Annual Report

For the 15 months period
ending 31 March 2018

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

CONTENTS

PROFILE

MUFG Bank (Europe) N.V. (hereinafter 'MBE') is the fully-owned subsidiary of MUFG Bank, Ltd. (hereinafter 'MUFG Bank') formerly known as The Bank of Tokyo-Mitsubishi UFJ, 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. On 1 April 2018 The Bank of Tokyo-Mitsubishi UFJ Ltd. changed its name to MUFG Bank, Ltd.

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.

MUFG Bank 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. MUFG Bank has the largest overseas network of any Japanese bank, comprising offices and subsidiaries in more than 40 countries.

BUSINESS MODEL

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 Continental Europe, MBE recognizes having branches in the Netherlands, Austria, Belgium, Czech Republic, Poland and from 1 April 2018, Spain and Germany allows MBE to serve the client base across the European Region in these countries.

At the time of publication of this report the German and Spanish/Portuguese offices of MUFG Bank and MUFG Europe Lease (Deutschland) GmbH (subsidiary) have been fully integrated into MBE as per 1 April 2018. This is discussed further in section 33 (subsequent events).

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

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

Key Figures as per Balance Sheet Date

(amounts in millions of euros)	**201803**	**201612**	**201512**	**201412**	**201312**
Balance sheet					
Loans & advances to customers	6.639	5.886	4.711	4.779	5.376
Shareholder's equity	1.235	616	587	578	563
Total assets	16.762	8.699	7.880	7.244	7.115
Results					
Net interest income	35	24	24	27	26
Total operating income	63	47	47	51	55
Credit loss income (expense)	1	(0)	1	2	(1)
Operating expenses	71	44	38	32	31
Result for the year	(6)	1	8	16	18
Others					
Risk-weighted assets	4.300	3.772	3.981	3.508	3.744
BIS Total capital ratio	35,6%	16,3%	14,7%	16,4%	15,0%
Operating expense/income ratio	112,8%	93,9%	80,3%	61,3%	55,1%
Number of employees (average)	255	225	161	160	155
> Domestic	194	177	109	109	107
> Abroad	61	48	52	51	48

GENERAL INFORMATION

REGISTERED OFFICE

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

SUPERVISORY BOARD

M. van Nieuwkerk (Chairman)
K.W. Peacock (Vice-chairman)
M. Osawa
W.F. Nagel

MANAGEMENT BOARD

S. Tobari (Chairman)
K. Kuzuhara
M.F. Rosenberg

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

During 2017 MBE has decided to extend its financial year to align with its parent company (MUFG Bank, Ltd), which assisted with the integration of German, Spanish and Portuguese offices. Year end is now 31 March (previously 31 December), meaning the current reporting period ends on 31 March 2018 and is 15 months in length instead of 12 months. Therefore some of the presented amounts in the financial statements from the current reporting period are not entirely comparable to the amounts of the previous reporting period.

In accordance with article 15 of MBE's articles of association we hereby submit to the shareholder the annual accounts for the period January 2017 to March 2018, 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 shareholder to approve the financial statements as submitted by the management board and to discharge the members of the management board and the supervisory board for their management and supervisory duties respectively during the period up to March 2018. As there is no net profit for the period ending 31 March 2018 and the loss will impact the capital ratios, there will be no proposed dividend payment this year proposed by the Management Board. This proposal is endorsed by the supervisory board.

Supervisory board

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

The supervisory board has drawn up a profile to be used as a basis for its composition. 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 of the supervisory board members are employed by MBEs parent, MUFG Bank. The chairmanship resides with an independent 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, compliance and risk (ACR) committee, which assembles at least twice per annum. The scope of the ACR committee includes audit, 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 dependent supervisory board members were included in the programme. In the period ending March 2018 trainings were offered on amongst others AnaCredit, IFRS 9, KYC standards, MiFID II and Global Data Protection Requirements.

In the period ending March 2018, during four of the five supervisory board meetings all members of the supervisory board were either physically present or by means of using video conferencing access.

Composition of Supervisory Board

Chairman – Mr. Marius van Nieuwkerk
Mr. Van Nieuwkerk joined the supervisory board of MBE in 2007 and as mentioned above took over the role of Chairman from Mr. Sodderland effectively from 1 October 2017. His high level of knowledge and experience is evidenced by his long employment with the Dutch Central Bank in national and international top senior

management positions, not only because of his close involvement in the development of new regulations but also because he has been active in a number of monitoring committees such as being a member of the committee of supervisors for the international banking sector and member of the committee that monitored the international financial markets (BIS in Basel). As he has been a member of the supervisory board of MBE for already 10 years he gained substantial knowledge of the organisation.

Vice Chairman- Mr. Kerry Peacock
Mr. Peacock joined the supervisory board of MBE in September 2016 as vice chairman. Mr. Peacock has over 30 years' experience in the banking sector as well as specific knowledge regarding MUFG group as he has been leading the Operations division of EMEA for MUFG Bank Ltd since 2008. He has attended several committees within the MUFG group, which gives him a broad and in-depth understanding of MUFG, its internal codes and procedures.

Member – Mr. Masakazu Osawa
Mr. Osawa joined the supervisory board of MBE in July 2016 when he was the Chief Operations Officer of EMEA for the parent bank. He has a long career with MUFG and is currently head of the digital transformation division & corporate planning division in Tokyo. He has a legal background both in Japan and the US and as such has knowledge on and experience with laws and regulations applicable to banks. He also has experience in the compliance function, planning and project management.

Member – Mr. Wilfred Nagel
Mr. Nagel is the most recent joiner to the SB and joined per 6 November 2017. During his career at ING he has gained experience through a variety of senior MB as well as SB positions both in the Netherlands and abroad. In his last role he was the CRO of ING Groep NV. Mr. Nagel is also the chairman of the SB Audit, Compliance and Risk Management Committee of MBE. He has experience as CEO of sizable financial institutions managing major subsidiaries abroad. Through this he has experience with both local and foreign regulatory supervision. He has deep knowledge of the markets where MBE operates and has been involved in wholesale banking, project finance and leasing.

Activities

The supervisory board is responsible for overseeing the risk profile and the control framework within MBE. The supervisory board monitors MBE's business development, financial position and results on an ongoing basis. During the period 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 MUFG Bank German and Spanish/Portuguese offices into a branch of MBE.

During the 15 months ending March 2018 the supervisory board convened five times. 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, ALMC, KYC.

Audit, Compliance and Risk Committee

Since 2011 an audit committee, consisting of the two independent members of the supervisory board (M. van Nieuwkerk and W. F. Nagel), is functioning. Some time ago its scope has been broadened to cover compliance and risk management functions as well. This has been another period where MBE continued to strengthen the internal organization by adding staff and bring itself in a position that it can cope with increased 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. W.F. Nagel.

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 has also taken the EBA's Guidelines on Sound Remuneration Policies ('Guidelines') into consideration. However, it is recognised that the Bank's scope and scale are increasing. Therefore a full review and update of the MBE remuneration policy will be completed in 2018 ensuring compliance with all appropriate regulations and guidelines, including a shared price linked instrument.

The Supervisory Board is responsible for the implementation and evaluation of the Remuneration Policy adopted in regards to the Management Board members and all senior staff in control functions (including risk management, compliance and audit), and approves the remuneration principles for all other employees. The Supervisory Board also oversees the implementation of the Reward Policy by the Management Board.

Remuneration consists of two key components, including annual fixed remuneration (including fixed allowances, non-discretionary pension benefits and standard benefits) and performance related variable remuneration (a portion of which may be deferred on a mandatory basis).

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

Employees may be awarded an annual performance based variable remuneration which is reflective of the performance of MBE, the relevant business unit and each employee's individual performance in the performance year. Variable remuneration is to reward employees who demonstrate the firm-wide cultural values and who deliver superior performance in a way that is consistent with risk and compliance requirements.

The Bank applies the following maximum variable remuneration to fixed remuneration ratios as the cap for variable pay awards:

- Variable pay cannot exceed 20% of fixed pay for anyone who works 50% or more of their time in the Netherlands.
    - This 20% cap does not apply on an individual basis for staff in the Netherlands whose employment conditions are not exclusively covered by a collective labour agreement, but to the average bonus of such staff collectively, provided that individually a 100% variable pay cap applies.
- For the branches which the Bank operates in the EU, the ratio between variable remuneration and fixed remuneration is at maximum 100%.
    - The 20% cap will apply for staff employed in the branches who have spent 50% or more of their time in the Netherlands.

MBE has identified staff whose professional activities have a material impact on MBE's risk profile and to whom specific requirements apply ('Identified Staff'). Identified Staff includes risk takers as defined in the Material Risk Takers Regulation (Articles 2 and 3 of the Commission Delegate Regulation (EU) No 604/2014), individuals who perform a senior management function and any other employee, who in the opinion of the Supervisory Board, has a material impact on the Bank's risk profile (including but not limited to conduct risk). In line with regulatory requirements, Identified Staff are subject to enhanced remuneration structures, including deferral, clawback and malus.

MBE applies deferrals for Management Board members and other Identified Staff where the individual awards exceed € 10.000. A deferral of 40% is applied to the variable remuneration award, with the deferral vesting on a pro-rata basis for three years.

Deferred awards are granted as deferred cash. This means that MBE, due to its nature (not listed on the stock exchange) and size, currently does not make use of financial instruments as part of the variable remuneration awards.

The Supervisory Board has the authority to adjust or reclaim variable remuneration in exceptional circumstances ('clawback') for Identified Staff, including Management Board members, for three years from the date of award.

In addition to clawback, the Supervisory Board may also make use of malus. This is an arrangement that permits the Bank to prevent vesting of all or part of the amount deferred compensation in relation to risk outcomes of performance.

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

- There is a downturn in the financial performance of MBE;
- The Bank's risk related policies or limits have been breached;
- A compliance failure has been committed;
- A regulatory breach has taken place;
- Actions or behaviours which have damaged the Bank's reputation;
- Where an award is inconsistent with the Bank's long-term risk or compliance interests;
- Where vesting of a variable pay award is inconsistent with the Bank's long-term risk or compliance interests; or
- Any incident which the Supervisory Board, in its sole discretion, determines to warrant an adjustment.

In regards to the evaluation of individual performance, MBE operates a robust performance management process which includes objective setting, formal evaluation against objectives, mid-year and year-end performance reviews, and the allocation of an overall performance rating. Non-financial performance criteria make up a significant portion of an individual's assessment. The Bank also assesses individuals on core competencies which are aligned to MUFG Group's values, including Integrity and Responsibility, Professionalism and Teamwork and Challenge Ourselves to Grow. Variable remuneration awards are allocated to employees taking into account performance against these aspects.

MBE does not award retention nor predefined severance pay to Management Board members and other Identified Staff.

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

Details on the remuneration of the Supervisory Board members, Management Board members and other Identified Staff can be found under paragraph 28.

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, 2015 and 2016) on the implementation of the principles of the Dutch Banking Code, which fully fit within the corporate governance principles applied by our parent bank, MUFG Bank 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 banks 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 MBE in society, their commitment to meet the expectations of the society and to contribute to public trust in banks within society.

Information, Consultation and Conclusion

At the moment the SB does not fully comply with the independence requirements of the corporate governance code because both Mr. Osawa and Mr. Peacock are employed by the parent bank/only shareholder.

The evaluation of the SB took place on 8 December 2017. The SB is of the opinion that the consultations during meetings of the SB are open and informative.
All important issues addressed in the Banking Code and similar rules and regulations are being discussed in the meetings including risk management, especially credit risk and provisioning, compliance, audit and internal control framework, remuneration and new product approval process.
The relationship between the MB and the SB is good. So is the relationship amongst the members of the SB. The conduct and effectiveness of each of the members of the SB were discussed explicitly. The SB concluded that the SB and each of its members functions properly.

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

Amsterdam, 28 November 2018

M. van Nieuwkerk
K.W. Peacock
M. Osawa
W.F. Nagel

REPORT OF THE MANAGEMENT BOARD

MBE group structure

During 2017 MBE worked on the project of bringing MUFG Bank, German, Spanish and Portuguese offices under MBE which was successfully completed on 1 April 2018. As part of this project MBE extended its financial year end to 31 March to be in line with MUFG group. The financial results included in the annual report are therefore based on 15 months period and are therefore not directly comparable to the previous 12 month period. The successful on boarding of the German, Spanish and Portuguese offices reinforces MBE and MUFG commitment to continental Europe in order to better serve our clients' needs. Further details are included in the section 33 – subsequent events.

In order to achieve the on boarding of the German, Spanish and Portuguese offices, MBE required a capital injection and MUFG Bank injected an additional CET1 Capital of €625m and Subordinated debt of €300m during March 2018. Further capital was also transferred from Germany and Spain post 1 April 2018.

Financial review

During 2017, MBE has decided to extend its financial year to align with its parent company. Year-end will now be at the end of the first calendar quarter. This means the current reporting period ends at 31/03/2018 and is for a 15 month period and not a 12 month period. Therefore, the statement of profit and loss includes revenues and expense for 15 months.

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. The Total Operating Income grew from €47m in 2016 (12 month basis) to €63m (15 month basis) which is a 10% increase on a like for like basis. Net commission income fell from €3,3m in 2016 (12 month basis) to €2,2m in 2017 (15 month basis).

As a result of the present monetary policies we expect the trend of low interest rates to continue at least during 2018. MBE is in the final stages of approving its next 3 year 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 €70,6m in 2017/18 (15 months) from €43,9m in 2016 (12 months), mainly due 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 Polish subsidiary into a branch and the project to integrate German, Spanish and Portuguese offices given the restructuring of MUFG Bank European branch network into MBE. The average number of staff increased from 225 in 2016 to 255 in 2017/18 of which 194 are based in Amsterdam, including the additional staff consolidated through Warsaw 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.

In preparation for the transfer for Germany, Spain and Portugal offices, MBE was required to keep a large balance at period-end at the Central Banks, €7,9bn compared to €609m in December 2016. This was to ensure sufficient liquidity to overcome the transfer weekend and the balance soon reduced during April to below €3bn.

Our parent bank and sole shareholder reported results for the period ending 31 March 2018 lower than 31 March 2017. Gross profits decreased by Yen 145,3bn to Yen 2.626,0bn mainly due to lower net interest income and lower gains on debt securities. Net operating profits decreased by Yen 180,4bn to Yen 847,38bn 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 MBE is placing and taking funds with the European Treasury Division of the parent bank, MUFG Bank, London. MBE placed €1,9bn (2016: €1,8bn) with the parent bank and related parties. During 2017 our LCR remained at an average level of 162%, and the NSFR at 101%. MBE fully complies with the external required liquidity ratios. In 2018 the NSFR has been officially implemented by the Dutch Central Bank. The minimum requirement is 100% and MBE set own target ratio as more than 108% at that moment. At the end of March 2018 the NSFR was 147% and the LCR was 180%.

Capital adequacy

In 2017 MBE submitted its ICAAP (Internal Capital Adequacy Assessment Process) report to the Dutch Central Bank. MBE fully complies with all external imposed capital requirements. An interim Supervisory Review and Evaluation Process ("SREP") was submitted in March 2018 due to integration of German and Spanish branches. MBE's management is of the opinion that the regulatory requirement of economic capital ratio 14,3% is appropriate with an internal limit for monitoring purposes being 15,0% (increased from 14,0% (2016)) is appropriate. At balance sheet date the consolidated BIS total capital ratio was 35,62% (2016: 16,3%) due to the capital injection during March 2018 in preparation for Dusseldorf and Madrid integration, which is considered to be sufficient to adhere to the Basel III capital requirements. MBE's pre Dusseldorf and Madrid combination the Total Capital Requirements was 16,5% as per 1 April 2018. This includes approved total capital increase by almost €1,6bn compared to December 2016.

Due to the financial loss, the management board is proposing to our shareholder to pass 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 MUFG Bank, 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 end of 2016.

European Treasury Division of our parent bank, MUFG Bank, 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 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 linestaff functions.

To comply with the requirements set out in article 391 Book 2 of the Dutch Civil Code we refer to paragraph 30 of the 'Notes to the consolidated financial statements' for 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 period end the average number of employees was 255.
Absenteeism in Amsterdam office (including long-term illness) was 5,6%, compared to a country average of 4,0%.

As at March 2018 the percentage of females compared to the total workforce within MBE in Amsterdam was 40%.

Corporate governance

MBE being a non-listed financial institution complies with the best practice of general principles of corporate governance 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. 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.

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.

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.

Mr. Bart IJssel de Schepper requested to step down from the management board effective 17 August 2018. The bank management board highly appreciates Mr. IJssel de Schepper's contribution to MUFG and have therefore asked him to remain at MBE until 1 March 2019 as an advisor to the management board. In this role, he will support the bank in a smooth transition of his tasks and responsibilities.

The 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 Operation & IT Committee (OIC), Business Continuity Committee, Risk Management Committee (RMC), Operational, Information & Security Risk Committee, Asset Liability Management Committee, Credit Risk

Management Committee, Audit & Compliance Committee (ACC), New Product Committee, Anti Money Laundering Committee, Project Board (PB), Credit Committee (CC).

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 2016.

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 2017 trainings were offered on amongst others AnaCredit, IFRS 9, KYC standards, MiFID II and Global Data Protection Requirements. 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.

Composition of Management Board

President – Mr. Shichito Tobari

Mr. Tobari joined the management board of MBE on 16 June 2017. He transferred to MBE from Dubai where he was Managing Director and Regional Head of MUFG Bank Ltd's Middle East branch organisation. Throughout his career with MUFG he gained experience in various managerial positions in different branches and departments both in Japan and internationally. He has vast experience in M&A, corporate banking and transaction services. He also has experience in the areas of risk control, operations, (internal) audit, legal accounting and systems.

Deputy President – Mr. Kiyoshi Kuzuhara

Mr. Kuzuhara joined the management board of MBE on 17 March 2017 transferring from his position as Deputy Head of Germany which was at the time still a branch of MUFG Bank Ltd. Throughout his career with MUFG he has gained experience in various treasury related areas and in total worked over 10 years in Germany. During this time he gained adequate knowledge of the relevant German and EU laws as wells as a better understanding of the EU market. He has vast experience in treasury/global markets, capital markets and transaction banking, including cash management. He also has experience in compliance, HR, risk management and planning.

Deputy President – Mr. Maarten Rosenberg

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

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.

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 is increasing investment in IT governance and regulatory reporting to integrate Germany, Spanish and Portuguese offices into MBE.

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 planting 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.

On 5 December 2017 MBE signed a partnership agreement with a new CRS partner JINC. JINC strives for a society in which a child's background does not determine a child's future, and this is in line with MUFG's CSR strategy to equip the next generation of young people with the skills and knowledge required to gain and sustain employment, generate wealth and create jobs. Over the coming year JINC and MBE will work together to reach local youth and help them to a good start in the labour market.

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 2017, 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.

Product approval

The product approval process is carried out within the framework of the Group-wide (MUFG 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, Czech Republic and Poland. MBE considers the Central and Eastern European markets as a promising economy for its Japanese and non-Japanese clients.

In 2017 DNB granted permission for the German and Spanish/Portuguese branches of MUFG Bank be fully integrated within MBE. This was successfully executed on 1 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 MUFG Bank, located in London, MBE participates in international syndicated finance activities both through its office in Amsterdam and its 100%, UK-based subsidiary, MUFG Funding (UK) Limited.

The objectives are derived from the strategy and are set by the management board and are continuously monitored and evaluated. The Mid-Term Business Plan (MTBP) process, which incorporates plans for a three year period, is also driven by MBE's strategy in conjunction with the strategy of its shareholder MUFG Bank. The MTBP focusses on three pillars: Japanese Corporate Customers, Non-Japanese Corporate Customers and MUFG Business Services (Holland) B.V. 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

MUFG Bank (Europe) N.V. faces various risks not directly associated with its business activities. Two main developments stand out. Internally MBE conducted its 2nd phase of project Stella in which it both legally and operationally incorporated MUFG's German and Iberia operations. The risks are mitigated through a well prepared and successfully completed project governance. The external developments emerging from Brexit negotiations might pose a risk or opportunity to MBE. A risk because of the various outsourcing agreements with MUFG's UK branch, an opportunity because of the potential shift of UK business to continental Europe. MUFG EMEA and MBE run a joint Brexit-strategy plan and program.

For this financial year, other than the project cost for Stella, no direct impact on revenue is foreseen. For the coming year MBE will engage in a strategic change program: Stelvio that potentially might lead to increased cost currently not directly captured in the Medium term Business Plan starting April 2018.

MBE has updated its Medium term Business Plan for the period 2018-2020. It has defined a strategic roadmap, underlying KPI's and drafted the balance score card. Despite some of the uncertainties as described above, in terms of business model and products the bank has not yet extensively entered into a deeper research and assessment of markets and customer segments with the attention to change its model. Subsequently the business model remains roughly unchanged for the forthcoming fiscal year.

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:

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

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

- MUFG Bank is the sole (100%) shareholder of MBE; consequently the shares of MBE are not listed;
- the shareholder, MUFG Bank, also acts as the global head office of MBE, implying central oversight on key areas like risk management, compliance, internal audit and financial and management accounting;
- Important statutory authorities are assigned to the shareholder, like 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

As there is no net profit for the period ending 31 March 2018 and the loss will impact the capital ratios, there is no proposed dividend payment this period.

Gratitude

We also wish to express our sincere gratitude to our customers, business partners and parent banks, MUFG Bank and MUFG Inc., for their continuous support in 2017 and first quarter 2018.

The management board declares to the best of its knowledge, that the annual financial statements provide a true and fair view of the assets and liabilities of MBE, its financial position and net profit.
The management board also declares that to its best knowledge the 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 2018

At present MBE is engaged in discussions with its parent MUFG Bank 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 MUFG Bank Brussels Branch to MBE. Furthermore in order to reflect its European footprint MBE has changed its corporate name as per 1 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 offices of MUFG Bank were fully integrated on 1 April 2018. 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 in wholesale banking and not to enter into new markets.

EUROPE – AMSTERDAM OFFICE*

- The Dutch economy is in a positive phase. Growth is estimated at just above 3% in 2017 and is forecast to continue at about the same rate in 2018, supported by strong domestic demand and resilient exports. However, wage growth has been modest at around 1% in recent years although trending upwards, reflecting slow productivity growth, subdued inflation expectations, and remaining slack and rising flexibility in the labour market. Inflation only picked up moderately, to 1,3% in 2017. Credit developments have remained contained due to continued deleveraging by banks, firms, and households. The current account surplus increased further, reflecting high domestic net savings, especially in the corporate sector, and the pick-up in global trade. The output gap is estimated to have closed in 2017 and is expected to remain positive over the medium term as macroeconomic policies remain supportive and adverse demographics limit potential growth.

BELGIUM – BRUSSELS OFFICE*

- The economic recovery is gaining momentum. Real GDP growth is expected to approach 2% in 2018 after an estimated 1,7% in 2017. It is driven by strong investment and solid consumption growth, and supported by favourable financial conditions as well as a strengthening recovery throughout Europe. Employment growth has picked up, thanks in part to past reform efforts. The fiscal position has improved, reflecting a mix of cyclical, structural, and one-off factors. The medium-term outlook, however, remains subdued in the absence of further structural reforms to raise potential growth, and subject to both external and domestic risks.

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 continues to strengthen.

CZECH REPUBLIC – PRAGUE OFFICE*

- The Czech economy is in a positive phase. Czech economic growth accelerated to 5,2% y/y in Q4 2017, lifting growth for 2017 as a whole to 4,5% y/y in 2017. The reading was the second-strongest since 2007, and was driven by accelerating private consumption, which grew at 4,0% y/y, the highest in a decade. Investment was also robust, recovering well from the 2016 contraction. Despite strong domestic demand net exports also contributed positively to growth as exports continued to surge. We expect the strong economic performance to be sustained this year – a view supported by robust leading indicators that show economic sentiment at its highest since early 2008 and consumer confidence at its strongest since records began in 1998. FX appreciation will be a headwind to growth, but should be offset by a pick-up in EU funds absorption and rising private sector investment encouraged by the tightening labour market and high capacity utilisation.

POLAND – WARSAW OFFICE*

- Economic growth is rising. GDP growth accelerated in Q4 2017 to 5,1% y/y. In 2017 as a whole, GDP gained 4,6% y/y, up from 2,9% y/y in 2016 and reached a six-year high. In the last quarter of 2017, there was also positive news on growth composition with investments finally growing strongly. After just 1,5% y/y growth in Q1-Q3 2017 and contraction a year earlier, investment activity surged by 11,3% y/y in Q4. Private consumption growth inched higher as well. This pulled domestic demand growth to 6,1% y/y in Q4 2017, the highest level since Q1 2008.

GERMANY – DUSSELDORF OFFICE*

- Economy is slowing, albeit slightly. The German economy slowed slightly in Q4, growing by 0,6% q/q, the 14th consecutive quarterly expansion. This pushed the y-o-y rate to 2,9%, the highest reading since Q3 2011. Despite the appreciation of the euro, exports managed to rise strongly on the back of robust global trade. As in Q3, net trade was the star performer, contributing 0,5pp to Q4 growth, dashing hopes for a quick rebalancing of the German economy. Though, the recent moderation in IFO export expectations points to less support from trade in the coming quarters.

SPAIN – MADRID OFFICE*

- Economic activity frail but stabilising. GDP growth was 0,7% in Q4 2017, in line with Q3 (although downwardly revised from an initial estimate of 0,8%) and a tad lower than the Q2 peak (0,9%). So the economy is slowing, but not by much. Growth in Q4 was still driven by domestic consumption, although the quarterly growth rates have now stabilised at around 0,6% q/q – largely in line with employment growth – from around 0,8% q/q in 2016, as the tailwinds from lower oil prices and cheap mortgage payments are fading. However, with the fiscal constraints on the public sector becoming less strict – in part thanks to the ECB's QE – government spending is starting to add to GDP growth.

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

Amsterdam, 28 November 2018

S. Tobari
K. Kuzuhara
M.F. Rosenberg

FINANCIAL STATEMENTS PERIOD ENDING 31 MARCH 2018

Unless stated otherwise amounts in thousands of €s

Consolidated Statement of Financial Position

ASSETS	Notes	31 March 2018	31 December 2016
Cash and balances with central banks	1	7.934.960	609.642
Due from banks	2	2.083.704	1.875.167
Derivative financial instruments	3	23.782	46.923
Loans and advances to customers	4	6.638.930	5.886.456
Financial instruments available-for-sale	5	35.612	251.919
Property and equipment	6	3.858	843
Intangible assets	7	7.122	3.906
Current tax asset	22	11.193	10.698
Deferred tax asset	22	5.444	2.143
Other assets	8	17.829	11.383
Total assets		**16.762.434**	**8.699.080**
LIABILITIES			
Due to banks	9	9.325.945	2.573.392
Derivative financial instruments	3	23.618	48.204
Due to customers	10	5.826.074	5.427.542
Subordinated debt	11	300.000	0
Current tax liabilities	22	121	220
Deferred tax liabilities	22	150	108
Other liabilities	12	51.700	33.761
Total liabilities		**15.527.608**	**8.083.227**
Issued capital	13	100.001	100.001
Share premium	13	706.696	81.696
Retained earnings	13	440.096	439.031
Revaluation reserve available-for-sale assets	13	(1)	323
Revaluation actuarial	13	(6.342)	(6.361)
Foreign currency translation reserve	13	(43)	98
Result for the year		(5.581)	1.065
Shareholder's equity (parent)		**1.234.826**	**615.853**
Total liabilities and equity		**16.762.434**	**8.699.080**

Consolidated Statement of Profit or Loss

	Notes	31 March 2018	31 December 2016
Interest income	14	109.732	68.901
Interest expense	15	74.757	45.040
Net interest income		34.975	23.861
Commission income	16	12.797	8.941
Commission expense	17	10.576	5.640
Net commission income		2.221	3.301
Other Operating Income	18	611	30
Impairment (loss)	7	(403)	0
Result on financial transactions	19	25.184	19.622
Total operating income		**62.588**	**46.814**
Credit loss income (expense)	20	696	(293)
Net operating income		**63.284**	**46.521**
Personnel expenses	21a	40.114	24.296
Depreciation of property and equipment	6	939	556
Amortisation of intangible assets	7	1.913	2.170
Other operating expenses	21b	27.630	16.901
Total operating expenses		**70.596**	**43.923**
Profit before tax		**(7.312)**	**2.598**
Income tax (expense)	22	1.731	(1.533)
Net Result Continued Operations		**(5.581)**	**1.065**
Attributable to:			
Equity holders of the parent		**(5.581)**	**1.065**
Earnings per share *(unit: one euro)* attributable to equity holders of the parent:			
Basic		(25,34)	4,83
Diluted		(25,34)	4,83

Consolidated Statement of Changes in Equity1

	Issued capital	Share premium	Retained earnings	Revaluation reserve available-for-sale	Foreign currency translation reserve	Revaluation Actuarial	Total
At 1 January 2016	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 adjusitment previous years			(1.200)		1.200		0
Equity dividends							0
At 31 December 2016	**100.001**	**81.696**	**440.096**	**323**	**98**	**(6.361)**	**615.853**
Total comprehensive income			(5.581)	(324)		19	(5.886)
Foreign currency translation adjustment					(141)		(141)
Equity dividends							
Share premium from Parent		625.000					625.000
At 31 March 2018	**100.001**	**706.696**	**434.515**	**(1)**	**(43)**	**(6.342)**	**1.234.826**

Consolidated Statement of Comprehensive Income

	Notes	31 March 2018	31 December 2016
Result for the fiscal period		**(5.581)**	**1.065**
Items which will not be reclassified to the income statement			
Remeasurement of the net defined benefit asset/liability		19	(1.079)
Items which may be reclassified to the income statement in a subsequent period			
Exchange differences on translation of foreign operations		(141)	(1.102)
Net (loss)/gain on available-for-sale financial assets	23	(432)	(580)
Income tax relating to components of other comprehensive income	23	108	145
Other comprehensive income for the year, net of tax		(446)	**(2.616)**
Total comprehensive income, net of tax		**(6.027)**	**(1.551)**
Attributable to:			
Equity holders of the parent		**(6.027)**	**(1.551)**

[1] In order to achieve the on boarding of the German, Spanish and Portuguese offices as per 1 April 2018, MBE required a capital injection and received €625m of share premium from their shareholder in March 2018.

MUFG

Consolidated Statement of Cash Flows – Indirect Method

	Notes	31 March 2018	31 December 2016
Operating activities			
Profit before tax		(7.312)	2.598
Adjusted for:			
- Depreciation	6	939	556
- Amortisation of Intangible assets	7	1.913	2.170
- Addition to (release of) loan loss provisions	4	(696)	293
- Changes in deferred taxation	22	(3.259)	(487)
Changes in:			
- Due from Banks, not available on demand		(942.084)	331.192
- Derivative financial assets		23.141	13.570
- Loans and advances to customers		(751.778)	(1.175.047)
- Other assets		(6.446)	(4.592)
- Due to Banks, not available on demand		6.752.378	618.919
- Due to Banks, on demand		175	(107.000)
- Derivative financial liabilities		(24.586)	(14.491)
- Due to customers		398.532	283.075
- Other liabilities		17.958	8.953
Income tax paid		1.245	(1.737)
Net cash (used in) flow from operating activities		**5.460.120**	**(42.028)**
Investing activities			
Purchase of Property and equipment	6	(3.951)	(397)
Proceeds from sale of Property and equipment		(3)	0
Purchase of Intangible assets	7	(5.528)	(3.326)
Proceeds from sale of Intangible assets		0	0
Purchase of Financial investments available-for-sale	5	(35.612)	(90.670)
Sale and redemption of Financial investments available-for-sale	5	251.487	154.992
Impairment of intangible assets		403	0
Acquisition (sale) of subsidiaries		0	0
Net cash flow from investing activities		**206.796**	**60.599**
Financing activities			
Dividend paid to equity holders of the parent	13	0	0
Subordinated Loan	11	300.000	0
Additional share premium	13	625.000	30.821
Cash flow from (used in) financing activities		**925.000**	**30.821**
Net cash flow		**6.591.916**	**49.392**
Net foreign exchange differences		(144)	(5.188)
Cash and cash equivalents as at 1 January 2017/2016		2.104.125	2.059.921
Cash and cash equivalents as at 31 March 2018/31 December 2016		**8.695.897**	**2.104.125**
Cash and cash equivalents comprise:			
Due from banks, net balances on demand	2	760.937	1.494.483
Cash and Balances with Central Banks	1	7.934.960	609.642
Cash and cash equivalents as at 31 March 2018/31 December 2016		**8.695.897**	**2.104.125**

Regarding the operational cash flow from interest in the 15 months period ending 31 March 2018, interest amounting to € 109.389 (2016: € 41.294) was paid and interest amounting to € 70.087 (2016: € 59.647) was received.

Accounting Policies for the Consolidated Balance Sheet and Income Statement

1. Authorisation of annual accounts

The consolidated financial statements of MBE for the period ended 31 March 2018 have been issued by the management board, examined by the supervisory board and, accompanied by the supervisory board's recommendation and is expected to be adopted by the general shareholder on 30th November 2018.

MBE is a statutory two-tier company under Dutch law. All the shares are held by MUFG Bank 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 five offices in Amsterdam, Vienna (Austria), Prague (Czech Republic), Brussels (Belgium), Poland (Warsaw) and owns two subsidiaries: MUFG Business Services (Holland) B.V. and MUFG Funding (UK) Limited.

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.

MBE has decided to extend its financial year based on IAS 1.36. Reason is to align with its parent company. Year end will now be at the end of March. This means the current reporting period ends at 31 March 2018 and is a 15 month period and not a 12 month period. Therefore, the statement of profit and loss includes revenues and expense for 15 months.

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).

Subsidiaries are fully consolidated from the date on which control is transferred to MBE. They are deconsolidated from the date control ceases. The financial statements of MBE's subsidiaries are fully consolidated and aligned with the accounting principles applied by MBE.

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 2017.

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 are included in the notes 11 and 13 of the financial statements.

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

The amendments clarify rather than making changes to IAS 12. The clarification has no impact on the financial statements of MBE.

Upcoming changes in IFRS-EU not yet effective in 2017 and not early adopted.

<u>IFRS 9 "Financial Instruments"</u>

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 adopted the new standard on 1 April 2018 due to the fiscal year end change. A project was initiated in cooperation with MUFG Bank London in 2016 to implement this standard successfully. MBE has not seen a significant impact on its statement of financial position and equity except for the effect of applying the requirements.

- Classification and measurement

  The classification and measurement of financial assets under IFRS 9 is determined by the Business Models in which the assets are held and whether the contractual cash flows are solely payments of principle and interest (SPPI). Under IFRS 9 financial assets can be measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. These categories replace IAS 39 classifications loans and receivables, available for sale and held to maturity.

  The business models in which a financial asset is held is determined on a portfolio level. Portfolios are based on how groups of financial assets are managed together to achieve a particular business objective. Financial assets can only be classified at amortised cost or FVTOCI when contractual cash flows are SPPI. Bifurcation of embedded derivatives from a financial asset is not allowed.

  MBE grouped its financial instruments in portfolios according to product characteristics as recorded in our source system and the responsible departments for the products. The responsible departments were requested to fill out questionnaires to determine which business model applies to the portfolios after which the business models were described and agreed with the responsible departments.

  MUFG's analysis of business models and contractual cash flow of financial assets has not resulted in a change in measurement of these assets as at 1 April 2018.

- Impairment

  The recognition and measurement of impairment under IFRS 9 is based on an internal Expected Credit Loss (ECL) model. The ECL model applies to financial assets recognised at amortised cost or fair value through other comprehensive income (FVOCI), such as loans, receivables and bonds. The ECL provision amount is calculated as an accumulative of future monthly ECLs using the exposure at default, probability of default and loss given default curves. The probability of default and loss given default models have been developed using own historical data over the full economic cycle. The ECL model estimates future losses using the 'true and fair' concept required under IFRS 9.

  MUFG conducted an analysis to determine where Significant Increase in Credit Risk (SICR) has occurred, for the purpose of defining IFRS 9 Stages. To align with existing risk management practice within the organisation, the internal credit rating is used: transition between IFRS 9 Stages depends on the current internal rating and the rating at initial recognition.

The ECL model classifies these financial assets in the following stages:

• Stage 1: Performing assets – 12-month ECL
Financial instruments that are not “close watch” and have not experienced significant increase in credit risk since initial recognition. Provision is determined based on probability of default event occurring within the next 12 months (’12-month ECL’).

• Stage 2: Under-performing assets – Lifetime ECL
Financial instruments that are “close watch” or where a significant increase in credit risk has been identified. Provision is determined based on probability of default event over the expected life of the financial instrument (‘Lifetime ECL’).

• Stage 3: Non-performing assets – Lifetime ECL
Financial instruments are classified as Stage 3 where a default has been identified. The definition of default is aligned with the EBA definition within the context of risk management. Stage 3 provisions are determined based on a Lifetime ECL using a Discounted Cash Flow (DCF) method.

The ECL model is subject to regular validation and back-testing to ensure the ECLs are in-line with observed actual losses.

Based on the current values of the financial assets and the current model parameters the total initial impact on application of the expected credit losses in accordance with IFRS 9 amounts to € 1,4 million. The total initial impact on equity of applying IFRS 9 as per 1 April 2018 because of expected credit losses is € 1,4 million decrease of equity.

- Hedge accounting

  New rules are provided for hedge accounting, more closely aligned with risk management practices, reducing the necessity for quantitative effectiveness testing, and removing rules for voluntary designation and de-designation outside of documented risk management activity. IFRS 9 includes an option for reporting entities to defer adoption of the hedge accounting guidance and to retain the hedge accounting guidance within IAS 39. The Company intends to make this accounting policy choice, and will continue to use the IAS 39 model. This accounting policy choice will be reviewed in future periods to determine the benefits of transitioning to the new IFRS 9 model. It is expected that this policy choice will be removed when the standard governing macro hedge accounting is issued.

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.

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 came into effect 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. Due to the nature of MBEs business as a corporate lender MBE performed a high level assessment, which showed no impact of this standard on MBE.

IFRS 16 Leases

IFRS 16 requires lessees to record operating leases on the Balance Sheet as an asset (the right to use the leased item) and a financial liability (the discounted value of future lease payments). An optional exemption exists for short-term and low-value leases in a similar way to finance leases under IAS 17. 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.

Basis of consolidation

The consolidated financial statements for the year ended 31 March 2018 comprise the financial statements of MBE and the subsidiaries in the following table.

Name of the subsidiary	Country of incorporation	Place	% equity interest March 2018	% equity interest December 2016
MBE Poland Branch	Poland	Warsaw	0	100
MUFG Business Services (Holland) B.V.	The Netherlands	Amsterdam	100	100
MUFG Funding (UK) Limited	United Kingdom	London	100	100

The Polish subsidiary was fully integrated in May 2017 into a branch of MBE. Therefore the equity interest of MBE Poland in the March 2018 column is 0%. The financial statements of MBE’s subsidiaries are prepared for the same reporting year as MBE, using consistent accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

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. Despite the losses for the period ending 31 March 2018 (due to increased costs due to Germany and Spanish branch on boarding) and increased cost based in 2019, the management is not aware of any material uncertainties that may cast significant doubt upon MBE’s ability to continue as a going concern. Furthermore, Service Level Agreement is in place, which stipulates that MUFG will provide capital support to MBE in order to comply with its regulatory capital requirements and requirements imposed by DNB now and in the future. 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 branch uses New Polish Zloty (PLN) as functional currency. Our subsidiary MUFG Funding (UK) Limited uses Pound Sterling (GBP) as functional currency. Translation differences of subsidiaries 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 MUFG Bank 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.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of changes in the fair value of derivatives are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item affects net result. If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cash flow hedge reserve fully remains in the cash flow hedge reserve in other comprehensive income (OCI) until the expected transaction occurs. When a forecast transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

(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, 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 (e.g. market approach in accordance with IFRS 13.62) 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 excluding credit 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 shareholder. Dividends for the year that are approved after the balance sheet date are disclosed as an event after statement of financial position date.

(XVIII) Equity reserves

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

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

Notes to Consolidated Statement of Financial Position

Unless stated otherwise amounts in thousands of €s

1. Cash and balances with central banks

	31 March 2018	31 December 2016
Cash on hand	0	0
Balances with central bank	7.934.960	609.642
Cash and balances with central banks	**7.934.960**	**609.642**

Balances with central banks include mandatory reserve deposits amounting to € 112.474 (2016: € 92.103), which are not immediately available for MBE's day-to-day operations. The requirement that each bank maintains a minimum reserve has been justified on the grounds that it reduces MBE's exposure to liquidity risk. The excess liquidity at central bank for the period ending 31 March 2018 was € 7.822.486. This was increased to ensure our liquidity position was equipped for a smooth transfer of the German, Spanish & Portuguese offices from MUFG Bank to MBE at 1 April 2018.

2. Due from banks

	31 March 2018	31 December 2016
Placements with banks - on demand	760.937	1.494.484
Placement with banks - term deposits	1.322.278	379.549
Loans and advances	489	1.134
	2.083.704	1.875.167
Allowance for impairment losses	0	0
Due from banks	**2.083.704**	**1.875.167**

The amount receivable from MUFG Bank London branch is € 1.905.776 (2016: € 1.819.945).

MBE entered into a financial collateral agreement d.d. 16th March 2016 with MUFG Bank London branch, whereby eligible government bonds amounting to € 2,3bn are pledged by MUFG Bank to MBE as one of the measures to keep the exposure to MUFG Bank below the legal lending limit. € 1,9bn (2016: € 1,8bn) was used as Credit Risk Mitigation to reduce our total risk exposure amount (TREA) and to keep our exposure to MUFG Bank under the legal lending limit.

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 March 2018			31 December 2016		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives used as fair value hedge						
Interest rate swaps	0	109	5.391	0	1.314	59.821
	0	109	5.391	0	1.314	59.821
Derivatives held for trading						
Forward foreign exchange contract	23.629	22.593	1.406.475	44.364	45.196	1.670.339
Interest rate swaps	0	684	42.000	0	1.418	42.000
Currency swaps	153	144	39.870	2.559	257	165.195
Cross currency interest rate swaps	0	88	1.475	0	19	2.224
	23.782	23.509	1.489.820	46.923	46.890	1.879.758
Derivative financial instruments	**23.782**	**23.618**	**1.495.211**	**46.923**	**48.204**	**1.939.579**

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 March 2018, MBE recognised a net loss of € 109 (2016: loss of € 1.314) on the hedging instruments. The total net gain on hedged items attributable to the hedged risks amounted to € 102 (2016: € 1.387).

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 March 2018	31 December 2016
Corporate term loans	4.413.180	4.060.159
Corporate current accounts	1.805.374	1.466.543
Bills of exchange	422.495	362.472
Personnel loans	166	263
	6.641.215	5.889.437
Allowance for impairment losses	(2.285)	(2.981)
Loans and advances to customers by class	**6.638.930**	**5.886.456**

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 March 2018	31 December 2016
Guarantees received from MUFG Bank	318.950	191.408
Pledged deposits received from MUFG Bank	2.185.927	2.072.829
Pledged deposits received from companies	0	162.913
Pooling accounts of clients	1.614.189	1.139.707
Unsecured	2.522.149	2.322.580
	6.641.215	5.889.437
Allowance for impairment losses	(2.285)	(2.981)
Loans and advances to customers by collateral type	**6.638.930**	**5.886.456**

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	31 March 2018	31 December 2016
As at 1 January 2017/2016	**(2.981)**	**(2.688)**
New impairment allowances	0	(945)
Reversal of impairment allowances	696	652
Amounts written off	0	0
Net impairment (allowances) reversals	696	(293)
As at 31 March 2018/31 December 2016	**(2.285)**	**(2.981)**

	31 March 2018	31 December 2016
Individual impairment	(37)	(112)
Collective impairment	(2.248)	(2.869)
As at 31 March 2018/31 December 2016	**(2.285)**	**(2.981)**

Yearly review of provision ratios resulted in lower ratios and release of provision in the 15 month period ending on 31 March 2018.

There was no gross amount of unsecured assets individually determined to be impaired (2016: € 7.700).

5. Financial instruments available-for-sale

In 2016 the available-for-sale portfolio comprised of debt securities, which were 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 were pledged to secure any borrowings under the Credit Facility Agreement with De Nederlandsche Bank NV (DNB), the Dutch central bank. MBE did not replace their redeemed Dutch Government Bonds and European Investment Bank Floating Rate Notes due to unfavourable market conditions (e.g. yield, volatility etc). The foreign government bonds consist of Polish bonds, which are pledged for liquidity purposes to the respective Central Bank to secure any borrowings. The Polish bonds will mature on 6 April 2018.

	31 March 2018	31 December 2016
Quoted investments pledged as collateral		
Dutch Government Bonds	0	101.236
European Investment Bank	0	60.013
Foreign Government Bonds	35.612	90.670
Financial instruments available for sale	**35.612**	**251.919**

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

	31 March 2018	31 December 2016
As at 1 January 2017/2016	251.919	316.240
Additions	35.612	90.671
Disposals and redemptions	(251.919)	(154.412)
Changes in unrealised revaluations	0	(580)
Changes in financial instruments available for sale	**35.612**	**251.919**

6. Property and equipment

Property & Equipment	31 March 2018			31 December 2016		
	Operations equipment	Leasehold improve - ments	Total	Operations equipment	Leasehold improve - ments	Total
As at 1 January 2017/2016	**659**	**184**	**843**	**824**	**183**	**1.008**
Additions	1.154	2.797	3.951	316	81	396
Disposals	(0)	(3)	(3)	0	0	0
Depreciation	(649)	(290)	(939)	(478)	(78)	(556)
Exchange adjustments	3	3	6	(3)	(2)	(5)
Property & Equipment	**1.167**	**2.691**	**3.858**	**659**	**184**	**843**
Accumulated cost	5.273	4.136	9.409	4.117	1.341	5.458
Accumulated depreciation	(4.106)	(1.445)	(5.551)	(3.458)	(1.157)	(4.615)
Property & Equipment	**1.167**	**2.691**	**3.858**	**659**	**184**	**843**

7. Intangible assets

Intangible assets - computer software & licences	31 March 2018	31 December 2016
At 1 January 2017/2016	**3.906**	**2.752**
Additions	2.479	3.326
Disposals	0	0
Amortisation	(1.913)	(2.170)
Reclassifications	0	0
Under development	3.049	0
Impairment (loss)	(403)	0
Exchange adjustments	4	(2)
At 31 March 2018/31 December 2016	**7.122**	**3.906**
Accumulated cost	18.761	13.632
Accumutaled amortisation	(11.639)	(9.726)
At 31 March 2018/31 December 2016	**7.122**	**3.906**

MBE identified one impaired intangible asset, which resulted in an impairment loss of € 403 (2016: 0). No further events or circumstances were identified, which would indicate that other intangible assets may be impaired. The remaining amortisation period varies between 1 to 5 years.

8. Other assets

	31 March 2018	31 December 2016
Accrued interest	9.736	9.393
Prepayments	8.093	1.990
Other assets	**17.829**	**11.383**

Prepayments increased to € 8.093 (2016: € 1.990), which was mainly caused by prepaid pension premium and refundable expenses by MUFG Bank London branch.

9. Due to banks

This item comprises debts to credit institutions and central banks.

	31 March 2018	31 December 2016
Nostro accounts	175	0
Term deposits	9.325.770	2.573.392
Due to banks	**9.325.945**	**2.573.392**

MBE provides commercial loans to clients which in some cases exceed the maximum exposure of 25% of Tier 1 capital. All amounts higher than 25% of actual own funds are collateralised by MUFG Bank through pledge deposits. The term deposits from MUFG Bank, pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 2.185.927 (2016: € 2.072.829). The total amount owed to MUFG Bank, including pledged deposits, is € 9.325.770 (2016: € 2.573.392).

For liquidity management MUFG Bank provides a standby facility of USD 60 million. As at 31 March 2018 the standby facility is not used.

10. Due to customers

	31 March 2018	31 December 2016
Term deposits	710.685	1.119.709
Current accounts	5.115.389	4.307.833
Due to customers	**5.826.074**	**5.427.542**

Included in 'Due to customers' are deposits and/or current accounts of € 1.614.189 (2016: € 1.139.707), which are regarded as collateral (pooling accounts) for current account overdraft balances of clients. See Note 30 Risk management, item II Credit risk.

11. Subordinated debt

	31 March 2018	31 December 2016
Subordinated Loan	300.000	0
Subordinated debt	**300.000**	**0**

To strengthen the capital position of MBE for upcoming transfer of two branches (Germany and Spain/Portugal) from MUFG Bank to MBE per 1 April 2018, a subordinated loan was granted to MBE by MUFG Bank. The subordinated loan is part of the total capital amount of MBE as Tier 2 capital.

12. Other liabilities

	31 March 2018	31 December 2016
Financial Other liabilities		
Accrued interest/Unearned income	14.861	10.191
	14.861	**10.191**
Non-financial Other liabilities		
Amounts payable	30.025	16.631
Defined retirement benefit liability	6.814	6.939
	36.839	**23.570**
Other liabilities	**51.700**	**33.761**

Retirement benefit plan

The Defined Benefit Obligation pension plan for Amsterdam based national staff provides for an old age pension benefit that starts at age 67 and is payable until death. Per 01/01/2018 the pension age in the pension plan has changed to 68. 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 tables below only reflect the plan of Amsterdam. Other branches and subsidiaries do not have defined benefit pension plans.

The number of participants is 412 (2016: 381) of which 151 active (2016: 128), 167 vested terminations (2016: 164) and 94 beneficiaries (2016: 89).

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

	31 March 2018	31 December 2016
Current service cost	2.265	1.291
Interest cost on net benefit obligation	108	107
Immediate recognition of (gain)/loss arising during year	0	0
Administration expenses	365	157
Net benefit expense (recognised in personnel expenses)	**2.738**	**1.555**
Actual return/(deficit) on plan assets	**1.482**	**4.654**

(b) Retirement benefit liability

	31 March 2018	31 December 2016
Present value of defined benefit obligation	49.997	47.207
Fair value of plan assets	(43.183)	(40.291)
Retirement benefit liability / (asset)	**6.814**	**6.916**

The retirement benefit liability is recorded under 'Other liabilities'. MBEs expects a net benefit expense of €2.738 in 2018. The contribution by MBE to the retirement benefit plan is expected to be €2.790 (2017: €1.802) in 2018.

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

	31 March 2018	31 December 2016
Opening defined benefit obligation	47.207	40.620
Current service cost	2.420	1.290
Interest cost	1.059	963
Contributions by employees	216	108
Benefits paid	(1.402)	(1.011)
Actuarial losses on obligations	521	5.237
Past Service Costs	(24)	0
Closing defined benefit obligation	**49.997**	**47.207**

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

	31 March 2018	31 December 2016
Opening fair value of plan assets	(40.291)	(34.946)
Contributions by employer	(2.986)	(1.750)
Contributions by employees	(216)	(108)
Benefits paid	1.402	1.011
Actual Expenses, Taxes and Premiums Paid	389	157
Interest Income on Plan Assets	(936)	(856)
Return on Plan Assets excl. amounts incl. in interest income	(545)	(3.799)
Closing fair value of plan assets	**(43.183)**	**(40.291)**

(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 March 2018	31 December 2016
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 March 2018	31 December 2016
Discount rate	1,75%	1,80%
Expected long-term rate of return on assets	1,90%	1,80%
Expected rate of salary increases	3,00%	3,00%
Expected rate of pension increases current participants	0,22%	0,25%
Exp. rate of pension increases former participants (indexation)	0,22%	0,25%
Expected rate of price increases	1,80%	2,10%

The life table used for both periods for calculation is projection table AG 2016, which is produced by the Royal Dutch Actuarial Association (Koninklijk Actuarieel Genootschap or AG).

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of MBE at 31 March 2018. 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 March 2018	31 December 2016
Present value of defined benefit obligation	49.997	47.207
Plan assets	(43.183)	(40.291)
Deficit/(surplus)	**6.814**	**6.916**

	31 March 2018	31 December 2016
DBO (Gain)/Loss due to changes in Demographic Assumptions	(261)	129
DBO (Gain)/Loss due to changes in Financial Assumptions	241	4.553
DBO (Gain)/Loss due to Experience	541	555
Return on plans assets excl. amounts incl. in interest income	(545)	(3.799)
Recognised in Other Comprehensive (Income)/Loss	**(24)**	**1.438**

(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. The sensitivity analysis calculates the financial impact on the defined benefit obligation if the discount rate would increase or decrease and all other assumptions were held constant. In practice the discount rate is seen as the assumption which would have the most significant impact on the defined benefit obligation.

Discount rate sensitivity information	Adjusted Assumption	DBO as per 31 March 2018	DBO as per 31 December 2016
Discount rate	1,75%	49.997	47.207
Discount rate +0.5%	2,25%	45.365	42.895
Discount rate -0.5%	1,25%	55.367	52.197

13. Issued capital and reserves

The authorised capital amounts to € 136.200 (2016: € 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 MUFG Bank. Issued and fully-paid capital remained nearly unchanged to prior year and amounts to € 100.001 (2016: € 100.001). Shares issued are fully held by MUFG Bank, which is a fully-owned subsidiary of MUFG Inc.

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

Changes in share premium

In order to achieve the on boarding of the German, Spanish and Portuguese offices as per 1 April 2018, MBE required a capital injection and received €625m of share premium from their shareholder in March 2018. Changes in Share premium, if any, are disclosed in the 'Consolidated statement of changes in equity'.

	31 March 2018	31 December 2016
As at 1 January 2017/2016	81.696	50.875
Addition Share Premium	625.000	30.821
Share Premium	**706.696**	**81.696**

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 pension reserve

Changes in pension reserve 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 the shareholder in as far as its paid-up capital and retained earnings are larger than the paid-up and called-up part of the capital increased by the reserves which have to be maintained by law or under MBE's articles of association.
By virtue of a resolution of the general meeting of the shareholder MBE may acquire fully paid-up shares in the 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 period ending 31 March 2018 (2016: € 0).

14. Interest income

	31 March 2018	31 December 2016
Cash and balances with central banks	236	164
Due from banks	5.597	4.495
Loans and advances to customers	100.317	61.106
Available for-sale investments	1.102	1.130
Interest rate swaps	2.395	1.917
Other interest income	85	89
Interest income	**109.732**	**68.901**

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

15. Interest expense

	31 March 2018	31 December 2016
Due to banks		
- Central Bank	1.703	1.453
- Nostro account	71	23
- Deposits	55.670	30.049
Total Due to banks	**57.444**	**31.525**
Due to customer	13.137	7.234
Interest rate swaps	4.137	6.197
Other interest expense	39	84
Interest expense	**74.757**	**45.040**

16. Commission income

	31 March 2018	31 December 2016
Commission on funds transfer and letters of credit	4.383	3.211
Commission on guarantees	2.124	1.303
Brokerage and advisory fees	896	393
Commission on corporate management services	4.715	2.952
Other commission income	679	1.082
Commission income	**12.797**	**8.941**

17. Commission expense

	31 March 2018	31 December 2016
Commission on (credit replacing) guarantees	3.794	1.361
Commission on funds transfer and letters of credit	685	608
Commission on corporate management services	4.160	2.579
Other commission expenses	1.937	1.092
Commission expense	**10.576**	**5.640**

18. Other Operating Income

	31 March 2018	31 December 2016
Other Operating Income Profit or Loss, net	**611**	**30**

19. Result on financial transactions

	31 March 2018	31 December 2016
Result on financial transactions	**25.184**	**19.622**

This item includes the foreign currency results of MBE amounting € 26.215 (2016: € 18.520). As explained in the risk management paragraph (see note 30) MBE's policy is to eliminate currency risks on financial assets and liabilities.

20. Credit loss income (expense)

	31 March 2018	31 December 2016
Collective impairment	620	(880)
Individual impairment	76	587
Loan and advances to customer	**696**	**(293)**

Lower provision ratios resulted in release of provision in the 15 month period ending on 31st March 2018.

21A. Personnel expenses

	31 March 2018	31 December 2016
Wages and salaries	26.097	17.028
Social securities costs	2.974	1.709
Pension costs	2.908	1.602
Other staff costs	8.135	3.957
Personnel expenses	**40.114**	**24.296**

The average total number of employees in 2017-2018Q1 is 255 (2016: 225), of which 194 (2016: 177) are employed in the Netherlands. Other staff costs include mainly the costs related to contracted employees and/or agency employees.

21B. Other operating expenses

	31 March 2018	31 December 2016
Occupancy expenses	2.479	1.974
Office expenses	9.416	6.622
Professional fees	3.607	1.896
Business promotion expenses	3.122	2.208
VAT and sundry taxes	9.006	4.201
Other operating expenses	**27.630**	**16.901**

Occupancy expenses merely relate to office rent. Office expenses relate to IT services, professional fees and regulatory supervision expenses and other office expenses. Mostly due to move to another office in 2017, the office expenses are higher than in 2016. The contribution to the National Resolution Fund is booked under sundry taxes. The contribution came to € 3.026 in 2017 (2016: € 2.474) in cash and € 534 as irrevocable payment commitment. Next to the contribution for 2017 a reservation was made for the 2018 contribution of € 701.

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:

	31 March 2018			31 December 2016		
	Netherlands	Other offices	Total	Netherlands	Other offices	Total
Audit of financial statements	543	276	819	347	188	535
Other assurance services	333	79	412	85	66	151
Fees charged by external auditor	**876**	**355**	**1.231**	**432**	**254**	**686**

This summary reflects fees charged by MBE's external auditors in the Netherlands, Poland, Austria, United Kingdom, Belgium and in the Czech Republic in respect of audit services and other assurance services provided by MBE's external auditors. No audit fees were paid for Tax Advisory and Non-audit services. Fees in the column of the Netherlands amounting to € 876 (2016: € 432) are related to Deloitte Accountants B.V.

22. INCOME TAX EXPENSE

Income tax

The components of income tax expense for the years ended 31 March 2018 and 31 December 2016 are:

	31 March 2018	31 December 2016
Current tax		
Current income tax	1.736	(1.631)
Adjustment of current income tax of prior years	(5)	14
Dutch tax exemption Vienna and Prague branch	0	84
Deferred tax		
Movement in pension obligation	0	0
Income tax	**1.731**	**(1.533)**

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

	31 March 2018	31 December 2016
Accounting profit before tax	7.312	(2.598)
Statutory tax rate of the Bank (25%)	1.828	(649)
Adjustments for movements in pension	19	49
Tax translation results foreign subsidiaries	0	(1.250)
Effect of different tax rates in other countries	(131)	5
Effect of tax-exempt income in the Netherlands	0	84
Tax adjustments previous years	(5)	14
Others	20	214
Income tax (expense) reported	**1.731**	**(1.533)**

The effective income tax rate is 23,3% for the period ended 31 March 2018 (2016: 59,0%). Others mainly consists of the tax on the Exchange rate difference on related foreign currencies.

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

	31 March 2018	31 December 2016
Net gain (loss) on financial investments available-for-sale	108	145
Deferred tax (charged)/credited to equity	**108**	**145**

Current tax

The current tax recorded on the balance sheet 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 balance sheet in 'Deferred tax asset' and 'Deferred tax liabilities' and changes recorded in the income tax expense:

	31 March 2018			31 December 2016		
	Asset	Liability	Consolidated statement of profit or loss	Asset	Liability	Consolidated statement of profit or loss
Pensions	2.114	0	0	1.729	0	0
Revaluation of financial instruments available-for-sale	393	0	0	414	(108)	0
Tax loss carry forward	2.935	0	0			
Other temporary differences	1	(150)	0	0	0	0
Deferred tax	**5.443**	**(150)**	**0**	**2.143**	**(108)**	**0**

23. Components of comprehensive income

	31 March 2018			31 December 2016		
	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	25	(6)	19	(1.438)	359	(1.079)
Exchange difference on translating foreign operations	(141)	0	(141)	(1.102)	0	(1.102)
Financial instruments available-for-sale	(432)	108	(324)	(580)	145	(435)
Components of comprehensive income	**(548)**	**102**	**(446)**	**(3.120)**	**504**	**(2.616)**

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

	31 March 2018			31 December 2016		
	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	0	0
Foreign exchange forward contracts	0	23.629	23.629	0	44.364	44.364
Foreign exchange swap contracts	0	153	153	0	2.559	2.559
	0	23.782	23.782	0	46.923	46.923
Financial instruments available-for-sale:						
Government debt securities	35.612	0	35.612	251.919	0	251.919
	35.612	0	35.612	251.919	0	251.919
Financial assets	**35.612**	**23.782**	**59.394**	**251.919**	**46.923**	**298.842**

	31 March 2018			31 December 2016		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Derivative financial instruments:						
Interest rate swaps	0	793	793	0	2.732	2.732
Cross currency interest rate swaps	0	88	88	0	19	19
Foreign exchange forward contracts	0	22.593	22.593	0	45.196	45.196
Foreign exchange swap contracts	0	144	144	0	257	257
Financial liabilities	**0**	**23.618**	**23.618**	**0**	**48.204**	**48.204**

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. There have been no transfer of financial instruments between levels.

Fair value of financial instruments - assets	31 March 2018				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Cash balances with central banks	7.934.960	7.934.962	7.934.962	0	0
	7.934.960	7.934.962	7.934.962	0	0
Due from banks					
Placements with banks - on demand	760.937	760.786	760.786	0	0
Placements with banks - term deposits	1.322.278	1.323.192	0	0	1.323.192
Loans and advances to banks	489	490	0	0	490
	2.083.704	2.084.468	760.786	0	1.323.682
Loans and advances to customers					
Corporate current accounts	1.805.374	1.805.374	1.805.374	0	0
Corporate term loans	4.413.180	4.432.063	0	0	4.432.063
Bills of exchange	422.495	423.498	0	0	423.498
Private sector loans	166	166	0	0	166
	6.641.215	6.661.101	1.805.374	0	4.855.727
Other financial assets	9.736	9.736	0	0	9.736
	9.736	9.736	0	0	9.736
Financial assets	**16.669.615**	**16.690.267**	**10.501.122**	**0**	**6.189.145**

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**

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.

Fair value of financial instruments - liabilities	31 March 2018				
	Carrying amount	Total fair value	Level 1	Level 2	Level 3
Due to banks	9.325.945	9.330.515	0	0	9.330.515
Due to customers	5.826.074	5.827.940	0	0	5.827.940
Other financial liabilities	14.861	14.861	0	0	14.861
Financial liabilities	**15.166.880**	**15.173.316**	**0**	**0**	**15.173.316**

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**

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.

25. 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 30 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 March 2018			31 December 2016		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Assets						
Cash and balances with central banks	7.934.960	0	7.934.960	609.642	0	609.642
Due from banks	2.072.688	11.016	2.083.704	1.636.495	238.672	1.875.167
Derivative financial instruments	23.782	0	23.782	46.923	0	46.923
Loans and advances to customers	4.151.749	2.487.181	6.638.930	3.326.959	2.559.497	5.886.456
Financial instruments available-for-sale	35.612	0	35.612	90.671	161.248	251.919
Property and equipment	0	3.858	3.858	0	843	843
Intangible assets	0	7.122	7.122	0	3.906	3.906
Current tax asset	11.193	0	11.193	10.698	0	10.698
Deffered tax asset	0	5.444	5.444	0	2.143	2.143
Other assets	17.829	0	17.829	11.383	0	11.383
Total assets	**14.247.813**	**2.514.621**	**16.762.434**	**5.732.771**	**2.966.309**	**8.699.080**
Liabilities						
Due to banks	7.943.944	1.682.001	9.625.945	1.957.788	615.604	2.573.392
Derivative financial instruments	23.618	0	23.618	48.204	0	48.204
Due to customers	5.825.974	100	5.826.074	5.410.909	16.633	5.427.542
Current tax liabilities	121	0	121	220	0	220
Deffered tax liabilities	0	150	150	0	108	108
Other financial liabilities	44.886	6.814	51.700	33.761	0	33.761
Total liabilities	**13.838.543**	**1.689.065**	**15.527.608**	**7.450.882**	**632.345**	**8.083.227**
Net	**409.270**	**825.556**	**1.234.826**	**(1.718.111)**	**2.333.964**	**615.853**

26. 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 balance sheet, they do contain credit risk.

	31 March 2018	31 December 2016
Letters of credit	2.610	3.567
Financial guarantees	586.088	442.512
Undrawn commitments to lend	2.048.794	2.985.747
Contingent liabilities and commitments	**2.637.492**	**3.431.826**

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

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

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:

	31 March 2018	31 December 2016
Within one year	1.308	1.616
After one year but not more than 5 years	5.076	4.788
More than 5 years	0	0
Operating lease commitments	**6.384**	**6.404**

27. RELATED PARTY DISCLOSURES

(1) Transactions with key management

Loans to members of the management board amount to € 13 (2016: € 67). The loans are granted at MBE's standard terms of staff loans. Interest of staff loans it set at 3% per annum to be paid monthly. Amount is capped at 1,2 times monthly salary in case of service up to one year to be repaid in one year by equal monthly instalments or 3,6 times monthly salary in case of service excess of one year to be repaid in 3 years by equal monthly instalments. No other transactions or arrangements have been entered into with key management.

(2) Transactions with other related parties

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

	31 March 2018	31 December 2016
Due from banks	1.951.523	1.773.264
Derivative financial instruments	69	31.720
Other assets	604	838
Assets	1.952.196	1.805.822
Due to banks	9.325.770	2.573.392
Due to customers	63	125
Subordinated debt	300.000	0
Derivative financial instruments	114	14.727
Other liabilities	7	211
Liabilities	9.625.954	2.588.455
Interest income	4.931	3.875
Interest expense	36.028	16.361
Net interest	(31.097)	(12.486)
Commission income	766	81
Commission expense	6.833	2.074
Net commission	(6.067)	(1.993)
Administrative expenses	2.622	2.889
Commitments and contingents	38.358	59.663

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 MUFG Bank (see note 4). Please also refer to note 4 for cash collateral received from MUFG Bank for loans and advances to our clients. Administrative expenses relate to IT services provided by 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 amounts to € 50 (2016: € 104.045). The market value of the outstanding swap contracts amounts to (€ 881) (2016: (€ 2.713)).

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. Commercial rates vary in between 5,0% and 0,01%. Outstanding balances at the year-end are unsecured. For the 15 months period ending 31 March 2018 MBE has not made any provision for doubtful debts relating to amounts owed by related parties (2016: nil).

28. 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 Management Board of the Bank.

For details on the Bank's Remuneration Policy and processes, please see the above Remuneration Policy section.

Remuneration period ending March 2018 (15 months)

The total remuneration of the Supervisory Board for the period amounts to € 120 (2016: € 94).

The base salary of the Management Board in for the period amounts to € 1.977 (2016: € 839). The base salary for the other Identified Staff is € 3.971 (17 employees) (2016: € 1.335 - 10 employees). Total variable remuneration of the Management Board and other Identified Staff for the period amounted to € 590 (2016: € 438). The amount of outstanding deferred remuneration (unvested) for Identified Staff amounted to € 233 (2016: € 39).

Benefits

The local members of the Management Board participated in the MBE non-discretionary pension scheme in 2017. The pensionable salary is based on the Annual Base Salary, and the main portion of the pension contribution is paid by the Bank. Pensionable salary that exceeds the maximum allowed by the pension act (for 2017 € 103.317) is compensated by a cash pension allowance.

Pension plan contributions for the Management Board (2 local members) amounted to € 69 (2016: € 41). This includes the employee contribution towards the pension premium which was 2% in 2017/2018.

Management Board members are also eligible to receive additional benefits, such as the use of a company car or car/travel allowance.

Management Board performance period ending March 2018 (15 months)

The Supervisory Board assessed the Management Board members' performance against the MBE financial and non-financial performance targets taking into account the Bank's long-term objectives, the performance of the Bank 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.

29. 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 (neither in 2016). There are no instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future.

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.

	31 March 2018	31 December 2016
Net profit attributable to ordinary equity holders of the parent	(5.581)	1.065
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 euro)*		
Basic earnings per ordinary share	(25,34)	4,83
Diluted earnings per share	(25,34)	4,83

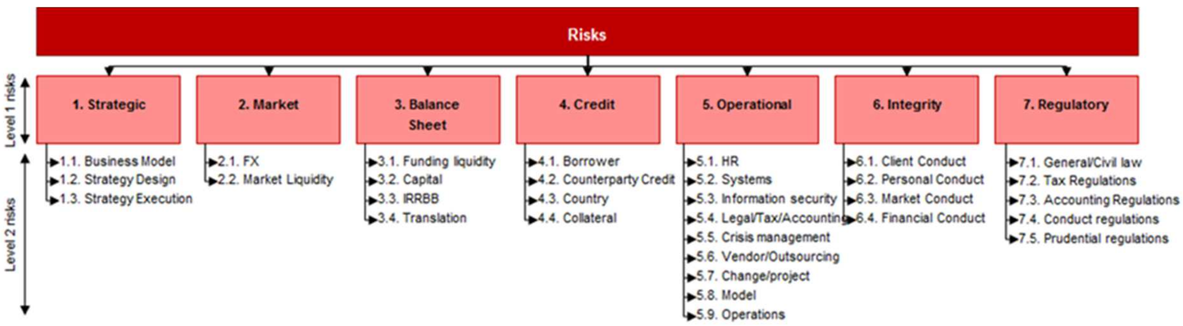
30. Risk Management

(I) Risk management framework

Risk profile

MBE targets a healthy and well diversified capital and liquidity position that supports its strategy and its long-term rating ambition. As a wholesale bank within the wider Mitsubishi UFJ Financial Group offering wholesale products to corporate clients throughout Continental Europe, MBE is mainly exposed to credit and market risk. Given the current strategy of consolidation of business in mainland Europe, MBE strives to limit its risks to the level that capital and liquidity metrics are in line with its low to moderate risk appetite for credit and market risk and risk aversion towards other risks.

MBE is exposed to key risks including 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, capital adequacy, compliance and legal risk.



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

Risk Management approach

Within the integrated risk management policy and systems provided by the parent bank, MUFG Bank 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 is the amount of risk that MBE is willing and able to accept in pursuit of its strategic objectives as expressed in the Medium Term Business Plan (MTBP). 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).

MBE operates under the following overall Risk Appetite:

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

Three lines of defence

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

1 1st Line of Defence Business	2 **2nd Line of Defence** **Risk Control functions**	3 3rd Line of Defence Audit
Responsible for ➢ Risk taking and owning the risk ➢ Transaction execution ➢ Acting in accordance with policies ➢ Effectiveness of risk control	Responsible for ➢ Setting frameworks, rules and advice ➢ Approval for risk intake ➢ Monitoring and reporting ➢ Evaluation of risk control in 1sth line	Responsible for ➢ Evaluation of effectiveness of risk governance, risk management and risk control ➢ Coordination with external auditor and main regulators

Through clear articulation of roles and responsibilities across the Bank, the model fosters a robust system of management that ensures sufficient level of active challenge and independent reviews.

1st Line of Defence

The first line of defence consists of the front offices (FO) and the business support areas, which own the procedures and controls and are responsible for the design and ongoing effectiveness of their controls. They own the risks originating from their processes, people and systems and interaction with external parties. They are responsible to secure compliance on a day-to-day basis with MBE's Risk Management Framework to ensure that risks are identified, mitigated and managed appropriately in line with the Risk Appetite.

2nd Line of Defence

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

CMD: The Credit Management Division (CMD) is responsible for ensuring adherence to the credit risk management framework and to this end it owns the MBE credit risk management policy. In addition to performing administrative, monitoring, reporting and credit analysis tasks CMD provides policy guidance, training and support to MBE branches.

Compliance Division: The Compliance Division is responsible for compliance oversight, support and monitoring of compliance risk management which also includes challenging first line activities. Reports on compliance risk are submitted to the Compliance Committee and Risk Management Committee. The compliance function reports to the CRO and has an independent escalation line to the supervisory board.

RPO: The Regulatory Program Office (RPO) has a coordinating role in preparing regulatory submissions and visits/examinations of regulators, monitors regulatory and external developments and provides advice and training in this area.

3rd Line of Defence

IA: Internal Audit (IA) function provides the 'third line' independent assurance to local senior management and the management board on the adequacy and effectiveness of the existing Risk Management Framework and related practices. It is also responsible for providing an independent assessment of the key risks the Bank is facing and the status of the control environment.

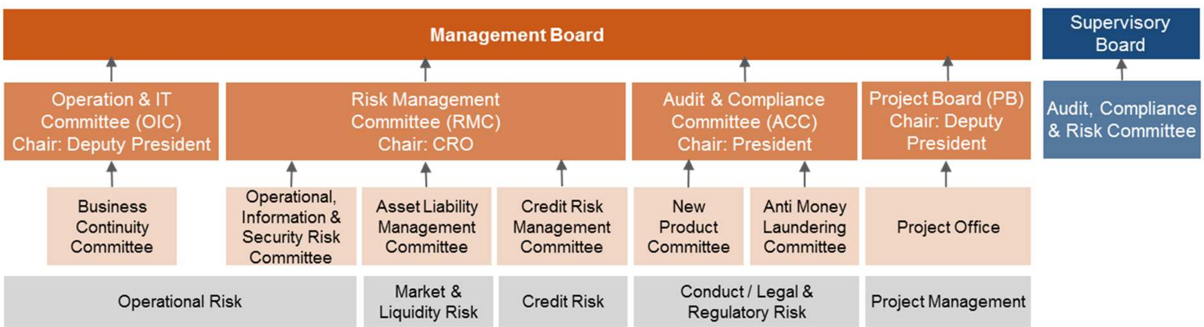
The internal audit function reports directly to the chairman of the management board and via the Audit, Compliance and Risk committee to the supervisory board.

4th Line of Defence

MBE considers that 'fourth line' of defence exists consisting of the Audit Compliance and Risk Committee, the Supervisory Board, the regulators and our external auditors. These bodies provide an oversight of MBE activities

Risk committees

The management board is ultimately responsible for risk management, supported by several risk committees. Below the committee structures of MUFG Bank (Europe) per 31 March 2018.



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);
3. Operation & IT Committee (OIC);
4. Compliance Committee (CC);
5. Project Management Committee;

Encompassing the following dedicated committees:

6. Asset & Liability Management Committee (ALMC);

7. Operational, Information & Security Risk Committee (OISRC);
8. Credit Risk Management Committee (CRMC);
9. New Product Committee (NPC);
10. Anti-Money Laundering Committee (AMLC);
11. Business Continuity Committee (BCC);

(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 MUFG Bank 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 MUFG Bank 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 March 2018 Financial assets	Oil & gas	Banks	Non-Bank Financial Institutions	Capital goods	Auto-motive	Govern-ment	Tech-nology	Transport & Logistics	Chemi-cals	Services	Others	Total
Cash and balances with central banks	0	7.934.960	0	0	0	0	0	0	0	0	0	7.934.960
	0	7.934.960	0	0	0	0	0	0	0	0	0	7.934.960
Placements with banks on demand	0	760.937	0	0	0	0	0	0	0	0	0	760.937
Fund placements	0	1.322.278	0	0	0	0	0	0	0	0	0	1.322.278
Loans and advances	0	489	0	0	0	0	0	0	0	0	0	489
	0	2.083.704	0	0	0	0	0	0	0	0	0	2.083.704
Derivative financial instruments	0	23.782	0	0	0	0	0	0	0	0	0	23.782
Loans and advances to customers	470.636	0	0	1.232.344	1.220.165	0	193.320	963.333	429.911	275.217	1.854.004	6.638.930
Financial instruments available-for-sale	0	0	0	0	0	35.612	0	0	0	0	0	35.612
Other assets	0	72	0	108	677		0	0	0	0	8.879	9.736
	470.636	**10.042.518**	**0**	**1.232.452**	**1.220.842**	**35.612**	**193.320**	**963.333**	**429.911**	**275.217**	**1.862.883**	**16.726.724**

31 December 2016 Financial assets	Oil & gas	Banks	Non-Bank Financial Institutions	Capital goods	Auto-motive	Govern-ment	Tech-nology	Transport & Logistics	Chemi-cals	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
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**

Risk concentration: by geographical area

31 March 2018 Financial assets	Netherlands	Other EU	Russia	USA	Switzerland	Japan	Others	Total
Cash and balances with central banks	7.497.923	437.037	0	0	0	0	0	7.934.960
	7.497.923	437.037	0	0	0	0	0	7.934.960
Due from banks								
Placements with banks - on demand	920	751.877	2	6.560	1.578	0	0	760.937
Placements with banks - term deposits	0	1.271.902	42.686	0	0	0	7.690	1.322.278
Loans and advances	0	0	0	0	0	0	489	489
	920	2.023.779	42.688	6.560	1.578	0	8.179	2.083.704
Derivative financial instruments	23.449	334	0	0	0	0	0	23.783
Loans and advances to customers	3.635.956	2.595.383	118.950	0	95.210	193.431	0	6.638.930
Financial instruments available-for-sale	0	35.612	0	0	0	0	0	35.612
Other assets	8.671	330	0	0	0	0	735	9.736
	11.166.919	**5.092.475**	**161.638**	**6.560**	**96.788**	**193.431**	**8.914**	**16.726.725**

31 december 2016 Financial assets	Netherlands	Other EU	Russia	USA	Switzerland	Japan	Others	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**

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

31 March 2018 Financial assets	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	7.934.960	0	0	0	0	0	7.934.960
Due from banks	2.083.704	0	0	0	0	0	2.083.704
Derivative financial assets	23.782	0	0	0	0	0	23.782
Loans and advances to customers	6.469.206	169.724	0	0	0	0	6.638.930
	16.511.652	169.724	0	0	0	0	16.681.376
Financial instruments available-for-sale	35.612	0	0	0	0	0	35.612
Other assets	9.736	0	0	0	0	0	9.736
Total	**16.557.000**	**169.724**	**0**	**0**	**0**	**0**	**16.726.724**

31 December 2016 Financial assets	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
	8.490.307	**181.493**	**0**	**0**	**0**	**7.700**	**8.679.500**

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 MUFG Bank) rating policy and procedures. The following table provides detailed information on the credit risk for each internal credit risk rating.

	S&P Rating	31 March 2018	31 December 2016
Normal			
1	AAA ~ AA-	8.336.538	862.506
2	A+ ~ A-	2.972.056	2.874.888
3	BBB+ ~ BBB-	2.103.805	1.534.720
4	BB+	1.337.627	1.059.203
5-1	BB	510.138	691.273
5-2	BB-	152.394	99.885
6-1	B+	294.079	280.838
6-2	B	77.865	161.755
7	B-	772.499	925.239
Total 1-7		**16.557.001**	**8.490.307**
Close watch			
8-1	CCC+ ~	2.001	157.927
8-2	CCC+ ~	167.723	31.266
8-3	CCC+ ~	0	0
Total 8		**169.724**	**189.193**
Likely to become bankrupt			
9	CCC+ ~	0	0
Total 9		**0**	**0**
Bankrupt or virtually bankrupt			
10-1	CCC+ ~	0	0
10-2	CCC+ ~	0	0
Total 10		**0**	**0**
Total outstanding balance by risk class		**16.726.725**	**8.679.500**

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 15 month period, MBE took no possession of any collateral at balance sheet data (neither in 2016).

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

At balance sheet date the carrying amount of renegotiated financial assets, by class is € 0 (2016: 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 of incurring losses if a poor financial position hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal. Liquidity risk is managed in compliance with the MUFG Banks 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 and execution of periodical stress tests are performed by Risk Management Division.

Diversification of funding sources

MBE maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. MBE's main funding source comprises its core deposit base as evidenced by a loan to deposit ratio of 82,4% as at 31 March 2018.

Additional funding is available from one of MUFG Bank 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 MUFG Bank 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. MUFG Bank has set 3 main liquidity stages, being normal, concern and crisis with according actions to which MBE has to adhere to. The Normal stage is further subdivided into 3 sub-stages: ordinary, pre-caution and caution.

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

As local funding contingency MBE maintains sufficient liquidity and funding buffers allowing to report the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) well above the regulatory required minimum during 2017.

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 March 2018. 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

Maturity analysis of assets and liabilities	31 March 2018					
	On demand	0-3 months	03-12 months	1-5 years	> 5 years	Total
Assets						
Cash and balances with central banks	7.934.960	0	0	0	0	7.934.960
Due from banks	696.740	1.356.269	19.679	8.216	2.800	2.083.704
Derivative financial instruments	23.782	0	0	0	0	23.782
Loans and advances to customers	1.788.191	1.495.040	868.518	1.736.965	750.216	6.638.930
Financial instruments available-for-sale	35.612	0	0	0	0	35.612
Other assets	9.736	0	0	0	0	9.736
Total assets	**10.489.021**	**2.851.309**	**888.197**	**1.745.181**	**753.016**	**16.726.724**
Liabilities						
Due to banks	175	7.435.829	507.940	1.079.389	602.612	9.625.945
Derivative financial instruments	23.618	0	0	0	0	23.618
Due to customers	5.116.650	685.988	23.336	100	0	5.826.074
Other financial liabilities	44.886	0	0	0	6.814	51.700
Total liabilities	**5.185.329**	**8.121.817**	**531.276**	**1.079.489**	**609.426**	**15.527.337**
Net	**5.303.692**	**(5.270.508)**	**356.921**	**665.692**	**143.590**	**1.199.387**

	31 March 2018					
	On demand	0-3 months	03-12 months	1-5 years	> 5 years	Total
Gross settled derivatives						
Amounts receivable	49	1.051.061	411.463	277.945	0	1.740.518
Amount payable	(49)	(1.050.507)	(411.081)	(277.774)	0	(1.739.411)
Total gross settled derivatives	**0**	**554**	**382**	**171**	**0**	**1.107**
Coupon interest due on financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**

Maturity analysis of assets and liabilities	31 December 2016					
	On demand	0-3 months	03-12 months	1-5 years	> 5 years	Total
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
Total assets	**3.416.971**	**1.930.266**	**372.844**	**1.699.959**	**1.259.460**	**8.679.500**
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
Total liabilities	**4.366.363**	**2.407.160**	**653.568**	**126.782**	**505.456**	**8.059.329**
Net	**(949.392)**	**(476.894)**	**(280.724)**	**1.573.177**	**754.004**	**620.171**

	31 December 2016					
	On demand	0-3 months	03-12 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**

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 March 2018					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial guarantees	10.436	26.417	168.948	242.770	137.516	586.087
Letters of credit	49	1.453	1.108	0	0	2.610
Undrawn commitments to lend	76.249	211.022	137.520	1.617.867	6.137	2.048.795
Total guarantees & commitments	**86.734**	**238.892**	**307.576**	**1.860.637**	**143.653**	**2.637.492**

	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**

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

Pursuant to the bank's strategy it is the bank's policy to minimize market risks implying to refrain from proprietary trading and to minimize foreign exchange positions. Market transactions are limited to money market balance sheet funding operations, customer-driven foreign exchange cover transactions and bond investments, all deriving from and managed within the banking book. Consequently, no trading book is kept by MBE and MBE is not exposed to material price risk.
MBE's Bond investment Portfolio is composed of bonds and bills issued by Sovereigns and Supranationals with high credit ratings and low duration typically.

The size of the portfolio is limited to the Bank's capital and reserves and are pledged to secure any borrowings under credit facility agreements with the Dutch, Czech and Polish central banks.

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 the Bank does not keep overnight trading positions, except for small fictional limits.

The interest rate risk and marginal market risk in foreign currencies the Bank is exposed to, derive from the Bank's balance sheet and interest rate book.

The risks are mitigated by strict quantitative limits and stop-loss rules, to be reviewed semi-annually, and effective segregation between front, middle and back office responsibilities; the risks are tracked and controlled on an ongoing basis to ensure they are within predefined limits.

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

MBE is not active in securities 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 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/down-ward shift of the yield curve by 200 bps.

As of 31 March 2018, a gradual upward shift of 200 bps in the yield curve within a 2 years horizon impacts net interest negatively by € 116,3 million, equal to nearly 162,3% of the forecasted annual net interest. An instantaneous upward 200 bps parallel shift of the yield curve impacts equity negatively by € 55,3 million equal to approximately 77,15% of the total equity.

A gradual downward shift of 200 bps within a 2 years horizon impacts net interest negatively by € 55,3 million, equal to (77%) of the forecasted annual net interest. A sudden downward shift of the yield curve impacts equity negatively by € 1,8 million, equal to (0,1%) of the total equity.

Currency risk

Currency risk may arise from adverse movements in currency exchange rates. Currency risks arise primarily from funds borrowed or lent in foreign currency.

MBE is a so-called "Non-Limit-Granted Unit" which means that the bank keeps FX positions within relatively narrow limits (of $ 0,5 and 1,0 m resp. for FX spot and FX forwards). As a result the bank is not exposed to any material foreign currency risk.

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

	31 March 2018			31 December 2016		
Currency	**Total assets**	**Total liabilities**	**Position**	**Total assets**	**Total liabilities**	**Position**
EUR	11.270.402	(11.261.729)	8.673	4.023.232	(4.022.104)	1.128
PLN	795.668	(798.976)	(3.308)	656.897	(657.232)	(335)
USD	3.408.700	(3.410.993)	(2.293)	3.708.624	(3.708.631)	(7)

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 pre-payment risk.

(V) Operational risk

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

Based on the HO risk categorisation MBE has developed an operational risk categorisation with eight operational risk themes, which constitute the Operational Risk Catalogue. The catalogue may change as emerging or new risks are recognised.

- HR Risk - HR Risk is defined as "The risk of sustaining a loss due to a loss of human resources or degradation of morale".

- Systems Risk - Systems Risk is defined as "The risk of sustaining a loss or disruption to business operation, loss of key systems, data and infrastructure as a result inadequate security measures, technology and system inadequacy; and inability to recover from failures".

- Information Security Risk - Information Security Risk is defined as "Risk of loss to the Bank, and related risk, caused by information loss, unauthorised alteration, misuse, leakage, destruction, suspension, malfunction, misuse, and other events".

- Legal/Tax/Accounting Risk - Legal/Tax/Accounting Risk is defined as "The risk of sustaining a loss due to inadequate or deficient legal documentation and incorrect tax or financial reporting".

- Crisis Management Risk - Crisis Management Risk is defined as "Risk of unavailability of staff, systems and/or business premises due to unforeseen events (e.g. natural disaster, major infrastructure outage, terrorism) leading to inability to conduct business".

- Vendor Risk - Vendor Risk is defined as "Risk of loss to Bank due to failure of or incidents caused by outsourced providers and vendors".

- Project Risk - Project Risk is defined as "Risk arising as a result of project activity with impact on business processes, resources or systems, which may prevent the business from meeting objectives".

- Operations Risk - Operations Risk is defined as "Risk of incurring loss that might be caused by operational processing not being properly executed either through negligence or misconduct whether intentional or otherwise".

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

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

(VI) Compliance and integrity risk

MUFG has established Principles of Ethics and Conduct as the guidelines for how the Group's directors and employees act to realize the Corporate Vision, in which MUFG has expressed its commitment to complying with laws and regulations, to acting with honesty and integrity, and to behaving in a manner that supports and strengthens the trust and confidence of society.
MBE recognizes compliance and integrity as number one value as it is MUFG's mission to be the world's most trusted financial group. Compliance is therefore a high priority in the control systems of MBE.

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

In close consultation with the parent bank, the management board has paid attention to enhance an appropriate and effective compliance structure aiming at sound and appropriate business management and to maintain customer confidence. MUFG Bank group-wide Compliance Quality Improvement 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 the shareholder, return capital to the shareholder or issue capital securities. No changes have been made in the objectives, policies and processes from the previous years.

Capital available

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

Capital requirements	31 March 2018	31 December 2016
Common Equity Tier 1 capital		
Original Own funds:		
Issued capital	100.001	100.001
Share premium	706.696	81.696
Retained earnings	440.053	439.129
Result for the year	(5.581)	1.065
Common Equity Tier 2 capital		
Subordinated loan	300.000	0
Regulatory adjustments		
Revaluation reserve available for sale assets	(1)	323
IAS19R Pension adjustment	0	753
Other Intangible assets	(5.341)	(2.930)
Prudential filter	(84)	(345)
Defined benefit pension fund assets	0	0
Accumulated other comprehensive income	(6.342)	(6.424)
	1.529.401	613.268
Dividend proposed	0	0
Total capital after dividend proposed	**1.529.401**	**613.268**
Risk weighted assets	**4.300.253**	**3.771.521**

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

Solvency ratios	31 March 2018	31 December 2016
Tier 1 ratio	28,6%	16,3%
Capital ratio	35,6%	16,3%

As at 31 March 2018 MBE's total capital before proposed dividend amounted to € 1.529.401 (2016: € 613.268). The capital ratio increased from 16,3% in 2016 to 35,6% as per end of March 2018. The leverage ratio, comparing Tier 1 capital to total non-risk weighted exposure (€ 18.339.117), was 6,7%.

31. LIST OF SUBSIDIARIES

Name of the subsidiary	Country of incorporation	Place	% equity interest March 2018	% equity interest December 2016
MBE Poland Branch	Poland	Warsaw	0	100
MUFG Business Services (Holland) B.V.	The Netherlands	Amsterdam	100	100
MUFG Funding (UK) Limited	United Kingdom	London	100	100

The Polish subsidiary was fully integrated in May 2017 into a branch of MBE. Therefore the equity interest of MBE Poland Branch in the March 2018 column is 0%.

In 2018 the names of BTMU Trust (Holland) B.V. and BTMU (Europe) Limited were rebranded to respectively MUFG Business Services (Holland) B.V. and MUFG Funding (UK) Limited.

32. 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 the shareholder.'

The loss for the 15 months period ending 31 March 2018 amounts to € 5.581. The proposal to the General shareholder meeting to appropriate the loss is:

Appropriation of profit (loss)	
Transfer to reserves	**(5.581)**
Profit (loss) for the year	**(5.581)**

33. SUBSEQUENT EVENTS

On 1 April 2018 the German, Spanish and Portuguese offices of MUFG Bank limited became branches of MBE, including the German subsidiary of MUFG Europe Lease (Deutschland) GmbH. The new offices of MBE increase the balance sheet to € 18bn, being made up of € 11,2bn in loans and total CET1 Equity of € 1,9bn. Having the new offices on board positions MBE well within continental Europe as part of the MUFG group.

Mr. Bart IJssel de Schepper requested to step down from the Management Board effective 17 August 2018. The Management Board and Supervisory Board highly appreciates Mr. IJssel de Schepper's contribution to MUFG and have therefore asked him to remain at MBE until 1 March 2019 as an advisor to the Management Board. In this role, he will support the bank in a smooth transition of his tasks and responsibilities.

During November MBE identified a breach in its Large Exposure to its parent and informed the DNB. MBE is waiting for an official response from the DNB on this matter. MBE took immediate action to rectify the breach and has taken the necessary measures to prevent reoccurrence.

Authorisation of Consolidated Annual Accounts
Amsterdam, 28 November 2018

THE SUPERVISORY BOARD

M. van Nieuwkerk, chairman

....

K.W. Peacock, vice-chairman

....

W.F. Nagel

....

M. Osawa

....

THE MANAGEMENT BOARD

S. Tobari, chairman

....

K. Kuzuhara

....

M.F. Rosenberg

....

PARENT COMPANY FINANCIAL STATEMENTS 2018

Unless stated otherwise amounts in thousands of €s

PARENT COMPANY BALANCE SHEET AS AT 31 MARCH 2018

ASSETS	Notes	31 March 2018	31 December 2016
Intangible assets	F	7.122	3.824
Property and equipment	G	3.858	720
Investments in wholly owned subsidiaries	E	6.848	122.637
Interest bearing securities	D	0	161.248
Due from banks	B	11.016	237.539
Loans and advances to customers	C	2.487.181	2.327.268
Fixed Assets		**2.516.025**	**2.853.236**
Interest bearing securities	D	35.612	0
Cash and Balances with central banks	A	7.934.960	523.410
Due from banks	B	2.066.132	1.876.885
Loans and advances to customers	C	4.151.749	3.070.725
Current tax asset		11.193	9.785
Deferred tax asset		5.443	1.778
Other assets	H	41.266	57.092
Current Assets		**14.246.355**	**5.539.675**
Total assets		**16.762.380**	**8.392.911**
LIABILITIES			
Issued capital	M	100.001	100.001
Share premium		706.696	81.696
Retained earnings		440.096	439.031
Revaluation reserve available-for sale assets		(1)	323
Other reservers: Revaluation actuarial		(6.342)	(6.361)
Foreign currency translation reserve		(43)	98
Result for the year		(5.581)	1.065
Shareholder's equity (parent)		**1.234.826**	**615.853**
Pension Provisions		6.814	6.939
Deferred tax liabilities		150	108
Provisions		**6.964**	**7.047**
Due to banks	I	9.325.945	2.573.392
Due to customers	J	5.826.994	5.131.953
Subordinated debt	K	300.000	0
Current tax liabilities		130	219
Other liabilities	L	67.521	64.447
Liabilities		**15.520.590**	**7.770.011**
Total liabilities and equity		**16.762.380**	**8.392.911**
Contingent liabilities	N	588.872	604.788
Irrevocable credit commitments	N	2.048.794	2.624.115

PARENT COMPANY INCOME STATEMENT AS AT 31 MARCH 2018

	Notes	31 March 2018	31 December 2016
Interest income	O	109.711	62.541
Interest expense	P	74.756	42.924
Net interest income		34.955	19.617
Commission income	R	8.097	5.630
Commission expense	S	6.415	2.876
Net commission income		1.682	2.754
Other Operating Income	T	611	30
Impairment (loss)	F	(403)	0
Result on financial transactions	U	25.247	17.236
Total operating income		**62.092**	**39.637**
Credit loss income / (expense)	C	696	(293)
Net operating income		**62.788**	**39.344**
Personnel expenses	Va	40.101	21.584
Depreciation of property and equipment	G	939	497
Amortisation of intangible assets	F	1.913	2.162
Other operating expenses	Vb	27.344	13.927
Total operating expenses		**70.297**	**38.170**
Profit before tax		**(7.509)**	**1.174**
Income tax expense (Expense)	W	1.782	(1.211)
Net Result Continued Operations		**(5.727)**	**(37)**
Result of group Companies after taxation		146	1.102
Net Result		**(5.581)**	**1.065**

NOTES TO PARENT COMPANY BALANCE SHEET

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 balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and 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 Shareholder's equity. Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with IFRS-EU, are included in the profit and loss account. For information regarding the risk management policies, related party transactions and other explanatory notes reference is made to the consolidated financial statements.

Please note that certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. As a result, certain line items have been amended in the statement of financial position, statement of profit or loss and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

A. Cash and Balances with Central Banks

	31 March 2018	31 December 2016
Cash on hand	0	0
Balances with central bank	7.934.960	523.410
Cash and balances with central banks	**7.934.960**	**523.410**

Balances with central banks include mandatory reserve deposits amounting to €112.474 (2016: €92.103), which are not immediately available for MBE's day-to-day operations. The requirement that each bank maintain a minimum reserve has been justified on the grounds that it reduces MBE's exposure to liquidity risk. The excess liquidity at central bank for the period ending 31 March 2018 was € 7.822.486. This was increased to ensure our liquidity position was equipped for a smooth transfer of the German, Spanish & Portuguese offices from MUFG Bank to MBE at 1 April 2018.

B. Due from banks

	31 March 2018	31 December 2016
Placement with banks - term deposits	11.016	237.539
Loans and advances	0	0
Non-current Due from banks	**11.016**	**237.539**
Placements with banks - on demand	2.065.643	1.459.679
Placement with banks - term deposits	0	417.206
Loans and advances	489	0
Current Due from banks	**2.066.132**	**1.876.885**
Allowance for impairment losses	0	0
Due from banks	**2.077.148**	**2.114.424**

The amount receivable from MUFG Bank London amounts to € 1.905.776 (2016: € 2.078.188) of which € 0 (2016: € 304.927) relate to subsidiaries of MBE and entities with significant influence of our ultimate parent nil (2016: nil). No Loans and advances were secured by pledged deposits from MUFG Bank in 2017 (2016: nil).

MBE entered into a financial collateral agreement d.d. 16th March 2016 with MUFG Bank London branch, whereby eligible government bonds amounting to € 2,3bn are pledged by MUFG Bank to MBE as one of the measures to keep the exposure to MUFG Bank below the legal lending limit. € 1,9bn (2016: € 1,8bn) was used as Credit Risk Mitigation to reduce our total risk exposure amount (TREA) and to keep our exposure to MUFG Bank under the legal lending limit.

C. Loans and advances to customers

	31 March 2018	31 December 2016
Corporate term loans	2.487.031	2.327.017
Private sector loans	150	251
Bills of exchange	0	0
Non-current Loans and Advances to customers	**2.487.181**	**2.327.268**
Corporate term loans	1.926.149	1.254.272
Corporate current accounts	1.805.374	1.456.950
Private sector loans	16	12
Bills of exchange	422.495	362.472
Current Loans and Advances to customers	**4.154.034**	**3.073.706**
Allowance for impairment losses	(2.285)	(2.981)
Loans and advances to customers	**6.638.930**	**5.397.993**

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'.

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 March 2018	31 December 2016
Guarantees received from BTMU Ltd.	318.950	191.408
Pledged deposits received from BTMU Ltd.	2.185.927	2.072.829
Pledged deposits received from third parties	1.614.189	1.139.707
Unsecured	2.522.149	1.997.030
	6.641.215	5.400.974
Allowance for impairment losses	(2.285)	(2.981)
Loans and advances to customers by collateral type	**6.638.930**	**5.397.993**

Impairment allowance for loans and advances to customers

The movements in the allowances can be specified as follows:

	31 March 2018	31 December 2016
Balance at 1 January 2017/2016	(2.981)	(2.688)
New impairment allowances	0	(945)
Reversal of impairment allowances no longer required	696	652
Net impairment allowances (reversals)	696	(293)
Amounts written off	0	0
Balance at 31 March 2018/31 December 2016	**(2.285)**	**(2.981)**

D. 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.

	31 March 2018	31 December 2016
Dutch Government Bonds	0	101.235
European Investment Bank	0	60.013
Foreign Government Bonds	35.612	0
Quoted investments pledged as collateral	**35.612**	**161.248**

E. Investments in wholly owned subsidiaries

This regards the 100% owned subsidiaries MUFG Business Services (Holland) B.V., Amsterdam and MUFG Funding (UK) Limited, London, United Kingdom. The Polish subsidiary, BTMU UFJ (Polska) SA, was fully integrated in May 2017 into a branch of MBE. Therefore the interest held of MBE Poland Branch in the column of 31 March 2018 is 0%.

In 2017 the names of BTMU Trust (Holland) B.V. and BTMU (Europe) Limited were rebranded to respectively MUFG Business Services (Holland) B.V. and MUFG Funding (UK) Limited.

	31 March 2018		31 December 2016	
Investments in group companies	**Interest held %**	**Balance Sheet Value**	**Interest held %**	**Balance Sheet Value**
MUFG Business Services (Holland) B.V.	100	388	100	1.523
MBE Poland Branch	0	0	100	114.494
MUFG Funding Limited	100	6.460	100	6.620
Balance sheet value		6.848		122.637

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

	31 March 2018	31 December 2016
At 1 January 2017/2016	**122.637**	**128.319**
Net profit for the year	146	1.102
Dividend payment	(1.300)	(1.783)
Translation differences	(141)	(5.001)
Poland transfer to branch	(114.494)	0
At 31 March 2018/31 December 2016	**6.848**	122.637

F. Intangible assets

Intangible assets - Computer software & licenses	31 March 2018	31 December 2016
At 1 January 2017/2016	**3.906**	**2.734**
Additions	2.479	3.252
Disposals	0	0
Amortisation	(1.913)	(2.162)
Reclassifications	0	0
Under development	3.049	0
Impairment (loss)	(403)	0
Exchange adjustments	4	0
At 31 March 2018/31 December 2016	**7.122**	**3.824**
Accumulated cost	18.761	12.840
Accumulated amortisation	(11.639)	(9.016)
At 31 March 2018/31 December 2016	**7.122**	**3.824**

MBE identified one impaired intangible asset, which resulted in an impairment loss of € 403 (2016: 0). No further events or circumstances were identified, which would indicate that other intangible assets may be impaired. The remaining amortisation period varies between 1 to 5 years.

Position as at 1 January 2017 adjusted as our Polish subsidiary became a branch

G. Property and equipment

Property and Equipment	31 March 2018			31 December 2016		
	Operations equipment	Leasehold improve-ments	Total	Operations equipment	Leasehold improve-ments	Total
At 1 January 2017/2016	**659**	**184**	**843**	**721**	**121**	**842**
Additions	1.154	2.797	3.951	307	70	377
Disposals	(0)	(3)	(3)	0	0	0
Depreciation	(649)	(290)	(939)	(427)	(70)	(497)
Exchange adjustments	3	3	6	(2)	0	(2)
Property and Equipment	**1.167**	**2.691**	**3.858**	**599**	**121**	**720**
Accumulated cost	5.273	4.136	9.409	3.374	1.030	4.404
Accumutaled depreciation	(4.106)	(1.445)	(5.551)	(2.775)	(909)	(3.684)
Property and Equipment	**1.167**	**2.691**	**3.858**	**599**	**121**	**720**

Position as at 1 January 2017 adjusted as our Polish subsidiary became a branch.

H. Other assets

	31 March 2018	31 December 2016
Accrued interest	9.731	9.088
Other prepayments and suspense accounts	7.753	1.314
Defined retirement benefit asset	0	0
Derivative financial instruments	23.782	46.690
Other assets	**41.266**	**57.092**

I. Due to banks

This item comprises debts to credit institutions and central banks.

	31 March 2018	31 December 2016
Nostro accounts	175	0
Term deposits	9.325.770	2.573.392
Due to banks	**9.325.945**	**2.573.392**

The term deposits from MUFG Bank, pledged on behalf of loans and advances to customers or banks granted by MBE, amount to € 2.185.927 (2016: € 2.072.829). The total amount owed to MUFG Bank, including pledged deposits, is € 9.325.770 (2016: € 2.573.392).

J. Due to customers

	31 March 2018	31 December 2016
Term deposits	710.685	1.072.234
Current accounts	5.116.309	4.059.719
Due to customers	**5.826.994**	**5.131.953**

Included in 'Due to customers' are deposits of € 1.614.189 (2016: € 1.139.707), which are pledged as collateral for loans and advances and off-balance sheet credit instruments to customers granted by MBE.

K. Subordinated debt

	31 March 2018	31 December 2016
Subordinated Loan	300.000	0
Subordinated debt	**300.000**	**0**

To strengthen the capital position of MBE for upcoming transfer of two branches (Germany and Spain/Portugal) from MUFG Bank to MBE per 1 April 2018, a subordinated loan was granted to MBE by MUFG Bank. The subordinated loan is part of the total capital amount of MBE as Tier 2 capital.

L. Other liabilities

	31 March 2018	31 December 2016
Accrued interest/Unearned income	14.751	9.916
Account payable and suspense accounts	29.152	7.952
Derivative financial instruments	23.618	46.579
Other liabilities	**67.521**	**64.447**

For the defined benefit retirement and early retirement liability please refer to Note 12 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 (2016: € 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 MUFG Bank Ltd. Issued and fully-paid capital remained nearly unchanged to prior year and amounts € 100.001 (2016: € 100.001) shares issued are fully held by MUFG Bank Ltd., which is a fully-owned subsidiary of MUFG Inc.

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

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

	Issued capital	Share premium	Retained earnings	Revaluation reserve available-for-sale	Foreign currency translation reserve	Revaluation Actuarial	Total
At 1 January 2016	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
At 31 December 2016	**100.001**	**81.696**	**440.096**	**323**	**98**	**(6.361)**	**615.853**
Total comprehensive income			(5.581)	(324)		19	(5.886)
Foreign currency translation adjustment					(141)		(141)
Equity dividends							
Share premium from Parent		625.000					625.000
At 31 March 2018	**100.001**	**706.696**	**434.515**	**(1)**	**(43)**	**(6.342)**	**1.234.826**

N. Contingent liabilities and commitments

Contingent liabilities and commitments	**31 March 2018**	**31 December 2016**
With respect to letters of credit	2.610	3.567
With respect to letters of guarantees	586.262	601.221
Contingent liabilities	**588.872**	**604.788**
Irrevocable credit commitments	2.048.794	2.624.115
Irrevocable credit commitments	**2.048.794**	**2.624.115**

O. Interest income

	31 March 2018	31 December 2016
Cash and balances with central banks	236	13
Due from banks	5.576	6.223
Loans and advances to customers	100.317	54.385
Available for-sale investments	1.102	149
Interest rate swaps	2.395	1.702
Others	85	69
Interest income	**109.711**	**62.541**

No interest income on impaired loans in the period ending March 2018 (2016: € 0).

P. Interest expense

	31 March 2018	31 December 2016
Due to banks	57.444	31.503
Due to customer	13.137	5.910
Interest rate swaps	4.136	5.432
Others	39	79
Interest expense	**74.756**	**42.924**

R. Commission income

	31 March 2018	31 December 2016
Commission on funds transfer and letters of credit	4.383	2.780
Commission on guarantees	2.124	1.557
Brokerage and advisory fees	1.117	617
Commission on corporate management services	0	0
Other commission income	473	676
Commission income	**8.097**	**5.630**

S. Commission expense

	31 March 2018	31 December 2016
Commission on (credit replacing) guarantees	3.794	1.344
Commission on funds transfer and letters of credit	684	490
Commission on corporate management services	0	0
Other commission expenses	1.937	1.042
Commission expense	**6.415**	**2.876**

T. Other Operating Income

	31 March 2018	31 December 2016
Other Operating Income Profit or Loss, net	**611**	**30**

U. Result on financial transactions

	31 March 2018	31 December 2016
Result on financial transactions	**25.247**	**17.236**

This item includes the foreign currency results of MBE amounting € 26.277 (2016: € 16.133). As explained in the risk management paragraph (see note 30) MBE's policy is to eliminate currency risks on financial assets and liabilities.

Va. Personnel expenses

	31 March 2018	31 December 2016
Wages and salaries	26.085	14.711
Social securities costs	2.973	1.709
Pension costs	2.908	1.602
Other staff costs	8.135	3.562
Personnel expenses	**40.101**	**21.584**

The average total number of employees for the period ending 31 March 2018 is 255 (2016: 196), of which 194 (2016: 177) are employed in the Netherlands. Other staff costs includes mainly the costs related to contracted employees and/or agency employees.

Vb. Other operating expenses

	31 March 2018	31 December 2016
Occupancy expenses	2.701	1.571
Office expenses	9.037	4.298
Professional fees	3.570	1.788
Business promotion expenses	3.035	2.070
VAT and sundry taxes	9.001	4.200
Other operating expenses	**27.344**	**13.927**

Occupancy expenses merely relate to office rent. Office expenses relate to IT services, professional fees and regulatory supervision expenses and other office expenses. Mostly due to move to another office in 2017, the office expenses are higher than in 2016. The contribution to the National Resolution Fund is booked under sundry taxes. The contribution came to € 3.026 in 2017 (2016: € 2.474) in cash and € 534 as irrevocable payment commitment. Next to the contribution for 2017 a reservation was made for the 2018 contribution of € 701.

W. Income tax expense

Income tax

The components of income tax expense for the years ended 31 March 2018 and 31 December 2017 are:

	31 March 2018	31 December 2016
Current tax		
Current income tax	1.787	(1.309)
Adjustment in respect of current income tax of prior years	(5)	14
Dutch tax exemption Vienna and Prague branch	0	84
Deferred tax		
Movement in pension obligation	0	0
Income tax	**1.782**	**(1.211)**

X. Maturity analysis of assets and liabilities

	31 March 2018					
	On demand	0-3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Cash and balances with central banks	7.934.960	0	0	0	0	7.934.960
Due from banks	690.184	1.356.269	19.679	8.216	2.800	2.077.148
Loans and advances to customers	1.788.192	1.495.039	868.518	1.736.965	750.216	6.638.930
Financial instruments available-for-sale	35.612	0	0	0	0	35.612
Total financial assets	**10.448.948**	**2.851.308**	**888.197**	**1.745.181**	**753.016**	**16.686.650**
Financial liabilities						
Due to banks	175	7.435.829	507.940	1.079.389	302.612	9.325.945
Due to customers	5.117.571	685.988	23.336	100	0	5.826.995
Subordinated Loan	0	0	0	0	300.000	300.000
Total financial liabilities	**5.117.746**	**8.121.817**	**531.276**	**1.079.489**	**602.612**	**15.452.940**

	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	1.459.676	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	**3.524.674**	**1.753.595**	**278.983**	**1.581.595**	**1.144.460**	**8.283.307**
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
Subordinated Loan	0	0	0	0	0	0
Total financial liabilities	**4.059.855**	**2.375.195**	**638.058**	**126.781**	**505.456**	**7.705.345**

Authorization of Company Annual Account
Amsterdam, 28 November 2018

THE SUPERVISORY BOARD

M. van Nieuwkerk, chairman

K.W. Peacock, vice-chairman

W.F. Nagel

M. Osawa

THE MANAGEMENT BOARD

S. Tobari, chairman

K. Kuzuhara

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 FOR THE 15 MONTH FINANCIAL PERIOD ENDED 31 MARCH 2018 INCLUDED IN THE ANNUAL ACCOUNTS

Our Opinion

We have audited the financial statements for the 15 month financial period ended 31 March 2018 of MUFG Bank (Europe) N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the parent company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of MUFG Bank (Europe) N.V. as at 31 March 2018, and of its result and its cash flows for the 15 month financial period ended 31 March 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying parent company financial statements give a true and fair view of the financial position of MUFG Bank (Europe) N.V. as at 31 March 2018, and of its result for the 15 month financial period ended 31 March 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position for the 15 month financial period ended 31 March 2018.
2. The following statements for the 15 month financial period ended 31 March 2018: the consolidated statement of profit or loss, the consolidated statement of changes in equity, the consolidated statement of comprehensive income and the consolidated statement of cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The parent company balance sheet as at 31 March 2018.
2. The parent company income statement for the 15 month financial period ended 31 March 2018.
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) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

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 € 1.300.000. The materiality is based on 1,2% of revenue for the 15 month financial period ended 31 March 2018. 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 € 65.000, 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 loan loss provisioning, tax, consolidation, disclosures and regulatory compliance.
- Used the work of other auditors when auditing the branches in Poland and Belgium.

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 20 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 30.VII 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 disclosure note in the financial statements. 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, the annual accounts contain other information that consists of:

- The paragraphs "profile", "strategy", "selected financial data as per balance sheet date" and "general information"
- Report of the Supervisory Board
- Report of the Management Board
- 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 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 shareholder as auditor of MUFG Bank (Europe) N.V. as of the audit for year 2016 and have operated as statutory auditor ever since that date.

DESCRIPTION OF RESPONSIBILITIES FOR 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 framework 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 have detected all material errors and fraud.

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 judgment 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. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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, 4 December 2018

Deloitte Accountants B.V.

R.J.M. Maarschalk

ANNEXES

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