Annual Accounts

2016

MUFG Bank (Europe) N.V.
A member of MUFG, a global financial group

MUFG

CONTENTS

PROFILE

MUFG Bank (Europe) N.V. (hereinafter ‘MBE’) changed its name on 1 May 2016 from Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. This name change reflects the more international character envisioned for the future. MBE is the fully-owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (hereinafter ‘BTMU Ltd.’), 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 40 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.

BTMU Ltd. is the premier commercial banking arm of Mitsubishi UFJ Financial Group, Inc. (hereinafter ‘MUFG Inc.’), one of the world’s largest and most diversified financial groups, offering a wide range of financial services, including commercial banking, trust banking, securities services, project finance, consumer finance and asset management. BTMU Ltd. has the largest overseas network of any Japanese bank, comprising offices and subsidiaries in more than 40 countries.

STRATEGY

Being incorporated as a commercial bank under Dutch law and being part of a prominent Japanese banking group of high international reputation and standing MBE – in close cooperation with the parent bank and taking full advantage of the exceptional resources of MUFG Inc. – aims at fulfilling both our Japanese and non-Japanese corporate customers’ needs.

MBE recognizes the Netherlands as an excellent home for (foreign-owned) financing and holding companies, for European headquarters of sales, distribution and manufacturing companies. As a growing number of Japanese companies are active in Central and Eastern Europe MBE recognizes Austria, Belgium, Poland and the Czech Republic as important markets for MBE and its customers. For the support of its clients MBE has branches in Austria, Belgium and Czech Republic and a fully-owned subsidiary in Warsaw. MBE considers the Central and Eastern European markets as a promising economy for its Japanese and non-Japanese clients.

At the time of publication of this report the Polish subsidiary has been fully integrated to be a branch as per May 2017. Also the German and Spanish/Portuguese subsidiaries of BTMU Ltd will follow afterwards to be fully integrated by April 2018. By changing our internal organization we are able to provide better service for our clients.

In close co-work with and support of the European Business Division of BTMU Ltd., located in London, MBE participates in international syndicated finance activities both through its office in Amsterdam and its 100%, UK-based subsidiary, BTMU (Europe) Ltd.

To Dutch-based Japanese holding and finance companies MBE offers trust services through its fully-owned subsidiary, BTMU Trust (Holland) B.V.

SELECTED FINANCIAL DATA 2012-2016

(amounts in millions of €s)	**2016**	**2015**	**2014**	**2013**	**2012**
STATEMENT OF FINANCIAL POSITION					
Loans & advances to customers	5,886	4,711	4,779	5,376	5,616
Shareholder's equity	616	587	578	563	551
Total assets	8,699	7,880	7,244	7,115	8,047
Risk-weighted assets	3,772	3,981	3,508	3,744	3,499
RESULT					
Net interest income	24	24	27	26	30
Total operating income	47	47	51	55	58
Credit loss (income) expense	0	(1)	(2)	1	(4)
Operating expenses	44	38	32	31	30
Result for the year	1	8	16	18	27
OTHERS					
Dividend proposed for the year	0	0	0	0	6
BIS total capital ratio	16.3%	14.7%	16.4%	15.1%	15.7%
Operating expense/income ratio	93.9%	80.3%	61.3%	55.1%	51.2%
Number of employees (average)	225	161	160	155	141
• Domestic	177	109	109	107	96
• Abroad	48	52	51	48	45

GENERAL INFORMATION

REGISTERED OFFICE

World Trade Centre Amsterdam
Strawinskylaan 1887
1077 XX Amsterdam
The Netherlands

SUPERVISORY BOARD

J.W. Sodderland (Chairman)
K.W. Peacock (Vice-chairman)
M. Osawa
M. van Nieuwkerk

MANAGEMENT BOARD

N. Matsumoto (Chairman)
K. Kuzuhara
M.F. Rosenberg
B.V. IJssel de Schepper

AUDITOR

Deloitte Accountants B.V.
Gustav Mahlerlaan 2970
1081 LA Amsterdam
The Netherlands

CHAMBER OF COMMERCE

Registration number: 33.13.25.01

REPORT OF THE SUPERVISORY BOARD

▪ Financial statements & dividend proposal

In accordance with article 12 of MBE's articles of association we hereby submit to the shareholders the 2016 annual accounts, 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. We propose the shareholders 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 2016. The management board proposes to pass again this year's dividend payment and add profits to the reserves, which proposal is endorsed by the supervisory board.

▪ Composition supervisory board

Mr. H. Matano's term ended during the spring of 2016. Mr. H. Noda retired in the course of the same year. The vacancies were filled by Mr. M. Osawa and Mr. K.W. Peacock.
MBE aims to have an adequate composition of the management board and the supervisory board in terms of relevant knowledge, experience and gender diversity (30% rule). With respect to the gender requirement, in 2016 both boards did not comply. MBE and the supervisory board are well aware of the desirability to comply if adequate options are available.

▪ Composition management board

In the autumn of 2016 Mr. M.F. Rosenberg was appointed as Chief Risk Officer. This was an addition to the management board that now consists of 4 members.
Moreover, on 3 March 2017 Mr. T. Ishida resigned from the management board to accept a new role with BTMU. Ltd Manila branch. He was succeeded on 17 March 2017 by Mr. K. Kuzuhara.

▪ Activities

The supervisory board monitored MBE's business development, financial position and results on an ongoing basis. During the year the supervisory board discussed with the management board a great number of subjects, including but not limited to risk management, credit provisioning, integrity, corporate governance and the Dutch banking code, in order to assure itself by means of its own examination as to the adequate management of risk and the control framework of MBE. Other topics of importance were the development of project Stella including the integration of the Group's branches on the European continent into MBE. This is a project of major importance the completion of which will take several years. Also, the Dutch Central Bank ("DNB") issued a declaration of non-objection for the conversion of MBE's Polish subsidiary into a branch.

In 2016 the supervisory board convened five times, of which one meeting took place in the offices of the recently acquired Brussels branch. Furthermore, members of the supervisory board consulted on a regular basis with external auditor Deloitte, the head of the internal audit division, the division heads in charge of risk management and compliance, the head of the finance division and representatives of the works council.

The supervisory board reviewed the remuneration policy, the remuneration of the management board and the 'coded (identified) staff members' and reviewed its own functioning. Additionally, the chairman of the board discussed with the management board relevant topics related to the Dutch banking code, Basel III, the ICAAP/ILAAP process and IT issues.

The supervisory board and/or its chairman had meetings with representatives of DNB on issues such as capitalization and liquidity, risk assessment, outsourcing, governance.

Audit, Compliance and Risk Committee

Since 2011 an audit committee, consisting of the two independent members of the supervisory board, is functioning. Some time ago its scope has been broadened to cover compliance and risk management functions as well. 2016 has been another year where MBE continued to strengthen the internal organization by adding staff and bring itself in a position that it can cope with more and more regulatory demands as well as the challenges of a considerably expanding organization.
The IT environment in which MBE operates has substantially improved. All these efforts of the management board and other staff are greatly appreciated by the supervisory board. The audit, compliance and risk committee was regularly consulted and involved in the progress made in all these areas. The committee's chairman is currently Mr. M van Nieuwkerk.

Dutch Banking Code

In the opinion of the supervisory board MBE complies with the Dutch Banking Code.

Information and Consultation

The supervisory board acknowledges that the management board has duly provided the Board with adequate and up-to-date information and has been consulted on MBE’s policy and controls where needed, enabling the supervisory board to perform its supervisory tasks adequately.

Amsterdam, 30 May 2017

J.W. Sodderland
K.W. Peacock
M. Osawa
M. van Nieuwkerk

REPORT OF THE MANAGEMENT BOARD

■ Financial review

Despite the ongoing recovery of the Dutch economy in 2016 our net operating income declined slightly from € 47.7 million to € 46.5 million, which result is attributable to lower net interest and net commission income. The lower interest rates as well as our internal policy related to customer interest rates have put the net interest result under pressure. The market environment in which MBE operates continued to be very challenging, with the demand for credit by our customers remaining on the low end. As stated before net commission income compared to 2015 figures decreased in 2016 by 20%. The commissions from financial transactions YoY increased by 5%.

As a result of the present monetary policies we expect the trend of low interest rates to continue at least during 2017. MBE is reviewing its medium term business plan not least to improve its positioning in the market place enabling it to continue to deliver a high service to our customers and at the same time to further increase efficiency and enhance synergy in our chosen markets.

The total expenses increased to € 43.9 million, related to project related staff for IT and additional staff hired for our Risk and Compliance divisions strongly related to several projects, comprising the integration of the group's Brussels branch and a study to redefine and restructure BTMU Ltd. European branch network into MBE. The average number of staff increased from 161 in 2015 to 225 in 2016, including the additional staff consolidated through Brussels branch. Furthermore, supervision cost as well as the increasing number of new regulations and changes to regulatory requirements demand more investment into IT systems and staff. Nevertheless, considering the nature and the expected temporary character of a substantial part of the cost increase in combination with the renewed medium term business plan, the management board is of the opinion that the cost income ratio will return to more healthy levels in the future. Our parent bank and sole shareholder again reported strong results for the period ending 31 March 2016.

Our parent bank and sole shareholder reported results for the period ending 31 March 2017 lower than 31 March 2016. Gross profits decreased by Yen 161.5bn to Yen 2,771.3bn mainly due to lower net interest income and lower gains on debt securities. Net operating profits decreased by Yen 313.4bn to Yen 1,027.8bn mainly due to lower gross profits and provision for general allowance for credit losses.

■ Liquidity position

As a result of our strong liquidity position and our credit risk policy we are placing and taking funds with the European Treasury Division of our parent bank, BTMU Ltd., London. We placed € 1.8 billion (2015: € 2.1 billion) with our parent bank and related parties. During 2016 our LCR remained at an average level of 172%, and the NSFR at 92%. MBE fully complies with the external required liquidity ratios. In 2018 the NSFR is expected to be officially implemented by the Regulator. The minimum requirement will be 100% at that moment. We are currently working on the GAP. On March 2017 the NSFR came to 99%.

■ Capital adequacy

In 2016 MBE submitted its ICAAP (Internal Capital Adequacy Assessment Process) report to the Dutch Central Bank. MBE fully complies with all external imposed capital requirements. MBE's management is of the opinion that an economic capital ratio of 14% is appropriate. At balance sheet date the consolidated BIS total capital ratio was 16.3% (2015: 14.7%) which is considered to be sufficient to adhere to the Basel III capital requirements.

To enable further growth of our lending portfolio, the management is proposing to our shareholder to pass this year's dividend payment again.

■ Business activities

MBE's activities comprise corporate banking including the introduction of our corporate customers to other members or affiliates of our group.

Our corporate customer portfolio consists of Japanese related and non-Japanese related corporates. We work in partnership with other entities within the MUFG Inc. group, allowing us to offer tailor made solutions to our customers. The strength and global presence of the MUFG Inc. group, of which we form part, enables us to provide a strong business case to (prospect) companies.

We continue, in line with our parent bank BTMU Ltd., to focus on growing the corporate customer portfolio in our chosen markets, with a special focus on non-Japanese corporate business opportunities.
The outstanding balance as per balance sheet date of the credit facilities to our corporate customer portfolio reported an increase compared to the same date in 2015, due to Brussels Branch joining the MBE group and increase in Poland.

European Treasury Division of our parent bank, BTMU Ltd., London, remains our main counterparty for executing our inter-bank market transactions.

■ Risk management

Corporate Banking remains the main business activity of MBE in its chosen markets in the Netherlands, Central and Eastern Europe and lately in Belgium and as such is exposed to risk. These risks encompass amongst others credit risk; operational risk; IT security risk; market- and liquidity risk.
MBE has found an appropriate solution, which was accepted by the Dutch Central Bank, for its large exposure on its parent bank.

MBE continues to employ a prudent risk appetite to ensure that aforementioned risks remain within manageable and acceptable boundaries and in line with MBE's business targets and risk appetite. The risk management framework is governed by a system of policies, procedures, committees and line- and staff functions.

Paragraph 29 of the 'Notes to the consolidated financial statements' provide more detailed information about MBE's Risk Management Organisation and Control Framework, the identified risks, exposures and mitigations.

■ Organisation & operations

Considering the envisaged changes to our European span of control and the vast increasing number of regulations and reporting requirements, in line with our strict policy to comply with the requirements, we have increased our investment in staff, systems and control-functions. As a result of ever changing market circumstances and (new) regulatory requirements the management board regularly assesses whether changes to MBE's organization are required.
Our in house (Warsys) and outsourced IT processing continued to deliver a solid and stable performance.

Our Staff
At year end the average number of employees was 225.
Absenteeism in Amsterdam office (including long term illness) was 4.5%, compared to a country average of 3.9%.

MBE continued to provide training to our employees in 2016. During 2016 staff members participated in 198 internal training courses and courses from external institutions.

In 2016 the percentage of females compared to the total workforce within MBE in Amsterdam was 36%.

■ Corporate Governance

MBE being a non-listed financial institution complies with the best practice of general principles of corporate governance in as far as these are applicable to MBE.
MBE has a two-tier system of corporate governance, consisting of a supervisory board and a management board.

The management board and the supervisory board underpin the importance of good corporate governance and have undertaken initiatives to further strengthen the corporate governance. Examples are the establishment of a separate compliance division and risk management division in order to respond to the increasing regulatory changes. The compliance function reports to the Chief Risk Officer and has an independent line to the supervisory board.

The composition of the management board and supervisory board matches the board profiles in terms of experience and expertise, but not in terms of a balanced gender distribution. MBE did not comply with the Dutch Management and Supervision Act (30% rule). However, MBE is investigating future compliance with these requirements.

MBE has established a Code of Conduct and governance-related policies such as a whistle blowing policy and insider regulations which apply to all its employees and others working with MBE. All employees joining MBE, Amsterdam office have to take the 'banker's oath'. The introduction of the banker's oath and rules of conduct and disciplinary rules for all employees was launched in 2016 to emphasize the role of banks in society, their commitment to meet the expectations of the society and to contribute to public trust in banks within society.
On a regular basis meetings and trainings are organised for all staff comprising amongst others awareness of our core values and behaviours.

A global survey among all staff has been held at the end of 2016 whereas the engagement of MBE's staff was very encouraging. The survey comprised a wide range of questions including the knowledge about our core values and employee engagement. The Management Board are taking steps to act upon the results and will implement changes throughout MBE.

■ Dutch Banking Code

The Dutch Banking Code was established in 2009 by the Dutch Banking Association (NVB) as a response to the financial crisis. The Code is applicable to all financial institutions having a banking licence in the Netherlands under the Financial Supervision Act (Wft).

The Dutch Banking Code 2009 encompassed rules regarding remuneration, risk management and audit. Certain principles such as remuneration, suitability and composition of board members have been embodied in legislation and regulation. The supervisory board approved MBE's new policies and by-laws reflecting those new requirements.

MBE has reported in their previous annual accounts (2012, 2013, 2014 and 2015) on the implementation of the principles of the Dutch Banking Code, which fully fit within the corporate governance principles applied by our parent bank, BTMU Ltd. and the ultimate parent MUFG Inc. It is the group's corporate vision to 'be the world's most trusted financial group'.

Following the banking Code 2009, the Committee Wijffels published a report in 2013 on the structure of Dutch banks. The report paid great attention to the stability of the industry and the importance of competition and diversity in Dutch banking. In its report the committee called on MBEs to take additional steps towards regaining trust from customers and society as a whole by setting out the role they want to play in society.

In response to this request, the Dutch Banking Association presented in October 2014 a new Banking Code as part of the Future-oriented Banking package. The updated Banking Code became effective on 1 January 2015 along with the Social Charter and the introduction of the banker's oath and rules of conduct and disciplinary rules. This new initiative was launched to emphasize the role of MBEs in society, their commitment to meet the expectations of the society and to contribute to public trust in banks within society.

Supervisory board

The supervisory board is responsible for the supervision of the fulfilment of the duties that rest with the management board as well as the general course of business of MBE and its related companies pursuant to MBE's Articles of Association, MUFG principles of Ethics and Conduct and prevailing legal and regulatory requirements including the Dutch Banking Code.

The supervisory board has drawn up a profile to be used as a basis for its composition. In general the supervisory board consists of four members. At this moment in time this is deemed a sufficient number taking into consideration the size, nature of MBE and scope of services and products, which is limited to corporate banking services to specific market segments. The composition of the supervisory board is such that two members are expatriate supervisory board members employed by BTMU Ltd. The chairmanship resides with a non-expatriate supervisory board member.

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

The supervisory board has, within its members, established an audit committee, which assembles at least twice per annum. The scope of the audit committee includes compliance and risk and therefore it operates as the audit, compliance and risk committee of the supervisory board. The task of this committee is to prepare the decision making by the supervisory board, especially by holding prior, separate meetings with the internal audit, compliance and risk officer and the external auditor of MBE. The activities of this committee do not affect the collective responsibility of the supervisory board itself.

The lifelong learning program for supervisory board members was launched in 2010 and as of 2015 expatriate Japanese supervisory board members were included in the programme. In 2016 trainings on amongst others data privacy, ILAAP/ICAAP requirements and upcoming financial markets regulation such as SOX were held.

In 2016, during four of the five supervisory board meetings all members of the supervisory board were physically present or by means of using video conferencing access.

Management board

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

The management board by-laws reflects the Dutch Banking Code requirements, with a special focus, among others, on composition and expertise requirements, lifelong learning program, risk management and responsibility to ensure the interests of all stakeholders of MBE are considered in all actions by the management board.

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

The management board collectively manages MBE and is responsible for its objectives, strategy and related risk appetite, as well as the development of financial results. The management board is assisted with its duties by the Asset & Liability Management Committee, Compliance Committee, Credit Risk Management Committee, Disaster Prevention Committee, Information Security Management Committee and Operations Control Committee.

Until November the president of the managing board has been responsible for Compliance and risk management. Per November 2016 these tasks have been transferred to the new Chief Risk Officer who joined the MB. The President's primary task now comprises the management of the front office divisions.

The managing board and supervisory board are responsible for developing, communicating and enforcing standards on integrity, morals and leadership in MBE. The management board will promote a healthy culture both at the top of MBE and throughout the organisation.

All members of the management and supervisory board have taken the banker's oath. MBE has implemented the banker's oath as well as disciplinary rules for all employees in 2015.

A life-long education program for the management board members was launched in 2010 and as of 2015 the expatriate Japanese managing board members were included in the programme. In 2016 trainings on amongst others data privacy, ILAAP/ICAAP requirements and upcoming financial markets regulations, like SOX were held. The program is designed to keep the members' expertise up to date and in line with regulatory developments. The supervisory board performs an annual self-evaluation.

IT

The management board and the supervisory board are responsible for safeguarding a solid IT infrastructure. MBE is committed to delivering a solid IT infrastructure, meaning that the delivery of services and data to our stakeholders, in terms of confidentiality, integrity and availability of the data and services at reasonable costs is well maintained and constantly improved for future needs. Last year, MBE put great and successful effort into implementing a contemporary business continuity environment for IT. A state of the art data replication and back-up environment was constructed. In addition, a virtual environment was created for the IT hardware. Physical servers were replaced by virtual servers which are more solid, reliable and more favourable from a climate perspective.

MBE acknowledges the vital role that IT has in the functioning of MBE and IT is crucial in achieving its objectives. The financial sector environment is changing rapidly as IT makes huge strides and as new players such as retail and venture companies enter the sector. In this environment, MBE recognises that to maintain its competitive advantage, it must make full use of emerging technologies to improve existing business and create new business segments. MBE shareholder MUFG has established an innovation centre in Silicon Valley which aims to pool knowledge, perspectives and technology.

Sustainability

Sustainability is integrated directly into the core of our business strategy. MBE is of the opinion that financial services have an important role to play in creating a healthy and sustainable world, MBE works to fulfil its corporate social responsibility through its business, using its vision, values and principles of ethics and conduct as guideline. One of our core values is integrity and responsibility.
MBE's ultimate parent MUFG Inc. has designated three priorities in the corporate social responsibility area: customers, community and responsible finance. Worldwide several initiatives were taken such as: response to the needs of the elderly, develop system for customer feedback, supporting reconstruction due to the earthquake some years ago in Japan, participation in voluntary plans such as tree planning and clean-up activities, promotion of public-private financial partnerships. Globally, the equator principles were adopted. The equator principles is a risk management framework, adopted by financial institutions for determining, assessing and managing environmental and social risks in projects. Locally, MBE supports the foundation 'young entrepreneurship' by giving lectures and the foundation 'read and write' by giving a financial donation. Lastly, the Dutch Federation of Banks is, on behalf of, the Dutch banks negotiating a covenant with respect to internationally socially responsible entrepreneurship with NGO's, trade unions and government.

Customer care

The focus on clients' interests and the duty to put client interest as the highest priority is embedded in our (corporate) culture. The afore mentioned together with the group's initiative to promote Corporate Social Responsibility (CSR) will lead to becoming the world's most trusted financial group. It is our common aim to create a sustainable franchise, by continuing to build long term relationships with our customers and to deliver transparent and sustainable (financial) solutions.

Risk management

We refer to section 29 of these annual accounts for a substantive overview of the risk management framework.

Audit

The internal audit function is an essential part of the control mechanism of MBE. Within the organisation the internal audit function occupies an independent position and reports directly to the chairman of the management board and the chairman of the audit, compliance and risk committee of the supervisory board. The internal audit methodology focusing on business processes rather than on organizational units, which was introduced in 2010, better fits within the spirit of the Dutch Banking Code. MBE's internal audit charter and annual audit program establish that a systematic audit is conducted of the management of the risks, related to MBE's activities.

In 2016, a tripartite meeting was held with the Dutch Central Bank (De Nederlandsche Bank N.V.), the external auditor and the internal audit function. In this meeting views were exchanged about MBE's risk profile, its planned operations, audit findings and plans and the external audit of the financial statements.

Remuneration policy

The remuneration policy of MBE complies with the Act on Financial Supervision, the 'Regeling beheerst beloningsbeleid Wft 2014' and the principles under CRD IV. MBE also took notice of the EBA Guidelines on Remuneration which have been published in March 2015.

The supervisory board is responsible for the implementation and evaluation of the remuneration policy adopted with regard to the management board members and all senior (non-executive) officers in risk management and compliance function, and approves the remuneration principles for other employees and oversees the implementation by the management board.

The remuneration of supervisory board members is set by the General meeting of shareholders. The remuneration is deemed to be proportional to the time required to perform the supervisory activities and to be independent of MBE's financial results.

MBE has identified staff whose professional activities have a material impact on MBE's risk profile and to whom specific requirements apply ('identified staff').

The remuneration for identified staff consists of the annual salary and variable remuneration (short term and long term components).

Variable compensation for the management board members is capped at max 20% of the annual base salary and for other identified staff also at 20% of the annual base salary. The variable compensation is in principle paid out in cash. This means that MBE due to its nature (not listed at stock exchange) and size currently does not make use of financial instruments as part of the variable compensation.

MBE applies deferrals for management board members and other identified staff: 40% of each award will be deferred for three years, if the total bonus amount exceeds € 10.000. Deferred awards will vest in three equal annual tranches. The deferral component is considered to be conditional to performance by both the company and the individual and is not awarded in final amount to the employee until the supervisory board has been satisfied that the remuneration is justified by the performance of MBE as a whole and the individual. With regard to the individual performance, substantially non-financial performance criteria make up a significant portion of the assessment. The supervisory board has the authority to adjust or reclaim variable remuneration in exceptional circumstances ('claw back').

MBE neither awards retention, exit or (guaranteed) welcome packages, nor predefined severance pay to management board members and other identified staff.

Details on the remuneration of supervisory board members, management board members and other identified staff are to be found under paragraph 27.

Risk appetite

The management board proposes the risk appetite to the supervisory board at least once a year or more frequent where there are any material changes. Furthermore, the management board provides the supervisory board with relevant information so that the supervisory board can assess periodically at a strategic level whether the commercial activities in the general sense are appropriate in the context of MBE's risk appetite.

Product approval

The product approval process is carried out within the framework of the Group- wide (BTMU level) policy for new product approval. New products are risk assessed and approved before they are being offered to customers. In addition, products are periodically reviewed to ensure compliance with laws and regulations and that they still meet the needs of customers. The internal audit function checks on an annual basis whether the product approval process has been designed properly, is present and is working effectively and reports the results to the management board and supervisory board.

Strategy, mission, vision, values

i) Strategy: being incorporated as a commercial bank under Dutch law and being part of a prominent Japanese banking group of high international reputation and standing MBE – in close cooperation with the parent bank and taking full advantage of the exceptional resources of MUFG Inc. – aims at fulfilling both our Japanese and non-Japanese corporate customers' needs.

MBE recognizes the Netherlands as an excellent home for (foreign-owned) financing and holding companies, for European headquarters of sales, distribution and manufacturing companies. As a growing number of Japanese companies are active in Central and Eastern Europe MBE recognizes Austria, Belgium, Poland and the Czech Republic as important markets for MBE and its customers. For the support of its clients, MBE has branches in Belgium, Austria and Czech Republic and a fully-owned subsidiary in Warsaw (successfully converted to a branch as of 1st May 2017). MBE considers the Central and Eastern European markets as a promising economy for its Japanese and non-Japanese clients.

The Polish subsidiary was fully integrated in May 2017 to become a branch. Also subject to DNO approval the German and Spanish/Portuguese branches of BTMU Ltd will follow afterwards to be fully integrated by April 2018. By changing our internal organization we are able to provide better service for our clients.

In close co-work with and support of the European Business Division of BTMU Ltd., located in London, MBE participates in international syndicated finance activities both through its office in Amsterdam and its 100%, UK-based subsidiary, BTMU (Europe) Ltd.

The objectives are derived from the strategy and are set by the management board and are continuously monitored and evaluated. The annual Mid-Term Plan (MTP) process, which incorporates plans for a three year period, is also driven by MBE's strategy in conjunction with the strategy of its shareholder BTMU Ltd. The MTP focusses on three pillars: Japanese Corporate Customers, Non-Japanese Corporate Customers and BTMU Trust. Within these three pillars, specific objectives are formulated.

ii) Vision: our vision is to be the world's most trusted financial group:

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

iii) Mission: our Mission is to be a foundation of strength, committed to meeting the needs of our customers, serving society and fostering shared and sustainable growth for a better world.

iv) Values: our values are:

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

Deviations from the Dutch Banking Code by MBE

Mindful of the characteristics of and circumstances surrounding MBE as explained below, MBE has decided not to apply the following provisions of the Dutch Banking Code:

1. MBE does not apply the 3-yearly independent evaluation of the supervisory board.
2. No remuneration is paid to expatriate supervisory members, employed by BTMU Ltd., pursuant to the BTMU Ltd. group policy in this respect.
3. In terms of the composition of the supervisory board in relation to independence, the composition of the supervisory board is such that two members of the four members are expatriate supervisory board members employed by BTMU Ltd.

The reasons for abovementioned deviations from the Dutch Banking Code are the result of following characteristics and circumstances of MBE:

- BTMU Ltd. is the sole (100%) shareholder of MBE; consequently the shares of MBE are not listed;
- the shareholder, BTMU Ltd., also acts as the global head office of MBE, implying central oversight on key areas like risk management, compliance, internal audit and financial and management accounting;

- important statutory authorities are assigned to the shareholder, like nomination of supervisory and managing board members and external auditor;
- MBE is organization-wise and management control-wise part of a larger, internationally operating banking group, supervised by the financial supervisory authorities of the home country (Japan);
- the size and nature of MBE's commercial activities, reflected by the limited complexity of customer/product combinations;
- the size of the supervisory board (four members).

■ Proposed profit appropriation

The net profit over 2016 is at the disposal of the General meeting of shareholders. With the aim to further strengthen the capital ratios the management board proposes to pass this year's dividend payment.

■ Gratitude

As a result of the dedication of our staff, we managed to accomplish our goals for 2016.
We also wish to express our sincere gratitude to our customers, business partners and parent banks, BTMU Ltd. and MUFG Inc., for their continuous support in 2016.

The management board declares to the best of its knowledge, that the annual 2016 financial statements provide a true and fair view of the assets and liabilities of MBE, its financial position and net profit.
The management board also declares that to its best knowledge the 2016 annual accounts provide a true and fair view of MBE about its position as at balance sheet date, the business performance during the year referred to in the annual accounts and the material risks MBE is exposed to, to be duly described.

■ Outlook 2017 (*)

At present MBE is engaged in discussions with its parent BTMU Ltd. concerning the latter's European branch network. The first tangible result of these discussions was the transfer as per 1st May 2016 of all assets and liabilities from BTMU Ltd. Brussels Branch to MBE. Furthermore in order to reflect its European footprint MBE has changed its corporate name as per 1st May 2016 from Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. into MUFG Bank (Europe) N.V.

Next to the Brussels branch, the Polish subsidiary was fully integrated in May 2017 and became a branch of MBE. Also the German and Spanish/Portuguese subsidiaries of BTMU Ltd will follow afterwards to be fully integrated in 2018, subject to DNB approval. By changing our internal organization we are able to provide better service for our clients.

Our focus will continue to be on broadening our customer base, to strengthen our customer relationship and to continue to improve our customer service.

Europe – Amsterdam Office

- At face value, the European economy appears in something of a sweet spot. Growth is above trend, inflation is at target and the unemployment rate is at its lowest level since 2009. A range of indicators, including the widely-watched PMI activity indicator, have surprised to the upside through 2017 so far, and suggest that economic growth will have accelerated in H1 2017. Robust output indicators partly reflect a stronger global cycle and the euro depreciation through Q4 2016 boosting net trade. Also, the household sector has maintained a healthy pace of spending growth.
- Market consensus is for economic growth of 1.4% in 2018. Despite the upside surprises through Q1 2018, it is hard to see the Eurozone economy maintaining this pace of expansion through the year. Headline inflation has risen to 2%, largely due to higher energy prices. However, with wage growth likely to be slower than inflation for some time, a real wage squeeze is imminent, which could slow consumption growth. In addition, the rise in government bond yields could weigh on public sector growth.
- Inflation is unlikely to stay at target for long. With core inflation just 0.9% and limited pressure from the labour market, headline inflation should fall back as the impact of higher energy prices drops out

of the annual comparison. Indeed, we forecast inflation will fall back and reach just 1.3% by January 2018. Even the ECB's projection for 2018 inflation is just 1.6%. This means that the pressure on the ECB to taper early and/or tighten monetary policy should abate in H2 2017, as some of the underlying structural issues re-assert themselves on the data. Even so, we think the ECB will start discussing further reductions in its bond purchases at its June meeting.

- Key risks. A key upside risk is that global growth maintains its pace, boosting external demand. Alternatively, markets may be overestimating the impact of uncertainty on investment spending, particularly if Europe navigates the minefield of political risks without any destabilising surprises. Put simply if trade and investment can pick up the baton of growth, activity could continue to surprise to the upside. The downside risks are dominated by politics. Although the Dutch election passed without impacting markets and did not provide an unexpected result, it still demonstrated the rise in populist politics over recent years. If the French or German elections spring a surprise, they both have the capacity to raise uncertainty, which could lead to firms and households increasing savings in response to a more uncertain future.

2. Belgium – Brussels Office

- After a slowdown in 2016, the recovery is expected strengthen modestly this year, with real GDP projected at 1.6%. The medium-term outlook remains constrained by structurally weak growth in advanced economies. Downside risks are significant, including those related to global and regional uncertainties that could affect trade and financial markets.
- In its first year in office, the government enacted a range of important measures, including pension reforms, a suspension of wage indexation, and a tax shift reducing the labour tax wedge. The year 2016 proved more difficult, as fiscal consolidation stalled and the budget deficit exceeded its target by a significant margin. However, structural reform efforts continued, including through ongoing negotiations on reforming the wage setting process and the corporate income tax system.
- Key risks. Notwithstanding recent progress, major challenges continue to weigh on Belgium's economic prospects—including high public debt and severe labour market fragmentation. The fiscal gains made in previous decades have been undone by the crisis, and the public debt-to-GDP ratio has returned to triple digits. The pace of consolidation since 2010 has been much slower than in other euro area countries, as public spending continued to grow faster than GDP until recently. Fiscal sustainability therefore remains tenuous and sensitive to potential shocks. And while private employment has been recovering, there is entrenched high unemployment and inactivity among certain groups, including the young, the low-skilled, and immigrants from outside the European Union.

3. Austria – Vienna Office

- Austria is prosperous and stable. The economy has weathered the global financial crisis (GFC) relatively well, and output surpassed pre-crisis levels in 2011. While growth has been slow in recent years, inequality and poverty are low, and living standards high. The economic recovery has strengthened in 2016. GDP growth in 2016 is estimated at 1.4%, an improvement over the average growth of 0.6% in 2012–15. Growth has been broad-based, driven by private consumption supported by income tax cuts, a recovery in investment, and higher public consumption due to spending on refugees. Employment growth has picked up as well, and unemployment has stabilized at below 6 percent. At 1.5% YoY in November 2016, inflation is gradually picking up from low levels, driven mainly by rising energy prices and price hikes in tourism-related services. The outlook for 2017 appears similarly robust, while in the medium term growth would decline toward its potential rate, which IMF staff estimate at just above 1%. Risks to the outlook are mainly external, with limited likely impact overall.
- The country benefits from high levels of stability and social cohesion. Per capita income is high, unemployment comparatively low, social protection systems are strong, and the society is among the most equitable of advanced economies. The overall outlook is solid, but potential growth is low. Growth picked up in 2016, but is projected to slow gradually toward the medium-term potential rate of just above 1% as the output gap closes and fiscal policy turns back to consolidation. Unemployment is set to remain elevated for some time as employment creation just keeps pace with the rising labour force, while inflation is projected to gradually rise to slightly above 2% in the medium term.

- Key risks. Risks arise from a number of external factors, but are overall limited. International political fragmentation or slow growth in other advanced economies and/or emerging markets would undermine Austria's performance, largely through the trade and financial channels. However, with the European Single Market providing a stable economic framework and bank exposure to risks in CESEE declining, the overall vulnerability of the Austrian economy is limited.

4. Czech Republic – Prague Office
   - On the whole, the Czech Republic economy is relatively sanguine. Economic growth remains robust and the unemployment rate is low. Inflation is back at the target level. The public finances are in good condition, and the banking system is liquid and profitable.
   - Real GDP growth is projected to increase to 2.5-3% in 2017. Growth is expected to rise largely driven by domestic demand. Consumption is supported by strong real wage growth, employment security, and low interest rates. Investment is projected to rebound as EU funds absorption picks up after falling last year. However, labour shortages are expected to constrain growth to around 2.5 over the medium term. Given the tight labour market and demand pressures, inflation is expected to reach 2.3% this year, before falling to the 2% inflation target.
   - Key risks. The authorities face important challenges: household financial vulnerabilities appear to be increasing; labour (especially skilled labour) is in short supply, and several aspects of public administration and processes need improvement. Addressing these and other issues will require a well calibrated combination of monetary, macro-prudential, financial, structural, and fiscal policies.

5. Poland – Warsaw Office
   - The Polish economy expanded by 2.8% in 2016, down from 3.9% in 2015. Investment was the main drag on growth and private consumption was the main driver. Although much of the strong Q4 2016 performance was driven by restocking, leading indicators suggest that the positive momentum has continued so far this year. The market looks for consumption to remain the main growth engine in 2017 but expect its pace of growth to ease as rising inflation undermines real disposable income growth and the positive impulse of the child benefit scheme launched in Q2 2016 fades away. Markets assume, however, that this will be offset by a recovery in investment over the course of year, but remain cautious and keep our GDP growth forecast below consensus.
   - A tightening labour market should boost wages and inflation, but markets have seen little of this yet in the data. Rapid reflation was almost exclusively driven by higher commodity prices, while core inflation remains low in absolute terms compared to the central bank's target and the regional average. The contribution of fuel price inflation to headline CPI should decline from around 1pp in February to zero by the end of the year and is unlikely to be fully offset by gains in core. As a result, the markets expect headline inflation to plateau and then soften by end-2017.
   - Key risks. Policy risks remains uncertain. With the market having priced rate cuts last year when growth was slowing but the National Bank of Poland (NBP) not delivering, the market perception of the NBP at the start of this year was of a hawkish Central Bank. The MPC's March statement stuck to the guidance that the risk of inflation target overshooting was limited and that the current level of interest rates was appropriate for delivering balanced growth. This suggests the MPC perceives the current policy stance as neutral. Unlike regional peers, including the Czech Republic and Hungary, no policy normalisation is needed and tightening would only be called for if growth and inflation surprise to the upside.

* sources Bloomberg, CEIC Database, European Central Bank (ECB), International Monetary Fund, Official Statistical Offices, MUFG

Amsterdam, 30 May 2017

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B.V. IJssel de Schepper
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FINANCIAL STATEMENTS 2016

Amounts in thousands of €s

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

ASSETS	Notes	2016	2015
Cash and balances with central banks	1	609,642	411,520
Due from banks	2	1,875,167	2,360,276
Derivative financial instruments	3	46,923	60,494
Loans and advances to customers	4	5,886,456	4,711,409
Financial instruments available-for-sale	5	251,919	316,240
Property and equipment	6	843	1,008
Intangible assets	7	3,906	2,752
Current tax asset	21	10,698	8,120
Deferred tax asset	21	2,143	1,801
Other assets	8	11,383	6,791
Total assets		**8,699,080**	**7,880,411**
LIABILITIES			
Due to banks	9	2,573,392	2,061,474
Derivative financial instruments	3	48,204	62,695
Due to customers	10	5,427,542	5,144,466
Current tax liabilities	21	220	134
Deferred tax liabilities	21	108	253
Other liabilities	11	33,761	24,808
Total liabilities		**8,083,227**	**7,293,830**
Issued capital	12	100,001	100,000
Share premium	12	81,696	50,875
Retained earnings	12	439,031	432,279
Revaluation reserve available-for-sale assets	12	323	758
Revaluation actuarial	12	(6,361)	(5,282)
Foreign currency translation reserve	12	98	0
Result for the year		1,065	7,951
Shareholder's equity (parent)		**615,853**	**586,581**
Total liabilities and equity		**8,699,080**	**7,880,411**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
Interest income	13	68,901	56,437
Interest expense	14	45,040	32,375
Net interest income		23,861	24,062
Commission income	15	8,941	8,751
Commission expense	16	5,640	4,628
Net commission income		3,301	4,123
Realised gains or (-) losses on financial assets & liabilities not measured at fair value through profit or loss, net		0	0
Other operating income	17	30	16
Result on financial transactions	18	19,622	18,613
Total operating income		**46,814**	**46,814**
Credit loss (income) expense	19	293	(903)
Net operating income		**46,521**	**47,717**
Personnel expenses	20a	24,296	19,546
Depreciation of property and equipment	6	556	524
Amortisation of intangible assets	7	2,170	1,759
Other operating expenses	20b	16,901	15,699
Total operating expenses		**43,923**	**37,528**
Profit before tax		**2,598**	**10,189**
Income tax expense	21	1,533	2,238
Profit for the year		**1,065**	**7,951**
Profit for the year attributable to:			
Equity holders of the parent		**1,065**	**7,951**
Earnings per share (unit: one €) attributable to equity holders of the parent:			
Basic		4.83	36.10
Diluted		4.83	36.10

In order to align with current year's presentation certain insignificant changes have been made to the comparative figures. These reclassifications have no effect on the total equity or the net result for the year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 2016

	Notes	2016	2015
Result for the year		**1,065**	**7,951**
Items which will not be reclassified to the consolidated statement of profit or loss			
Re-measurement of the net defined benefit asset/liability	22	(1,079)	708
Items which may be reclassified to the consolidated statement of profit or loss in a subsequent period			
Exchange differences on translation of foreign operations	22	(1,102)	0
Net (loss)/gain on available-for-sale financial assets	22	(580)	34
Income tax relating to components of other comprehensive income	22	145	(9)
Other comprehensive income for the year, net of tax		**(2,616)**	**733**
Total comprehensive income for the year, net of tax		**(1,551)**	**8,684**
Attributable to:			
Equity holders of the parent		**(1,551)**	**8,684**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 2016

	Issued capital	Share premium	Retained earnings	Revalua-tion reserve available -for-sale assets	Foreign currency trans-lation reserve	Revaluat -ion actuarial	Total
As at 1 January 2015	**100,000**	**50,875**	**432,280**	**733**	**0**	**(5,990)**	**577,898**
Issue of share capital							0
Total comprehensive income			7,951	25	0	708	8,684
Equity dividends							0
As at 31 December 2015	**100,000**	**50,875**	**440,231**	**758**	**0**	**(5,282)**	**586,582**
Issue of share capital	1	30,821					30,822
Total comprehensive income			1,065	(435)	(1,102)	(1,079)	(1,551)
Foreign currency translation Adjustment previous years			(1,200)		1,200		0
Equity dividends							0
As at 31 December 2016	**100,001**	**81,696**	**440,096**	**323**	**98**	**(6,361)**	**615,853**

Increase of issued shares and share premium as a result of the incorporation of the Brussels branch.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
Cash flows from operating activities			
Profit before tax		2,598	10,189
Adjusted for:			
• Depreciation	6	556	524
• Amortisation of Intangible assets	7	2,170	1,759
• Addition to (release of) loan loss provisions	4	293	(903)
• Changes in deferred taxation	21	(487)	136
Changes in:			
• Due from banks, not available on demand		331,192	696,054
• Derivative financial assets		13,570	10,831
• Loans and advances to customers		(1,175,047)	68,187
• Other assets		(4,592)	3,965
• Due to banks, not available on demand		618,919	(124,639)
• Due to banks, Funds borrowed from Central bank		(107,000)	0
• Derivative financial liabilities		(14,491)	(13,701)
• Due to customers		283,075	766,226
• Other liabilities		8,953	199
Income tax paid		(1,737)	(6,252)
Net cash flow from (used in) operating activities		**(42,028)**	**1,412,575**
Cash flows from Investing activities			
Purchase of property and equipment	6	(397)	(258)
Proceeds from sale of property and equipment		0	0
Purchase of Intangible assets	7	(3,326)	(119)
Proceeds from sale of Intangible assets		0	0
Purchase of financial investments available-for-sale	5	(90,670)	(96,866)
Sale and redemption of financial investments available-for-sale	5	154,992	87,142
Acquisition (sale) of subsidiaries		0	0
Net cash flow from (used in) investing activities		**60,599**	**(10,101)**
Financing activities			
Dividend paid to equity holders of the parent	12	0	0
Additional share premium	12	30,821	0
Cash flow from (used in) financing activities		**30,821**	**0**
Net cash flow		**49,392**	**1,402,474**
Net foreign exchange differences		(5,188)	(625)
Cash and cash equivalents as at 1 January		2,059,921	658,072
Cash and cash equivalents as at 31 December		**2,104,125**	**2,059,921**
Cash and cash equivalents comprise:			
Due from banks, net balances on demand	2	1,494,483	1,648,401
Cash and Balances with central banks	1	609,642	411,520
Cash and cash equivalents as at 31 December		**2,104,125**	**2,059,921**

Regarding the operational cash flow from interest in 2016, interest amounting to € 41,294 (2015: € 31,766) was paid and interest amounting to € 59,647 (2015: € 55,269) was received.

ACCOUNTING POLICIES FOR THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF PROFIT OR LOSS

1. Authorisation of annual accounts

The consolidated financial statements of MBE for the year ended 31 December 2016 have been issued by the management board, examined by the supervisory board and, accompanied by the supervisory board's recommendation, presented to the General shareholders meeting for adoption on 30 May 2017.

MBE is a statutory two-tier company under Dutch law. All the shares are held by The Bank of Tokyo-Mitsubishi UFJ Ltd., 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 four offices in Amsterdam, Vienna (Austria), Prague (Czech Republic), Brussels (Belgium) and owns three subsidiaries: BTMU Trust (Holland) BV, BTMU (Polska) SA and BTMU (Europe) Ltd.

The principle activities of MBE are described in section 'Profile' on page 3.

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments and derivative financial instruments, which have all been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The consolidated financial statements are presented in Euro's (€) and all values are rounded to the nearest € one thousand, except when otherwise indicated.

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).

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of MBE.

New and amended standards and interpretations to IFRS

MBE applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016.

Annual Improvements to IFRSs - 2012-2014 Cycle

The IASB issued the 2012-2014 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. These improvements cover the following standards and subjects: IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments Disclosures, IAS 19 Employee Benefits - Regional market issue and IAS 34 Interim Financial Reporting. These improvements have no material impact on MBE's financial position and performance. The improvements became effective for financial years beginning on or after 1 January 2016.

Amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 28

IFRS 10 Consolidated Financial Statements introduced new criteria for consolidation, IFRS 11 Joint Arrangements' and the related amendments to IAS 28 'Investments in Associates and Joint Ventures' eliminate the proportionate consolidation method for joint ventures. Additionally, IFRS 12 introduced disclosure requirements for interests in other entities. The new standards have no impact on MBE, since all subsidiaries are fully owned.

Amendments to IAS 16, IAS 27 and IAS 38

The amendments to IAS 16 Property, Plant and Equipment, IAS 27 Equity Method in Separate Financial Statements and IAS 38 Intangible Assets have no impact on MBE's consolidated financial statements or are not relevant.

Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for financial years beginning on or after 1 January 2016.

Upcoming changes in IFRS-EU after 2016 for MBE mainly relate to IFRS 9 "Financial Instruments".

IFRS 9 "Financial Instruments"

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for financial years beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

MBE plans to adopt the new standard on the required effective date. A project has been set up in cooperation with BTMU London in 2016 to implement this standard successfully. At this stage MBE still expects no significant impact on its statement of financial position and equity except for the effect of applying the requirements. MBE expects a higher loss allowance resulting in a negative impact on equity and will perform a first test run in April 2017 and a parallel run in September 2017 to determine the extent of it.

- Classification and measurement

MBE does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, MBE expects that these will continue to be measured at amortised cost under IFRS 9. However, MBE will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

- Impairment

IFRS 9 requires MBE to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. MBE expects to apply the simplified approach and record lifetime expected losses on all trade receivables. MBE expects no significant impact on its equity, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

- Hedge accounting

MBE believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, MBE does not expect a significant impact as a result of applying IFRS 9. MBE will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with Customers. It will be become effective for financial years beginning on or after 1 January 2018. Upon its effective date it will supersede IAS 18 Revenue, IAS 11 Constructions Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreement for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 13 Revenue Barter Transactions Involving Advertising Services. The Bank is currently on a high level assessing the impact of this standard and depending on the outcome of the assessment take appropriate action.

IFRS 16 Leases

IFRS 16 requires lessees to account for all leases under a single on- statement of financial position model (subject to certain exemptions) in a similar way to finance leases under IAS 17 with recognition exemptions for leases of 'low-value' assets and short-term leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. MBE is currently assessing the impact of IFRS 16. The new standard is effective for financial years beginning on or after 1 January 2019, with certain transition reliefs permitted. Early application is permitted, but not before an entity applies IFRS 15 'Revenue from Contract with Customers'. Entities that are lessees are allowed to choose either a full retrospective or a modified retrospective transition approach.

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

The amendments require a reconciliation of the amounts in the opening and closing statements of financial position for each item classified as financing in the statement of cash flows. The reconciliations will be included in the notes to the financial statements once the amendments become effective. The amendments are effective for financial years beginning on or after 1 January 2017. Early application is permitted.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify rather than making changes to IAS 12. These amendments are not expected to have a material impact on MBE's financial position and performance. They apply retrospectively for annual periods beginning on or after 1 January 2017

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 will have no impact on the Bank as it has no share-based payment transactions. Amendments will be effective for annual periods beginning on or after 1 January 2018. Early adoption permitted and specific transition provisions apply.

Basis of consolidation

The consolidated financial statements for the year ended 31 December 2016 comprise the financial statements of MUFG Bank (Europe) N.V. and the subsidiaries in the following table.

Name of the subsidiary	Country of incorporation	Place	% equity interest 2016	% equity interest 2015
BTMU (Polska) SA	Poland	Warsaw	100	100
BTMU Trust (Holland) BV	The Netherlands	Amsterdam	100	100
BTMU (Europe) Limited	United Kingdom	London	100	100

The financial statements of MBE’s subsidiaries are prepared for the same reporting year as MBE, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Significant accounting judgements and estimates

In the process of applying MBE's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgement and estimates are as follows:

Going concern

MBE’s management has made an assessment of MBE’s ability to continue as a going concern and is satisfied that MBE has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon MBE’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a valuation technique that includes the use of mathematical models. The inputs to these models are derived from observable market data. The valuation of financial instruments is described in more detail in the Notes to the consolidated financial statements.

Impairments on loans and advances

MBE reviews its individually significant loans and advances at each statement of financial position sheet date to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, MBE makes judgements about the borrower’s financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and the remaining exposure are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data such as industry data, and country risks. The impairment loss on loans and advances is disclosed in more detail in the notes to the consolidated financial statements.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to MBE. If a future write-off is later recovered, the recovery is credited to ‘Credit loss expense’.

Impairment of available-for-sale investments

MBE reviews its debt securities classified as available-for-sale investments at each balance sheet date to assess whether they are impaired. This assessment includes evaluation of quantitative and qualitative considerations, such as actual and estimated incurred credit losses indicated by default on payment, market data and other current evidence that the issuer might be unlikely to meet its contractual obligations when they become due.

Net defined benefit pension asset/liability

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

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

In determining the appropriate discount rate, management considers the interest rates of corporate bonds denominated in EUR with at least an 'AA' rating, set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the country. Future salary increases and pension increases are based on expected future inflation rates for the country. See note 12 on the consolidated financial statements for the assumptions used.

3. 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) Foreign currency translation

The consolidated financial statements are presented in euro's (€). 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.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the balance sheet date. 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 balance sheet date. Results of the foreign branches and subsidiaries are translated at the weighted average rates over the period in which the results are recognised. Our branch in Czech Republic uses the Czech Koruna (CZK) as functional currency. Our Polish subsidiary uses New Polish Zloty (PLN) as functional currency. Our subsidiary BTMU (Europe) Ltd. uses Pound Sterling (GBP) as functional currency. Translation differences are accounted for in other comprehensive income.

(II) Financial instruments – initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities, including available for sale instruments, 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. Exception is made for balances on our nostro accounts for which settlement date accounting is applied.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value including transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Derivatives recorded at fair value through profit or loss

MBE uses derivatives such as interest rate swaps, cross currency interest rate swaps, cross currency swaps, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and 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.

Available-for-sale financial investments

Available-for-sale investments comprise debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. MBE has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value based on the quoted market prices.

Unrealised gains and losses are recognised directly in ‘Other comprehensive income’ in the ‘Available-for-sale reserve’. When the investment is disposed of, the cumulative gain or loss previously recognised in 'Other comprehensive income' is recognised in the statement of profit or loss in ‘Other operating income’. Where MBE holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate method. The losses arising from impairment of such investments are recognised in the statement of profit or loss in ‘Impairment losses on financial investments’ and removed from the ‘Available-for-sale reserve’.

Due from banks and loans and advances to customers

‘Due from banks’ and ‘Loans and advances to customers’, include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, amounts ‘Due from banks’ and ‘Loans and advances to customers' are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in ‘Interest income’. The losses arising from impairment are recognised in the statement of profit or loss in ‘Credit loss expense’.

Financial liabilities due to banks and customers after initial measurement

Borrowings are stated 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.

(III) 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 when:

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

When MBE has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of MBE’s continuing involvement in the asset. In that case, MBE also recognises an associated liability. 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.

Financial liabilities

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

(IV) 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 are provided in the Notes to the consolidated financial statements.

(V) Impairment of financial assets

MBE assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), MBE first assesses individually whether objective evidence of impairment exists. If MBE determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to MBE. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

A collective evaluation of impairment is estimated for groups of loans that cannot be attributed to specific loans. Loans are grouped on the basis of MBE's internal credit rating system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. In determining the collective impairment MBE relies on statistical analysis that includes historical loss factor percentages of the total loans outstanding. An allowance account is used to reflect all changes in collective impairment. Carrying amounts of loans, and related changes in allowances, are only reduced in case of final settlement or bankruptcy. The estimation of the collective allowance is back tested and updated by BTMU Ltd. by comparing the historic allowances with actual results. The percentages of impairment allowance per group of loans with similar credit risks are updated on a semi-annually basis. These updated assessments adjust for the effects of most recent conditions and remove the effects of conditions in the historical period that do not exist currently. See the Notes to the consolidated financial statements for details of impairment losses on loans and advances by class.

Renegotiated loans

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

Available-for-sale financial investments

MBE's available-for-sale investments entirely consist of debt instruments. MBE assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

(VI) Hedge accounting

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

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

Fair value hedges

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

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

(VII) 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. This is not the case with pooling agreements as used by MBE, therefore, the related assets and liabilities are presented gross in the statement of financial position.

(VIII) Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

MBE earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time:

  Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees, like mediation fees, but also the commission received and paid regarding the trust activities, loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

- Fee income from providing transaction services:

  Fees arising from negotiating or participating in the negotiation of a transaction for a third party. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(IX) 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 amortized costs in the statement of financial position.

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

(X) 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 3-5 years

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

(XI) 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 other intangible asset includes computer software licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. The amortisation expense on intangible assets is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to their residual values over their estimated useful lives, being 3-5 years.

(XII) 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

(XIII) Financial guarantees

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

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

(XIV) Pension benefits

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

MBE operates defined benefit pension plans (funded) through an insurance company, regulated by the 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, and are recognised as staff costs in the statement of profit or loss. The current and past service costs as well as interest expense attributable to the defined benefit obligation are recognised as staff costs 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' are not recycled through the statement of profit or loss. Upon occurrence, any gains and losses on curtailments are recognised in the statement of profit or loss.

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

(XV) Provisions

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.

(XVI) Taxes

Current tax

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

Deferred tax

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at statement of financial position date.

Current tax and deferred tax relating to items recognised in other comprehensive income are also recognised in other comprehensive income.

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

(XVII) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by MBE's shareholders. 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:

- Available-for-sale reserve, which comprises changes in fair value of available-for-sale investments.
- Hedging.

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

Unless stated otherwise amounts in thousands of €s

1. Cash and balances with central banks

	31 December 2016	31 December 2015
Cash on hand	0	1
Balances with central banks	609,642	411,519
Cash and balances with central banks	**609,642**	**411,520**

Balances with central banks include mandatory reserve deposits amounting to € 92,103 (2015: € 82,415), which are not immediately available for MBE's day-to-day operations. The requirement that each bank maintain a minimum reserve of base money has been justified on the grounds that it reduces MBE's exposure to liquidity risk.

2. Due from banks

	31 December 2016	31 December 2015
Placements with banks - on demand	1,494,484	1,648,401
Placement with banks - term deposits	379,549	688,893
Loans and advances	1,134	22,982
	1,875,167	2,360,276
Allowance for impairment losses	0	0
Due from banks	**1,875,167**	**2,360,276**

The amount receivable from BTMU Ltd. is € 1,819,945 (2015: € 2,264,325). No Loans and advances were secured by pledged deposits from BTMU Ltd. amount in 2016 (2015: € 21,432).

3. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, 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 the year end and are indicative of neither the market risk nor the credit risk.

	31 December 2016			31 December 2015		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives used as fair value hedge						
Interest rate swaps	0	1,314	59,821	0	2,575	97,442
	0	1,314	59,821	0	2,575	97,442
Derivatives held for trading						
Forward foreign exchange contract	44,364	45,196	1,670,339	60,037	58,238	1,574,361
Interest rate swaps	0	1,418	42,000	0	1,496	45,518
Currency swaps	2,559	257	165,195	299	342	140,522
Cross currency interest rate swaps	0	19	2,224	158	44	11,008
	46,923	46,890	1,879,758	60,494	60,120	1,771,409
Derivative financial instruments	**46,923**	**48,204**	**1,939,579**	**60,494**	**62,695**	**1,868,851**

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 gross settled.

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.

Derivative financial instruments held or issued for hedging purposes

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

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

As at 31 December 2016, MBE recognised a net loss of € 1,314 (2015: loss of € 2,575) on the hedging instruments. The total net gain on hedged items attributable to the hedged risks amounted to € 1,387 (2015: € 2,722).

Derivative financial instruments held for trading

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

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), insofar as they are not recognized in the item 'Due from banks'.

	31 December 2016	31 December 2015
Corporate term loans	4,060,159	3,372,753
Corporate current accounts	1,466,543	1,152,242
Bills of exchange	362,472	188,865
Personnel loans	263	237
	5,889,437	4,714,097
Allowance for impairment losses	(2,981)	(2,688)
Loans and advances to customers by class	**5,886,456**	**4,711,409**

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. Allocation of assets to particular categories is done to the extent covered by collateral received.

	31 December 2016	31 December 2015
Guarantees received from BTMU Ltd.	191,408	230,216
Pledged deposits received from BTMU Ltd.	2,072,829	1,371,292
Pledged deposits received from companies	162,913	166,119
Pooling accounts of clients	1,139,707	1,033,647
Unsecured	2,322,580	1,912,823
	5,889,437	4,714,097
Allowance for impairment losses	(2,981)	(2,688)
Loans and advances to customers by collateral type	**5,886,456**	**4,711,409**

Impairment allowance for loans and advances to customers

The allowance for loans and advances to customers relates to corporate clients. A reconciliation of the allowance for impairment losses for loans and advances is as follows:

Impairment allowance for loans and advances to customers	2016	2015
As at 1 January	**2,688**	**3,591**
New impairment allowances	945	171
Reversal of impairment allowances	(652)	(1,074)
Amounts written off	0	0
Net impairment allowances (reversals)	293	(903)
As at 31 December	**2,981**	**2,688**
Individual impairment	112	699
Collective impairment	2,869	1,989
As at 31 December	**2,981**	**2,688**

The gross amount of unsecured assets individually determined to be impaired before deducting the individually assessed impairment allowance amounts to € 7,700 (2015: € 28,711) after risk mitigation.

5. Financial instruments available-for-sale

The available-for-sale portfolio comprises debt securities, which are held by MBE within the framework of its long-term investment policy. Quoted prices are used to determine the fair value of the securities. The Dutch Government Bonds and European Investment Bank Floating Rate Notes are pledged to secure any borrowings under the Credit Facility Agreement with De Nederlandsche Bank N.V. (DNB), the Dutch central bank. The pledge is subject to the standard terms and conditions of pledge as embedded in the 'General Terms and Conditions DNB' and 'Conditions for TARGET2-NL' applicable to the Credit Agreement. Unless any indebtedness is outstanding towards DNB MBE may arrange the release of the pledged collateral at short notice. No impairments of the debt securities are deemed necessary. The foreign government bonds consist of Polish bonds, which are pledged as collateral to the respective Central Bank to secure any borrowings.

	31 December 2016	31 December 2015
Quoted investments pledged as collateral		
• Dutch Government Bonds	101,236	104,141
• European Investment Bank	60,013	115,233
• Foreign Government Bonds	90,670	96,866
Financial instruments available for sale	**251,919**	**316,240**

The changes in financial instruments available for sale during the year are as follows:

Changes in financial instruments available for sale	2016	2015
As at 1 January	316,240	306,483
Additions	90,671	96,866
Disposals and redemptions	(154,412)	(87,142)
Changes in unrealised revaluations	(580)	33
As at 31 December	**251,919**	**316,240**

6. Property and equipment

	2016			2015		
Property and equipment	Operations equipment	Leasehold improve-ments	Total	Operations equipment	Leasehold improve-ments	Total
As at 1 January	**700**	**308**	**1,008**	**904**	**367**	**1,271**
Additions	374	22	397	258	0	258
Disposals	0	0	0	0	0	0
Depreciation	(546)	(10)	(556)	(464)	(60)	(524)
Exchange adjustments	(4)	(1)	(6)	2	1	3
As at 31 December	**524**	**319**	**843**	**700**	**308**	**1,008**
Accumulated cost	7,059	1,868	8,926	6,685	1,846	8,531
Accumulated depreciation	(6,535)	(1,549)	(8,083)	(5,985)	(1,538)	(7,523)
As at 31 December	**524**	**319**	**843**	**700**	**308**	**1,008**

7. Intangible assets

Intangible assets - computer software & licences	2016	2015
As at 1 January	**2,752**	**4,392**
Additions	3,326	119
Disposals	0	0
Amortisation	(2,170)	(1,759)
Reclassifications	0	0
Exchange adjustments	(2)	0
As at 31 December	**3,906**	**2,752**
Accumulated cost	13,632	10,308
Accumulated amortisation	(9,726)	(7,556)
As at 31 December	**3,906**	**2,752**

MBE identified no events or circumstances which would indicate that MBE's intangible assets may be impaired. The remaining amortisation period varies between 2 to 5 years.

8. Other assets

	31 December 2016	31 December 2015
Accrued interest	9,393	5,229
Prepayments	1,990	1,562
Other assets	**11,383**	**6,791**

9. Due to banks

This item comprises debts to credit institutions and central banks.

	31 December 2016	31 December 2015
Term deposits	2,573,392	1,954,474
Funds Borrowed from Central Banks	0	107,000
Due to banks	**2,573,392**	**2,061,474**

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 BTMU Ltd. through pledge deposits. The term deposits from BTMU Ltd., pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 1,388,326,724 (2015: € 1,392,724). The total amount owed to BTMU Ltd., including pledged deposits, is € 2,573,392 (2015: € 1,954,473).
For liquidity management BTMU Ltd. provides a standby facility of USD 60 million. As at 31 December 2016 the standby facility is not used.

10. Due to customers

	31 December 2016	31 December 2015
Term deposits	4,307,833	4,423,413
Current accounts	1,119,709	721,053
Due to customers	**5,427,542**	**5,144,466**

Included in 'Due to customers' are deposits of € 1,139,707 (2015: € 1,033,647), which are regarded as collateral (pooling accounts) for current account overdraft balances of clients. See Note 29 Risk management, item II Credit risk.

11. Other liabilities

	31 December 2016	31 December 2015
Financial Other liabilities		
Accrued interest/unearned income	10,191	10,851
	10,191	**10,851**
Non-financial Other liabilities		
Amounts payable	16,631	8,283
Defined retirement benefit liability	6,939	5,674
	23,570	**13,957**
Other liabilities	**33,761**	**24,808**

Retirement benefit plan

The plan of Amsterdam provides for an old age pension benefit that starts at age 67 and is payable until death. The benefit amount is based on a career average system. There is also a legacy plan for 10 staff members, which is based on a final pay system. The benefit formula takes into consideration a yearly accrual of 1.875% (legacy plan: 1.657%) of the pension base. The pension base is equal to the annual salary less an offset. The offset amounted to € 16 (legacy plan: € 14) for the year 2016. The tables below only reflect the plan of Amsterdam. Only Belgium

(a) Net benefit expense (recognised under personnel expenses)

	2016	2015
Current service cost	1,291	1,286
Interest cost on net benefit obligation	107	102
Immediate recognition of (gain)/loss arising during year	0	0
Administration expenses	157	149
Net benefit expense	**1,555**	**1,537**
Actual return/(deficit) on plan assets	**4,654**	**(1,023)**

(b) Retirement benefit liability

	31 December 2016	31 December 2015
Present value of defined benefit obligation	47,207	40,620
Fair value of plan assets	(40,291)	(34,946)
Retirement benefit liability / (asset)	**6,916**	**5,674**

The retirement benefit liability is recorded under 'Other liabilities' and only represents the amount in The Netherlands. Only other pension liability is in Belgium and amounts to € 23 in 2016. MBE expects a net benefit expense of € 2,159 in 2017. The contribution by MBE to the retirement benefit plan is expected to be € 1,802 (2016: € 1,751) in 2017.

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

	2016	2015
Opening defined benefit obligation	40,620	41,978
Current service cost	1,290	1,286
Interest cost	963	830
Contributions by employees	108	120
Benefits paid	(1,011)	(907)
Actuarial losses on obligations	5,237	(2,687)
Past service costs	0	0
Closing defined benefit obligation	**47,207**	**40,620**

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

	31 December 2016	31 December 2015
Opening fair value of plan assets	34,946	35,799
Contributions by employer	1,750	1,106
Contributions by employees	108	120
Benefits paid	(1,011)	(907)
Actual expenses, taxes and premiums paid	(157)	(149)
Interest Income on plan assets	856	728
Return on plan assets excluding amounts included in interest income	3,799	(1,751)
Closing fair value of plan assets	**40,291**	**34,946**

(c) 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.

	31 December 2016	31 December 2015
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:

	31 December 2016	31 December 2015
Discount rate	1.80%	2.40%
Expected long term rate of return on assets	1.80%	2.00%
Expected rate of salary increases (including inflation)	3.00%	3.00%
Expected rate of pension increases current participants (indexation)	0.25%	0.35%
Expected rate of pension increases former participants (indexation)	0.25%	0.35%
Expected rate of price increases	2.10%	2.10%

The life tables used for calculation changed to AG 2016 (2015: AG Prognosetafel 14).

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 December 2016. 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.

Amounts for the current and previous year are as follows:

	31 December 2016	31 December 2015
Present value of defined benefit obligation	47,207	40,620
Plan assets	(40,291)	(34,946)
Deficit/(surplus)	**6,916**	**5,674**

	31 December 2016	31 December 2015
DBO (Gain)/Loss due to changes in Demographic Assumptions	129	60
DBO (Gain)/Loss due to changes in Financial Assumptions	4,553	(3,491)
DBO (Gain)/Loss due to Experience	555	744
Return on plan assets excluding amounts included in interest income	(3,799)	1,751
Recognised in Other Comprehensive (Income)/Loss	**1,438**	**(936)**

(d) Sensitivity information

The following table illustrates the sensitivity in the defined benefit obligation as in the projected IAS 19 expense to different discount rates.

Discount rate sensitivity information	Adjusted Assumption	DBO as per 31 December 2016	31 December 2015
Discount rate	1.80%	47,207	40,620
Discount rate +0.5%	2.90%	52,197	37,094
Discount rate -0.5%	1.90%	42,895	44,676

12. Issued capital and reserves

The authorised capital amounts to € 136,200 (2015: € 136,200) and consists of 300,000 ordinary shares of € 454 each (*unit: one €*). The number of issued and fully paid-up shares is 220,266, which are fully held by BTMU Ltd. Issued and fully-paid capital remained nearly unchanged to prior year and amounts € 100,001 (2015: € 100,000) shares issued are fully held by BTMU Ltd., which is a fully-owned subsidiary of MUFG Inc.

One share was issued in May 2016 due to the acquisition of the Belgian branch from BTMU Ltd in May 2016. For the same reason, € 30,821 was added to the share premium to a total amount of € 81,696 (2015: € 50,875)

MBE has no share option schemes under which options to subscribe for MBE's shares have been granted to executives and senior employees.

Changes in share premium

Changes in Share premium, if any, are disclosed in the 'Consolidated statement of changes in equity'.

Changes in retained earnings

Changes in retained earnings are disclosed in the 'Consolidated statement of changes in equity'.

Changes in revaluation reserve available-for-sale assets

Changes in revaluation reserve available-for-sale assets are disclosed in the 'Consolidated statement of changes in equity'.

Changes in revaluation actuarial

Changes in revaluation actuarial are disclosed in the 'Consolidated statement of changes in equity'.

Restrictions with respect to dividend and repayment of capital

Pursuant to statutory provisions MBE can only pay dividend to shareholders in as far as its paid-up capital and retained earnings are larger than the paid-up and called-up part of the capital increased by the reserves which have to be maintained by law or under MBE's articles of association.
By virtue of a resolution of the general meeting of shareholders MBE may acquire fully paid-up shares in the authorized capital of MBE only if the paid-up capital and retained earnings, after deduction of the acquisition price, is not less than the paid-up and called-up part of the capital increased by the reserves which have to be maintained by law, and the par value of the shares to be acquired and already held by MBE in its capital does not amount to more than one/tenth of the issued capital.

Dividend payment

No dividend was paid in 2016. The management board proposes also to pay no dividend to the shareholders in 2017.

13. Interest income

	2016	2015
Cash and balances with central banks	164	155
Due from banks	4,495	4,571
Loans and advances to customers	61,106	49,107
Available for-sale investments	1,130	1,584
Interest rate swaps	1,917	971
Others	89	49
Interest income	**68,901**	**56,437**

No interest income on impaired loans in 2016 (2015: € 0).

14. Interest expense

	2016	2015
Due to banks	31,525	20,072
Due to customer	7,234	4,913
Interest rate swaps	6,197	7,380
Others	84	10
Interest expense	**45,040**	**32,375**

15. Commission income

	2016	2015
Commission on funds transfer and letters of credit	3,211	2,900
Commission on guarantees	1,303	879
Brokerage and advisory fees	393	769
Commission on corporate management services	2,952	2,989
Other commission income	1,082	1,214
Commission income	**8,941**	**8,751**

16. Commission expense

	2016	2015
Commission on (credit replacing) guarantees	1,361	1,448
Commission on funds transfer and letters of credit	608	360
Commission on corporate management services	2,579	2,615
Other commission expenses	1,092	205
Commission expense	**5,640**	**4,628**

17. Other operating Income

	2016	2015
Other Operating Income profit or loss, net	**30**	**16**

18. Result on financial transactions

This item includes the foreign currency results of MBE amounting € 18,520 (2015: € 18,613). As explained in the risk management paragraph (see note 29) MBE's policy is to eliminate currency risks on financial assets and liabilities.

	2016	2015
Result on financial transactions	**19,622**	**18,613**

19. Credit loss expense

	2016	2015
Collective impairment/(release)	880	(117)
Individual impairment/(release)	(587)	(786)
Loans and advances to customer	**293**	**(903)**

20a. Personnel expenses

	2016	2015
Wages and salaries	17,028	14,002
Social security's costs	1,709	1,088
Pension costs	1,602	1,599
Other staff costs	3,957	2,857
Personnel expenses	**24,296**	**19,546**

The average total number of employees in 2016 is 225 (2015: 161), of which 177 (2015: 109) are employed in the Netherlands. Other staff costs includes mainly the costs related to contracted employees and/or agency employees.

20b. Other operating expenses

	2016	2015
Occupancy expenses	1,974	1,625
Office expenses	6,622	8,476
Professional fees	1,896	1,533
Business promotion expenses	2,208	706
VAT and sundry taxes	4,201	3,359
Other operating expenses	**16,901**	**15,699**

Occupancy expenses merely relate to office rent. Office expenses relate to IT services, professional fees and regulatory supervision expenses and other office expenses. The contribution to the National Resolution Fund is booked under sundry taxes. The contribution came to € 2,474 (2015: € 1,993) in cash and € 437 as irrevocable payment commitment.

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

	2016	2015
Audit of financial statements	908	682
Other assurance services	344	100
Fees charged by external auditors	**1,252**	**782**

This summary reflects fees charged by MBE's external auditors in the Netherlands, Belgium, Poland, Austria, United Kingdom and in the Czech Republic in respect of audit services and other assurance services provided by MBE's external auditors.

21. Income tax expense

Income tax

The components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016	2015
Current tax		
Current income tax	1,631	2,415
Adjustment in respect of current income tax of prior years	(14)	0
Dutch tax exemption Vienna and Prague branch	(84)	(75)
Deferred tax		
Movement in pension obligation	0	(102)
Income tax	**1,533**	**2,238**

The reconciliation between the tax expense and the accounting profit multiplied by MBE's domestic tax rate for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Accounting profit before tax	**2,598**	**10,189**
Statutory tax rate of MBE (25%)	649	2,548
Adjustments for movements in pension	(49)	5
Tax translation results foreign subsidiaries	1,250	(164)
Effect of different tax rates in other countries	(5)	(75)
Effect of tax-exempt income in the Netherlands	(84)	(75)
Tax adjustments previous years	(14)	0
Others	(214)	0
Income tax expense reported	**1,533**	**2,238**

The effective income tax rate 2016 is 59.0% (2015: 22.0%). The tax on the Exchange rate differences (mainly Polish Zloty) is caused by our non-Euro subsidiaries (BTMU Polska and BTMU Europe Ltd).

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

	2016	2015
Net gain (loss) on financial investments available-for-sale	(145)	9
Deferred tax (charged)/credited to equity	**(145)**	**9**

Current tax

The current tax recorded on the statement of financial position in 'Current tax asset' and 'Current tax liabilities' relates to amounts receivable and payable in relation to pending tax declarations.

Deferred tax

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:

	31 December 2016			31 December 2015		
	Asset	Liability	Consolidated statement of profit or loss	Asset	Liability	Consolidated statement of profit or loss
Pensions	1,729	0	0	1,801	0	102
Revaluation of financial instruments available-for-sale	414	108	0	0	253	0
Deferred tax	**2,143**	**108**	**0**	**1,801**	**253**	**102**

22. Components of comprehensive income

	2016			2015		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Re-measurement of the net defined benefit asset/liability	(1,438)	359	(1,079)	936	(228)	708
Exchange difference on translating foreign operations	(1,102)	0	(1,102)	0	0	0
Financial instruments available-for-sale	(580)	145	(435)	34	(9)	25
Components of comprehensive income	**(3,120)**	**504**	**(2,616)**	**970**	**(237)**	**733**

23. Fair value measurement

The following table provides the fair value measurement hierarchy of MBE's assets and liabilities by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities; and
- 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 fair value of financial instruments carried in the statement of financial position at fair value:

	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative financial instruments:						
Interest rate swaps	0	0	0	0	0	0
Cross currency interest rate swaps	0	0	0	0	158	158
Foreign exchange forward contracts	0	44,364	44,364	0	60,037	60,037
Foreign exchange swap contracts	0	2,559	2,559	0	299	299
	0	46,923	46,923	0	60,494	60,494
Financial instruments available-for-sale:						
Government debt securities	251,919	0	251,919	316,240	0	316,240
	251,919	0	251,919	316,240	0	316,240
Financial assets	**251,919**	**46,923**	**298,842**	**316,240**	**60,494**	**376,734**

	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative financial instruments:						
Interest rate swaps	0	2,732	2,732	0	4,071	4,071
Cross currency interest rate swaps	0	19	19	0	44	44
Foreign exchange forward contracts	0	45,196	45,196	0	58,238	58,238
Foreign exchange swap contracts	0	257	257	0	342	342
Financial liabilities	**0**	**48,204**	**48,204**	**0**	**62,695**	**62,695**

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. This table does not include the fair values of non-financial assets and non-financial liabilities.

Fair value of financial instruments - assets	31 December 2016				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Cash balances with central banks	609,642	609,642	609,642	0	0
	609,642	609,642	609,642	0	0
Due from banks					
Placements with banks - on demand	1,494,484	1,494,484	1,494,484	0	0
Placements with banks - term deposits	379,549	379,549	0	0	379,549
Loans and advances to banks	1,134	1,134	0	0	1,134
	1,875,167	1,875,167	1,494,484	0	380,683
Loans and advances to customers					
Corporate current accounts	1,466,543	1,466,543	1,466,543	0	0
Corporate term loans	4,060,159	4,057,178	0	0	4,057,178
Bills of exchange	362,472	362,472	0	0	362,472
Private sector loans	263	263	0	0	263
	5,889,437	5,886,456	1,466,543	0	4,419,913
Other financial assets	9,393	9,393	0	0	9,393
	9,393	9,393	0	0	9,393
Financial assets	**8,383,639**	**8,380,658**	**3,570,669**	**0**	**4,809,989**

MUFG

Fair value of financial instruments - assets	31 December 2015				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Cash balances with central banks	411,520	411,520	411,520	0	0
	411,520	411,520	411,520	0	0
Due from banks					
Placements with banks - on demand	1,648,401	1,648,401	1,648,401	0	0
Placements with banks - term deposits	688,893	690,342	0	0	690,342
Loans and advances to banks	22,982	23,027	0	0	23,027
	2,360,276	2,361,770	1,648,401	0	713,369
Loans and advances to customers					
Corporate current accounts	1,152,242	1,152,242	1,152,242	0	0
Corporate term loans	3,372,753	3,373,914	0	0	3,373,914
Bills of exchange	188,865	188,890	0	0	188,890
Private sector loans	237	237	0	0	237
	4,714,097	4,715,283	1,152,242	0	3,563,041
Other financial assets	5,229	5,229	0		5,229
	5,229	5,229	0	0	5,229
Financial assets	**7,491,122**	**7,493,802**	**3,212,163**	**0**	**4,281,639**

Fair value of financial instruments - liabilities	31 December 2016				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Due to banks	2,573,392	2,576,511	0	0	2,576,511
Due to customers	5,427,542	5,428,860	0	0	5,428,860
Other financial liabilities	10,191	10,191	0	0	10,191
Financial liabilities	**8,011,125**	**8,015,562**	**0**	**0**	**8,015,562**

Fair value of financial instruments - liabilities	31 December 2015				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Due to banks	2,061,474	2,063,881	0	0	2,063,881
Due to customers	5,144,466	5,145,570	0	0	5,145,570
Other financial liabilities	10,851	10,851	0	0	10,851
Financial liabilities	**7,216,791**	**7,220,302**	**0**	**0**	**7,220,302**

The following is a description of the determination of fair value for financial instruments which fair value is determined using valuation techniques. 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 (FX) the calculation of the fair value is done by adding the spot rate and applicable forward points (valuation currency is USD). The result of the valuation is discounted by applicable USD interest rate and if needed interpolation is done to obtain the proper forward points.

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

24. Maturity analysis of assets and liabilities

The table below shows the assets and liabilities according to when they are expected to be recovered or settled based on discounted cash flows. The table in note 29 Risk management, item (III) Liquidity risk, shows an analysis of assets and liabilities analysed based on their contractual, undiscounted cash flows.

Maturity analysis of assets and liabilities	31 December 2016			31 December 2015		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Assets						
Cash and balances with central banks	609,642	0	609,642	411,520	0	411,520
Due from banks	1,636,495	238,672	1,875,167	2,230,202	130,074	2,360,276
Derivative financial instruments	46,923	0	46,923	60,494	0	60,494
Loans and advances to customers	3,326,959	2,559,497	5,886,456	2,524,186	2,187,223	4,711,409
Financial instruments available-for-sale	90,671	161,248	251,919	96,866	219,374	316,240
Property and equipment	0	843	843	0	1,008	1,008
Intangible assets	0	3,906	3,906	0	2,752	2,752
Current tax asset	10,698	0	10,698	8,120	0	8,120
Deferred tax asset	0	2,143	2,143	0	1,801	1,801
Other assets	11,383	0	11,383	6,791	0	6,791
Total assets	**5,732,771**	**2,966,309**	**8,699,080**	**5,338,179**	**2,542,232**	**7,880,411**
Liabilities						
Due to banks	1,957,788	615,604	2,573,392	1.390.362	671,112	2,061,474
Derivative financial instruments	48,204	0	48,204	62,695	0	62,695
Due to customers	5,410,909	16,633	5,427,542	5,121,392	23,074	5,144,466
Current tax liabilities	220	0	220	134	0	134
Deferred tax liabilities	0	108	108	0	253	253
Other liabilities	33,761	0	33,761	24,808	0	24,808
Total liabilities	**7,450,882**	**632,345**	**8,083,227**	**6,599,391**	**694,439**	**7,293,830**
Net	**(1,718,111)**	**2,333,964**	**615,853**	**(1,261,212)**	**1,847,793**	**586,581**

25. Contingent liabilities, commitments and leasing arrangements

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

	31 December 2016	31 December 2015
Letters of credit	3,567	2,559
Financial guarantees	442,512	301,770
Undrawn commitments to lend	2,985,747	2,886,512
Contingent liabilities and commitments	**3,431,826**	**3,190,841**

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. Commitments generally have fixed expiration dates or termination clauses. With respect to credit risk on commitments to extend credit, MBE is potentially exposed to losses to a maximum amount of the total unused commitments.

Operating lease commitments

MBE has entered into commercial leases as lessee on premises and rental commitments. The non-cancellable operating lease rentals are payable as follows:

Leasing arrangements	31 December 2016	31 December 2015
Within one year	1,616	1,403
After one year but not more than 5 years	4,788	764
More than 5 years	0	0
Operating lease commitments	**6,404**	**2,167**

26. Related party disclosures

(1) Transactions with key management

Loans to members of the management board amount to € 67 (2015: € 72). The loans are granted at MBE's standard terms of staff loans. No other transactions or arrangements have been entered into with key management.

(2) Transactions with other related parties

MBE enters into transactions with entities with significant influence over MBE, being the parent company, BTMU Ltd. The following table shows the amounts owed by/to and the corresponding interest amounts during the year for transactions with group companies:

	31 December 2016	31 December 2015
Due from banks	1,773,264	2,266,345
Derivative financial instruments	31,720	47,526
Other assets	838	1,443
Assets	1,805,822	2,315,314
Due to banks	2,573,392	1,954,473
Due to customers	125	99
Derivative financial instruments	14,727	12,475
Other liabilities	211	988
Liabilities	2,588,455	1,968,035
Interest income	3,875	3,446
Interest expense	16,361	7,992
Net interest	(12,486)	(4,546)
Commission income	81	74
Commission expense	2,074	1,714
Net commission	(1,993)	(1,640)
Result on Financial Operations	0	0
Administrative expenses	2,889	3,171
Commitments and contingents	59,663	34,415

Interest income and interest expense relates to amounts due from/due to our parent bank. Interest expense mainly relates to pledge deposits and guarantees for loans and advances to our clients provided for by BTMU Ltd. (see note 4). Please also refer to note 4 for cash collateral received from BTMU Ltd. for loans and advances to our clients. Administrative expenses relates to IT services provided by our parent company. There are no administrative services provided by the ultimate parent company.

Furthermore MBE enters into swap contracts with a subsidiary of MUFG. The total of notional amounts of swap outstanding as at year-end 2016 amounts to € 104,045 (2015: € 153,968). The market value of the outstanding swap contracts amounts is minus € 2,713 (2015: minus € 4,115).

Terms and conditions of transactions with related parties

The abovementioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. Commercial rates vary in between 5.0% and 0.01%. Outstanding balances at the year-end are unsecured. For the year ended 31 December 2016, MBE has not made any provision for doubtful debts relating to amounts owed by related parties (2015: nil).

27. Key management remuneration

This section sets out the remuneration for the supervisory board, management board and other identified staff. Key management is defined as those persons being member of the supervisory board or the managing board of MBE.

Remuneration policy

MBE's remuneration policy is based on the Bank's profile; a stable bank with a moderate risk profile with the vision to be the world's most trusted financial group. Factors such as the organization, our mission, values, long-term ambition and positioning have been taken into account when establishing a sustainable policy. The reward policy reinforces a sustainable and responsible approach to the Bank's business and his relationships with its key stakeholders, whilst driving positive behaviors and a sound conduct culture. In addition the supervisory board adheres to external regulations and guidelines such as the Dutch Banking Code and Sound Remuneration Policies Pursuant the Financial Supervision Act. The supervisory board also approves the general remuneration principles as laid down in the MBE remuneration policy. The rules not only apply to the managing board but also to those staff members whose professional activities could have a material impact on MBE's risk profile.

Remuneration package of Identified staff

The remuneration package of members of the board and other identified staff aim to be at a remuneration level in line with the market median level within the relevant peer group consisting of companies in the financial sector. Variable remuneration is capped at 20% of the annual salary.
The remuneration package consists of the following:

- Annual salary
- Variable remuneration with short- and long-term variable components (deferred part)
- Benefits

Remuneration 2016

The total remuneration of the supervisory board in 2016 amounts to € 94 (2015: € 77).

The annual salary of the management board in 2016 amounts to € 839 (2015: € 579).
The annual salary for the other identified staff in 2016 is € 1,335 (10 employees)
(2015: € 701 - 6 employees).
Total variable remuneration of the management board and other identified staff in
2016 amounted to € 438 (2015: € 215). The amount of outstanding deferred remuneration (unvested)
for identified staff amounted to € 39 (2015: € 37).

Benefits

The local members of the management board participated in MBE's pension scheme in 2016. The pensionable salary is based on the annual base salary subject to the applicable pensionable salary cap and the main part of the pension contribution is paid by the Bank.
Pension plan contributions for the management board amounted to € 41 (2015: € 53), this includes the employee contribution towards the pension premium which was 2.0% in 2016 (2015: 2.5%).
Management board members are also eligible to receive additional benefits, such as the use of a company car.

Management Board performance 2016

The Supervisory Board assessed the Managing Board's performance against the MBE financial and non-financial performance targets taking into account MBE's long-term objectives, the performance of MBE as a whole and the individual performance, whereby substantially non-financial performance criteria make up a significant portion of the assessment. Both were considered amply met by the Managing Board.

28. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of MBE by the weighted average number of ordinary shares outstanding during the year.
The following table shows the income and share data uses in the basic earnings per share. No effects of dilution occurred in 2016 (neither in 2015).

	2016	2015
Net profit attributable to ordinary equity holders of the parent	1,065	7,951
Weighted average number of ordinary shares outstanding	220,265	220,265
Weighted average number of ordinary shares adjusted for effects of dilution	220,265	220,265
Earnings per share *(unit: one €)*		
Basic earnings per ordinary share	4.83	36.10
Diluted earnings per share	4.83	36.10

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

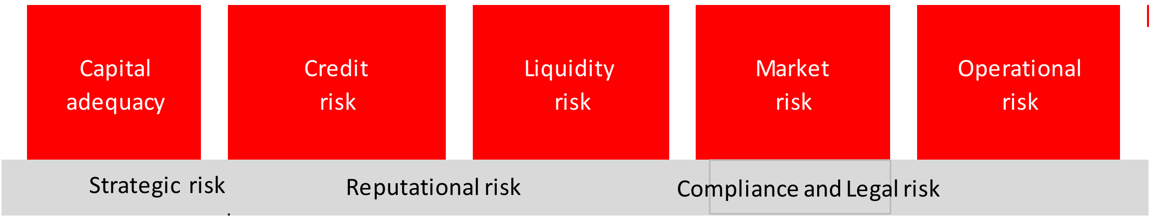
29. Risk management

(I) Risk management framework

Risk profile

A Bank is exposed to certain elements of risk stemming from its commercial banking activities. Capital is needed to cover unexpected losses that may arise from banking activities.

The most important risks are capital adequacy, credit risk (including country and transfer risk), liquidity risk, market risk (including interest rate risk and currency risk) and operational risk. These risks may interact with other risks like strategic risk, reputational risk, compliance and legal risk.



Risk exposure is subject to mitigation and monitoring by Management of MBE. Annually capital adequacy is evaluated considering development of MBE's risk profile according to strategic plan as well as in a stressed environment.

Risk Management approach

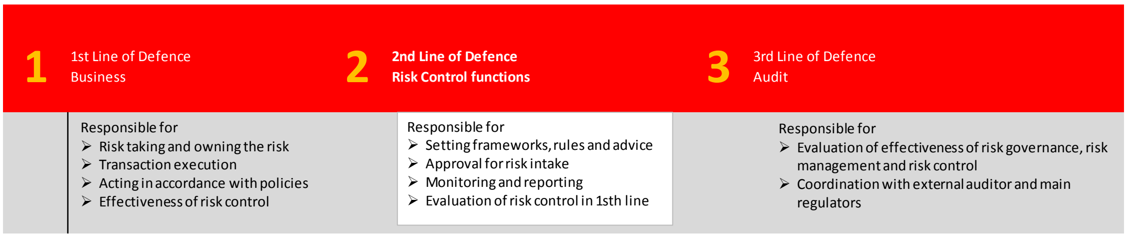
Within the integrated risk management policy and systems provided by the parent bank, BTMU Ltd., MBE's risk management framework is designed to identify risks, determine the appetite for risk exposure, set limits to help management keeping risk exposure aligned to risk appetite and to monitor, analyse 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).

Risk Appetite

The risk appetite defines the amount and type of risk an organisation is capable and willing to accept in pursuit of its business objectives. The risk appetite is linked to the risk capacity determined by capital available to cover unexpected losses (apart from a buffer to cover unknown risk). A risk appetite statement provides management with quantitative and qualitative risk management objectives to be observed. The management board reviews the risk appetite at least once a year.

Three lines of defence

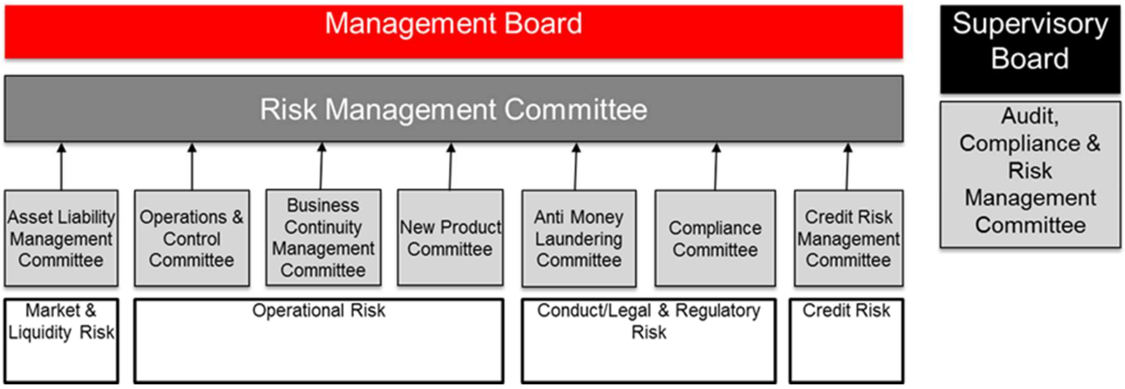
The risk management organisation reflects the three lines of defence principle promoting its effectiveness:



The Risk Management Division (RMD) performs independent assessment and reporting (2nd line of defence) of credit-, market- and liquidity risk exposure in the corporate banking and treasury areas, next to bank-wide monitoring of operational risk management in consultation with department heads.

Risk committees

The management board is ultimately responsible for risk management, supported by several risk committees.



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

1. Audit, Compliance & Risk Management Committee;
2. Risk Management Committee (RMC)

encompassing the following dedicated committees:

3. Asset & Liability Management Committee (ALMC);
4. Compliance Committee (CC);
5. Credit Risk Management Committee (CRMC);
6. Business Continuity Management Committee (BCMC);
7. Operations & Control Committee (OCC);
8. New Product Committee (NPC);
9. Anti Money Laundering Committee (AMLC).

The committee structure will be changed in 2017, further strengthening MBE's governance.

Product Approval

The suitability of products to serve customer interest, operational conditions and compliance with laws and regulations is managed in a product approval process carried out within the framework of the Group-wide (BTMU level) policy for product approval. New products or local introduction of products by foreign branches are assessed and approved before being offered to customers. Regular review of products is performed to confirm continuing compliance with laws and regulations and adequate fit to customer needs.

(II) Credit risk

Credit risk (which includes country and transfer risk) is defined as the current or prospective risk that a counterparty/debtor of MBE is not able to meet its financial obligations deriving from credit, market and other risk transactions. MBE has established an internal framework to maintain the asset quality, manage the credit exposures and achieve earnings commensurate with the risks undertaken by MBE. To mitigate the credit risk counterparty limits and collateral management are essential instruments. MBE applies a BTMU Ltd. group-wide uniform credit rating system for asset evaluation and assessment, loan pricing and quantitative measurement of credit risk. This system also underpins the calculation of credit provisions, capital requirements and management of credit portfolios. Where deemed necessary the credit risk is mitigated by obtaining security.

Country risk is constrained by limiting ourselves to selected countries, mainly in Central and Eastern Europe, and within those countries, to mainly Japanese-owned corporate debtors. Global country risk exposures as well as country risk limits are managed centrally by our parent bank. Where deemed necessary country risk (including transfer risk) is mitigated by prime corporate or bank (in particular by BTMU Ltd.) guarantees.

The industry risk implied in credit risk is monitored by using the industry economic analysis and business sector information available at our EMEA Head Quarter in London and Tokyo Head Office.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the balance sheet. With gross settled derivatives, MBE is also exposed to a settlement risk, being the risk that MBE honours its obligations but the counterparty fails to deliver the counter-value.

Credit-related commitment risks

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

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Concentration risk is defined as the current or prospective risk to earnings and capital arising from large exposures to counterparties, whose probability of default are driven by common underlying factors such as sector, country or legally/economical connection.

MBE’s concentration risks are managed by (regulatory) limits for risk weighted exposures to connected clients/counterparties, geographical regions and sectors. MBE’s portfolio concentrations are monitored and periodically tested by specific severe stress scenarios with or without management intervention in order to identify any potential (economic) capital shortfalls.

The following table 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.

For the impact of collateral and credit enhancements on country risks exposure please see the comments in ‘Risk concentration: by geographical area’.

Risk concentration: by industry sector

31 December 2016 Financial assets	**Oil & gas**	**Banks**	**Non-Bank Financial Institutions**	**Capital goods**	**Automotive**	**Government**	**Technology**	**Transport & Logistics**	**Chemicals**	**Services**	**Others**	**Total**
Cash and balances with central banks	0	609,642	0	0	0	0	0	0	0	0	0	609,642
	0	609,642	0	0	0	0	0	0	0	0	0	609,642
Due from banks												
Placements with banks on demand	0	1,494,484	0	0	0	0	0	0	0	0	0	1,494,484
Fund placements	0	379,549	0	0	0	0	0	0	0	0	0	379,549
Loans and advances	0	1,134	0	0	0	0	0	0	0	0	0	1,134
	0	1,875,167	0	0	0	0	0	0	0	0	0	1,875,167
Derivative financial instruments	0	46,923	0	0	0	0	0	0	0	0	0	46,923
Loans and advances to customers	542,525	0	1,706,069	508,142	1,173,183	0	225,940	534,070	244,560	175,089	776,878	5,886,456
Financial instruments available-for-sale	0	0	0	0	0	251,919	0	0	0	0	0	251,919
Other assets	1,367	0	2,653	331	777	0	9	0	0	0	4,256	9,393
	543,892	**2,531,732**	**1,708,722**	**508,473**	**1,173,960**	**251,919**	**225,949**	**534,070**	**244,560**	**175,089**	**781,134**	**8,679,500**

31 December 2015 Financial assets	**Oil & gas**	**Banks**	**Non-Bank Financial Institutions**	**Capital goods**	**Automotive**	**Government**	**Technology**	**Transport & Logistics**	**Chemicals**	**Services**	**Others**	**Total**
Cash and balances with central banks	0	411,520	0	0	0	0	0	0	0	0	0	411,520
	0	411,520	0	0	0	0	0	0	0	0	0	411,520
												0
Due from banks												0
Placements with banks on demand	0	1,648,401	0	0	0	0	0	0	0	0	0	1,648,401
Fund placements	0	688,893	0	0	0	0	0	0	0	0	0	688,893
Loans and advances	0	22,982	0	0	0	0	0	0	0	0	0	22,982
	0	2,360,276	0	0	0	0	0	0	0	0	0	2,360,276
												0
Derivative financial instruments	0	60,494	0	0	0	0	0	0	0	0	0	60,494
Loans and advances to customers	602,313	0	1,965,065	301,174	806,607	0	235,206	219,711	77,181	120,636	383,516	4,711,409
Financial instruments available-for-sale	0	0	0	0	0	316,240	0	0	0	0	0	316,240
Other assets	664	0	2,807	100	213	0	10	0	0	0	1,435	5,229
	602,977	**2,832,290**	**1,967,872**	**301,274**	**806,820**	**316,240**	**235,216**	**219,711**	**77,181**	**120,636**	**384,951**	**7,865,168**

Risk concentration: by geographical area

Financial assets	31 December 2016							
	Netherlands	Other EU	Russia	USA	Switzerland	Japan	Other	Total
Cash and balances with central banks	178,176	431,466	0	0	0	0	0	609,642
	178,176	431,466	0	0	0	0	0	609,642
Due from banks								
Current account	0	21,388	3,997	0	0	1,264,896	204,203	1,494,484
Fund placements	0	14,491	0	0	0	358,358	6,700	379,549
Loans and advances	0	0	0	0	0	0	1,134	1,134
	0	35,879	3,997	0	0	1,623,254	212,037	1,875,167
Derivative financial instruments	12,460	2,715	0	0	0	31,748	0	46,923
Loans and advances to customers	2,962,300	2,247,191	174,731	49,336	167,074	132,953	152,871	5,886,456
Financial instruments available-for-sale	101,236	150,683	0	0	0	0	0	251,919
Other assets	3,013	3,545	253	13	27	0	2,542	9,393
	3,257,185	**2,871,479**	**178,981**	**49,349**	**167,101**	**1,787,955**	**367,450**	**8,679,500**

Financial assets	31 December 2015							
	Netherlands	Other EU	Russia	USA	Switzerland	Japan	Other	Total
Cash and balances with central banks	112,746	298,774	0	0	0	0	0	411,520
	112,746	298,774	0	0	0	0	0	411,520
Due from banks								
Current account	0	3,470	19	4,002	2,709	1,637,745	456	1,648,401
Fund placements	0	54,049	1,897	0	0	630,087	2,860	688,893
Loans and advances	0	0	22,982	0	0	0	0	22,982
	0	57,519	24,898	4,002	2,709	2,267,832	3,316	2,360,276
Derivative financial instruments	12,727	256	0	0	0	47,511		60,494
Loans and advances to customers	2,808,457	1,420,625	230,707	0	183,968	0	67,652	4,711,409
Financial instruments available-for-sale	104,141	212,099	0	0	0	0	0	316,240
Other assets	1,846	1,246	371	2	24	1,481	259	5,229
	3,039,917	**1,990,519**	**255,976**	**4,004**	**186,701**	**2,316,824**	**71,227**	**7,865,168**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Where deemed necessary and feasible, MBE obtains security, primarily in the form of:

- guarantees from prime, listed parent companies for credit limits to their subsidiaries,
- bank guarantees, mainly BTMU Ltd.,
- pledged, cash deposits,
- other collateral for commercial lending such as pledges on moveable assets (inventory and trade receivables) or immoveable assets (ship or aircraft).

For credit limits exceeding MBE's legal lending limit and for credit limits to lower rated borrowers as well as for credit limits to non-resident syndicated borrowers MBE in principle obtains security in the form of guarantees and/or pledged cash deposits from our parent bank.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying credit agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. 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.

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:

- credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realised; and
- 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.

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 by BTMU Ltd. 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. The amounts presented are gross of impairment allowances.

	31 December 2016						
	Neither past due nor impaired						
	Normal	Close watch	Likely to become bankrupt	Bankrupt or virtually bankrupt	Past due but not impaired	Individually impaired	Total
Cash and balances with central banks	609,642	0	0	0	0	0	609,642
Due from banks	1,875,167	0	0	0	0	0	1,875,167
Derivative financial assets	46,923	0	0	0	0	0	46,923
Loans and advances to customers	5,697,263	181,493	0	0	0	7,700	5,886,456
	8,228,995	181,493	0	0	0	7,700	8,418,188
Financial instruments available-for-sale	251,919	0	0	0	0	0	251,919
Other assets	9,393	0	0	0	0	0	9,393
Total	**8,490,307**	**181,493**	**0**	**0**	**0**	**7,700**	**8,679,500**

	31 December 2015						
	Neither past due nor impaired						
	Normal	Close watch	Likely to become bankrupt	Bankrupt or virtually bankrupt	Past due but not impaired	Individually impaired	Total
Cash and balances with central banks	411,520	0	0	0	0	0	411,520
Due from banks	2,360,276	0	0	0	0	0	2,360,276
Derivative financial assets	60,494	0	0	0	0	0	60,494
Loans and advances to customers	4,637,882	22,260	22,556	0	0	28,711	4,711,409
	7,470,172	22,260	22,556	0	0	28,711	7,543,699
Financial instruments available-for-sale	316,240	0	0	0	0	0	316,240
Other assets	5,229	0	0	0	0	0	5,229
Total	**7,791,641**	**22,260**	**22,556**	**0**	**0**	**28,711**	**7,865,168**

Credit quality of assets

MBE aims to maintain adequate levels of reserves to cover incurred losses. Pursuant to its policy MBE distinguishes:

- Past due assets: past due loans and advances include those that are only past due by a few days;
- Impaired assets: an asset is treated as impaired if there is objective evidence that an impairment loss has been incurred.

The definition and treatment of impaired loans is governed by MBE's credit provision & non-performing loan policy. Impairment allowances for 'neither past due, nor impaired' assets consist of provisions for incurred but not reported losses.

As at 31 December 2016 the balance of past due but not impaired gross assets amounts to € 0 (2015: nil) and the balance of impaired and past due assets amounts as per the same date to € 0 (2015: nil) as well.

- Restructured loans: restructuring of loans implies loans where MBE consents to material forgiveness or postponement of the principal amount, interest and/or other income, which results in a reduced financial obligation for the obligor and may also be referred to as forbearance.

As at 31 December 2016 the balance of restructured loans amounts to € 0 (2015: nil) and therefore MBE was not engaged in any forbearance agreements.

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 MBE's (and BTMU Ltd.) rating policy and procedures. The following table provides detailed information on the credit risk for each internal credit risk rating.

Outstanding balances by risk class	S&P Rating	31 December 2016	31 December 2015
Normal			
1	AAA ~ AA-	862,506	1,063,998
2	A+ ~ A-	2,874,888	2,971,774
3	BBB+ ~ BBB-	1,534,720	1,058,242
4	BB+	1,059,203	645,085
5-1	BB	691,273	830,663
5-2	BB-	99,885	33,256
6-1	B+	280,838	109,877
6-2	B	161,755	156,011
7	B-	925,239	922,734
Total 1-7		**8,490,307**	**7,791,640**
Close watch			
8-1	CCC+ ~	157,927	30,879
8-2	CCC+ ~	31,266	20,093
8-3	CCC+ ~		0
Total 8		**189,193**	**50,972**
Likely to become bankrupt			
9	CCC+ ~	0	22,556
Total 9		**0**	**22,556**
Bankrupt or virtually bankrupt			
10-1	CCC+ ~	0	0
10-2	CCC+ ~	0	0
Total 10		**0**	**0**
Total outstanding balances		**8,679,500**	**7,865,168**

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

Please see Note 4 of the Notes to the consolidated financial statements for more detailed information with respect to the allowance for impairment losses on loans and advances to customers.

Collateral repossessed

During the year, MBE took no possession of any collateral at balance sheet data (neither in 2015).

Carrying amount by class of financial assets whose terms have been renegotiated

In 2016 the carrying amount of renegotiated financial assets, by class is € 0 (2015: nil).

Impairment assessment

MBE aims to maintain sufficient level of reserves to cover its incurred losses. According to its policy MBE distinguishes between:

- allowances for individually assessed assets;
- allowances for collectively assessed assets; and
- allowances for incurred but not reported losses.

For accounting purposes, MBE uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days 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. MBE addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

MBE determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected pay out should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for held-to-maturity debt investments that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Corporate Banking Division (CBD) and Credit Management Division (CMD) (and the management of the subsidiaries) are responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is periodically reviewed by the CRMC to ensure alignment with MBE's overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

Allowances for incurred but not reported losses

Impairment allowances for incurred but not reported losses are established for portfolio assets for which no objective evidence of impairment is observed as of reporting date; however, MBE considers that there is a possibility that the impairment occurred but has not been identified as of reporting date.

Commitments and guarantees

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

Please see Note 25 of the Notes to the consolidated financial statements 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.

(III) Liquidity risk

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. Liquidity risk is managed compliance to the BTMU's liquidity risk policy, procedures and control framework. MBE's liquidity and interest rate risk and investment portfolio are evaluated by the ALMC. Daily/weekly monitoring of positions/limits, execution of periodical stress tests is 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 87% as at 31 December 2016.

Additional funding is available from one of BTMU's global centres where treasury activities are regionally centralized. 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, mindful of expected future cash flows and liquidity and 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 in BTMU Ltd. with a hub/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. BTMU Ltd. has set 3 main liquidity stages, being normal (divided in sub-stages, ordinary, pre-caution and caution), concern and crisis with according actions to which MBE has to adhere to.

BTMU Ltd., providing unlimited liquidity support, is MBE's main source for contingency funding, which has proven to be sound and resilient during the liquidity crisis back in 2008.

As local funding contingency MBE maintains a liquidity buffer allowing to report the liquidity coverage ratio well above the regulatory required minimum (LCR > 100%) during 2016.

Analysis of financial assets & liabilities by remaining contractual maturity

The tables below summarise the maturity profile of MBE's financial assets and liabilities as at 31 December. 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.

Financial assets & liabilities by remaining contractual maturity

	31 December 2016					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Cash and balances with central banks	609,642	0	0	0	0	609,642
Due from banks	1,195,394	374,848	66,253	123,672	115,000	1,875,167
Derivative financial instruments	46,923	0	0	0	0	46,923
Loans and advances to customers	1,464,949	1,555,418	306,591	1,415,038	1,144,460	5,886,456
Financial instruments available-for-sale	90,670	0	0	161,249	0	251,919
Other assets	9,393	0	0	0	0	9,393
	3,416,971	**1,930,266**	**372,844**	**1,699,959**	**1,259,460**	**8,679,500**
Financial liabilities						
Due to banks	0	1,406,493	551,294	110,149	505,456	2,573,392
Derivative financial instruments	48,204	0	0	0	0	48,204
Due to customers	4,307,968	1,000,667	102,274	16,633	0	5,427,542
Other financial liabilities	10,191	0	0	0	0	10,191
	4,366,363	**2,407,160**	**653,568**	**126,782**	**505,456**	**8,059,329**
Net financial assets / (liabilities)	**(949,392)**	**(476,894)**	**(280,724)**	**1,573,177**	**754,004**	**620,171**

	31 December 2016					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Gross settled derivatives						
Amounts receivable	0	946,897	348,948	539,628	0	1,835,473
Amount payable	0	(946,219)	(348,634)	(539,199)	0	(1,834,052)
Total gross settled derivatives	**0**	**678**	**314**	**429**	**0**	**1,421**
Coupon interest due on financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**

	31 December 2015					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Cash and balances with central banks	411,520	0	0	0	0	411,520
Due from banks	1,655,214	543,036	31,952	130,074	0	2,360,276
Derivative financial instruments	60,494	0	0	0	0	60,494
Loans and advances to customers	1,152,275	940,668	431,242	1,027,474	1,159,750	4,711,409
Financial instruments available-for-sale	96,866	0	0	219,374	0	316,240
Other assets	5,229	0	0	0	0	5,229
	3,381,598	**1,483,704**	**463,194**	**1,376,922**	**1,159,750**	**7,865,168**
Financial liabilities						
Due to banks	0	973,495	416,867	166,135	504,977	2,061,474
Derivative financial instruments	62,695	0	0	0	0	62,695
Due to customers	4,424,568	683,572	13,252	23,074	0	5,144,466
Other financial liabilities	10,851	0	0	0	0	10,851
	4,498,114	**1,657,067**	**430,119**	**189,209**	**504,977**	**7,279,486**
Net financial assets / (liabilities)	**(1,116,516)**	**(173,363)**	**33,075**	**1,187,713**	**654,773**	**585,682**

	31 December 2015					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Gross settled derivatives						
Amounts receivable	0	626,440	637,711	450,732	0	1,714,883
Amount payable	0	(626,004)	(636,933)	(450,221)	0	(1,713,158)
Total gross settled derivatives	**0**	**436**	**778**	**511**	**0**	**1,725**
Coupon interest due on financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**

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.

Contingent liabilities & commitments by contractual maturity

	31 December 2016					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	481	32,193	178,257	123,150	108,431	442,512
Letters of credit	68	3,499	0	0	0	3,567
Undrawn commitments to lend	0	142,227	871,759	1,911,344	60,417	2,985,747
Total guarantees & commitments	**549**	**177,919**	**1,050,016**	**2,034,494**	**168,848**	**3,431,826**

	31 December 2015					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	3,900	9,713	122,926	70,679	94,552	301,770
Letters of credit	32	527	0	2,000	0	2,559
Undrawn commitments to lend	168,599	92,758	601,928	1,655,816	367,411	2,886,512
Total guarantees & commitments	**172,531**	**102,998**	**724,854**	**1,728,495**	**461,963**	**3,190,841**

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

(IV) Market risk

Market risk consists of price risk, interest rate risk and foreign exchange (or currency) risk. Most of MBE's derivative activities relate to deals with customers which are normally offset by transactions with other (market) counterparties. Pursuant to its internal policy MBE does not keep overnight trading positions. The interest rate risk and marginal market risk in foreign currencies MBE is exposed to, derive from MBE's balance sheet and interest rate book. The risks are mitigated by strict quantitative limits, stop-loss rules, to be reviewed at least semi-annually, and effective separation between front, middle and back office responsibilities; the risks are tracked and controlled on an ongoing basis to ensure they conform to 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 trading. 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.

Interest rate risk in the banking book

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The management board has established limits on the non-trading interest rate gaps for stipulated periods which are reviewed and consulted semi-annually. In accordance with MBE's policy, gap and yield curve positions are monitored for each major currency in use on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Furthermore, MBE quarterly conducts the supervisory stress test for the interest rate risk and reports the outcome to the Dutch central bank. This stress test comprises a gradual/sudden upward/downward shift of the yield curve by 200 bps.

As of 31 December 2016, a gradual upward shift of 200 bps in the yield curve within a 2 years horizon impacts net interest positively by € 29.2 million, equal to nearly 50% of the forecasted annual net interest. An instantaneous upward 200 bps parallel shift of the yield curve impacts equity negatively by € 28.1 million equal to approximately 4.4% of the total equity.

To the contrary, a gradual downward shift of 200 bps within a 2 years horizon impacts net interest negatively by € 45.2 million, equal to (77%) of the forecasted annual net interest. A sudden downward shift of the yield curve impacts equity positively by € 0.5 million, equal to (0.1%) of the total equity.

Currency risk

Currency risk may arise from adverse movements in currency exchange rates.

MBE's policy is to eliminate currency risks on financial assets and liabilities. Currency risks arise primarily from funds borrowed or lent in foreign currency. The resulting currency risks are hedged immediately by entering into currency swaps.

The following table shows the notional values in € equivalent of major currencies (EUR, PLN, USD) of MBE's total assets and liabilities.

	31 December 2016			31 December 2015		
Currency	**Total assets**	**Total liabilities**	**Position**	**Total assets**	**Total liabilities**	**Position**
EUR	4,023,232	(4,022,104)	1,128	3,886,893	(3,886,285)	608
PLN	656,897	(657,232)	(335)	493,014	(492,950)	64
USD	3,708,624	(3,708,631)	(7)	2,714,251	(2,714,253)	(2)

Operational limits are in place to facilitate daily management of currency positions, forward transactions and currency options.

In accordance with MBE's policy, positions are monitored on a daily basis by Treasury Division and the Back Office and reported to the management board; hedging strategies are used to ensure positions are maintained within established limits.

Price risk

Price risk may arise from adverse movements in security and commodity prices and foreign exchange rates. This risk can arise from market making, dealing and position taking in bonds, securities, currencies, commodities or derivatives. MBE is not exposed to material price risk.

The debt securities price risk exposure arises from government bonds or European Investment Bank Floating Rate Notes classified as available-for-sale. Changes of prices relates to changing in interest rates, volatility or change in the risk quality of the asset (sovereign risk). The fair value of the bond portfolio is monitored and reported weekly. MBE maintains trigger and tolerance levels to limit potential losses.

Prepayment risk

Prepayment risk may arise from customers and counterparties repayments or requests to repay earlier or later than expected when interest have dropped.
Considering the interest term profile of the lending portfolio MBE is not exposed to material prepayment risk.

(V) Operational risk

Operational risk may arise from failures in transactions with customers or counterparties, ineffective decision-making and/or inadequate, insufficient internal processes, people and systems or from external events. The operational risk MBE is exposed to (including IT risk and information asset risk) is mitigated by a BTMU group-wide risk management control system that includes incidents registration, loss data collection, control self-assessment (Global-CSA) and periodical Operational Risk Assessments (ORA), 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. IT risks are mitigated by internal working guidelines (among others on general IT controls, role based access control, segregation of duties and change management) and contractual service level agreements with external service providers, including BTMU Ltd., adequate back-up systems and computer contingency facilities, as well as yearly off-site contingency testing. A new product approval process procedure is in place in order to identify any risks prior to extending new or changed services and products. The Operations Control Committee (OCC) monthly convenes to monitor and control the overall operational risks and mitigation measures. Within the Basel framework for operational risk MBE applies the Basic Indicator Approach.

(VI) Compliance and integrity risk

Compliance risk may arise from not observing or violating laws, rules, regulations, agreements or prescribed practices or ethical standards. MBE recognizes compliance and integrity as number one value as it is MBE's mission to be the world's most trusted financial group. Compliance is therefore a high priority in the control systems of MBE. 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. BTMU Ltd. group-wide Compliance Quality Improvement Program (QIP) includes, among others, Anti-Money Laundering (AML) and Know-Your-Customer (KYC). The

Compliance & Risk 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.

(VII) Capital

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) and Basic Indicator Approach as specified in banking regulation to cover unexpected losses arising from credit 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 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 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 shareholders, return capital to shareholders or issue capital securities. No changes have been made in the objectives, policies and processes from the previous years.

Capital available

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

Capital requirements	31 December 2016	31 December 2015
Common Equity Tier 1 capital		
Original own funds:		
Paid up capital instruments	100,001	100,000
Share premium	81,696	50,875
Retained earnings	439,129	426,998
Result for the year	1,065	7,951
Regulatory adjustments:		
Revaluation reserve available for sale assets	323	758
IAS19 Pension adjustment	753	1,507
Other Intangible assets	(2,930)	(2,064)
Prudential filter	(345)	(437)
Accumulated other comprehensive income	(6,424)	0
	613,268	585,588
Dividend proposed	0	0
Total capital after dividend proposed	**613,268**	**585,588**
Total Risk Exposury Amount/Risk weighted assets	**3,771,521**	**3,981,267**

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

Solvency ratios	31 December 2016	31 December 2015
Common Equity Tier 1 ratio	16.26%	14.71%
Total Capital ratio	16.26%	14.71%

As at 31 December 2016 MBE's total capital before proposed dividend amounted to € 613,268 (2015: € 586,588). The capital ratio increased from 14.71% in 2015 to 16.26% in 2016. The leverage ratio, comparing Tier 1 capital to total non-risk weighted exposure (€ 10,396,240), was 5.9%.

30. List of subsidiaries

Name of the subsidiary	Country of incorporation	Place	% equity interest 2016	% equity interest 2015
BTMU (Polska) SA	Poland	Warsaw	100	100
BTMU Trust (Holland) BV	The Netherlands	Amsterdam	100	100
BTMU (Europe) Limited	United Kingdom	London	100	100

31. Proposed Profit Appropriation

The statutory provision regarding the profit appropriation reads as follows:

'The profit appearing from the confirmed annual accounts shall be at the disposal of the General meeting of shareholders.'

The profit for the year 2016 amounts to € 1,065. The proposal to the General shareholders meeting to appropriate the profit is:

Appropriation of profit	
Transfer to reserves	**1,065**
Profit for the year	**1,065**

32. Subsequent event

The Polish subsidiary has been fully integrated to be a branch as per May 2017.

Authorisation of Consolidated Annual Accounts
Amsterdam, 30 May 2017

THE SUPERVISORY BOARD

J.W. Sodderland, chairman

K.W. Peacock, vice-chairman

M. van Nieuwkerk

M. Osawa

THE MANAGEMENT BOARD

N. Matsumoto, chairman

K. Kuzuhara

B.V. IJssel de Schepper

M.F. Rosenberg

PARENT COMPANY FINANCIAL STATEMENT 2016

Amounts in thousands of €s

PARENT COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

ASSETS	Notes	2016	2015
Cash	A	0	1
Balances with central banks	B	523,410	384,477
Due from banks	C	2,114,424	2,435,042
Loans and advances to customers	D	5,397,993	4,384,220
Interest bearing securities	E	161,248	234,186
Investments in wholly owned subsidiaries	F	122,637	128,319
Intangible assets	G	3,824	2,734
Property and equipment	H	720	842
Current tax asset		9,785	6,953
Deferred tax asset		1,778	1,418
Other assets	I	57,092	66,240
Total assets		**8,392,911**	**7,644,432**
LIABILITIES			
Due to banks	J	2,573,392	2,061,638
Due to customers	K	5,131,953	4,912,218
Current tax liabilities		219	0
Deferred tax liabilities		108	253
Provisions		6,939	5,674
Other liabilities	L	64,447	78,068
Total liabilities		**7,777,058**	**7,057,851**
Issued capital	M	100,001	100,000
Share premium	M	81,696	50,875
Retained earnings	M	440,231	432,279
Revaluation reserve available-for sale assets	M	323	758
Foreign currency translation reserve		0	0
Revaluation actuarial		(6,361)	(5,282)
Result for the year		(37)	7,951
Shareholders' equity (parent)		**615, 853**	**586,581**
Total liabilities and equity		**8,392,911**	**7,644,432**
Contingent liabilities	N	604,788	429,400
Irrevocable credit commitments	N	2,624,115	2,575,975

PARENT COMPANY STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
Interest income	P	62,541	49,915
Interest expense	Q	42,924	30,266
Net interest income		19,617	19,649
Commission income	R	5,630	5,393
Commission expense	S	2,876	1,934
Net commission income		2,754	3,459
Other operating income	T	30	16
Result on financial transactions	U	16,134	14,955
Total operating income		**38,535**	**38,079**
Credit loss (income) expense	D	293	(903)
Net operating income		**38,242**	**38,982**
Personnel expenses	V	21,584	16,856
Depreciation of property and equipment	H	497	447
Amortisation of intangible assets	G	2,162	1,753
Other operating expenses	W	13,927	12,285
Total operating expenses		**38,170**	**31,341**
Profit before tax		**72**	**7,641**
Income tax expense	X	1,211	1,721
Result for the year		**(1,139)**	**5,920**
Result of group companies after taxation		1,102	2,031
Net Result		**(37)**	**7,951**

MUFG

Unless stated otherwise amounts in thousands of €s

The parent company accounts 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. The principles of valuation and determination of results stated in connection with the consolidated statement of financial position and profit or loss account are also applicable to the parent company statement of financial position and profit or loss account with the exception of Investments in group companies which are accounted for using the equity method of accounting 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 Shareholders' equity. Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with IFRS-EU, are included in the profit and loss account. For information regarding the risk management policies, related party transactions and other explanatory notes reference is made to the consolidated financial statements.

A. Cash

	31 December 2016	31 December 2015
Cash on hand	**0**	**1**

B. Balances with central banks

	31 December 2016	31 December 2015
Balances with central banks	523,410	384,477

Balances with central banks include mandatory reserve deposits amounting to € 81,515 (2015: € 71,503), which are not immediately available for MBE's day-to-day operations.

C. Due from banks

	31 December 2016	31 December 2015
Placements with banks - on demand	1,459,679	1,619,183
Placement with banks - term deposits	654,745	792,877
Loans and advances	0	22,982
	2,114,424	2,435,042
Allowance for impairment losses	0	0
Due from banks	**2,114,424**	**2,435,042**

The amount receivable from group companies amounts to € 2,078,188 (2015: € 2,398,470) of which relates to our subsidiaries € 304,927 (2015: € 164,915) and entities with significant influence of our ultimate parent nil (2015: nil). No Loans and advances were secured by pledged deposits from BTMU Ltd. in 2016 (2015: € 21,432).

D. Loans and advances to customers

This item includes amounts receivable in connection with loans, overdrafts in current account, bills discounted, insofar as they are not recognized in the item 'Due from banks'.

	31 December 2016	31 December 2015
Corporate term loans	3,581,289	3,055,644
Corporate current accounts	1,456,950	1,142,162
Private sector loans	263	237
Bills of exchange	362,472	188,865
	5,400,974	4,386,908
Allowance for impairment losses	(2,981)	(2,688)
Loans and advances to customers by class	**5,397,993**	**4,384,220**

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.

	31 December 2016	31 December 2015
Guarantees received from BTMU Ltd.	191,408	230,216
Pledged deposits received from BTMU Ltd.	2,072,829	1,371,292
Pledged deposits received from third parties	1,139,707	1,033,647
Unsecured	1,997,030	1,751,753
	5,400,974	4,386,908
Allowance for impairment losses	(2,981)	(2,688)
Loans and advances to customers by collateral type	**5,397,993**	**4,384,220**

Impairment allowance for loans and advances to customers

The movements in the allowances can be specified as follows:

	31 December 2016	31 December 2015
Balance as at 1 January	**2,688**	**3,591**
New impairment allowances	945	171
Reversal of impairment allowances no longer required	(652)	(1,073)
Net impairment allowances (reversals)	293	(902)
Amounts written off	0	0
Balance as at 31 December	**2,981**	**2,688**

E. Interest bearing securities

The investment portfolio comprises debt securities, which are held by MBE within the framework of its long-term investment policy. The portfolio classifies as an available-for-sale portfolio. All debt securities are traded on stock exchanges. The quoted prices of the stock exchanges are used to determine the fair value of the securities. All debt securities have been pledged to the Dutch central bank as collateral for (intraday) borrowing facilities. No impairments are deemed necessary.

Quoted investments pledged as collateral	31 December 2016	31 December 2015
Dutch Government Bonds	101,235	104,141
European Investment Bank	60,013	115,233
Foreign Government Bonds	0	14,812
	161,248	**234,186**

F. Investments in wholly owned subsidiaries

This regards the 100% owned subsidiaries BTMU Trust (Holland) BV, Amsterdam , the Netherlands, Bank of Tokyo-Mitsubishi UFJ (Polska) SA, Warsaw, Poland, and BTMU (Europe) Ltd., London, United Kingdom.

Investments in group companies	31 December 2016		31 December 2015	
	Interest held %	Balance Sheet Value	Interest held %	statement of financial position Value
• BTMU Trust (Holland) BV	100	1,523	100	1,462
• Bank of Tokyo Mitsubishi UFJ (Polska) SA	100	114,494	100	119,238
• BTMU (Europe) Ltd.	100	6,620	100	7,619
Balance Sheet value		122,637		128,319

The shares of the subsidiaries are not listed on any stock exchanges. The movements in 2016 and 2015 are as follows:

	2016	2015
As at 1 January	**128,319**	**129,382**
Net profit for the year	1,102	2,031
Dividend payment	(1,783)	(3,752)
Translation differences	(5,001)	658
As at 31 December	**122,637**	**128,319**

G. Intangible assets

Intangible assets - Computer software & licenses	2016	2015
As at 1 January	**2,734**	**4,370**
Additions	3,252	115
Disposals	0	0
Amortisation	(2,162)	(1,753)
Reclassifications	0	0
Exchange adjustments	0	2
As at 31 December	**3,824**	**2,734**
Accumulated cost	12,840	9,960
Accumulated depreciation	(9,016)	(7,226)
As at 31 December	**3,824**	**2,734**

During 2016 and 2015 MBE identified no events or circumstances which would indicate that MBE's intangible assets may be impaired.

H. Property and equipment

Property and Equipment	2016 Operations equipment	2016 Leasehold improve-ments	2016 Total	2015 Operations equipment	2015 Leasehold improve-ments	2015 Total
As at 1 January	**788**	**54**	**842**	**958**	**78**	**1,036**
Additions	365	12	377	252	0	252
Disposals	0	0	0	0	0	0
Depreciation	(496)	(1)	(497)	(423)	(24)	(447)
Exchange adjustments	(2)	0	(2)	1	0	1
As at 31 December	**655**	**65**	**720**	**788**	**54**	**842**
Accumulated cost	4,600	627	5,227	4,233	614	4,847
Accumulated depreciation	(3,945)	(562)	(4,507)	(3,445)	(560)	(4,005)
As at 31 December	**655**	**65**	**720**	**788**	**54**	**842**

I. Other assets

	31 December 2016	31 December 2015
Accrued interest	9,088	5,027
Other prepayments and suspense accounts	1,314	883
Defined retirement benefit asset	0	0
Derivative financial instruments	46,690	60,330
Other assets	**57,092**	**66,240**

J. Due to banks

This item comprises debts to credit institutions and central banks.

	31 December 2016	31 December 2015
Term deposits	2,573,392	2,061,638
Balances on demand	0	0
Due to banks	**2,573,392**	**2,061,638**

The term deposits from BTMU Ltd. pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 2,072,829 (2015: € 1,392,724). The total amount owed to related parties, including pledged deposits, is € 2,573,392 (2015: € 1,954,737).

K. Due to customers

	31 December 2016	31 December 2015
Term deposits	1,072,234	692,972
Current accounts	4,059,719	4,219,246
Due to customers	**5,131,953**	**4,912,218**

Included in 'Due to customers' are deposits of € 1,139,707 (2015: € 1,033,647), which are pledged as collateral for loans and advances and off- statement of financial position credit instruments to customers granted by MBE.

L. Other liabilities

	31 December 2016	31 December 2015
Accrued interest/Unearned income	9,916	10,586
Account payable and suspense accounts	7,952	6,424
Derivative financial instruments	46,579	61,058
Other liabilities	**64,447**	**78,068**

For the defined benefit retirement and early retirement liability please refer to Note 11 of the Notes to the consolidated financial statements. The pension plans as disclosed in the 'Consolidated financial statements' entirely relate to the parent company.

M. Issued capital and other reserves

The authorised capital amounts to € 136,200 (2015: € 136,200) and consists of 300,000 ordinary shares of € 454 each (*unit: one €*). The number of issued and fully paid-up shares is 220,266, which are fully held by BTMU Ltd. Issued and fully-paid capital remained nearly unchanged to prior year and amounts € 100,001 (2015: € 100,000) shares issued are fully held by BTMU Ltd., which is a fully-owned subsidiary of MUFG Inc.

Due to the acquisition of the Brussels Branch in May 2016, the issued capital changed slightly compared to 2015. Due to the same reason, € 30,821 was added to the share premium to a total amount of € 81,696 (2015: € 50,875)

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 available-for-sale assets is a legal reserve under Dutch law.

Other reserves	Retained Earnings	Revaluation reserve available-for-sale assets	Revaluation actuarial	Total
As at 1 January 2015	**432,279**	**733**	**(5,990)**	**427,022**
Unrealised gains/(loss) on available-for-sale financial investments		25		25
Re-measurement of the net defined benefit asset/liability			708	708
Total Comprehensive income	7,951			7,951
Income tax relating to components of other comprehensive income				
As at 31 December 2015	**440,230**	**758**	**(5,282)**	**435,706**
Unrealised gains/(loss) on available-for-sale financial investments		(435)		(435)
Re-measurement of the net defined benefit asset/liability			(1,079)	(1,079)
Foreign currency translation reserve				
Total Comprehensive income	(37)			(37)
Income tax relating to components of other comprehensive income				
As at 31 December 2016	**440,193**	**323**	**(6,361)**	**434,155**

N. Contingent liabilities and commitments

	31 December 2016	31 December 2015
With respect to letters of credit	3,567	2,559
With respect to letters of guarantees	601,221	426,841
Contingent liabilities	**604,788**	**429,400**
Irrevocable credit commitments	2,624,115	2,575,975
Irrevocable credit commitments	**2,624,115**	**2,575,975**

O. Maturity analysis of assets and liabilities

	31 December 2016					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Due from banks	1,459,676	350,956	66,253	122,539	115,000	2,114,424
Loans and advances to customers	1,455,356	1,402,639	212,730	1,297,808	1,029,460	5,397,993
Financial instruments available-for-sale	0	0	0	161,248	0	161,248
Total financial assets	**2,915,032**	**1,753,595**	**278,983**	**1,581,595**	**1,144,460**	**7,673,665**
Financial liabilities						
Due to banks	0	1,421,494	536,294	110,148	505,456	2,573,392
Due to customers	4,059,855	953,701	101,764	16,633	0	5,131,953
Total financial liabilities	**4,059,855**	**2,375,195**	**638,058**	**126,781**	**505,456**	**7,705,345**

	31 December 2015					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Due from banks	1,619,183	494,559	84,359	133,941	103,000	2,435,042
Loans and advances to customers	1,142,196	828,562	334,906	1,021,807	1,056,749	4,384,220
Financial instruments available-for-sale	14,812	0	0	219,374	0	234,186
Total financial assets	**2,776,191**	**1,323,121**	**419,265**	**1,375,122**	**1,159,749**	**7,053,448**
Financial liabilities						
Due to banks	0	973,659	416,867	166,135	504,977	2,061,638
Due to customers	4,220,400	655,502	13,242	23,074	0	4,912,218
Total financial liabilities	**4,220,400**	**1,629,161**	**430,109**	**189,209**	**504,977**	**6,973,856**

P. Interest income

	2016	2015
Cash and balances with central banks	13	20
Due from banks	6,223	4,786
Loans and advances to customers	54,385	44,167
Available for-sale investments	149	351
Interest rate swaps	1,702	571
Others	69	20
Interest income	**62,541**	**49,915**

No interest income on impaired loans in 2016 (2015: € 0).

Q. Interest expense

	2016	2015
Due to banks	31,503	20,052
Due to customer	5,910	3,598
Interest rate swaps	5,432	6,610
Others	79	6
Interest expense	**42,924**	**30,266**

R. Commission income

	2016	2015
Commission on funds transfer and letters of credit	2,780	2,466
Commission on guarantees	1,557	1,173
Brokerage and advisory fees	617	1,044
Commission on corporate management services	0	0
Other commission income	676	710
Commission income	**5,630**	**5,393**

S. Commission expense

	2016	2015
Commission on (credit replacing) guarantees	1,344	1,435
Commission on funds transfer and letters of credit	490	331
Commission on corporate management services	0	0
Other commission expenses	1,042	168
Commission expense	**2,876**	**1,934**

T. Other Operating Income

	2016	2015
Other Operating Income profit or loss, net	**30**	**16**

U. Result on financial transactions

This item includes the foreign currency results of MBE amounting € 16,134 (2015: € 14,955). As explained in the risk management paragraph (see note 29) MBE's policy is to eliminate currency risks on financial assets and liabilities.

	2016	2015
Result on financial transactions	**16,134**	**14,955**

V. Personnel expenses

	2016	2015
Wages and salaries	14,711	11,682
Social security's costs	1,709	1,088
Pension costs	1,602	1,599
Other staff costs	3,562	2,487
Personnel expenses	**21,584**	**16,856**

The average total number of employees in 2016 is 196 (2015: 131), of which 177 (2015: 109) are employed in the Netherlands. Other staff costs includes mainly the costs related to contracted employees and/or agency employees.

W. Other operating expenses

	2016	2015
Occupancy expenses	1,571	1,245
Office expenses	4,298	5,715
Professional fees	1,788	1,417
Business promotion expenses	2,070	550
VAT and sundry taxes	4,200	3,358
Other operating expenses	**13,927**	**12,285**

Occupancy expenses merely relate to office rent. Office expenses relate to IT services, professional fees and regulatory supervision expenses and other office expenses. The contribution to the National Resolution Fund is booked under sundry taxes. The contribution came to € 2,474 (2015: € 1,993) in cash and € 437 as irrevocable payment commitment.

X. Income tax expense

Income tax

The components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016	2015
Current tax		
Current income tax	1,309	1,898
Adjustment in respect of current income tax of prior years	(14)	0
Dutch tax exemption Vienna and Prague branch	(84)	(75)
Deferred tax		
Movement in pension obligation	0	(102)
Income tax	**1,211**	**1,721**

Authorization of Company Annual Account
Amsterdam, 30 May 2017

THE SUPERVISORY BOARD

J.W. Sodderland, chairman

....

K.W. Peacock, vice-chairman

....

M. van Nieuwkerk

....

M. Osawa

....

THE MANAGEMENT BOARD

N. Matsumoto, chairman

....

K. Kuzuhara

....

B.V. IJssel de Schepper

....

M. F. Rosenberg

....

OTHER INFORMATION

Independent auditor's report

To the shareholders and the supervisory board of MUFG Bank (Europe) N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2016 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements 2016 of MUFG Bank (Europe) N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the 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 December 2016, and of its result and its cash flows for 2016 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 company financial statements give a true and fair view of the financial position of MUFG Bank (Europe) N.V. as at 31 December 2016, and of its result for 2016 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 as at 31 December 2016.
2. The following statements for 2016: 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 company financial statements comprise:

1. The company balance sheet as at 31 December 2016.
2. The company profit and loss account for 2016.
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 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 € 1.100.000. The materiality is based on 1.3% of revenue. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 55.000, 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 significant group components.

We have:

- Performed audit procedures ourselves at group entities at the branch in Amsterdam and performed audit procedures at group level on areas such as the loan loss provisioning, tax, consolidation, disclosures and regulatory compliance. .
- Used the work of other auditors when auditing BTMU (Polska) SA and the branch in Belgium.
- Performed review procedures or 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.

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.

- **Completeness loan loss provisioning**

Key audit matter

MUFG Bank (Europe) N.V. provides credit to both Japanese and non-Japanese corporate clients. Because of the uncertainty and risk in a number of areas when determining the loan loss provisioning for the loan portfolio, loan impairment provisioning is an important area of judgment and estimate by management. Therefore, we have classified the completeness of loan loss provisioning as a key audit matter.

Audit procedures performed

We have tested the design, implementation and operating effectiveness of the identified controls over the credit function relevant for our audit. We have performed substantive procedures concentrating on the existence and valuations of the loans. We have reviewed key judgments and estimates made by management, including a review of a sample of loan files to assess the requirement for any specific and collective loan loss provisioning. Reference is made to note 4 and note 19 in the financial statements.

- **Regulatory requirements and compliance**

Key audit matter

MUFG Bank (Europe) N.V. is regulated by various regulators in jurisdictions in which it operates. Regulatory requirements may change over time which require management to align internal procedures to adhere to these changes.

The risk exists that MUFG Bank (Europe) N.V. may not comply with regulatory requirements. Therefore, we have classified regulatory requirements and compliance as a key audit matter.

Audit procedures performed

We have assessed communication between MUFG Bank (Europe) N.V. and its regulators. In addition we have reviewed regulatory examination reports and met with regulators and management to get an understanding of current regulatory requirements, and assess MUFG Bank (Europe) N.V.'s compliance to these requirements. Reference is made to note 27.VI in the financial statements.

- **Reliability and continuity of the financial information systems**

Key audit matter

Given the activities of MUFG Bank (Europe) N.V., the continuity of the operations is highly dependent on the IT-infrastructure as also explained in the Risk management paragraph of the annual accounts. Therefore, reliability and continuity of the automated systems has been a key audit matter during our audit.

Audit procedures performed

We have tested the reliability and continuity of the automated systems relevant for our audit. For this purpose we have made use of IT auditors within our audit team and other auditors with the Deloitte network. Our procedures included testing the design, implementation and operating effectiveness of the relevant general IT and application controls.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

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

- The paragraphs “profile”, “strategy”, “selected financial data 2011 – 2016” and “general information”
- Report of the Supervisory Board
- Management Board's Report
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code
- Annexes

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

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

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

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

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 29, 2016, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

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 e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 the company to cease to continue as a going concern.

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

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

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

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit.

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, May 30, 2017

Deloitte Accountants B.V.

Signed on the original: R.J.M. Maarschalk

ANNEXES

CORPORATE DATA

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