

Last October, employees collectively ran, swam or cycled 34,128 km, raising donations to support the work of Laureus Sport for Good to help end violence and discrimination around the world. The money will be used to support initiatives that protect vulnerable children and young people, specifically in the EMEA region.

Since 2013, MUFG in EMEA has partnered with JA Europe, a non-profit provider of education programmes for entrepreneurship, work readiness and financial literacy. Last year, we joined forces with JA Europe to host our first-ever virtual financial education workshop, to educate young people on how to manage their money and make wise financial decisions for their future. In 2019-2020, MUFG volunteers donated almost 2,000 hours to JA Europe's financial education and employability programmes.

In Amsterdam, where MUFG Bank Europe's head office is located, we helped support primary school children when schools were closed during lockdown. We supported a City of Amsterdam fundraising initiative to purchase 3,000 computers so pupils could access necessary schoolwork. MUFG Bank Europe did not hesitate to make a donation, which corresponded to around 70 computers that were made available to families in need.

MUFG Bank Europe plays a key part in supporting MUFG EMEA's sustainable finance solutions.

Outlook

MUFG Bank Europe currently faces both external and internal challenges that are expected to impact its business performance and overall profitability. The economic operating environment remains fluid and will pose structural challenges for the bank. In particular, persistently negative interest rates in the eurozone, as well as mounting cost pressures driven by increased or stricter regulatory compliance requirements, will put further pressure on the overall profitability of MUFG Bank Europe going forward.

MUFG Bank Europe faces underperformance due to the competitive market, as well as rising personnel costs resulting from expansion of the head office function in Amsterdam, which further contributes to the deterioration in profitability.

The Management Board is committed to improving MUFG Bank Europe's profitability in a controlled manner over the next three years, in line with these expectations. To address our internal and external challenges, and to restore MUFG Bank Europe to a financially sustainable and viable path, our three-year MTBP will focus on three strategic directions:

- Increasing revenue by leveraging the MUFG global network and capability, expanding our product capability and strengthening the client portfolio.
- Reducing costs by reducing complexity within our organisation and further optimising our business model.
- Maintaining strict internal control and governance by balancing initiatives with regulatory requirements and implementing initiatives under the MTBP in a controlled manner.

Liquidity and capital adequacy

The BIS total capital ratio was 20.6% at 31 March 2021 (31 March 2020: 16.9%). The amount of Own Funds decreased slightly (31 March 2021 € 2.029 million, 31 March 2020 € 2.070 million). The increase of the total capital ratio is as a result of the reduction of the Total Risk Exposure Amount from € 12.2 billion to € 9.8 billion. This decrease was mainly driven by a reduction of risk weighted exposure amounts to corporates from € 10.1 billion to € 8.3 billion.

The liquidity coverage ratio (LCR) increased from 144% at 31 March 2020 to 167% at 31 March 2021. The average value of the LCR during the year ended 31 March 2021 was 166%. The Net Stable Funding Ratio was 118% at 31 March 2021, an increase from 109% at 31 March 2020.The increase of the deposits from Non-Financial corporates is the main reason for the increase of the NSFR. The LCR has increased mainly because of the increase of High Quality Liquid Assets whereas the Net Liquidity outflow has remained more or less stable throughout the year.

MUFG Bank Europe is placing and taking funds with the Global Markets Division for EMEA of the parent bank, MUFG Bank, London. At 31 March 2021, the bank had placed € 2.9 billion (31 March 2020: € 2.2 billion) with the parent bank and related parties.

MUFG Bank Europes' liquidity and capital management continues to be focused on maintaining ratios in excess of externally required levels.

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.

MUFG Bank Europe implements the principles of the Dutch Banking Code. The principles fit within the corporate governance principles applied by MUFG Bank Ltd. and our ultimate parent, MUFG Inc. The Dutch Banking Code application is available on the MUFG Bank Europe website: here.

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

Mindful of the characteristics of and circumstances surrounding MUFG Bank Europe as explained below, we have decided not to apply the following provisions of the Dutch Banking Code:

- No remuneration is paid to Supervisory Board members employed by MUFG Bank, pursuant to the MUFG Bank group policy in this respect.

Dutch Banking Code

- Regarding 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% are Supervisory Board members who would not be considered independent. Pursuant to the by-laws of MUFG Bank Europe, the chairperson of the Supervisory Board is independent and in each meeting the independent members are jointly capable of casting at least half the votes.

The reasons for not applying these provisions of the Dutch Banking Code result from the following characteristics and circumstances of MUFG Bank Europe:

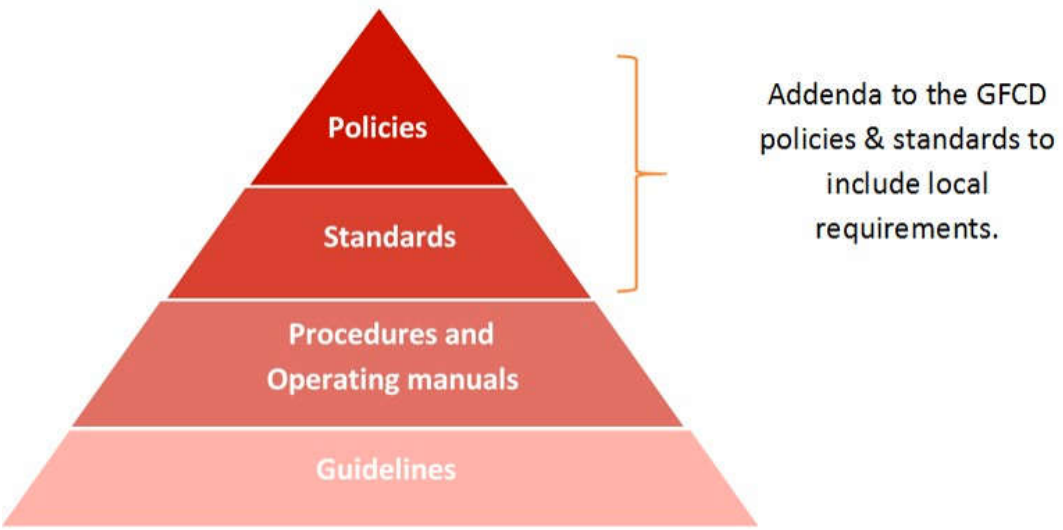
- MUFG Bank Ltd. is the sole (100%) shareholder of MUFG Bank Europe; as a consequence, the shares of MUFG Bank Europe are not listed.
- The shareholder, MUFG Bank, also acts as the global head office of MUFG Bank Europe, implying central oversight in key areas such as risk management, compliance, internal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

Financial Crimes Compliance

MUFG Bank Europe is committed to supporting the integrity of the financial system and combatting financial crimes across its operations. Financial crimes include money laundering, financing terrorism, violating sanctions, and anti-bribery and corruption (collectively, 'financial Crimes' or FC). As a wholly-owned subsidiary of MUFG, MUFG Bank Europe is expected to adopt MUFG's global financial crimes compliance (FCC) policies and standards (GFCD policies & standards), abiding by and consistent with the laws, rules, and regulations applicable to the jurisdictions in which MUFG Bank Europe operates. The GFCD policies & standards have been defined based on international laws, regulations and best practices.

Financial Crimes Compliance Policy Framework

MUFG Bank Europe works in alignment with the GFCD policy framework, which includes a number of underlying controls, such as KYC, sanctions screening and post-event transaction monitoring. The GFCD policy hierarchy, and addenda to include local requirements, are explained below:



Financial Crimes Compliance

The framework encompasses the following KYC/AML documentation :

- Policy: this defines the bank's financial crime compliance programme (including AML, sanctions & ABC programme), setting high-level requirements for FCC risk management across the bank.
- Standards: these expand on the high-level requirements defined in the policies, providing additional details on roles & responsibilities and key compliance activities that fall under the policy's purview.
- Addenda: local addenda address unique requirements that are not covered, or are insufficiently covered, in GFCD policies & standards. Addenda are only created to policies & standards and not to any other document in the hierarchy.
- Procedures and operating manuals: these help us implement the requirements of the policies & standards, and provide the basis for interpreting those requirements.

Guidelines: These establish recommended practices with respect to a policy, standard or procedure and/or provide information on specific topic related to FCC policy, standards or procedures.

Financial Crimes Compliance Policies

MUFG Bank Europe has adopted the four GFCD policies, and where appropriate has drafted addenda to cover any additional requirements for the Dutch market. The policies and their most recent approval dates are as follows:

- Financial crimes compliance policy – last approved January 2021
- Anti-money laundering policy – last approved January 2021
- Sanctions policy – last approved January 2021
- Anti-bribery and corruption policy – last approved July 2020

Once policies and underlying standards have been adopted, the Compliance department implements the requirements via procedures and operating manuals, with activity managed by Compliance. Alternatively, the department supports the relevant MUFG Bank Europe departments to create their own procedures and operating manuals. Compliance does not directly manage the activity. This process was begun in 2020, and will continue throughout 2021.

Risk Management

The risk control framework of MUFG Bank Europe is based on the three lines of defence model, enabling the organisation to operate and grow in a sustainable and balanced manner within its risk appetite, which is set by the Management Board and approved by the Supervisory Board. Over the course of 2020, MUFG Bank Europe continued to invest in developing its risk control environment, to support MUFG's ambition to be the world's most trusted financial group. The main focus was on non-financial risks. This resulted in structural improvements in risk identification, assessment and monitoring. More detailed insights are available in MUFG Bank Europe's critical processes and risk controls. For all identified residual risk, we have allocated ample capital buffers (i.e. pillar 2 capital) to enable the absorption of any potential unexpected losses, including costs of remediation.

Risk appetite statement

MUFG Bank Europe's risk appetite is driven by its client-centric strategy and long-term rating ambition. In line with our business model and the accepted impact of ongoing strategic change projects, MUFG Bank Europe has a receptive appetite for credit risk, strategic risk and operational risk and a conservative risk appetite towards interest rate risk. We are risk averse or conservative on other risk types. Actual risk appetite levels are set conservatively within the boundaries of capital and liquidity capacity. The company determines its risk appetite levels ranging from Avoid (not taking the risk or fully mitigating) through Averse (accepting a low risk level), to Conservative (accepting low to moderate risk levels) and Receptive (accepting moderate to high risk levels). This strategic approach adheres to MUFG EMEA's terminology and risk appetite levels. Within MUFG Bank Europe, risk materiality levels are expressed in terms of 12-month losses under normal adverse conditions. In this context, 'low risk' means a loss below €1 million, 'low to moderate risk' means a loss within the €1 million-€15 million range, 'moderate risk' means a €15 million-€30 million loss, 'moderate to high' means a €30 million-€50 million loss and 'high risk' means a loss of €50 million or more.

Risk Management

Covid-19

In the final quarter of the 2019 financial year, MUFG Bank Europe, like the rest of the market, was confronted with the worldwide outbreak of the Covid-19 pandemic. In the financial year 2020, we proved to be resilient. While the economic impact of the crisis continues, we expect the direct and indirect financial impact to MUFG Bank Europe to be within our loss absorption capacity. We consider credit risk on the current portfolio to be moderate and decreasing, as it was pre-Covid. As such, we have not witnessed any material idiosyncratic credit risks.

The bank conducts sensitivity analyses and stress tests on credit risks within the loan portfolio, whereby we closely monitor specific clients that may be affected by the challenges caused by Covid-19. To identify the sensitivity towards credit risk, stress testing is frequently performed as a measurement tool, whereby we assess the impact of expected credit losses. In addition, we have put in place additional monitoring within the credit assessment process, focusing on economic and business projections during credit applications.

At the same time, resources and IT infrastructure pressure on our business operations increased last year as offices ran on skeleton staffing and people worked remotely. This meant our operational risk profile further increased to within the 'high risk' level.

Mitigating actions: MUFG Bank Europe has a solid crisis management structure, which was activated at the onset of the crisis and remains in place to support our clients. Throughout the entire crisis management period, senior management has closely monitored and managed the situation in alignment with MUFG headquarters and the regional head office for MUFG EMEA. Efforts on remote IT infrastructure were accelerated to ensure critical operations could continue and enable staff members to work from home or alternative office locations. In parallel, additional controls have been implemented to monitor IT and cyber risks through both the Systems division and supervision by the second line of defence Operational Risk Management division.

Strategic risk

Strategic risk relates to the viability of MUFG Bank Europe's business model and our ability to adequately respond to changes in our external and competitive environment. The company has a receptive appetite towards strategic risk. Several developments are affecting our strategic risk profile.

- Brexit has led to a reconsideration of the UK's position within the EMEA region in terms of the service offering to EU clients, resulting in an inflow of business to MUFG Bank Europe.
- The introduction of the EU regulation on Intermediate Parent Undertaking (IPU) under CRD V, applicable to non-EU banking groups with large EU operations by 30 December 2023, might require a restructuring of MUFG Bank Europe's balance sheet and operating model. This has affected our profit model and risk profile.
- Profitability within MUFG Bank Europe has been under pressure as the continued low interest rate environment creates challenges to generating sustainable business growth within financial targets and our strategic risk appetite.

Mitigating actions: Strategy is high on the Management Board's agenda. In 2021, an updated MUFG Bank Europe strategic roadmap for the next three years will be put in place, which is fully aligned with MUFG's global plans and is within our receptive risk appetite. The strategy will include the rollout of more effective strategic risk controls in planning and execution.

Market risk

For MUFG Bank Europe, any exposure towards market risk only increases with the extended bank's exposure towards foreign exchange risk. As in the previous year, the control framework is in place and continues to effectively ensure that FX risks remain within the risk limits of our averse risk appetite. As a result, our current exposure towards FX risk does not exceed that appetite under normal (yet adverse) market conditions.

Balance sheet risk

Balance sheet risk is the risk inherent to the structure of the balance sheet of the bank. This includes risks arising from mismatches in own funding and liquidity, maintaining capital adequacy, interest mismatch

Risk Management

position, and the translation of assets and liabilities held in another currency. Over 2021, our balance sheet risk has remained at low risk levels. This means that only if the company were experiencing extremely severe stress events would this be identified as risk. Due to MUFG Bank Europe's substantial buffers and adequate risk control measures, which are in line with our averse risk appetite, we have an effective balance sheet risk procedure.

The risk profile for interest rate risk in the banking book (IRRBB) is medium, reflecting a normal maximum loss to be safely within MUFG Bank Europe's conservative risk appetite.

Credit risk

MUFG Bank Europe has a receptive risk appetite for credit risk. Current credit risk controls allow for exposure towards credit risk, resulting in a certain potential loss under normal business conditions. Credit losses of previous years have adhered to this boundary and credit loss provisioning reflects this exposure. We continue to work on further enhancing our efforts to support managing credit risks within the company's risk appetite. These enhancements include developments in credit risk assessments by means of the credit rating methodology, as well as increased insights into country of risk assessments. Collateral management is expected to receive additional attention, in line with the type of business transferring to MUFG Bank Europe's balance sheet post-Brexit.

Given our conservative methodologies used to determine required regulatory capital for credit risk exposures, MUFG Bank Europe is very well capitalised to absorb (highly unlikely) extreme credit losses. This is reflected our more than €1 billion of regulatory capital specifically allocated to absorb unexpected credit losses (i.e. pillar 1 and pillar 2 capital).

Operational risk

Within MUFG Bank Europe, improvement of our operational risk control framework is a key success factor, since exposure to potential operational risks is recognised to be at the high end of the desired risk appetite. This is caused by certain gaps in policies and procedures, resulting in limited insight into residual operational risk. These gaps were mostly remedied during FY2020.The residual risk is driven by these factors:

- Risk controls within the business divisions (first line of defence) need to be further enhanced.
- There is a low level of automation in operational processes.
- Multiple change projects are running in parallel, putting pressure on resources and change capacity.
- IT risk in general is considered relatively high. Further enhancements to IT infrastructure and governance are needed, to reduce the gross risk and to strengthen the risk control framework.

Mitigating actions: Operational risk has been one of the key focus areas for enhancement within MUFG EMEA since 2019, with its governance now mostly in place. To improve risk control within the business divisions, MUFG Bank Europe started to implement risk & control self-assessments and issue management in 2020. This has already resulted in increased awareness and improved monitoring of operational risk. Based on these measures, we expect the identification, measurement and management of operational risks to further improve in 2021 and 2022. To reduce IT risk, a multi-year improvement plan on IT governance and infrastructure has been initiated to address any weaknesses and to achieve the required maturity level of our IT infrastructure by end-2022. Additionally, a new leadership team within IT has been appointed to further accelerate initiatives for reducing the bank's exposure towards IT risk and improving IT risk controls.

Integrity risk

Our integrity and compliance risk management framework is evolving further on the back of regulatory and business developments, as well as the rollout of MUFG's global framework. MUFG Bank Europe's exposure to potential integrity and compliance risk requires maintaining adequate controls to prevent financial loss, penalties or reputational damage as a result of non-compliance with rules and regulations, involvement in criminal activities, conflicts of interest, fraud and socially inappropriate conduct. This remains a top priority.

Over the course of FY2020, we further implemented second line risk controls to better identify and assess integrity and compliance risks. We are performing several implementation and remediation projects to update our policies, procedures, products and systems so they adhere to regulations such as MiFID 2, EMIR, PSD 2, GDPR and IBOR. We are also enhancing internal policies on clients and products with respect to client tax integrity, ESG topics, fraud, cybercrime and duty of care.

In July 2019, the Dutch central bank (DNB) issued an instruction to MUFG Bank Europe addressing anti-money laundering/combatting the financing of terrorism (AML/CFT) deficiencies. DNB stated that MUFG Bank Europe violated AML/CFT regulations by lacking an adequate systematic integrity risk analysis (SIRA), and having inadequate measures to detect and manage integrity risks and an ineffective compliance framework for transaction monitoring. This notice was made public by DNB in December 2020. MUFG Bank Europe has been working diligently on improving its anti-money laundering operating framework and enhancing its capabilities to contribute to a sound and effective financial crime compliance operation and culture.

Regulatory risk

It remains challenging for MUFG Bank Europe to fully assess potential losses and any potential impact resulting from non-compliance due to changes in laws and regulations. We will therefore further invest in improving our control framework, to detect the impact and predictability of regulatory and legal changes.

MUFG Bank Europe is aware of certain gaps in (the execution of) policies and procedures, leading to potential ineffectiveness in ensuring that we control regulatory risk within our averse risk appetite.

Regarding external factors, our risk exposure is mainly affected by increasing regulatory scrutiny and the regulatory pipeline in the short to medium term. In the year ahead, the regulatory landscape is expected to be dominated by increased requirements around environmental, social and governance, data and technology and implementation of the CRR2/CRD5 banking package.

Mitigating actions: To reduce the risk of adverse impacts of regulatory changes and non-compliance with existing regulations to a level suited to our averse risk appetite, we maintain an active dialogue with the various supervisory bodies on new regulations. We embedded a regulatory change process to manage implementation of new regulations with a specialised department, the Regulatory & Programme Office. This department uses a project-based approach together with the Planning Department, to monitor and assess the implementation of new regulations and required remediation. Over the coming years, we plan to further enhance our regulatory risk control framework, to better enable control procedures. This will enable us to better demonstrate that we adhere to all existing rules and regulations, as well as ensuring that changes to regulations are adequately addressed.

Conclusion

We have allocated ample capital buffers to absorb losses caused by necessary further improvements to our risk control frameworks across risk types. However, MUFG Bank Europe's risk management framework is undergoing bespoke developments to ensure risks are maintained within its risk appetite.

While we consider control frameworks for key financial risks to be adequate to manage risks within our risk appetite, further improvements to the risk control frameworks are required for several risk types, so we can achieve our ambition to be able to effectively identify, measure and mitigate risks within our risk appetite.

Internal Audit

The Internal Audit function forms an essential part of the control mechanism of MUFG Bank Europe. 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 MUFG Bank Europe 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 Chief Auditor initiates a meeting with DNB, as an opportunity to exchange views on relevant risks, assurance and supervision priorities.

Internal Audit

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.

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

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

In FY20, Internal Audit completed 24 individual engagements, including eight regional engagements where MUFG Bank Europe was in scope. This is similar to the previous year (24) and in proportion with the 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.

The Internal Audit assurance activity covers processes and controls which support the Finance division, ultimately to help safeguard the accuracy of the bank's financial statements. An example during FY20 was an independent evaluation of the key controls around the way in which revenues are split between MUFG Bank Europe and its affiliates in the wider MUFG group.

Proposed profit appropriation

There is no net profit for the year ended 31 March 2021. Therefore, there is no proposed dividend payment for this period.

Gratitude

We wish to express our sincere gratitude to our employees, clients, business partners and our parent banks, MUFG Bank and MUFG Inc., for their continuous support during the year to 31 March 2021.

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 MUFG Bank Europe, its financial position and net profit. The Management Board also declares that to the best of its knowledge the Financial Statements provide a true and fair view of MUFG Bank Europe regarding its position as at balance sheet date, the business performance during the year referred to in the Financial Statements, and the material risks MUFG Bank Europe was exposed to.

Amsterdam.

21 July 2021

H. Takase

M.F. Rosenberg

N. Hatano

E. Shakhurina

M.A.B. Selles

Report of the Supervisory Board

Supervisory Board

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

The role of the Supervisory Board, as laid down in MUFG Bank Europe's articles of association and Supervisory Board by-laws, lies with the Supervisory Board collectively. The Supervisory Board has established an Audit, Compliance and Risk Management (ACR) Committee. Taking into consideration the characteristics of the bank and its position within the broader financial group, as well as the size of the Supervisory Board, we have decided not to establish separate committees for remuneration or nomination, instead this role is full-filled by the Supervisory Board itself.

As well as holding regular meetings, the Supervisory Board has frequent direct contact with Management Board members and with senior leaders. The Management Board consults with the Supervisory Board on a regular basis outside of the ACR Committee and Supervisory Board meetings. If and when required, it also keeps the Supervisory Board informed of important developments within the bank.

Supervisory Board members have a lifelong learning programme. In the year to 31 March 2021, trainings were offered on human resources, employee engagement and ESG. In addition, the independent board members of the Supervisory Board performed deep-dives on specific topics organised to support additional insights that have an impact on MUFG Bank Europe and attended a course to learn more about Japanese culture.

Composition of Supervisory Board

Composition of Supervisory Board

The Supervisory Board has drawn up a profile to be used as a basis for its composition. As of the 31st March 2021 the Supervisory Board consists of four members. Supervisory Board has consisted of four members. Two members of the Supervisory Board are employed by MUFG Bank Europe's parent, MUFG Bank. The Chairman is an independent member.

The Supervisory Board members have extensive knowledge in fields such as banking and finance, corporate governance and risk management

Chairman – Mr Wietze Reehoorn

Mr Reehoorn joined the Supervisory Board on 3 June 2020, taking over the position of Chairman from Wilfred Nagel. Mr Reehorn is a highly experienced figure in the Dutch banking sector. He spent 30 years at ABN AMRO, where he worked 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 a member of ABN AMRO's management board for eight years, concluding his tenure in 2017. Mr Reehoorn is also a board member at the National Bank of Greece.

Vice Chairman - Mr Takanori Sazaki (resigned 15th June 2021)

Mr Sazaki joined the Supervisory Board on 5 June 2019 as Vice Chairman. He was the Regional Executive for MUFG EMEA until April 2021, and is currently Regional Executive for the Asia Pacific region. Mr Sazaki has worked at MUFG for more than 30 years in Asia, the US and EMEA and has broad experience in investment banking and governance matters.

Vice Chairman - Mr Katsunori Yokomaku (effective 15th June 2021)

Mr Yokomaku joined the Supervisory Board of MUFG Bank Europe on 15 June 2021 as Vice Chairman. Mr. Yokomaku is currently one of MUFG's Deputy Regional Executives for EMEA. He has a long track record at MUFG, where he has worked for almost 30 years. He has held positions in Japan, Singapore, the US and the UK. He has served in a variety of roles, including Chief Manager of Regulatory Affairs, Deputy Chief of Staff and Deputy Chief Financial Officer for MUFG Americas, and Global Head of Internal Audit.

Member – Mr Kerry Peacock

Mr Peacock joined the Supervisory Board in September 2016 as Vice Chairman, a role he handed over to Mr Sazaki in June 2019. Mr Peacock began his second term in September 2020. He has more than 30 years of experience in the banking sector and specific knowledge of MUFG, as he has led the EMEA Operations division for MUFG Bank since 2008. Mr Peacock has been a member of several committees within MUFG, which gives him a broad and in-depth understanding of internal codes and procedures at MUFG.

Member – Ms Gisella van Vollenhoven-Eikelenboom

Ms van Vollenhoven-Eikelenboom became a member of the Supervisory Board and Chair of MUFG Bank Europe's Audit, Compliance and Risk Management Committee on 31 March 2020. Ms van Vollenhoven-Eikelenboom holds several non-executive positions, including with a.s.r. and Waarborgfonds Sociale Woningbouw. Most recently, she worked for De Nederlandsche Bank (DNB), working closely with the European Central Bank on a range of risk-related issues. Prior to this, she worked at ING for 16 years in a variety of roles, most notably managing its risk management function between 2006 and 2012.

Meetings of the Supervisory Board

The Supervisory Board held seven regular meetings in the year to 31 March 2021. All members were either physically present at these meetings, or else were represented or attended via video conference.

The Supervisory Board discussed a great number of subjects with the Management Board, including risk management, credit provisioning, integrity, corporate governance, business development and the Dutch Banking Code, in order to assure itself through its own examination of the adequate management of risk and the control framework of MUFG Bank Europe. In 2020, several dedicated sessions were arranged to discuss the new medium-term business plan.

The Chairman of the Supervisory Board also discussed with the Management Board relevant topics related

Meetings of the Supervisory Board

to the Dutch Banking Code, Basel III, the ICAAP/ILAAP process and IT issues.

Members of the Supervisory Board consulted with the external auditor Deloitte, the head of the Internal Audit division, 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 provider of overall governance for reward at MUFG Bank Europe, the Supervisory Board reviewed the bank's reward policy, individual remuneration for the Management Board and all other staff identified as material risk takers (MRTs), and approved these.

The Supervisory Board and/or its Chairman had meetings with representatives of Dutch central bank on issues such as capitalisation and liquidity, risk assessment, outsourcing, governance, the Asset & Liability Management and Know Your Customer.

During the year, the Supervisory Board focused on the following areas and activities:

- MUFG Bank Europe's business development, financial position and results, in combination with the MTBP.
- Internal projects relating to the integration of branches within existing MUFG Bank Europe structures.
- The bank's compliance with legislation, codes and regulations.
- MUFG Bank Europe's risk appetite, risk framework and strategy, as well as its governance.
- The development of functional lines in the Continental European organisation.

Several actions were taken to enhance MUFG Bank Europe's governance and internal control framework, including the implementation of new policies and procedures.

Audit, Compliance and Risk Committee

The Audit, Compliance and Risk Management (ACR) Committee assembles on a quarterly basis. The committee is composed of the independent Supervisory Board Members and chaired by Gisella van Vollenhoven-Eikelenboom.

The committee advises the Supervisory Board by ensuring that matters affecting MUFG Bank Europe's internal control framework are adequately discussed and challenged. This is achieved by holding regular meetings with Internal Audit, Compliance, Risk Management and relevant Management Board members, as well as with the external auditors of MUFG Bank Europe, as required. The activities of this committee do not impair the collective responsibility of the Supervisory Board itself.

Topics discussed in the ACR Committee include:

- The annual report. Based on the work performed by MUFG Bank Europe's external auditors, the ACR Committee discussed and challenged the underlying content, paying specific attention to Covid-19 impact and related disclosures, as well as the way MUFG Bank Europe aims to address financial results in its future strategy. The overall audit process, as well as the division of roles and responsibilities, was also discussed, to ensure that potential improvements are duly noted for future cycles.
- MUFG Bank Europe's risk appetite. The committee discussed and challenged proposed changes to MUFG Bank Europe's risk appetite based on internal factors such as the updated MTBP, and external factors including Covid-19, particularly in relation to strategic, operational, fraud and tax-related risks. This resulted in action items for the committee members, as well as changes to the risk appetite statement, ensuring alignment with the bank's risk profile.
- Increased regulatory requirements. The ACR Committee was regularly informed about the regulatory horizon, on-site visits planned by the regulator, and progress made on remediation activities related to regulatory findings. As regards the Supervisory Review and Evaluation Process (SREP), a dedicated ACR session was organised to ensure that the content was duly discussed and challenged. A similar session has been organised for the Systematic Integrity Risk Analysis, to ensure that Dutch regulatory requirements are met. Additionally, the ACR Committee challenged MUFG Bank Europe's position on emerging regulatory focus areas such as climate risk, in order to ensure sufficient efforts are made to address such topics.
- Annual plan of key functions. To make sure the bank has a robust second line of defence in place, the

Audit, Compliance and Risk Committee

annual compliance plan was thoroughly discussed within the ACR Committee. The internal audit plan was also discussed, to ensure that an adequate level of assurance is provided from a third line of defence perspective in key areas of risk for MUFG Bank Europe.

Remuneration

The MUFG Bank Europe reward policy is the cornerstone of our approach to rewarding employees. It promotes sound and effective risk management and does not encourage risk-taking that exceeds the bank's level of tolerated risk. Its objective is to align our strategic objectives and core values with the reward for employee performance, while ensuring compliance with regulatory requirements. The reward policy allows us to offer locally competitive pay that attracts and retains employees, while operating a consistent reward framework.

Our reward policy complies with the Act on Financial Supervision, the 'Regeling beheerst beloningsbeleid Wft 2014', and the principles under CRD IV, CRDV and MiFID II. MUFG Bank Europe has also taken into consideration the EBA's Guidelines on Sound Remuneration Policies. The policy includes a variable remuneration scheme paid to material risk takers, which includes metrics that are considered transparent and promote the integrity of MUFG Bank Europe. These are disclosed in Note 27, Key Management Personnel Remuneration. As part of annual governance, the reward policy is reviewed each year to ensure continued effectiveness and alignment with regulations and MUFG remuneration practice. The policy was updated, to align with CRDV and to apply a minimum four-year deferral period for MRTs for the financial year ended.

The Supervisory Board is responsible for evaluating the reward policy adopted for 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 Management Board's implementation of the reward policy. In establishing the MUFG Bank Europe reward policy, the following MUFG guiding principles were taken into account:

- The policy shall have a clear link between performance and reward.
- It shall support MUFG Bank Europe's and MUFG's high standards of business ethics.
- It shall embed effective risk and compliance disciplines and 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 suitable employment, tax and equality legislation, and European and local country remuneration regulation.
- 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 MUFG Bank Europe's financial results. Supervisory Board members are not eligible for variable compensation.

For the year to 31 March 2021, MUFG Bank Europe considered input from its entire stakeholder base, including viewpoints, interests, remarks and concerns. Going forward, MUFG Bank Europe is proposing a moderate annual base salary increase linked to an external indexation reference point such as a consumer price index and MUFG Bank Europe's collective labour agreement increases.

Details of the remuneration of Supervisory Board members, Management Board members and MRTs can be found in Note 27 to the consolidated financial statements.

Financial Statements

In accordance with article 15 of MUFG Bank Europe's articles of association, we hereby submit to the shareholder the Financial Statements for the year 1 April 2020 to 31 March 2021, 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.

The macro-economic environment remained challenging during the last financial year which also led to market uncertainty that resulted in a decrease in revenues. Continued higher regulatory and integration expenses have resulted in a loss for the Financial Year. MUFG Bank Europe's strategy is to further enhance efficiency opportunities throughout Europe to serve its clients and improve efficiency.

Financial Statements

In the beginning of Financial year 2021 MUFG Bank Europe announced its renewed medium term business plan internally. In the near future the focus will be on improving operating efficiency and improve MUFG Bank Europe's profitability in order to ensure a sustainable business model on the longer term.

The Supervisory Board has been regularly informed of immediate impact of the Covid-19 pandemic in relation to MUFG Bank Europe's liquidity, capital and credit risks as well as its operational resilience. The Supervisory Board will actively discuss the strategic agenda of MUFG Bank Europe 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 2021. We endorse the proposal by the Management Board to have no dividend payment.

Information, consultation and conclusion

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

Contact between the Supervisory Board and the Works Council took place in a constructive and professional atmosphere.

The relationship between the Management Board and the Supervisory Board is well-established and the Supervisory Board holds the Management Board accountable for its actions. The Supervisory Board explicitly discussed the conduct and effectiveness of each of its members. It concluded that the Supervisory Board as a whole and each of its members function properly.

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

Amsterdam, 21 July 2021

W. Reehoorn

K. Yokomaku

K.W. Peacock

G. van Vollenhoven-Eikelenboom

Consolidated Financial Statements

Consolidated Statement of Financial Position

As at 31 March

in thousands of €s	Notes	2021	2020
ASSETS			
Cash and balances with central banks	2	1,000,587	904,218
Loans and advances to banks	3	4,348,896	3,793,569
Loans and advances to customers*	4	6,592,002	9,603,077
Derivatives	5	32,954	54,042
Financial investments	6	74,744	164,777
Property and equipment	7	17,906	17,282
Intangible assets	8	17,211	18,655
Current tax assets	21	41,011	24,627
Deferred tax assets	21	36,581	48,916
Other assets*	9	35,954	40,450
Total assets		12,197,846	14,669,612
LIABILITIES			
Due to banks	10	3,410,544	5,977,282
Due to customers	11	6,583,556	6,362,363
Derivatives	5	34,783	58,418
Current tax liabilities	21	1,662	8,097
Subordinated debt	12	300,116	300,122
Provisions	13	36,273	61,486
Other liabilities*	14	78,038	117,719
Total liabilities		10,444,971	12,885,487
EQUITY			
Issued capital	15	100,003	100,003
Share premium	15	1,334,304	1,334,304
Retained earnings	15	333,308	357,434
Fair value reserve: financial instruments measured at FVOCI	15	23	(4)
Foreign currency translation reserve	15	328	72
Actuarial reserve	15	(15,158)	(7,715)
Shareholder's equity		1,752,806	1,784,094
Non-controlling interest	15	69	31
Total equity		1,752,875	1,784,125
Total liabilities and equity		12,197,846	14,669,612

*Amounts for the prior year have been reclassified. Please refer to the notes for more information.

Consolidated Statement of Profit or Loss

For the year ended 31 March

in thousands of €s	Notes	2021	2020
Interest income		117,674	182,902
Interest expense		38,187	97,168
Net interest income	16	79,488	85,734
Fee and commission income		30,360	31,403
Fee and commission expense		16,178	15,008
Net fee and commission income	17	14,182	16,394
Result on financial transactions	18	37,108	44,872
Other operating income		351	2,190
Total operating income		131,129	149,190
Personnel expenses	19	87,038	95,574
Depreciation of property and equipment	7	4,470	4,238
Amortisation of intangible assets	8	5,820	4,749
Impairment on fixed assets	8	1,324	-
Other operating expenses	20	55,740	60,042
Total operating expenses		154,393	164,603
Credit loss (recovery) expenses	28	(6,186)	63,364
Profit (loss) before tax		(17,077)	(78,782)
Income tax expense/(benefit)	21	7,049	(14,334)
Net Result Continued Operations		(24,126)	(64,448)
Attributable to:			
Owners of MBE (equity attributed to the shareholder of MBE N.V.)		24,089	(64,449)
Non-controlling interest		37	1

The comparative figures for the year ended 31 March 2020 in the Consolidated Statement of Profit or Loss have been reclassified to align the current year presentation of the consolidation of MUFG Europe Lease (Deutschland) GmbH. The impact resulted in line items included in the Statement of Profit or Loss to be reclassified to reflect the nature of the activities of the subsidiary. More information is included in the notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 March

in thousands of €s	Notes	2021	2020
Result for the year		(24,126)	(64,448)
Items which will not be reclassified to the statement of profit or loss			
Remeasurement of the net defined benefit asset/liability	22	(5,819)	(324)
Items which may be reclassified to the statement of profit or loss in a subsequent period			
Loss on foreign currency translation reserve	22	256	(76)
Gain/ (loss) on financial instruments measured at FVOCI	22	36	(3)
Income tax relating to components of other comprehensive income	22	861	86
Other comprehensive income for the year, net of tax		(4,667)	(317)
Total comprehensive income, net of tax		(28,793)	(64,765)
Attributable to:			
Owners of MBE (equity attributed to the shareholder of MBE N.V.)		(28,830)	(64,766)
Non-controlling interest		37	1

Consolidated Statement of Changes in Equity

For the year ended 31 March

in thousands of €s	Issued capital	Share premium	Retained earnings	Reserves: Fair value	Reserves: Foreign currency translation	Reserves: Actuarial revaluation	Non-controlling interests	Total equity
At 31 March 2019	100,003	1,334,304	421,883	(2)	148	(7,476)	30	1,848,890
Profit for the year	-	-	(64,449)	-	-	-	1	(64,448)
Other comprehensive income	-	-	-	(2)	(76)	(239)	-	(317)
At 31 March 2020	100,003	1,334,304	357,434	(4)	72	(7,715)	31	1,784,125
Opening balance adjustment	-	-	-	-	-	(2,494)	-	(2,494)
Profit for the year	-	-	(24,126)	-	-	-	37	(24,089)
Other comprehensive income	-	-	-	27	256	(4,949)	-	(4,667)
At 31 March 2021	100,003	1,334,304	333,308	23	328	(15,158)	68	1,752,875

The opening balance adjustment of € 2,494 relates to the reversal of a deferred tax asset recognised in previous years, adjusted in the current financial year.

Consolidated Statement of Cash Flows

For the year ended 31 March

in thousands of €s	Notes	2021	2020
Operating activities			
Result before tax		(17,077)	(78,782)
Adjusted for:			
Depreciation, amortisation and impairment of fixed assets	7, 8	11,614	8,987
Credit loss expenses (recovery)	4	(6,186)	63,364
Changes in provisions	13	3,685	5,117
Unrealized revaluations	5	3,915	(3,922)
Changes in:			
Loans and advances to banks, not available on demand	3	28,862	293,820
Loans and advances to customers	4	2,858,402	(40,536)
Other assets	9	4,496	(4,805)
Financial investments	6	90,060	(113,849)
Due to Banks	10	(2,512,299)	494,469
Due to customers	11	335,511	(2,374,663)
Provisions	13	(1,428)	(3,156)
Other liabilities	14	39,243	45,315
Income tax paid	21	(9,948)	(14,957)
Net cash flow from (used in) operating activities		828,848	(1,723,598)
Investing activities			
Purchase of property and equipment	7	(625)	(713)
Proceeds from sale of property and equipment	7	1	14
Purchase of intangible assets	8	(5,697)	(7,583)
Net cash flow (used in) from investing activities		(6,322)	(8,282)
Financing activities			
Repayments of principal portion of lease liabilities	14	(3,030)	(2,497)
Cash flow (used in) from financing activities		(3,030)	(2,497)
Net cash flow		819,497	(1,734,377)
Effect of exchange rate changes on cash and cash equivalents		(107,583)	(3,029)
Cash and cash equivalents as at 1 April		3,187,225	4,924,631
Cash and cash equivalents as at 31 March		3,899,138	3,187,225

Cash and cash equivalents comprise:		2021	2020
Due from banks, net balances on demand	3	2,898,551	2,283,007
Cash and balances with Central Banks	2	1,000,587	904,218
Cash and cash equivalents as at 31 March		3,899,138	3,187,225

Interest received and paid		2021	2020
Interest received		108,721	179,210
Interest paid		37,592	118,123

Accounting policies

1. Accounting Policies for the Consolidated Financial Statements

A. General information

MUFG Bank (Europe) NV (hereafter 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'). As at 26 March 2021 MUFG BS has been liquidated. Please refer to Basis of consolidation.

B. Authorisation of the consolidated financial statements

These consolidated Financial Statements of MUFG Bank Europe for the year ended 31 March 2021 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 2021.

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'), financial assets measured at fair value through other comprehensive income ('FVOCI') and derivative financial instruments, which have all been measured at fair value (FV). The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost (AC), 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.

Accounting Policies for the Consolidated Financial Statements

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

E. Accounting policies
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 2021 comprise the Financial Statements of MBE and the subsidiaries in the following table:

Name of the subsidiary	Country of incorporation	Place	% equity interest 2021	% equity interest 2020
MUFG Business Services (Holland) B.V.*	the Netherlands	Amsterdam	-	100
MUFG Europe Lease (Deutschland) GmbH	Germany	Dusseldorf	95	95
MUFG Funding (UK) Limited	United Kingdom	London	100	100

*MUFG Business Services (Holland) B.V. has been liquidated as per 26 March 2021.

The financial year of MBE's subsidiaries are aligned 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.

In FY20 MBE decided to liquidate MUFG Europe Lease (Deutschland) GmbH by the end of FY23. Following this decision MUFG Europe Lease (Deutschland) GmbH ceased the origination of new client contracts. MUFG Lease will continue to serve its existing client contracts until further decision making takes place.

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.

Accounting Policies for the Consolidated Financial Statements

Going concern

The consolidated Financial Statements of MBE have been prepared on a going concern basis and there are no significant doubts about the ability of MBE to continue as a going concern. In FY20 MBE's capital and liquidity position remained well of above externally required levels despite the impact of Covid-19 impact. MBE has sufficient buffers to withstand severe stress scenarios without breaching currently applicable and likely future capital and liquidity requirements.

MBE's management has made an assessment of its ability to continue as a going concern and is satisfied that it 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 2021 the management is not aware of any material uncertainties that may cast significant doubt upon its 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.

Accounting principles

Significant accounting assumptions, judgements and estimates

In the process of applying the 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 and non-observable market data.

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

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 macro-economic scenarios as well as collateral values when determining expected credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors and changes, which can result in difference levels of expected credit losses

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 selected forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Accounting Policies for the Consolidated Financial Statements

- The associations between macroeconomic scenarios on GDP and the effect on Probability Default, Exposure at Default and Loss Given Defaults.

Reference is made to section (IV) Impairment of financial assets within this note 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 measurement – Classification and measurement of 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, the bank 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 temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences 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.

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.

Accounting policies

Accounting Policies for the Consolidated Financial Statements

Classification and measurement of financial assets
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, MBE measures a financial asset at its fair value, plus in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. MBE first performs the Business Model assessment and then determines whether the contractual cash flows of the financial asset meet the 'SPPI' (sole payment of principle and interest) test.

Business model assessment
MBE determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

• 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.

Portfolios are based on how groups of financial assets are managed together to achieve a particular business objective. 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.

'SPPI' test
As a second step of its classification process MBE assesses the contractual terms of the financial asset to identify whether contractual cash flows represent sole payments of principle and interest ('SPPI'). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of 'interest' within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the 'SPPI' test, MBE applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Measurement categories
MBE classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms ('SPPI'), measured at either:

• Amortised cost ('AC'): Financial assets 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 expected credit loss. 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.

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

Accounting Policies for the Consolidated Financial Statements

• Fair value through other comprehensive income ('FVOCI'): Financial assets 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'. Included in the 'FVOCI' is the fair value less any expected credit loss. Unrealised changes in Fair value are recognised in other comprehensive income. Interest income using the effective interest rate and foreign exchange gains and losses are recognised in profit and loss.

For financial assets measured at 'FVOCI', the expected credit loss is recognised in other comprehensive income 'OCI', instead of deducting the carrying amount of the asset.

• Fair value through profit or loss ('FVPL'): Other financial assets that do not meet the criteria for amortised cost or 'FVOCI' are measured at 'FVPL'. These include financial asset held for trading and derivatives. Changes in Fair value are directly recognised 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 assets 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.

Financial assets – financial investments and supply chain finance transactions
'Financial investments' include Polish government bonds and trade receivables purchased in supply chain financing arrangements, are measured at fair value through other comprehensive income if both of the following conditions are met:

The financial assets are held within a business model with the objective to hold to collect and sell contractual cash flows.

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.

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
MBE applies the 'single unit of account'-principle to all clients with notional pooling contracts that meet the following criteria:

- 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.

Accounting Policies for the Consolidated Financial Statements

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.

Financial guarantees and Loan commitments
In the ordinary course of business, MBE issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised 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.

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 fee and commission income' on a straight line basis over the life of the guarantee.

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.

Financial guarantees and loan commitments that are originated in a business model 'Hold to collect' are recognised at the nominal contractual value, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position and are included in off balance sheet exposures. These financial instruments are in scope of the ECL and derecognition requirements in IFRS 9 and the ECL are included in Provisions.

Loan commitments that are originated in a business model, 'Other' are measured at fair value through profit and loss and not in scope of the ECL requirements in IFRS 9, however the derecognition criteria apply.

Renegotiated loans and modifications
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 expected credit losses is 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 expected credit loss assessment, calculated using the loan's original effective interest rate.

If modifications are substantial, the loan is derecognised, as explained in section II. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of terms. MBE also reassesses whether there has been a significant increase in credit risk, as set out in note 28 and section IV and whether the assets should be classified as stage 3. Derecognition decisions and classification between stage 2 and stage 3 are determined on a case-by case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired stage 3 asset until it is collected or written off.

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

Accounting Policies for the Consolidated Financial Statements

- 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 the statement of 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 the statement of 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.

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. Expected credit losses
MBE records expected credit loss allowance (''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 model.

MBE calculates 'ECL' based on different scenarios to measure the expected cash shortfalls which are 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.

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 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.

Staging
The 'ECL' model is subject to regular validation and back-testing to ensure the 'ECL's 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. Allowance is determined based on probability of default event occurring within the next 12 months ('12-month 'ECL'').

Stage 2: Under-performing assets – Lifetime 'ECL'

Financial instruments that are "close monitoring'' or where a significant increase in credit risk has been identified but it is not in default. Allowance 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 allowances 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

Accounting Policies for the Consolidated Financial Statements

default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due.

Significant increase in credit risk
MBE continuously monitors all assets subject to 'ECL'. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month 'ECL' or life time 'ECL', MBE assesses whether there has been a significant increase in credit risk since initial recognition.

Default
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.

Write-off and debt forgiveness
Financial instruments in scope of '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.As permitted by IFRS 9, MBE continues to account for its hedges applying IAS 39. 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 reporting period. A hedge is expected to be 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%.

For the purposes of evaluating whether the hedging relationship is expected to be 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 income and expenses (interest rate swap). The change in the fair

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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 and included in 'result on financial transaction'.

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

Revenues

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.

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.

Interest income and expense and effective interest rate (EIR)

Interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method.

Interest expense for liabilities measured at amortised costs is also recorded using the EIR.

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 expected credit loss.

Fee and commission income and expenses

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.

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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, such fees are recognised over the same period. The advisory fees which are paid upon meeting certain performance goals 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.

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, prepared 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 and sales and redemptions in respect of financial investments, are included in cash flows from operating activities. Investment activities comprise 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 effects of the consolidation of business acquisitions, where of material significance, are eliminated from the cash flow figures. The difference between the Net cash flow in accordance with the statement of cash flows and the change between the opening and closing balance of Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is presented separately in the cash flow statement

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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 derecognition 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 and self developed intangible assets.

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 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 include prepayments and provisions .

XIII. Contingent liabilities and commitments

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.

XIV. Post employment benefit plans

MBE operated two post-employment schemes, including both defined benefit and defined contribution pension plans for the Netherlands and Germany. On the 31st of December 2020 the defined pension benefit plan implemented in the Netherlands was changed to a defined contribution plan. From 1 January 2021, the Netherlands only operated a defined contribution plan. In Germany, the pension plan remained unchanged.

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Pension plan the Netherlands
Up until 31 December 2020 the defined benefit pension plan in the Netherlands was 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 and settlements are recognised in the statement of profit or loss as past service costs. Amounts that are recognised in other comprehensive income shall not be reclassified to profit or loss upon settlement, but shall be transferred within equity.

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.

A defined contribution plan is a post-employment benefit plan under which an MBE pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. MBE has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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.

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.

XV. Provisions and contingent liabilities
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.

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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.

Uncertain tax positions

Uncertain tax positions are assessed continually by MBE and in case it is probable that there will be a cash flow, a current tax asset or liability is recognised.

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.

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.

Accounting Policies for the Consolidated Financial Statements

New and amended standards and interpretations to IFRS effective
The following new or amended standards as endorsed by the EU are effective for annual periods beginning on or after 1 April 2020. The nature and effect of the changes of these new accounting standards have been considered by MBE. These amendments and interpretations apply for the financial year beginning 1 April 2020.

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 Definition of a business;
- Amendments to IAS 1 and IAS 8 Definition of material and
- Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

MBE did not receive any rental concessions relating to the office rentals during the period and hence this is not applicable.

All other standards listed above did not have a significant impact on MBE's Consolidated Financial Statements.

New and revised IFRS Standards issued but not yet effective
Below are described the new standards and interpretations that are issued and not yet effective for periods beginning on or after 1 April 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 not expected to have an impact on the Consolidated Financial Statements of MBE:

- IFRS 17 Insurance Contracts;
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current;
- Amendments to IFRS 3 Reference to the Conceptual Framework;
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract and
- Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

Impact Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7)
MBE has not early adopted the phase 2 amendments of the Interest Rate Benchmark Reform with amendments to IFRS 9, IAS 39 and IFRS 7 due to its ongoing process in establishing the impact of the reform. MBE has tasked an IBOR task team that is involved in identifying contracts that are possibly affected by the reform on an ongoing process. Progress of the IBOR task team is monitored by management and changes that are identified shall be addressed before mandatory adoption.

Phase 2 amendments, and the reliefs provided aim to address the impact in changes in basis of contractual cash flows of financial assets and liabilities due the IBOR reform. It also provides further reliefs for hedge accounting when benchmark rates are replaced with alternative risk free rates as a result of the IBOR reform. The impact of the IBOR reform is that the effective interest rate on debt financial instruments will be adjusted, and hedge accounting will continue on transition to risk free rates, but only to the extent that the modifications made to financial instruments are those necessary to implement IBOR Reform and that the new basis for calculating cash flows is 'economically equivalent' to the previous basis. Applying the reliefs provided in Phase 2 would result MBE not recognising modification gains and losses on the debt instruments that would otherwise be considered to be a modification in the absence of Phase 2 reliefs. Relating to hedge accounting, MBE shall not discontinue applying hedge accounting when modifying both hedged items and hedging instruments when rates are replaced by risk free rates.

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The MBE IBOR project is part of an overarching EMEA LIBOR programme led out of London. The MBE project distinguishes three main streams: the remediation of Bilateral Loans, Syndicated Loans and Cash Pooling facilities. All MBE client facing staff have been informed on the remediation activities and has been trained accordingly. All clients have been informed on the remediation as well and have been contacted by their Relationship Manager. The MBE IBOR project has aligned their timelines with the EMEA LIBOR programme which has been set at end Q3 2021 for all contracts to be remediated. The biggest risks identified relate to Client risk and Legal risk. Clients risk is mitigated by timely client communication and improvements in IT-infrastructure, Legal risk is managed by the involvement of legal advisors in the transition process.

As at 31 March 2021 the following loans and loan commitments are to transition to alternative benchmark rates, summarised by significant benchmark rate. The table presents the nominal exposure in thousands of Euros into three maturity buckets. The table above does not include EURIBOR exposures as the reformed EURIBOR is compliant with the EU Benchmarks Regulation and there are no plans to discontinue.

By benchmark rate in thousands of €s	Maturity before the end of 2021	Maturity between 2022-2025	Matures after 2026
EUR Libor	1,417,530	936,672	466,120
USD Libor	-	1,318,935	583,846
GBP-libor	-	785,416	-
WIBOR	361,537	1,430,190	146,277
EONIA	42,500	76,200	-
COMBINED RFR	-	1,020,860	-
Other Libor	-	-	112,481
TOTAL	1,821,567	5,568,273	1,308,724

Combined RFR relates to multi-currency facilities with multiple RFR depending on the actual exposure currency.

Notes to the consolidated Financial Statements

Assets

2. Cash and balances with central banks

Cash and balances with central banks	2021	2020
Balances with central banks	1,000,587	904,218
Cash and balances with central banks	1,000,587	904,218

Balances with central banks include mandatory reserve deposits amounting to € 109,886 (2020: € 141,467), 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	2021	2020
Placements with banks - on demand*	2,898,551	2,283,007
Placement with banks - term deposits	639,072	658,222
Loans and advances	811,584	852,520
	4,349,208	3,793,749
Allowance for expected credit losses	(312)	(180)
Loan and advances to banks	4,348,896	3,793,569

The amount receivable from MUFG Bank London branch is € 3,206,346 (2020: € 2,663,540). MBE entered into a financial collateral agreement with MUFG Bank London branch, whereby eligible government bonds are pledged by MUFG Bank to MBE. € 3,727,943 (2020: € 3,855,233) 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.

*Comparative figures for 31 March 2021 have been adjusted to reflect the nature of the accounts.

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	2021	2020
Corporate term loans*	5,311,336	8,006,206
Corporate current accounts*	154,398	228,232
Bills of exchange	1,136,746	1,415,126
Finance lease receivables**	47,053	58,594
	6,649,533	9,708,158
Allowance for expected credit losses	(57,531)	(105,081)
Loans and advances to customers by class	6,592,002	9,603,077

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

Loans and advances to customers

*Comparative amounts for the year ended 31 March 2020 have been adjusted. The adjustments relate to reclassifications from "Other liabilities" that should have been recognised as part of "Loans and advances to customers".

**The comparative figures for the year ended 31 March 2020 in the Consolidated Statement of Profit or Loss have been reclassified to align the current year presentation of the consolidation of MUFG Europe Lease (Deutschland) GmbH. The impact resulted in line items included in the Statement of Profit or Loss to be reclassified to reflect the nature of the activities of the subsidiary.

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

	2021			2020		
Derivatives	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
Interest rate swaps	-	3,541	260,759	-	7,456	563,369
Derivatives used as fair value hedge	-	3,541	260,759	-	7,456	563,369
Forward foreign exchange contract	32,916	31,014	2,588,554	54,042	50,777	2,332,442
Loan commitments	38	199	804,630	-	-	-
Interest rate swaps	-	29	5,000	-	185	15,000
Derivatives-other	32,954	31,242	3,398,184	54,042	50,962	2,347,442
Derivative financial instruments	32,954	34,783	3,658,943	54,042	58,418	2,910,811

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

Loan commitments
Loan commitments are firm commitments for MBE that are originated in a business model 'Other' and therefore measured at fair value.

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. MBE uses currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

All interest rate swap contracts 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	2021	2020	2021	2020	2021	2020	2021	2020
Derivatives	260,759	563,369	3,541	7,456	-	-	-	-

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	
	2021	2020	2021	2020	2021	2020	2021	2020
Loans to customers	260,759	563,369	3,541	7,456	-	-	-	-

As at 31 March 2021, MBE recognised a negative fair value change of € 427 (2020: negative fair value change € 3,922) on the hedging instruments. The total positive fair value change on hedged items attributable to the hedged risks amounted to € 435 (2020: positive fair value change € 3,906).

As at 31 March 2021, all interest rate swaps that qualify as fair value hedges are quoted with reference to EURIBOR and one JPY LIBOR. 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 2021.

Derivatives-other
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	2021	2020
Government Bonds	64,505	164,777
Investments resulting from supply chain finance transactions	10,240	-
Financial investments	74,744	164,777

Financial investments

The financial investments consist of short term Polish government bonds and investments resulting from supply chain financing (reverse factoring) transactions that commenced in the current year. The Polish government bonds are pledged for liquidity purposes to the Polish central bank to secure any borrowings. MBE presents the reclassification adjustments to profit or loss in the notes. Refer to Note 22 for amounts recognised in 'OCI' and reclassification adjustments to the statement of profit or loss.

7. Property and equipment

	2021					
	Owned			Right-of-use assets		
Property and equipment	Operations equipment	Leasehold improve - ments	Total	Operations equipment	Buildings	Total
Opening balance	2,393	2,771	5,164	98	12,019	12,117
Additions	500	125	625	34	3,434	3,468
Disposals	(1)	-	(1)	-	-	0
Depreciation	(828)	(467)	(1,295)	(28)	(3,148)	(3,175)
Other changes	446	558	1,004	-	-	0
Closing balance	2,510	2,987	5,497	104	12,305	12,410
Accumulated cost	11,714	9,705	21,419	154	18,369	18,523
Accumulated depreciation	(9,204)	(6,718)	(15,922)	(50)	(6,064)	(6,113)
Property and equipment	2,510	2,987	5,497	104	12,305	12,410

	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)
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

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	2021	2020
Opening balance	18,655	15,836
Additions	5,697	5,833
Amortisation	(5,820)	(4,749)
Under development	-	1,750
Impairment (loss)	(1,324)	-
Exchange rate adjustments	3	(12)
Other changes	-	(3)
Closing balance	17,211	18,655
Accumulated cost	44,141	39,926
Accumulated amortisation and impairment (loss)	(26,929)	(21,271)
Closing balance	17,212	18,655

The intangible assets consist of software and licenses. Contained within the additions are purchase of intangible assets amounting to € 598 (2020: € 641). The amortisation period varies between 1 and 5 years. The carrying value of intangible assets has been reduced to its recoverable amount by recognising an impairment of € 1,324 as at 31 March 2021 (2020: € 0).

9. Other assets

Other assets	2021	2020
Accounts receivable	16,038	18,931
Prepayments	6,914	3,620
Other	13,002	17,898
Other assets	35,954	40,450

The comparative amounts for the year ended 31 March 2020 have been reclassified to more accurately reflect the nature of the accounts..

Liabilities

10 Due to banks

This item comprises debt to credit institutions and central banks.

Due to banks	2021	2020
Nostro accounts	70,706	70,867
Term deposits	3,339,838	5,906,415
Due to banks	3,410,544	5,977,282

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 € 3,139,403 (2020: € 3,139,558). The total amount owed to MUFG Bank, including pledged deposits, is € 3,320,927 (2020: € 5,876 274).

11 Due to customers

Due to customers	2021	2020
Term deposits	389,880	824,060
Current accounts	6,193,677	5,538,303
Due to customers	6,583,556	6,362,363

12 Subordinated debt

Subordinated debt	2021	2020
Subordinated debt	300,116	300,122

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

Liabilities

Provisions

13 Provisions

The provisions consist of the following:

Provisions	2021	2020
Expected credit losses on off-balance facilities **(Note 28.2)**	4,096	27,375
Defined benefit plan – the Netherlands **(13.1)**	2,354	5,953
Pension liability – Germany **(13.2)**	22,841	19,747
Restructuring provision **(13.3)**	6,625	8,075
Other provisions for early retirement and pensions	358	336
Provisions	36,273	61,486

13.1 Defined benefit plan – the Netherlands

The defined benefit plan of the Netherlands consists of:

Defined benefit plan – the Netherlands	2021	2020
Present value of defined benefit obligation	59,532	57,681
Fair value of plan assets	(57,179)	(51,728)
Retirement benefit liability / (asset)	2,354	5,953

The Dutch defined benefit plan is a defined benefit obligation pension plan for Netherlands based staff. The pension age is 66 and 4 months as of 1 January 2021. 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	2021	2020
Opening defined benefit obligation	57,681	54,413
Current service cost	3,193	2,797
Interest cost	707	806
Contributions by employees	243	234
Benefits paid	(1,372)	(1,306)
Actuarial losses on obligations	8,562	737
Past Service Costs	(9,482)	-
Closing defined benefit obligation	59,532	57,681

During the financial year MBE changes its pension plan for its employees in the Netherlands from a defined benefit plan towards a defined contribution plan. As per 1 January 2021 all employees have transferred to the new pension plan. Any accrued right up until 31 December 2020 will remain in the previous defined benefit pension plan. This change is considered a special event which reduces the defined benefit obligation and is taken into account as a curtailment, resulting in a past service cost amounting to EUR 9.5 million as shown above.

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

Liabilities

Provisions

Plan assets - Movement	2021	2020
Opening fair value of plan assets	(51,728)	(47,712)
Contributions by employer	(573)	(4,114)
Contributions by employees	(243)	(234)
Benefits paid	1,372	1,306
Actual Expenses, Taxes and Premiums Paid	168	217
Interest Income on Plan Assets	(649)	(715)
Return on Plan Assets excluding amounts included in Interest income	(5,527)	(476)
Closing fair value of plan assets	(57,179)	(51,728)

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	2021	2020
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	2021	2020
Discount rate	0.90%	1.50%
Expected long-term rate of return on assets	1.50%	1.50%
Expected rate of salary increases	3.75%	3.75%
Expected rate of pension increases current participants (actives)	0.00%	0.00%
Expected rate of pension increases former participants (inactives)	0.00%	0.00%
Expected rate of price increases	2.00%	2.00%

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 2021. 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	2021	2020
Discount rate	0.90%	59,532	57,681
Discount rate +0.5%	0.40%	66,289	52,141
Discount rate -0.5%	1.40%	53,753	64,146

Liabilities

Provisions

Changes in Life expectancy	Increase by 1 year	Decrease by 1 year
Life expectancy	DBO +4.84%	DBO -4.84%

13.2 Pension liability – Germany

Pension liability – Germany	2021	2020
Opening balance	19,747	19,385
Contributions by employer	(499)	(489)
Service costs	440	419
Interest expense	370	368
Actuarial gain/ (loss)	2,783	64
Closing balance	22,841	19,747

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	2021	2020
Discount rate current employees	1.29%	2.00%
Discount rate former employees	0.89%	1.74%
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.

Liabilities

Provisions

Discount rate sensitivity information	Adjusted Assumption		2021	
Assumption	Current employees	Former employees	Current employees	Former employees
Discount rate	1.29%	0.89%	14,672	8,168
Discount rate +0.5%	1.79%	1.39%	13,148	7,667
Discount rate -0.5%	0.79%	0.39%	16,438	8,730

13.3 Restructuring provision

Restructuring provision	2021	2020
Opening balance	8,075	-
Additions	48	6,114
Current year charge	-	5,117
Payments made	(1,498)	(3,156)
Closing balance	6,625	8,075
Restructuring Spain	6,490	6,827
Restructuring Netherlands	135	1,248
Closing balance	6,625	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.

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.

14 Other liabilities

Other Liabilities	2021	2020
Accrued expenses	36,035	32,976
Accounts payable	9,211	19,183
Lease liabilities	13,692	12,559
Other	19,100	53,001
Other liabilities	78,038	117,719

The comparative amounts for the year ended 31 March 2020 have been reclassified to more accurately reflect the nature of the accounts.

Equity

15 Issued capital and reserves

The authorised capital amounts to € 136,2 (2020: € 136,2) and consists of 300,000 ordinary shares of € 454 each (unit: one €). The number of issued and fully paid-up amounts to 220,270 (2020: 220,270). Issued and fully-paid capital amounts to €100 000(2020: € 100 000). All shares issued are held by MUFG Bank, a wholly-owned subsidiary of MUFG.

in thousands of €s	Issued capital	Share premium	Retained earnings	Reserves			Non-controlling interests	Total equity
				Fair value	Foreign currency translation	Actuarial revaluation		
At 31 March 2019	100,003	1,334,304	421,883	(2)	148	(7,476)	30	1,848,890
Profit for the year	-	-	(64,449)	-	-	-	1	(64,448)
Other comprehensive income	-	-	-	(2)	(76)	(239)	-	(317)
At 31 March 2020	100,003	1,334,304	357,434	(4)	72	(7,715)	31	1,784,125
Opening balance adjustment	-	-	-	-	-	(2,494)	-	(2,494)
Profit for the year	-	-	(24,126)	-	-	-	37	(24,089)
Other comprehensive income	-	-	-	27	256	(4,949)	-	(4,667)
At 31 March 2021	100,003	1,334,304	333,308	23	328	(15,158)	68	1,752,875

The opening balance adjustment of € 2,494 relates to the reversal of a deferred tax asset recognised within Other Comprehensive Income of previous years, adjusted in the current financial year.

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 for regulatory purposes and 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.

MBE has taken note of the recommendations of the ECB for dividend payments and adheres to those principles.

Dividend payment
No dividend was paid in the year ended 31 March 2021 (2020: € 0).

Notes to the consolidated Statement of Profit or Loss

16 Net interest income

Net interest income	2021	2020
Interest income from cash and balances with central banks	91	813
Interest income from loan and advances to banks	1,200	6,328
Interest income from loans and advances to customers	112,615	169,207
Interest income finance lease*	1,960	1,969
Interest income from financial investments	1,357	491
Interest income from interest rate swaps	435	3,891
Interest income from: others	16	202
Interest income	117,674	182,902
Interest expense from cash and balances with central banks	1,865	3,893
Interest expense from due to banks	29,417	60,204
Interest expense from due to customers	3,155	27,294
Interest expense finance lease*	15	661
Interest expense from interest rate swaps	427	3,922
Interest expense from others	3,307	1,194
Interest expense	38,187	97,168
Net interest income	79,488	85,500

*Comparative figures for 31 March 2020 have been reclassified to align the current year presentation of the consolidation of MUFG Europe Lease (Deutschland) GmbH. The impact resulted in line items included in the Statement of Profit or Loss to be reclassified to reflect the nature of the activities of the subsidiary.

17 Net fee and commission income

Net Fee and commission income	2021	2020
Commission on funds transfer and letters of credit	10,328	12,103
Commission on guarantees	7,685	7,735
Brokerage and advisory fees	23	235
Commission on corporate management services	2,290	4,293
Other fee and commission income	10,035	7,036
Fee and commission income	30,360	31,403
Commission on (credit replacing) guarantees	3,052	2,673
Commission on funds transfer and letters of credit	821	1,003
Commission on corporate management services	2,009	3,829
Other fee commission expenses	10,296	7,503
Fee and commission expense	16,178	15,008
Net Fee and commission income	14,182	16,395

Other fee and commission income includes Corporate advisory fees € 1.7 million (2020: € 3.0 million), Deposit commission income € 1.5 million (2019: € 1.5 million) and compensation for costs received from MUFG London in relation Supply Chain Finance activities € 5.0 million (2020: € 0 million).

Result on financial transactions

18 Result on financial transactions

Result on financial transactions	2021	2020
Result on financial transactions	37,108	44,872

This item includes the foreign currency results of MBE amounting to € 35,776 (2020: € 40,170). MBE's policy is to eliminate currency risks on financial assets and liabilities.

19 Personnel expenses

Personnel expenses	2021	2020
Wages and salaries*	68,054	56,600
Social securities costs	7,784	6,841
Pension costs	(3,222)	3,907
Restructuring expenses	48	5,118
Other staff costs*	14,374	23,108
Personnel expenses	87,038	95,574

The number of employees during the year ended 31 March 2021 is 794 (2020: 783), of which 404 (2020: 407) are employed in the Netherlands and 247 (2020: 242) are employed in Germany.

Other staff costs include mainly the costs related to contracted employees and/or agency employees. The number of contracters as at 31 March 2021 is 73 (2020: 125).

During the financial year the pension plan for Amsterdam has changed which resulted in a curtailment gain. Please refer to Note 13.1 for more details.

Refer to Note 27 Key management remuneration for disclosure of remuneration paid to key management personnel.

*Comparative figures for 31 March 2020 have been reclassified to align the current year presentation of the consolidation of MUFG Europe Lease (Deutschland) GmbH. The impact resulted in line items included in the Statement of Profit or Loss to be reclassified to reflect the nature of the activities of the subsidiary.

20 Other operating expenses

Other operating expenses	2021	2020
Occupancy expenses*	5,620	3,541
Office expenses*	16,600	22,696
Professional fees*	10,321	10,899
Business promotion expenses	4,242	5,445
VAT and sundry taxes	18,351	14,937
Other	606	2,525
Other operating expenses	55,740	60,042

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

*Comparative figures for 31 March 2020 have been reclassified to align the current year presentation of the consolidation of MUFG Europe Lease (Deutschland) GmbH. The impact resulted in line items included in the Statement of Profit or Loss to be reclassified to reflect the nature of the activities of the subsidiary.

Other operating expenses

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:

	2021		
Fees charged by external auditor	Netherlands	Other offices	Total
Audit of financial statements	1,436	748	2,184
Other assurance services	60	276	336
Tax advisory services	-	303	303
Other non-audit services	-	123	123
Fees charged by external auditor	1,496	1,449	2,945
	2020		
	Netherlands	Other offices	Total
Audit of financial statements	1,227	755	1,982
Other assurance services	70	258	328
Tax advisory services	-	217	217
Other non-audit services	-	176	176
Fees charged by external auditor	1,297	1,406	2,703

This summary reflects fees charged by MBE's external auditors in respect of audit services and other assurance services provided. No fees were paid for Tax Advisory and Non-audit services. Fees in the Netherlands amounting to € 1,436 (2020: € 1,227) relate to Deloitte Accountants B.V.

21 Income tax (expense)

The net tax position is analysed in the following table:

Income tax position	2021	2020
Current tax assets	41,011	24,627
Deferred tax assets	36,581	48,916
Tax assets	77,592	73,543
Current tax liabilities	1,662	8,097
Tax liabilities	1,662	8,097
Net tax position	75,930	65,446

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 2021 and 31 March 2020 are:

Current income tax	2021	2020
Current income tax	2,016	10,508
Tax adjustments previous years	(5,713)	(1,750)
Total current tax paid (received)	(3,697)	8,758
Utilisation of assessed loss	(10,980)	-
Restructuring and pension provisions	(558)	(200)
Allowance for expected credit losses	21,950	(22,965)
Other	334	72
Total deferred tax expense/(benefit)	10,746	(23,093)
Income tax expense/(benefit)	7,049	(14,334)

Notes to the consolidated Statement of Profit or Loss

Income tax (expense)

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

Numerical reconciliation of income tax expense	2021	2020
(Loss)/profit before income tax expense	**(17,077)**	**(78,782)**
Tax at statutory rate	4,269	19,696
Effect of different tax rates in other countries	(328)	1,911
Unused tax losses	8,448	(9,102)
Adjustments for current tax of prior periods	(5,713)	(1,750)
Other permanent differences	373	3,580
Income tax expense/(benefit) reported	**7,049**	**14,334**

The effective income tax rate is 41 % for the year ended 31 March 2021 (2020: -18%). The amount included in 'Other' of €373 (2020: €3,580) 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 Netherlands has announced to reduce the low corporate income tax rate to 15% (from 16.5%), effective January 1, 2021. The Netherlands also announced an increase to the threshold for the low corporate income tax rate, which will apply to taxable income up to €245 in 2021 (up from €200 currently) and to taxable income up to €395 as of January 1, 2022. The general corporate income tax will remain at 25%.

The following table shows deferred tax recorded on the statement of financial position in 'Deferred tax asset' and 'Deferred tax liabilities' and changes recorded in the income tax expense:

Deferred tax	2021			2020		
	Asset	Liability	Profit or (loss)	Asset	Liability	Profit or (loss)
Pensions	4,994	-	(659)	5,960	-	(13)
Restructuring provision	1,947	-	101	2,048	-	214
Credit loss expenses	17,594	-	21,950	39,543	-	22,965
Revaluation of financial investments	(302)	-	25	1	-	(4)
Tax loss carry forward	10,980	-	(10,980)	-	-	-
Fixed assets	14	-	4	18	-	-
Amortised fees	1,162	-	29	1,193	-	(159)
Other temporary differences	193	-	277	153	-	91
Deferred tax	**36,581**	-	**10,746**	**48,916**	-	**23,093**

Unused tax losses for which no deferred tax asset has been recognized mainly relates to tax losses incurred by the Amsterdam Branch. The tax loss amounted to € 34,000 in 2021 and € 63,000 in earlier years. 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)	2021	2020
Net gain (loss) on financial investments	(9)	1
Net gain (loss) on pension	870	85
Deferred tax (charged) / credited to equity	**861**	**86**

Components of comprehensive income

22 Components of comprehensive income

The following table includes the movement in reserves and the related tax impact included in other comprehensive income.

Other comprehensive income	2021	2020
Financial Instruments at FVOCI		
Fair value gain/(loss) arising during the period	36	(3)
Income tax relating to fair value gain/(loss) arising during the period	(9)	1
As at 31 March	27	(2)
Foreign currency translation		
Foreign currency translation movements	256	(76)
Income tax relating to fair value gain/(loss) arising during the period	-	-
As at 31 March	256	(76)
Post employment plan		
Re-measurement of the net defined asset/liability	(5,819)	(324)
Income tax relating to fair value gain/(loss) arising during the period	870	85
As at 31 March	(4,949)	(239)

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:

	2021				2020		
Financial assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Total
Forward foreign exchange contract	-	32,916	-	32,916	-	54,042	54,042
Derivatives	-	32,916	-	32,916	-	54,042	54,042
Government Bonds	64,505	-	-	64,505	164,777	-	164,777
Investments resulting from supply chain finance transactions	-	-	10,240	10,240	-	-	-
Financial investments:	64,505	-	10,240	74,744	164,777	-	164,777
Financial assets	64,505	32,916	10,240	107,660	164,777	54,042	218,819

	2021			2020		
Financial liabilities	Level 1	Level 2	Total	Level 1	Level 2	Total
Interest rate swaps	-	3,570	3,570	-	7,641	7,641
Forward foreign exchange contract	-	31,014	31,014	-	50,777	50,777
Financial liabilities	-	34,584	34,584	-	58,418	58,418

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.

Additional notes to the Consolidated Financial Statements

Fair value measurement

Fair value of financial instruments - assets	2021				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Cash balances with central banks*	1,000,587	1,000,587	1,000,587	-	-
Placements with banks - on demand*	2,898,551	2,898,551	2,898,551	-	-
Placements with banks - term deposits	639,072	639,785	-	-	639,785
Loans and advances	811,584	820,920	-	-	820,920
Loan and advances to banks:	4,349,208	4,359,256	2,898,551	-	1,460,705
Corporate current accounts*	154,398	154,398	154,398	-	-
Corporate term loans	5,311,336	5,656,433	-	-	5,656,433
Bills of exchange	1,136,746	1,162,574	-	-	1,162,574
Finance lease receivables	47,053	47,055	-	-	47,055
Loans and advances to customers:	6,649,533	7,020,459	154,398	-	6,866,061
Other financial assets*	29,010	29,010	29,010	-	-
Financial assets	12,028,337	12,409,313	4,082,547	-	8,326,766

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	-	-
Placements with banks - on demand*	2,283,007	2,283,007	2,283,007	-	-
Placements with banks - term deposits	658,222	657,139	-	-	657,139
Loans and advances	852,520	848,484	-	-	848,484
Loan and advances to banks:	3,793,749	3,788,630	2,283,007	-	1,505,623
Corporate current accounts*	228,232	228,232	228,232	-	-
Corporate term loans	8,006,206	8,112,916	-	-	8,112,916
Bills of exchange	1,415,126	1,415,233	-	-	1,415,233
Finance lease receivables	58,594	58,594	-	-	58,594
Loans and advances to customers:	9,708,158	9,814,975	228,232	-	9,586,743
Other financial assets*	4,832	4,832	4,832	-	-
Financial assets	14,410,957	14,512,655	3,420,289	-	11,092,366

Additional notes to the Consolidated Financial Statements

Fair value measurement

Fair value of financial instruments - liabilities	2021				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Due to banks*	3,410,544	3,904,682	70,706	-	3,833,976
Due to customers*	6,583,556	6,927,198	218	-	6,926,980
Other financial liabilities*	28,191	28,191	28,191	-	-
Subordinated debt	300,116	325,827	-	-	325,827
Financial liabilities	10,322,408	11,185,898	99,115	-	11,086,783

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

* Due the nature of these items, their carrying amounts are considered to be the same as their fair value and we have included these values under Level 1.

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 (depending on valuation currency). The result of the valuation is discounted by applicable 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 an analysis of assets and liabilities presented according to when they are expected to be recovered or settled.

As at 31 March 2021	Within 12 months	After 12 months	Total
ASSETS			
in thousands of €s			
Cash and balances with central banks	1,000,587	-	1,000,587
Loans and advances to banks	3,593,336	755,559	4,348,896
Loans and advances to customers	2,542,201	4,049,800	6,592,002
Derivatives (assets)	29,149	3,805	32,954
Financial investments	74,744	-	74,744
Other assets	33,839	2,115	35,954
Property and equipment	-	17,906	17,906
Intangible assets	-	17,211	17,211
Current tax assets	41,011	-	41,011
Deferred tax assets	-	36,581	36,581
Total assets	7,314,867	4,882,979	12,197,846
LIABILITIES	Within 12 months	After 12 months	Total
in thousands of €s			
Due to banks	1,109,179	2,301,365	3,410,544
Due to customers	6,458,031	125,525	6,583,556
Subordinated debt	-	300,116	300,116
Derivatives (Liabilities)	28,446	6,336	34,783
Current tax liabilities	1,662	-	1,662
Provisions	36,273	-	36,273
Other liabilities	77,236	802	78,038
Total liabilities	7,710,827	2,734,145	10,444,971
Net	(395,960)	2,148,835	1,752,875

Additional notes to the Consolidated Financial Statements

Maturity analysis of assets and liabilities

As at 31 March 2020	Within 12 months	After 12 months	Total
ASSETS			
in thousands of €s			
Cash and balances with central banks	904,218	-	904,218
Loans and advances to banks	3,058,685	734,884	3,793,569
Loans and advances to customers	4,837,701	4,765,376	9,603,077
Derivatives (assets)	49,124	4,918	54,042
Financial investments	164,777	-	164,777
Other assets	39,427	1,019	40,446
Property and equipment	-	17,282	17,282
Intangible assets	-	18,655	18,655
Current tax assets	24,627	-	24,627
Deferred tax assets	-	48,916	48,916
Total assets	9,078,558	5,591,051	14,669,609

LIABILITIES	Within 12 months	After 12 months	Total
in thousands of €s			
Due to banks	3,136,866	2,840,416	5,977,282
Due to customers	6,226,715	135,648	6,362,363
Subordinated debt	-	300,122	300,122
Derivatives (Liabilities)	58,418	-	58,418
Current tax liabilities	8,097	-	8,097
Provisions	61,486	-	61,486
Other liabilities	117,245	474	117,719
Total liabilities	9,608,827	3,276,660	12,885,487
Net	(530,269)	2,314,391	1,784,122

25 Financial guarantees and commitments

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	2021	2020
Letters of credit	3,578	5,897
Financial guarantees	1,591,003	1,674,803
Undrawn commitments to lend	8,901,825	9,399,549
Other uncommitted facilities	4,530,355	4,715,587
Contingent liabilities and commitments	15,026,760	15,795,835

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.

26 Related party disclosures

26.1 Transactions with key management

As per 31 March 2021 no loans where outstanding to members of the Supervisory Board and / or Management Board (2020: € 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 in the group. 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:

	2021	2020
Loan and advances to banks	3,497,728	2,892,761
Derivative assets	15,270	37,212
Other assets	6,413	204
Assets	3,519,411	2,930,177
Due to banks	3,320,927	5,881,031
Subordinated debt	300,116	300,122
Derivative liabilities	21,498	31,035
Other liabilities	9,532	329
Liabilities	3,652,072	6,212,517
Interest income	2,085	5,704
Interest expense	31,666	48,347
Net interest income	(29,581)	(42,643)
Fee and commission income	6,824	2,660
Fee and commission expense	12,968	8,608
Net commission income	(6,144)	(5,948)
Result on financial transactions	(15,204)	7,787
Total operating income	(50,928)	(40,804)
Personnel expenses	-	16
Other operating expenses	10,298	5,167
Total operating expenses	10,298	5,183
Net result	(61,226)	(45,987)
Commitments and contingent liabilities	131,015	247,250

Related party disclosures

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 (2020: 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 Reward Policy section.

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	2021	2020
Short-term employee benefits	2,250	2,255
Post-employment benefits	102	87
Long-term benefits	149	86
Termination benefits	-	-
Share-based payments	28	164
Total	2,529	2,592

Included in the short term employee benefits is the total remuneration of the Supervisory Board for the period amounting to € 130 (31 March 2020: € 92).

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.

Key management remuneration

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.

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, the MRT Deferral Plan will not apply and the employee will be subject to the General Deferral Plan.

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.

Key management remuneration

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 and a deferral rate of 60% is applied for variable remuneration awards above € 500, with the deferral vesting on a pro-rata basis for four 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.

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.

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 2020, split between Senior Management (Supervisory and Management Board) and all other MRTs .

Additional notes to the Consolidated Financial Statements

Key management remuneration

The base salary of Senior Management for the period amounts to € 1,472 (2020: € 1,842). Total variable pay (bonus) for Senior Management and MRT's amounts to €978 (2020: € 1,145). Salaries for the other MRT's staff (21 FTE) is € 3,274 (other identified staff (18 FTE) 2019: € 3,694).

	31 March 2021		
	All Senior Management	All other MRT's	Total
No of Employees	9	21	30
Fixed remuneration (1)	1,830	3,756	5,585
Variable remuneration (total) (2)	372	606	978
of which is cash	186	346	532
of which is share linked	186	261	447
of which is deferred	149	209	357
Outstanding deferred remuneration (vested) (3)	15	71	86
Outstanding deferred remuneration (all unvested) (3)	45	192	237
Deferred remuneration paid out in the 2020 performance year (3)	28	117	145

	31 March 2020		
	All Senior Management	All other MRT's	Total
No of Employees	12	21	33
Fixed remuneration (1)	1,842	4,473	6,315
Variable remuneration (total) (2)	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) (3)	-	-	-
Outstanding deferred remuneration (all unvested) (3)	-	-	237
Deferred remuneration paid out in the 2019 performance year (3)	-	-	23

1. Fixed remuneration includes Salary, Allowances, and Pension Contribution by Bank. It excludes Housing Allowance and Travel Allowances.

2. Variable Pay for Japanese Expats is paid in June and December each year.

3. Deferred Awards vest and are paid in June of each year.

There were no individuals remunerated EUR 1 m or more during the performance year.

There were no severance payments made to MRTs during PY2020 and neither was there any sign-on payments / guarantees 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 effects from the effort to continuously improve MBEs risk management, the bank carefully considers the impact of implementation of improvements to risk management processes within its prevailing corporate culture in a balanced manner.

Risk profile

MBE targets a healthy and well diversified capital and liquidity position that supports the 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 global 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 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.

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

The main source of MBE's funding is linked to its Parent bank and to a smaller extent to the funding provided by MBE's corporate clients. The cost 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 its day to day business activities, MBE may run a number of operational risks that could harm its clients, the 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.

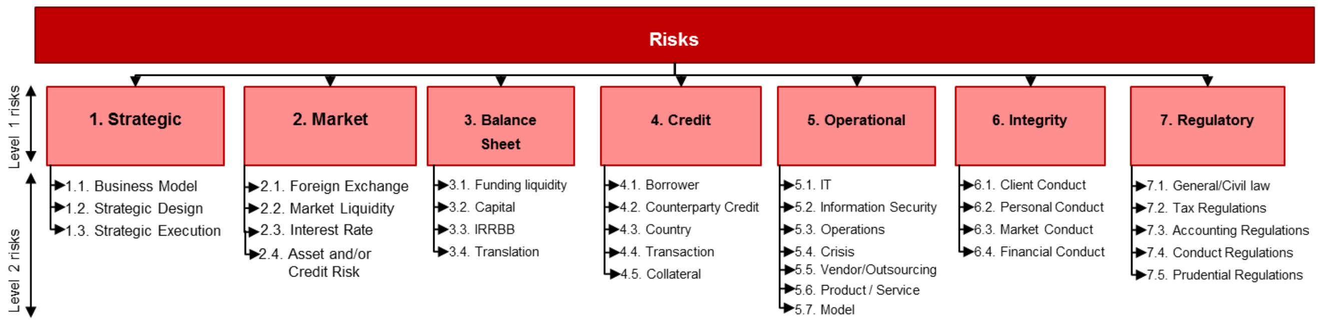
The RMPH complies with both local (European, Dutch) regulations and Parental policies. It has a clear link to both internal as well as external regulations. It efficiently manages and communicates amongst complex set of risk management documents and provides leading inter-relational framework for other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

Risk management

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 through the Risk Management Policy House and interacts with the Risk Appetite Statement.

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



In addition to the 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 MBE's 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.

Additional notes to the Consolidated Financial Statements

Risk management

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

"MBE's risk appetite is driven by its Client-centric strategy, long term rating ambition of MUFG Group and risk management objective to protect MBE from unexpected financial losses and/or reputational impact.

MBE has receptive risk appetite for credit risk, and is actively taking credit risk to generate revenue income in line with objectives defined in the business strategy; for all other risk types MBE either have some appetite, but no intention to actively pursue risk, or the risk is accepted but cannot be avoided in pursuing its business strategy."

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 monthly Risk Management Committee Meeting for evaluation. The table below presents how MBE's risk profile compared to the RAS as per end of FY2020:

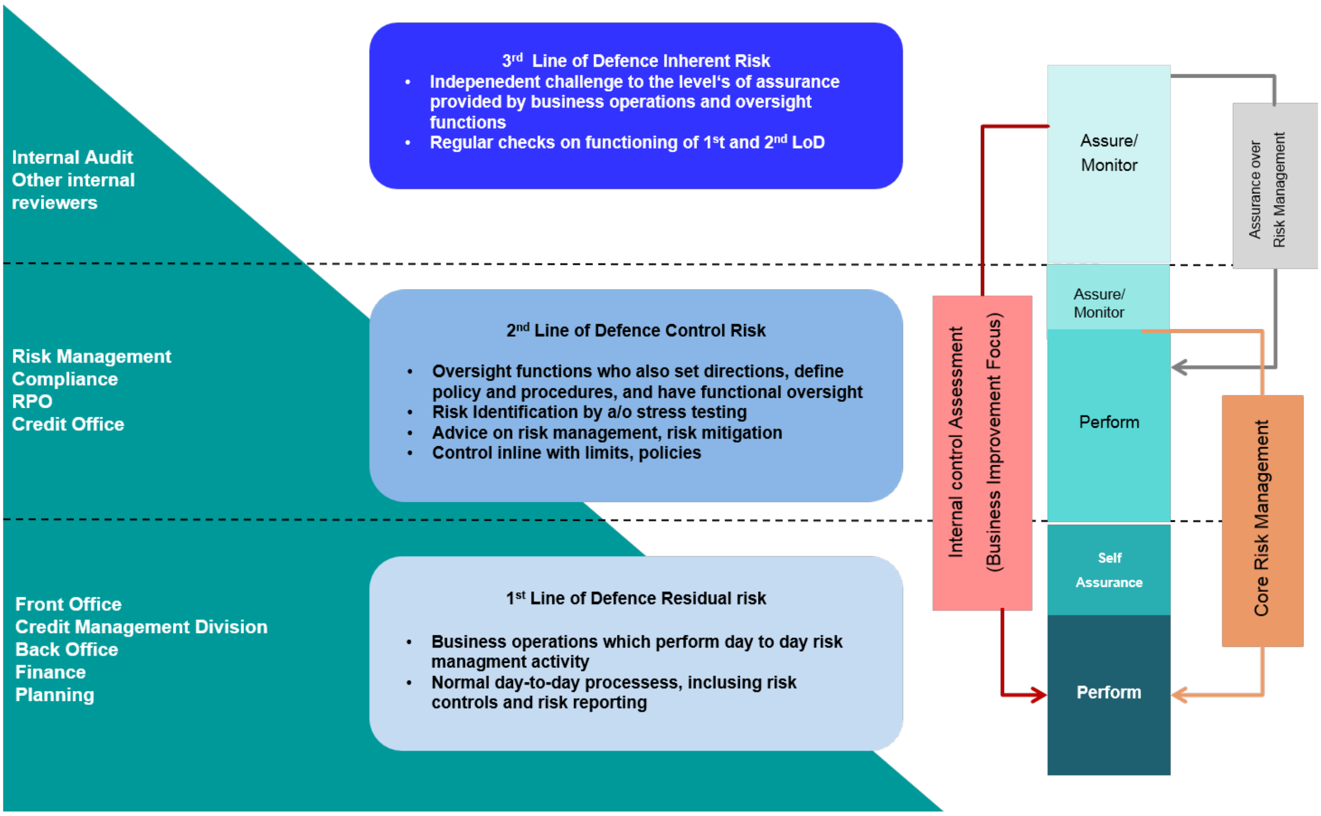
Risk type	Assessment
Balance sheet risk	
Capital adequacy	Risk averse position, capital ratios higher than what would be considered optimal.
Liquidity	Risk averse position, liquidity position higher than what would be considered optimal.
Funding	Risk averse position, within target range.
IRRBB	Risk averse position, within target range.
Credit Risk	
Credit portfolio	Risk averse position, within target range.
Concentrations	Outside of risk appetite, caused by a specific counterparty where exposure is above appetite.
Market Risk	Risk averse position, within target range.
Operational Risk	Outside of risk appetite, caused by high number of Operational Risk Assessment findings.
Integrity Risk	Was not monitored in RAS 2020, risk control monitoring under development.
Regulatory Risk	Was not monitored in RAS 2020, risk control monitoring under development.

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.

Additional notes to the Consolidated Financial Statements

Risk management



1st Line of Defence

The 1st LoD consists of the front-, mid- and back-offices, finance, and the business support areas, who manage the risks originating from their products, processes, people, systems and interactions 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 challenges 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 are clear segregations 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.

3rd Line of Defence

The 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.

Additional notes to the Consolidated Financial Statements

Risk management

Below, the committee structure of MBE per 31 March 2021 is described.

Risk management, including systems and internal control, is evaluated in committees considering the full risk profile or more dedicated to a specific risk type. The following risk committees are in place within MBE:

1. Audit, Compliance & Risk Committee (ACR);

2. Risk Management Committee (RMC);

3. Credit Committee (CrC);

4. IT Management Committee and Operations Control Committee;

5. Compliance Committee (CC);

6. Data Management Committee.

7. Asset & Liability Management Committee (ALMC);

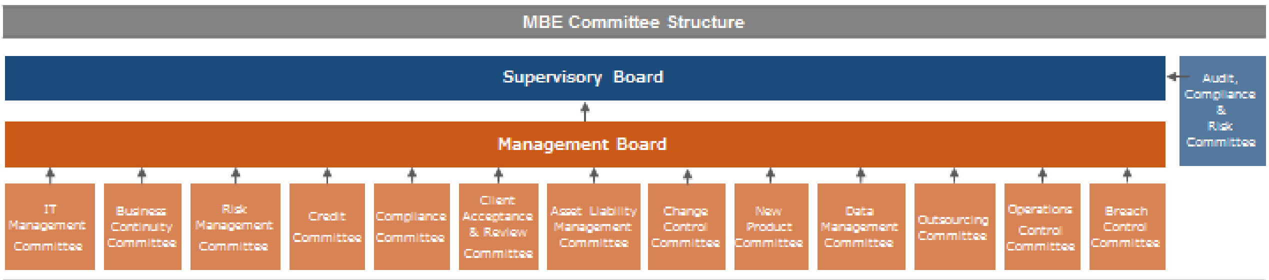
8. Operational, Information & Security Risk Committee (OISRC);

9. New Product Committee (NPC);

10. Client Acceptance & Review Committee;

11. Business Continuity Committee (BCC).

12. Breach Control Committee



28.2 Credit risk

MBE defines Credit risk as the potential that a borrower in a loan contract or a 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 and referral business), and financial institutions. In close co-work with and support of the Global Corporate

Risk management

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, investments in securitisations and counterparty derivatives contracts. Although the bank's relationship network is actively engaged in originating activities for specialised types 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 exposures towards these type of risks in its portfolio. MBE manages its credit risks within the boundaries set by its own policies, external regulations and (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 the 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 its contractual obligations (i.e. probability of default - PD). In the credit assessment process MBE uses MUFG Bank global standards, but has in place its own independent credit approval authority (i.e. Credit Committee) to ensure that the 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.

The quality of collateral impacts 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. 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 the standardised approach defined according to Capital Requirements Regulation.

Country risk (or sovereign, including transfer risk) is managed within the risk management 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.

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.

Risk management

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 credit risk 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 derecognition rules of IFRS 9 apply to these obligations, they do contain credit risk and are therefore part of the overall risk of MBE and they are in scope of ECL measurement.

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

Risk management

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.

Risk management

Risk concentration: by industry sector

in millions of €s

2021 Financial assets	Banks	Auto motive	Utilities	Oil & Gas	T	T & L	C & I	CP	Other	Total
Cash and balances with central banks	1,001	-	-	-	-	-	-	-	-	1,001
	1,001	-	-	-	-	-	-	-	-	1,001
Placements with banks - on demand	2,899	-	-	-	-	-	0	-	0	2,899
Placements with banks - term deposits	639	-	-	-	-	-	-	-	-	639
Loans and advances to banks	812	-	-	-	-	-	-	-	- 0	812
	4,349	-	-	-	-	-	0	-	0	4,349
Derivative financial instruments	15	0	-	-	-	0	2	8	8	33
Loans and advances to customers	183	634	590	366	382	516	1,173	569	2,239	6,650
Financial investments	65	-	-	-	-	-	7	-	3	75
Other assets	23	0	0	0	0	0	0	0	11	36
Total	5,636	634	590	366	382	516	1,182	577	2,260	12,143

Additional notes to the Consolidated Financial Statements

Risk management

Risk concentration: by industry sector										
in millions of €s										
2020 Financial Assets	Banks	Auto motive	Utilities	Oil & Gas	T	T & L	C & I	CP	Other	Total
Cash and balances with central banks	904	-	-	-	-	-	-	-	-	904
	904	-	-	-	-	-	-	-	-	904
Placements with banks on demand	2,283	-	-	-	-	-	-	-	-	2,283
Fund placements	658	-	-	-	-	-	-	-	-	658
Loans and advances to banks	852	-	-	-	-	-	-	-	-	852
	3,793	-	-	-	-	-	-	-	-	3,793
Derivative financial instruments	37	0	-	-	-	0	3	2	12	54
Loans and advances to customers	369	1,201	1,012	591	686	963	258	710	3,919	9,708
Financial investments	165	-	-	-	-	-	-	-	-	165
Other assets	29	0	0	0	0	0	0	0	10	40
	5,297	1,201	1,013	591	686	963	261	712	3,941	14,665

T-Telecoms

T&L- Transport and logistics

C & I - Construction & Infrastructure

CP - Consumer products

*Other 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.

Additional notes to the Consolidated Financial Statements

Risk management

Risk concentration: by geographical area

in millions of €s

2021 Financial assets	NL & BE	DE & AU	CZ & PLZ	S & P	UK	Other-EU	US	Japan	Other	Total
Cash and balances with central banks	606	211	158	25	0	-	-	-	-	1,001
	606	211	158	25	0	-	-	-	-	1,001
Due from banks										
Placements with banks - on demand	0	0	2	3	2,588	25	73	199	9	2,899
Placements with banks - term deposits	-	0	-	-	618	6	-	-	15	639
Loans and advances to banks	-	768	-	35	-	-	-	-	9	812
	0	768	2	38	3,206	30	73	199	32	4,349
Derivative financial instruments	9	6	2	0	15	0	-	-	-	33
Loans and advances to customers	2,064	1,859	832	620	180	638	195	40	222	6,650
Financial instruments	-	-	65	-	2	8	-	-	-	75
Other assets	6	19	0	3	1	1	2	1	4	36
	2,685	2,864	1,058	686	3,404	678	269	240	258	12,143

Risk concentration: by geographical area

in millions of €s

2020 Financial Assets	NL & BE	DE & AU	CZ & PLZ	S & P	UK	Other-EU	US	Japan	Other	Total
Cash and balances with central banks	601	162	126	16	-	-	-	-	-	904
	601	162	126	16	-	-	-	-	-	904
Due from banks										
Current accounts	0	0	11	6	2,022	24	9	204	8	2,283
Fund placements	-	0	-	-	650	6	-	-	2	658
Loans and advances to banks	-	762	-	91	-	-	-	-	-	852
	0	762	11	96	2,672	30	9	204	10	3,793
Derivative financial instruments	8	4	4	1	37	0	-	-	-	54
Loans and advances to customers	2,710	2,667	1,355	823	182	1,065	516	32	359	9,708
Financial instruments	-	-	165	-	-	-	-	-	-	165
Other assets	9	17	2	3	3	1	1	1	3	40
	3,328	3,612	1,663	939	2,894	1,096	526	237	372	14,665

NL & BE - Netherlands and Belgium

DE & AU - Germany and Austria

CZ & PLZ - Czech Republic and Poland

S& P - Spain and Portugal

Additional notes to the Consolidated Financial Statements

Risk management

*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.

Other - None of the individual industries included within other has an individual industry exposure above 2% of total exposure.

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

Credit Quality Step (*) (CQS)	Meaning of the rating category	MBE Ratings	Status		S&P Credit Rating equivalent as an example
1	The rated entity has extremely/very strong capacity to meet its financial commitments and is subject to minimal/ very low credit risk.	1	Performing		AAA - / AA-
2	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.	2			A+ / A-
3	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.	3			BBB+ / BBB-
4	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.	4			BB+
		5-1			BB
		5-2			BB-
5	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.	6-1			B+
		6-2			B
		7			B-
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.	8-1	Watch List		CCC
		8-2			CC / C
		8-3	Likely to become bankrupt	NPE	D
		9			
		10-1	Considered to be virtually bankrupt		
		10-2	Legally bankrupt		

Additional notes to the Consolidated Financial Statements

Risk management

in millions of €	Credit quality						
2021 Financial assets	Normal	Close watch	Likely to become bankrupt	Bankrupt or virtually bankrupt	Bankrupt	Total	ECL
Cash and balances with central banks	1,001	-	-	-	-	1,001	-
Loans and advances to banks	4,349	-	-	-	-	4,349	0.27
Derivative financial assets	33	0	-	-	-	33	-
Loans and advances to customers	6,275	207	151	-	18	6,650	57.57
	11,657	207	151	-	18	12,032	57.84
Financial instruments (IFRS 9)	75	-	-	-	-	75	-
Other assets	36	0	0	-	-	36	-
Total	11,768	207	151	-	18	12,143	57.84
							57,843
							0.00

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	0.18
Derivative financial assets	54	0	-	-	54	-
Loans and advances to customers	9,205	402	101	-	9,709	105.08
	13,965	402	101	-	14,468	105
Financial instruments	165	-	-	-	165	-
Other assets	40	0	0	-	40	-
Total	14,170	402	101	-	14,673	105.26

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	2021			2020		
Balance sheet items	Gross carrying amounts	Net carrying amounts	ECL	Gross carrying amounts	Net carrying amounts	ECL
Normal						
1	1,226	1,226	0.00	1,303	1,303	0.01
2	5,019	5,019	0.23	5,099	5,099	0.28
3	1,395	1,395	0.40	3,473	3,472	0.72
4	1,485	1,485	0.27	2,194	2,193	0.45
5-1	1,447	1,446	0.51	957	956	0.40
5-2	644	644	0.20	387	387	0.33
6-1	219	218	0.11	317	317	0.20
6-2	101	101	0.08	78	78	0.05
7	249	249	0.48	304	303	0.94
Total 1-7	**11,785**	**11,783**	**2.28**	**14,112**	**14,108**	**3.40**
Close watch						
8-1	80	80	0.19	211	210	1.19
8-2	127	127	0.15	191	190	1.47
Total 8	**207**	**207**	**0.35**	**402**	**400**	**2.67**
Likely to become bankrupt						
8-3	120	65	55.22	100	52	48.31
9	31	31	-	1	0	0.60
Total 9	**151**	**95**	**55.22**	**101**	**52**	**48.91**
Bankrupt or virtually bankrupt						
10-1	-	-	-	-	-	-
10-2	-	-	-	50	- 0	50.28
Total 10	**-**	**-**	**-**	**50**	**- 0**	**50.28**
Total outstanding balance by risk class	**12,143**	**12,085**	**57.84**	**14,665**	**14,560**	**105.26**

The PY amount included in MBE-rating category 10-2 relates to a client that went into financial difficulties in late FY19. In FY20 the client went bankrupt. During FY20 MBE sold this exposure at a discount an written off.

Additional notes to the Consolidated Financial Statements

Risk management

Off-balance facilities

in millions of €s	2021		2020	
Off-balance facilities	Carrying amounts	ECL	Carrying amounts	ECL
Normal				
1	373	0.00	332	0.01
2	1,433	0.11	1,572	0.17
3	5,932	0.88	6,634	1.04
4	1,680	0.45	1,550	0.41
5-1	508	0.32	383	0.14
5-2	254	0.19	277	0.17
6-1	65	0.07	166	0.13
6-2	121	0.10	19	0.14
7	77	0.82	46	0.67
Total 1-7	10,441	2.93	10,978	2.88
Close watch				
8-1	29	0.20	8	0.11
8-2	21	0.62	56	0.80
Total 8	50	0.82	64	0.91
Likely to become bankrupt				
8-3	1	0.35	1	0.27
9	1	-	2	0.47
Total 9	1	0.35	3	0.75
Bankrupt or virtually bankrupt				
10-1	-	-	-	-
10-2	-	-	30	22.84
Total 10	-	-	30	22.84
Total outstanding balance by risk class	10,492	4.10	11,075	27.37

The amount for the prior year amounting to approximately € 22 million relates to the expected credit losses for off-balance commitments.

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 2021, the breakdown of individually and collectively assessed expected credit losses for loans, cash and non-cash loans is as follows:

Risk management

Expected credit loss	2021			
in thousands of €s	Stage 1	Stage 2	Stage 3	Total
Loan and advances to banks				
Opening balance	180	-	-	180
Net movement	132	0	-	132
Closing balance	312	0	-	312
Loans and advances to customers				
Opening balance	2,011	3,248	99,822	105,081
Write offs	0	0	(64,511)	(64,511)
Transfer*	0	0	22,857	22,857
Net movement	(290)	(2,652)	(2,953)	(5,896)
Closing balance	1,720	596	55,214	57,531
Off-Balance facilities				
Opening balance	2,191	1,553	23,630	27,375
Transfer*	-	-	(22,857)	(22,857)
Net movement	10	9	(441)	(422)
Closing balance	2,202	1,562	332	4,096
Total ECL as at 31 March	4,234	2,158	55,546	61,939

Expected credit loss	2020			
in thousands of €s	Stage 1	Stage 2	Stage 3	Total
Loan and advances to banks				
Opening balance	66	-	-	66
Net movement	114	-	-	114
Closing balance	180	-	-	180
Loans and advances to customers				
Opening balance	1,650	1,815	78,263	81,728
Write offs	-	-	(15,781)	(15,781)
Net movement	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 movement	1,512	218	22,388	24,119
Closing balance	2,191	1,553	23,630	27,375
Total ECL as at 31 March	4,382	4,801	123,451	132,636

*Transfer from Expected credit losses on off-balances facilities to Expected credit losses on Loans and advances to customers.

The following table shows the notional value of financial instruments and the expected credit losses based on relative stages:

Risk management

in thousands of €s	2021								
	Stage 1			Stage 2			Stage 3		
	Notional	ECL	Net	Notional	ECL	Net	Notional	ECL	Net
On balance sheet facilities									
Placements with banks - on demand	76,250	8	76,242	1	0	1	-	-	-
Placement with banks - term deposits	51	0	51	-	-	-			-
Loans and advances	847,905	124	847,780	-	-	-	-	-	-
Corporate term loans	4,626,875	1,543	4,625,571	209,763	275	209,490	55,639	6,051	49,586
Corporate current accounts	210,223	171	210,052	11,489	133	11,357	-	-	-
Bills of exchange	763,317	186	763,131	112,359	189	112,170	111,600	48,948	62,652
Finance lease receivables	-	-	-	-	-	-	15,674	216	15,458
As at 31 March	6,524,620	2,032	6,522,827	333,612	596	333,018	182,913	55,214	127,696
Off balance sheet facilities									
Letters of credit	2,492	1	2,491	397	0	397	-	-	-
Financial guarantees	6,013,806	1,079	6,012,744	100,392	1,437	98,952	3,208	332	2,862
Undrawn commitments to lend	7,173,779	1,121	7,172,422	29,935	125	29,810	-	-	-
As at 31 March	13,190,077	2,201	13,187,657	130,725	1,562	129,159	3,208	332	2,862

Risk management

in thousands of €s	2020								
	Stage 1			Stage 2			Stage 3		
	Notional	ECL	Net	Notional	ECL	Net	Notional	ECL	Net
On balance sheet facilities									
Placements with banks - on demand	2,163,712	12	2,163,700	1	0	1	-	-	-
Placement with banks - term deposits	648,864	22	648,842	-	-	-			-
Loans and advances	851,891	129	851,762	-	-	-	-	-	-
Corporate term loans	7,118,768	1,162	7,117,606	301,490	3,162	298,330	205	202	2
Corporate current accounts	1,513,943	754	1,513,190	900	11	889	-	-	-
Bills of exchange	1,749,392	112	1,749,280	66,602	76	66,526	149,385	99,226	50,159
Finance lease receivables	-	-	-	-	-	-	1,740	394	1,346
As at 31 March	**14,046,569**	**2,191**	**14,044,379**	**368,992**	**3,249**	**365,745**	**151,330**	**99,821**	**51,507**
Off balance sheet facilities									
Letters of credit	5,621	1	5,620	-	-	-	-	-	-
Financial guarantees	1,575,274	597	1,574,677	153,929	1,553	152,372	3,803	787	3,016
Undrawn commitments to lend	9,365,420	1,594	9,363,826	-	-	-	29,714	22,843	6,874
As at 31 March	**10,946,314**	**2,192**	**10,944,123**	**153,929**	**1,553**	**152,372**	**33,517**	**23,630**	**9,890**

The following table shows the collateral and other credit enhancements such as financial guarante and pledged deposits and bonds:

in thousands of €s		
Collateral and credit enhancements	2021	2020
Bonds	3,811,781	2,760,439
Pledged deposits	1,420,607	2,233,096
Financial Guarantees	5,690,737	5,400,194
Total credit enhancements	**10,923,125**	**10,393,729**

ECL calculations

MBE 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 semi-annually 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 determines the impact on provisions by considering the impact of a change in expected macroeconomic environment to the provision calculation by considering how PD's are adjusted for those macro-economic predictions. The impact is allocated towards 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".

Assessment of past due payments
A critical element of the process of impairment provisioning includes the assessment of past due payments of principal or interest 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

Risk management

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 73% as at 31 March 2021 (2020 106.51%).

	As of 31 March 2021		As of 31 March 2020	
Funding Source	Amount (mn. €)	%	Amount (mn. €)	%
Current Accounts	6,234	61%	5,609	45%
Time Deposits Banks Inter-Group	3,619	35%	5,881	48%
Time Deposits Corporates	382	4%	824	7%
Time Deposits Banks	12	0%	25	0%
Total	**10,247**	**100%**	**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 paralel +/- 200 point 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 2021 shows that, in total an increase of 200 bp leads to an increase in € 78.429 of economic value of equity and a decrease of 200 bp leads to decrease of € (2.638) of economic value of equity.

	2021	
Interest rate sensitivity	Increase/(Decrease) in basis points	Sensitivity of equity
in millions of €s		
MBE (EVE)	200/(200)	24,949 / (16,781)
Currency		
EUR	200/(200)	37,275 / (7,540)
USD	200/(200)	6,031 / (4,569)
GBP	200/(200)	1,016 / (492)
PLN	200/(200)	1,887 / (1,367)
CZK	200/(200)	593 / (616)
JPY	200/(200)	2,366 / (1,975)
Other	200/(200)	614 / (129)

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			2021			
Maturity analysis	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Balances with central banks	888	113	-	-	-	1,001
Loans and advances to banks						
Placements with banks - on demand	2,900	-	-	-	-	2,900
Placement with banks - term deposits	6	532	20	81	-	639
Loans and advances	0	21	120	638	36	816
Loans and advances to customers						
Corporate term loans	0	892	566	3,244	648	5,350
Corporate current accounts	154	-	-	-	-	154
Bills of exchange	16	846	246	40	-	1,147
Lease receivables	-	4	6	37	-	47
Financial investments						
Government Bonds	-	65	-	-	-	65
Investments resulting from supply chain finance transactions	1	3	7	-	-	10
Derivatives	0	15	11	7	-	33
Total assets	3,965	2,491	975	4,047	684	12,162
Liabilities						
Due to banks						
Nostro accounts	71	-	-	-	-	71
Term deposits	-	656	381	2,105	180	3,322
Due to customers						
Term deposits	6	198	61	126	-	390
Current accounts	6,163	-	2	-	-	6,164
Subordinated loan	-	-	-	-	300	300
Derivatives	4	14	10	6	-	35
Lease liabilities	0	1	2	9	-	12
Total liabilities	6,243	869	456	2,246	480	10,294
Net	(2,278)	1,622	519	1,801	204	1,868

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						
Balances with central banks	904	-	-	-	-	904
Loans and advances to banks						
Placements with banks - on demand	2,286	-	-	-	-	2,286
Placement with banks - term deposits	402	155	-	101	-	658
Loans and advances	-	23	188	589	53	852
Loans and advances to customers						
Corporate term loans	93	1,938	701	3,751	1,034	7,517
Corporate current accounts	228	-	-	-	-	228
Bills of exchange	348	1,227	398	33	-	2,006
Lease receivables	-	4	5	47	2	58
Financial investments	-	165	-	-	-	165
Derivatives	67	-17	-1	5	- 0	54
Total assets	**4,329**	**3,494**	**1,290**	**4,526**	**1,088**	**14,728**
Liabilities						
Due to banks						
Nostro accounts	70	-	-	-	-	70
Term deposits	15	1,635	1,415	2,479	402	5,947
Due to customers						
Term deposits	97	513	80	136	-	826
Current accounts	5,530	-	-	-	-	5,530
Subordinated loan	-	-	-	-	300	300
Derivatives	76	-17	0	-	-	59
Lease liabilities	0	1	2	10	1	14
Total liabilities	**5,788**	**2,132**	**1,497**	**2,626**	**703**	**12,746**
Net	**-1,459**	**1,362**	**(207)**	**1,900**	**385**	**1,981**

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:

Contingent liabilities & commitments by contractual maturity						
	2021					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Letters of credit	4	-	-	-	-	4
Financial guarantees	1,590	-	-	-	-	1,590
Undrawn commitments to lend	8,472	-	-	-	-	8,472
Total guarantees & commitments	**10,066**	**-**	**-**	**-**	**-**	**10,066**
	2020					
in millions of €s	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Letters of credit	6	-	-	-	-	6
Financial guarantees	1,673	-	-	-	-	1,673
Undrawn commitments to lend	9,401	-	-	-	-	9,401
Total guarantees & commitments	**11,080**	**-**	**-**	**-**	**-**	**11,080**

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.

Risk management

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 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.

FC position

in millions of €s	2021			2020		
Currency	Total assets	Total liabilities	Position	Total assets	Total liabilities	Position
EUR	8,929	(7,175)	1,754	9,856	(8,025)	1,831
CZK	121	(120)	1	103	(103)	(0)
PLN	407	(402)	5	910	(906)	4
USD	1,615	(1,611)	4	2,777	(2,777)	(1)
GBP	264	(259)	5	327	(327)	0
JPY	692	(698)	(6)	598	(598)	(0)
Other	173	(180)	(8)	127	(127)	0
Total	12,201	(10,445)	1,756	14,697	(12,863)	1,834

Risk management

Currency sensitivity

	2021		2020	
Currency	Increase	Decrease	Increase	Decrease
EUR	175	(175)	183	(183)
CZK	0	0	0	0
PLN	1	(1)	0	0
USD	0	0	0	0
GBP	1	(1)	0	0
JPY	(1)	1	0	0
Others	(1)	1	0	0
Total	175	(175)	183	(183)

(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 (or physical) 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

Risk management

(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 previous financial year, MBE was confronted with the worldwide outbreak of Covid-19. Crisis and related uncertainties continued also into the reported 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 meant that the operational risk had increased. This escalated level of operational risk continued over the course of the reported financial year. 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. As a result, MBE has not experienced significant financial impacts from change of operations caused by the COVID-19 pandemic.

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:

- 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:

Additional notes to the Consolidated Financial Statements

Risk management

Capital requirements		
in thousands of €s	2021	2020
Common equity Tier 1		
Issued capital	100,003	100,003
Share premium	1,334,304	1,334,304
Retained earnings	357,434	421,881
Result for the year	(24,126)	(64,446)
Regulatory adjustments		
Other Intangible assets	(23,812)	(13,991)
Prudential filter	(143)	(277)
Accumulated other comprehensive income	(14,808)	(7,674)
Non controlling interest	68	31
Common equity Tier 1	1,728,920	1,769,831
Eligible Tier 2 Capital instruments		
Subordinated debt	300,000	300,000
Tier 2 capital	300,000	300,000
Dividend proposed	-	-
Total own funds	2,028,920	2,069,831
Risk weighted assets	9,838,336	12,227,302

MBE has complied with the regulatory capital requirements throughout the reporting period and maintained capital ratios above the regulatory minimum CET1.

Solvency ratios	2021	2020
Common equity Tier 1 ratio	17.57%	14.47%
Tier 1 ratio	17.57%	14.47%
Total capital ratio	20.62%	16.93%

As at 31 March 2021 MBE's total capital own funds amounted to € 2,028,920 (2020: € 2,069,831). The total capital ratio increased from 16.93 % on 31 March 2020 to 20.62% as per 31 March 2021.

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).

Risk management

- **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 the past 12 months. However, with its upcoming three year strategic plan, MBE intends to reduce its strategic risk by means of a more viable business model and improved strategic risk controls.

29 List of subsidiaries

Name of the subsidiary	Country of incorporation	Place	% equity interest 2021	% equity interest 2020
MUFG Business Services (Holland) B.V.*	the Netherlands	Amsterdam	-	100
MUFG Europe Lease (Deutschland) GmbH	Germany	Dusseldorf	95	95
MUFG Funding (UK) Limited	United Kingdom	London	100	100

*MUFG Business Services (Holland) B.V. has been liquidated as per 26 March 2021.

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 2021 amounts to € 24.122. The proposal to the General shareholder meeting to appropriate the loss is:

Appropriation of profit (loss)	
Transfer to reserves	(24,126)
Profit (loss) for the year	(24,126)

31 Subsequent events

Restructuring

Additional notes to the Consolidated Financial Statements

Subsequent events

In May 2021 MBE presented its medium term business plan for the financial years FY21-FY23. In this plan MBE announced to close its branches in Poland and Czech Republic and to restructure its Belgium Branch by transferring its booking office towards Amsterdam.

A restructuring was announced for the Germany branch as well as the Amsterdam head office. MBE's intention is to reduce FTE by 20% for its Germany branch and 30% for Amsterdam head office. Final decision making is pending management discussion with local work councils.

Changes in Supervisory Board

Effective on 15 June 2021 Mr Sazaki stepped down as Vice-Chairman of the Supervisory Board and was succeeded by the appointment of Mr Yokomaku.

Authorisation of Consolidated Financial Statements

Amsterdam, 21 July 2021

The Supervisory Board

W. Reehoorn, Chairman

K. Yokomaku, Vice-Chairman

K.W. Peacock

G. Van Vollenhoven-Eikelenboom

The Management Board

H. Takase, chairman

M.F. Rosenberg

N. Hatano

E. Shakhurina

M.A.B. Selles

Parent Company Financial Statements
As at 31 March 2021

Parent Company Statement of Financial Position

As at 31 March

after appropriation of result

in thousands of €s		2021	2020
ASSETS			
Cash and balances with central banks	A	1,000,587	904,218
Loans and advances to banks	B	4,342,250	3,786,966
Loans and advances to customers	C	6,590,924	9,601,989
Financial investments	D	74,744	164,777
Investments in subsidiaries	E	7,840	7,371
Intangible assets	F	17,211	18,655
Property and equipment	G	17,906	17,281
Current tax assets	H	41,011	24,627
Deferred tax assets	I	36,581	48,916
Other assets	J	68,798	93,165
Total assets		12,197,852	14,667,966
LIABILITIES AND EQUITY			
Due to banks	K	3,410,544	5,976,209
Due to customers	L	6,584,684	6,364,997
Current tax liabilities	H	1,672	7,973
Other liabilities	M	112,115	173,422
Provisions	N	35,915	61,149
Subordinated debt	O	300,116	300,122
Issued capital	P	100,003	100,003
Share premium	P	1,334,304	1,334,304
Legal reserves	P	5,278	6,464
Retained earnings	P	313,222	343,323
Total liabilities and equity		12,197,852	14,667,966

Parent Company Statement of Profit or Loss

For the year ended 31 March

in thousands of €s	Notes	2021	2020
Interest income		116,014	181,962
Interest expense		38,171	96,507
Net interest income	R	77,843	85,455
Fee and commission income		28,569	27,403
Fee and commission expense		14,169	11,179
Net fee and commission income	S	14,400	16,224
Other Operating Income		88	1,135
Result on financial transactions	T	37,058	44,871
Total operating income		129,388	147,685
Personnel expenses	U	86,204	94,748
Amortisation of intangible assets	F	5,820	4,749
Depreciation of property and equipment	G	4,470	4,238
Impairment on fixed assets	F	1,324	-
Other operating expenses	V	54,891	59,380
Total operating expenses		152,710	163,115
Credit loss expenses (recovery)	C	(6,007)	63,394
Profit (loss) before tax		(17,314)	(78,824)
Income tax expense/ (benefit)	W	7,150	(14,342)
Net Result Continued Operations		(24,464)	(64,482)
Result of group Companies after taxation		(338)	32
Net Result		(24,126)	(64,450)

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 ´Accounting 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 statement of profit orloss. For information regarding the risk management policies, related party transactions and additional notes reference is made to the Consolidated Financial Statements.

Notes to the parent company Statement of Financial Position
Assets

A. Cash and Balances with central banks

Cash and balances with central banks	2021	2020
Balances with central banks	1,000,587	904,218
Cash and balances with central banks	1,000,587	904,218

Balances with central banks include mandatory reserve deposits amounting to € 109,886 (2020: € 141,698), 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

B. Loans and advances to banks

Loans and advances to banks	2021	2020
Placement with banks - term deposits	80,762	100,914
Loans and advances	674,797	641,990
Non-current Loans and advances to banks	755,559	742,904
Placements with banks - on demand	2,897,774	2,282,236
Placement with banks - term deposits	552,442	551,667
Loans and advances	136,787	210,340
Allowance for expected credit losses	(312)	(180)
Current Loans and advances to banks	3,586,691	3,044,062
Loan and advances to banks	4,342,250	3,786,966

The amount receivable from MUFG Bank London branch is € 3,206,346 (2020: € 2,663,540). MBE entered into a financial collateral agreement with MUFG Bank London branch, whereby eligible government bonds are pledged by MUFG Bank to MBE. € 3,727,943 (2020: € 3,855,233) 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.

C. Loans and advances to customers

Loans and advances to customers - by class	2021	2020
Corporate term loans	3,891,956	4,792,634
Bills of exchange	195,509	132,233
Non-current Loans and advances to customers	4,087,465	4,924,867
Corporate term loans	1,465,140	3,270,683
Corporate current accounts	154,398	228,233
Bills of exchange	941,237	1,282,892
Allowance for expected credit losses	(57,315)	(104,687)
Current Loans and advances to customers	2,503,459	4,677,122
Loans and advances to customers	6,590,924	9,601,989

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:

Collateral and credit enhancements	2021	2020
Bonds	3,811,781	2,760,439
Pledged deposits	1,420,607	2,233,096
Financial guarantees	5,690,737	5,400,194
	10,923,125	10,393,729

Allowance expected credit losses for loans and advances to customers

The movements in the allowances can be specified as follows:

Expected credit loss allowance for loans and advances to customers	2021	2020
Opening balance	(132,240)	(84,627)
Expected Credit loss (expenses) recovery	6,007	(63,394)
Write off expenses	64,510	15,780
Recovery amounts previously written off	-	(1)
Closing balance	(61,723)	(132,240)

Notes to the parent company Statement of Financial Position Assets

The transfer relates to a transfer from Expected credit losses on off-balances facilities to Expected credit losses on Loans and advances to customers.

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

D. Financial investments

Financial investments	2021	2020
Government Bonds	64,505	164,777
Investments resulting from supply chain finance transactions	10,240	-
Financial investments	74,744	164,777

The financial investments consist of short term Polish government bonds and investments resulting from supply chain financing (reverse factoring) transactions. The Polish government bonds are pledged for liquidity purposes to the Polish central bank to secure any borrowings.

E. Investments in subsidiaries

MBE has the following subsidiaries:

	2021		2020	
Investments in subsidiaries	Interest held %	Balance Sheet Value	Interest held %	Balance Sheet Value
MUFG Europe Lease (Deutschland) GmbH	95	1,303	95	597
MUFG Business Service (Holland) B.V. *	-	-	100	434
MUFG Funding Limited	100	6,536	100	6,340
Investments in subsidiaries		7,840		7,371

*MUFG Business Service (Holland) B.V. has been liquidated as per 26 March 2021.

In FY20 MBE decided to liquidate MUFG Europe Lease (Deutschland) GmbH by the end of FY23. Following this decision MUFG Europe Lease (Deutschland) GmbH ceased the origination of new client contracts. MUFG Lease will continue to serve its existing client contracts until further decision making takes place.

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

Movements: investments in subsidiaries	2021	2020
Opening balance	7,371	7,415
Net profit for the period	338	32
Dividend payment	-	-
Translation differences	256	(76)
Derecognition due to liquidation	(125)	-
Closing balance	7,840	7,371

Notes to the parent company Statement of Financial Position Assets

F. Intangible assets

Intangible assets	2021	2020
Opening balance	18,655	15,836
Additions	5,697	5,833
Amortisation	(5,820)	(4,749)
Under development	-	1,750
Impairment (loss)	(1,324)	-
Exchange rate adjustments	3	(12)
Other changes	-	(3)
Closing balance	17,211	18,655
Accumulated cost	44,141	39,926
Accumulated amortisation and impairment (loss)	(26,929)	(21,271)
Intangible assets	17,212	18,655

The intangible assets consist of software and licenses. The total purchase of intangible assets is € 598 (2020: € 641). The amortisation period varies between 1 and 5 years. The carrying value of intangible assets has been reduced to its recoverable amount by recognising an impairment of € 1,324 as at 31 March 2021 (2020: € 0).

G. Property and equipment

	2021					
	Owned			Right-of-use assets		
Property and equipment	Operations equipment	Leasehold improve - ments	Total	Operations equipment	Buildings	Total
Opening balance	2,393	2,771	5,164	98	12,019	12,117
Additions	500	125	625	34	3,434	3,468
Disposals	(1)	-	(1)	-	-	-
Depreciation	(828)	(467)	(1,295)	(28)	(3,148)	(3,175)
Other changes	446	558	1,004	-	-	-
Closing balance	2,510	2,987	5,497	104	12,305	12,410
Accumulated cost	11,714	9,705	21,419	154	18,369	18,523
Accumulated depreciation	(9,204)	(6,718)	(15,922)	(50)	(6,064)	(6,113)
Property and equipment	2,510	2,987	5,497	104	12,305	12,410

	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)	(503)	(1,277)	(22)	(2,916)	(2,938)
Exchange rate adjustments	(1)	0	(1)	-	-	-
Other changes	19	(357)	(338)	-	-	-
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

Notes to the parent company Statement of Financial Position Assets

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

H. Current tax

Current tax assets	2021	2020
Current tax assets	41,011	24,627
Current tax assets	41,011	24,627

Tax liability	2021	2020
Tax liability	1,672	7,973
Tax liability	1,672	7,973

I. Deferred tax

Deferred tax assets	2021	2020
Deferred tax assets	36,581	48,916
Deferred tax assets	36,581	48,916

Deferred tax liability	2021	2020
Deferred tax liability	0	-
Deferred tax liability	0	0

J. Other assets

Other assets	2021	2020
Accounts receivable	15,997	17,867
Prepayments	1,427	1,432
Derivative financial instruments	32,916	54,191
Other	18,458	19,675
Other assets	68,798	93,165

Liabilities

K. Due to banks

This item comprises debts to credit institutions and central banks.

Due to banks	2021	2020
Term deposits	2,301,365	2,840,416
Non-current due to banks	2,301,365	2,840,416
Nostro accounts	70,706	69,795
Term deposits	1,038,473	3,065,998
Current due to banks	1,109,179	3,135,793
Due to banks	3,410,544	5,976,209

The term deposits from MUFG Bank, pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 3,139,403 (2020: € 3,139,558). The total amount owed to MUFG Bank, including pledged deposits, is € 3,320,927 (2020: € 5,876,274).

Liabilities

L. Due to customers

Due to customers	2021	2020
Term deposits	125,525	135,646
Non-current due to customers	125,525	135,646
Current accounts	6,195,023	5,541,195
Term deposits	264,136	688,157
Current due to customers	6,459,159	6,229,351
Due to customers	6,584,684	6,364,997

M. Other liabilities

Other Liabilities	2021	2020
Accrued expenses	35,384	31,667
Accounts payable	9,194	17,444
Lease liabilities	13,692	12,559
Derivative financial instruments	34,745	58,764
Other	19,100	52,988
Other liabilities	112,115	173,422

N. Provisions

Provisions	2021	2020
Expected credit loss on off-balance facilities	4,096	27,375
Defined benefit plan – the Netherlands	2,354	5,953
Pension liability – Germany	22,841	19,747
Restructuring provision	6,625	8,075
Provisions	35,915	61,150

For the post employment benefit plans 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.

O. Subordinated debt

Subordinated Loan	2021	2020
Subordinated debt	300,116	300,122

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.

Equity

P. Issued capital and other reserves

The authorised capital amounts to € 136,200 (2020: € 136,200) and consists of 300.000 ordinary shares of € 454 each (unit: one €). Issued and fully-paid amounts to € 100 million (2020: € 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

in thousands of €s	Issued capital	Share premium	Retained earnings	Legal Reserves: Fair value revaluation	Legal Reserves: Foreign currency translation reserve	Legal Reserves: Intangible assets	Legal Reserves: Actuarial revaluation	Total equity
Closing balance as at 31 March 2019	100,003	1,334,304	409,951	(2)	148	11,933	(7,476)	1,848,861
Self developed software	-	-	(2,178)	-	-	2,178	-	-
Other comprehensive income	-	-	(64,450)	(2)	(76)	-	(239)	(64,767)
Closing balance as at 31 March 2020	100,003	1,334,304	343,323	(4)	72	14,111	(7,715)	1,784,094
Opening balance adjustment	-	-	-	-	-	0	(2,494)	- 2,494.00
Self developed software	-	-	(5,975)	-	-	5,975	-	-
Total Comprehensive income	-	-	(24,126)	27	256	-	(4,949)	(28,794)
Closing balance as at 31 March 2021	100,003	1,334,304	313,222	23	328	20,086	(15,158)	1,752,806

The opening balance adjustment of € 2,494 relates to the reversal of a deferred tax asset recognised in previous years, adjusted in the current financial year.

Contingent liabilities

Q. Contingent liabilities and commitments

Contingent liabilities and commitments	2021	2020
With respect to letters of credit	3,578	5,897
With respect to letters of guarantees	1,591,003	1,674,803
Contingent liabilities	1,594,581	1,680,700
Irrevocable credit commitments	8,465,639	9,399,549
Other uncommitted facilities	4,496,375	4,608,245
Credit commitments	**12,962,014**	**14,007,794**

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.

Notes to parent company Statement of Profit or Loss

Notes to parent company Statement of Profit or Loss

R. Net Interest income

Net Iinterest income	2021	2020
Interest income from cash and balances with central banks	91	813
Interest income from loans and advances to banks	1,188	6,283
Interest income from loans and advances to customers	112,911	169,207
Interest income from financial investments	1,357	1,565
Interest income from interest rate swaps	452	3,891
Interest income from: others	16	203
Interest income	116,014	181,962
Interest expense from cash and balances with central banks	1,865	3,893
Interest expense from due to banks	29,417	60,204
Interest expense from due to customer	3,155	27,294
Interest expense from interest rate swaps	427	3,922
Interest expense from: others	3,307	1,194
Interest expense	38,171	96,507
Net Interest income	77,843	85,455

S. Net fee and commission income

Net Fee and commission income	2021	2020
Commission on funds transfer and letters of credit	10,330	12,105
Commission on guarantees	7,685	7,735
Brokerage and advisory fees	511	537
Commission on corporate management services	20	20
Other fee and commission income	10,023	7,006
Fee and commission income	28,569	27,403
Commission on (credit replacing) guarantees	3,052	2,673
Commission on funds transfer and letters of credit	821	1,003
Commission on corporate management services	0	-
Other fee and commission expenses	10,296	7,503
Fee and commission expense	14,169	11,179
Net Fee and commission income	14,400	16,224

T. Result on financial transactions

Result on financial transactions	2021	2020
Result on financial transactions	37,058	44,871

This item includes the foreign currency results of MBE amounting € 35,776 (2020: € 40,170). As explained in Note 28 to the consolidated Financial Statements, MBE's policy is to eliminate currency risks on financial assets and liabilities.

Notes to parent company Statement of Profit or Loss

U. Personnel expenses

Personnel expenses	2021	2020
Wages and salaries	67,242	55,806
Social securities costs	7,784	6,841
Pension costs	(3,223)	3,907
Restructuring expenses	48	5,118
Other staff costs	14,355	23,077
Personnel expenses	86,204	94,748

The number of employees during the year ended 31 March 2021 is 794 (2020: 783), of which 404 (2020: 407) are employed in the Netherlands and 247 (2020: 242) are employed in Germany.

Other staff costs include mainly the costs related to contracted employees and/or agency employees. The number of contracters as at 31 March 2021 is 73 (2020: 125).

During the financial year the pension plan for Amsterdam has changed which resulted in a curtailment gain. Please refer to Note 13.1 for more details.

Please refer to Note 27 for the Remuneration paid to Key Management Personnel.

V. Other operating expenses

Other operating expenses	2021	2020
Occupancy expenses	5,602	3,466
Office expenses	16,511	22,232
Professional fees	9,652	10,864
Business promotion expenses	4,117	5,354
VAT and sundry taxes	18,344	14,934
Other operating expenses	665	2,530
Other operating expenses	54,891	59,380

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

Please refer to Note 20 for disclosures on audit fees paid.

W. Income tax expense

The components of income tax expense for the years ended 31 March 2021 and 31 March 2020 are:

Income tax (expense)	2021	2020
Current income tax	2,117	10,501
Tax adjustments previous years	(5,713)	(1,750)
Current tax	(3,596)	8,751
Utilisation of assessed loss	(10,980)	-
Restructuring and pension provisions	(558)	(200)
Allowance for expected credit losses	21,950	(22,965)
Other	334	73
Deferred tax	10,746	(23,092)
Income tax	7,150	(14,342)

Notes to parent company Statement of Profit or Loss

X. Maturity analysis of assets and liabilities

X Maturity analysis of financle assets and financial liabilities

in millions of €s	2021					
Maturity analysis	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	888	113	-	-	-	1,001
Loans and advances to banks	2,885	562	140	719	36	4,342
Loans and advances to customers	177	1,683	701	3,440	648	6,648
Financial investments	0	68	7	-	-	75
Total assets	3,950	2,424	849	4,159	684	12,066
Liabilities						
Due to banks	72	656	381	2,114	187	3,411
Due to customers	6,199	198	62	126	-	6,585
Subordinated debt	0	-	-	-	300	300
Total liabilities	6,271	854	443	2,240	487	10,295
Net	(2,321)	1,570	405	1,919	197	1,770

Maturity analysis	2020					
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	830	74	-	-	-	904
Loans and advances to banks	2,270	586	188	690	53	3,787
Loans and advances to customers	406	3,271	1,000	3,889	1,036	9,602
Financial investments	-	165	-	-	-	165
Total assets	3,506	4,096	1,188	4,579	1,089	14,458
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	(2,116)	1,846	(305)	2,013	379	1,817

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 2021 amounts to € 24,122. The proposal to the General shareholder meeting to appropriate the loss is:

Appropriation of profit (loss)	
Transfer to reserves	(24,126)
Profit (loss) for the year	**(24,126)**

Z. Subsequent events

Restructuring

In May 2021 MBE presented its medium term business plan for the financial years FY21-FY23. In this plan MBE announced to close its branches in Poland and Czech Republic and to restructure its Belgium Branch by transferring its booking office towards Amsterdam.

A restructuring was announced for the Germany branch as well as the Amsterdam head office. MBE's intention is to reduce FTE by 20% for its Germany branch and 30% for Amsterdam head office. Final decision making is pending management discussion with local work councils.

Changes in Supervisory Board

Effective on 15 June 2021 Mr Sazaki stepped down as Vice-Chairman of the Supervisory Board and was succeeded by the appointment of Mr Yokomaku.

Authorisation Parent Company Financial Statements

Amsterdam, 21 July 2021

The Supervisory Board

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

The Management Board

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

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.

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Independent auditor's report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the financial statements for the year ended 31 March 2021 of MUFG Bank (Europe) N.V., based in Amsterdam. The financial statements comprise 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 2021, and of its result and its cash flows for the year ended 31 March 2021 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 2021, and of its result for the year ended 31 March 2021 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 2021.

2. The following statements for the year ended 31 March 2021: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and 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 balance sheet as at 31 March 2021.

2. The parent company profit and loss account for the year ended 31 March 2021.

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 € 6,000,000. The materiality is based on 0.5% of total equity, capped at €6,000,000. 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 € 300,000, 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. Amsterdam and performed audit procedures at a group level on audit areas such as the allowance for expected credit losses (IFRS 9), consolidation process, disclosure requirements and regulatory compliance.

- Used the work of other auditors when auditing the branches in Germany, Poland and Belgium.

- Performed review procedures ourselves or performed specific audit 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.

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 of 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.

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.

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 estimation uncertainty in several areas of the ECL allowance, the allowance for expected credit losses is considered to be an important area of judgment and estimate by the Management Board. The estimation uncertainty further increased following the outbreak of the COVID-19 pandemic. As a result of the significance of the allowance for expected credit losses ("ECL") and its dependence on assumptions and management judgement, we consider this area as a key audit matter for the 31 March 2021 audit. The total allowance for expected credit losses as of 31 March 2021	**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 credit origination process, credit rating and credit monitoring process. We have performed corroborative inquiries with Finance division representatives to discuss governance over the ECL process. We have tested the design, implementation and operating effectiveness of certain relevant controls in this process. We engaged credit risk modeling experts who assessed model-scripts to estimate Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") variables of the provision. We have reviewed key judgements and estimates made by the Management Board, including the need for post-model adjustments. We have performed test of details on data that have been used as input for the PD, EAD and LGD assumptions. We have engaged our economists to test and challenge the macro-economic scenarios and forecasts that have been used in the ECL. We have performed audit procedures to determine that the stage allocation of exposures has been performed in accordance with the Bank's policy and qualify as a Significant Increase in Credit Risk ("SICR") event in accordance with IFRS 9.

amounts to €61.9 million. Reference is made to disclosure note 28.2 (Credit risk) in the financial statements.	We have adopted a substantive-testing approach for impaired loans (Stage 3). 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 management's assumptions applied in the discounted cashflow-calculations. Finally, 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 management's estimate and 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. 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.	**How the key audit matter was addressed in the audit** We have obtained an understanding of the regulatory requirements applicable to 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 inquiries 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. 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. Notwithstanding the foregoing, we are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all 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
- Financial results
- Our people
- Corporate governance
- Report of the Management Board
- Report of the Supervisory Board
- Other Information
- Corporate data.

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.

Management 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 July 19, 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 management and the Supervisory Board for the financial statements

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

Management 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 among others:

- 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 management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in 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 a 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 branches 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 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 21, 2021

Deloitte Accountants B.V.

Signed on the original

R.J.M Maarschalk

Annexes

Corporate data

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Corporate data

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United Kingdom	United Kingdom	

MUFG Inc. Corporate Data

MUFG Inc. Corporate Data

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