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

For the year ended 31 March 2020

Pillar 3 reference

The Pillar 3 disclosures are described in part 8 of CRR. This table shows where the reader can find the specific disclosures relevant for MUFG Bank (Europe) N.V. (here after MBE) in the Pillar 3 report or the Annual report, because some of the disclosures are taken into account in the Annual Report (here after AR).

CRR article	Pillar 3 disclosure obligations	Location	Explanation
431	Scope of disclosure requirements	Pillar 3	1.1 Pilar 3 document
433	Frequency of disclosure	Pillar 3	1.2 Pilar 3 document
434	Means of disclosures	Pillar 3	1.3 Pilar 3 document
435	Risk management objectives and policies	AR/Pillar 3	Note 28 Risk management AR/ 2. Pillar 3 report
436	Scope of application	Pillar 3	1.4 Pilar 3 document
437	Own funds	AR/Pillar 3	Note 28 Risk management AR / Chapter 3 Pillar 3 report
438	Capital requirements	AR/Pillar 3	Note 28 Risk management AR / Chapter 3 Pillar 3 report
439	Exposure to counterparty credit risk	AR/Pillar 3	Note 28 Risk management AR / Chapter 3 Pillar 3 report
440	Capital buffers	AR/Pillar 3	Note 28 Risk management AR / Chapter 3 Pillar 3 report
442	Credit risk adjustments	AR/Pillar 3	Note 28 Risk management AR / Chapter 4 Pillar 3 report
443	Unencumbered assets	AR/Pillar 3	Note 28 Risk management AR / Chapter 9 Pillar 3 report
444	Use of ECAIs	AR/Pillar 3	Note 28 Risk management AR / Chapter 9 Pillar 3 report
445	Exposure to market risk	AR/Pillar 3	Note 28 Risk management AR / Chapter 7 Pillar 3 report
446	Operational risk	AR/Pillar 3	Note 28 Risk management AR / Chapter 8 Pillar 3 report
448	Exposure to interest rate risk on positions not included in the trading book	AR/Pillar 3	Note 28 Risk management AR / Chapter 7 Pillar 3 report
450	Remuneration policy	AR/Pillar 3	Note 27 Key management Remuneration AR / Chapter 8 Pillar 3 report
451	Leverage	AR/Pillar 3	Note 28 Risk management AR / Chapter 3 Pillar 3 report
453	Use of credit risk mitigation techniques	AR/Pillar 3	Note 28 Risk management AR / Chapter 4 Pillar 3 report

1. Disclosure requirements

1.1 Scope of discloure requirements

MBE has adopted a formal policy to periodically assess the appropriateness, verification and frequency of the current disclosures. This policy also conveys the risk profile comprehensively to market participants.

1.2 Frequency of disclosures

MBE has chosen to disclose all requested disclosures on an annual basis in this Pillar III report.

1.3 Means of discloures

MBE has chosen to disclose all requested disclosures on an annual basis in this Pillar III report as mentioned under 1.2. Both Annual Report and Pillar III documents are made publically accessible on the website of MBE. The disclosures presented within this document are not required to be subject to an external audit. However, the report contains information sourced from the Annual Report, which has been audited by MBE's external auditor.

1.4 Scope of application

The requirements of this regulation belong to MBE. MBE consists of 4 entities which are fully consolidated (both accounting wise and regulatory wise):

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
MUFG Bank (Europe) NV	Full Consolidation	X				Credit institution
MUFG Europe Lease (Deutchland) GMBH	Full Consolidation	X				Other financial intermediaries
MUFG Business Services (Holland) B.V.	Full Consolidation	X				Other financial intermediaries
MUFG Funding (UK) Limited	Full Consolidation	X				Other financial intermediaries

MBE does not make use of the provisions laid down in article 7 and 9 of CRR regarding the derogation from the application of prudential requirements on an individual basis. Reporting on prudential requirements both takes place on a consolidated and solo level. No reporting on prudential requirements takes place on the separate subsidiary level.

1.5 Reconciliation

Please find below the total assets as reported in the financial statements and also the asset carrying values under the scope of regulatory consolidation, both per 31-Mar-2020.

Disclosure requirements

Reconciliation

in thousands of €s	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject tot deduction from capital
Assets							
Cash and balances with central banks	904,218	904,228	904,228				
Loan and advances to banks	3,801,409	3,982,263	3,982,263				
Loans and advances to customers	9,603,475	9,423,862	8,265,767		1,158,096		
Derivatives	54,042	54,042		54,042			
Financial investments	164,777	164,777	164,777				
Property and equipment	17,282	17,282	17,282				
Intangible assets	18,655	18,655					18,655
Current tax asses	24,627	24,627	24,627				
Deferred tax assets	48,916	48,916	48,916				
Other assets	32,207	30,980	30,980				
Total assets	14,669,608	14,669,632	13,438,839	54,042	1,158,096	0	18,655
Liabilities							
Due to banks	5,977,282	6,001,070					
Due to customers	6,362,363	6,351,289					
Derivatives	58,418	58,418					
Current tax liabilities	8,097	8,097					
Deferred tax liabilities	0	0					
Subordinated debt	300,122	300,122					
Provisions	61,486	61,486					
Other liabilities	117,719	105,049					
Total liabilities	12,885,487	12,885,533	0	0	0	0	0

in thousands of €s	Total	Items subject to			
		Credit risk framework	Securitisation framework	CCR framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	14,669,632	13,438,839	1,158,096	54,042	0
Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	12,862,690				
Total net amount under the regulatory scope of consolidation	1,806,942				
Off-balance-sheet amounts	15,768,460	15,768,460			
Exposure amounts considered for regulatory purposes	30,438,092	29,207,299	1,158,096	54,042	0

The differences between the total assets as reported in the financial statements and the total asset carrying value under the scope of regulatory consolidation is caused by rounding difference, the difference is minimal.

2. Risk management objectives and policies

2.1 Introduction

Risk management plays an important role in MUFG bank's global operations. MUFG Bank identifies risks arising from businesses based on uniform criteria, and has implemented integrated risk management to ensure a strong financial condition at all times and to maximize shareholder value. Using this integrated approach from the parent bank, MUFG Bank Ltd., MBE has implemented MBE Risk Management Framework (RMF) which is designed to identify risks, determine the risk appetite for all material risk types, set limits to help management keeping risk exposure aligned to risk appetite, and to monitor, analyse and report developments in exposure to risks based on reliable risk assessments and information systems.

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

As part of a risk cycle defined in RMF, MBE continuously identifies risks, which are recorded in the risk register and when material included in the MBE risk taxonomy. These risks are then periodically assessed, monitored, managed and evaluated.

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

Using MBE Risk Management Framework, MBE Risk Appetite Statement and infrastructure provided by the parent bank, MBE aims to achieve a proper balance between earnings and risks, and targets a healthy and well diversified capital and liquidity position that supports its business strategy and long-term rating ambition of MUFG Group.

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

2.2 Overview of risk management , key prudential metrics and RWA

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

in thousands of €s	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19
Available own funds (amounts)				
Common Equity Tier 1 (CET1)	1,769,831	1,836,229	1,835,249	1,843,992
Fully loaded ECL accounting model	1,769,831	1,836,229	1,835,249	1,843,992
Tier 1	1,769,831	1,836,229	1,835,249	1,843,992
Fully loaded ECL accounting model Tier 1	1,769,831	1,836,229	1,835,249	1,843,992

Overview of risk management , key prudential metrics and RWA

in thousands of €s	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19
Total capital	2,069,831	2,136,229	2,135,249	2,143,992
Fully loaded ECL accounting model total capita	2,069,831	2,136,229	2,135,249	2,143,992
Risk-weighted exposure amounts				
Total risk-weighted assets (RWA)	12,231,116	11,984,084	12,207,517	13,872,538
Capital ratios (as a percentage of risk-weighted exposure amount)				
Common Equity Tier 1 ratio (%)	14.47%	15.32%	15.03%	13.29%
Fully loaded ECL accounting model Common Equity Tier 1 (%)	14.47%	15.32%	15.03%	13.29%
Tier 1 ratio (%)	14.47%	15.32%	15.03%	13.29%
Fully loaded ECL accounting model Tier 1 ratio (%)	14.47%	15.32%	15.03%	13.29%
Total capital ratio (%)	16.92%	17.83%	17.49%	15.45%
Fully loaded ECL accounting model total capital ratio (%)	16.92%	17.83%	17.49%	15.45%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
Capital conservation buffer requirement (%)	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	0.05%	0.06%	0.05%	0.04%
Bank G-SIB and/or D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%
al of bank CET1 specific buffer requirements (%)(row 8 + row 9 + row 10)	2.55%	2.56%	2.55%	2.54%
CET1 available after meeting the total SREP own funds requirements (%)	3.57%	4.42%	3.83%	2.09%
Leverage ratio				
Total Basel III leverage ratio exposure measure	20,632,645	23,142,271	24,061,551	24,330,384
Basel III leverage ratio (%) (row 2 / row 13)	8.58%	7.93%	7.63%	7.58%
Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	8.58%	7.93%	7.63%	7.58%
Liquidity Coverage Ratio				
Total HQLA	1,864,664	1,835,988	1,876,428	1,816,378
Total net cash outflows	1,294,455	1,281,062	1,360,342	1,231,694
Liquidity coverage ratio (%)	144.05%	143.32%	137.94%	147.47%
Net Stable Funding Ratio				
Total available stable funding	10,274,955	10,941,234	11,367,804	11,459,673
Total required stable funding	9,454,068	9,423,706	9,893,919	10,004,336
NSFR ratio	108.68%	116.10%	114.90%	114.55%

Figures are based on reported quarter end figures to the regulator.

2.3 Risk management objectives and policies

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

2.4 Recruitment policies for members of the management board

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

Recruitment policies for members of the management board

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

2.5 Risk organization

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

2.6 Risk reporting to the management body

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

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

3. Own funds & capital

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

3.1 Common Equity Tier 1 items and Tier 2 items

For this section we refer to the AR note 28 (Risk management) section 28.7 (Capital risk). For description of CET1 and T2 we refer to the AR note 28 (Risk management) section Capital available. For terms and conditions of CET1 and T2 we refer to AR note 15 (Issued capital and reserves)

3.2 Prudential filter / deductions applied to CET1 items

Within the regulatory requirements the following adjustments are made on CET1 capital:

Other Intangible assets (13,991)

Prudential valuation adjustment (PVA) (277)

	Risk category							
	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Total	Of which in the trading book	Of which in the banking book
Closeout uncertainty, of which:								
Mid-market value								
Close-out cost								
Concentrated positions								
Early termination								
Model risk		8	105	165		277	172	105
Operational risk								
Investing and funding cost								
Unearned credit spreads								
Future administrative costs								
Other								
Total adjustment		8	105	165		277	172	105

The deduction related to Other Intangible assets derives from article 36 1b CRR and the deduction related to accumulated other comprehensive income (actuarial reserve) derives from article 36 1e. The amount deducted regarding the prudential filter derives from Final Draft RTS EBA EBA/RTS/2014/06/rev1, page 4. This deduction contains of 0.1% of the aggregate of the absolute of fair-valued positions (Assets and Liabilities) of the derivatives.

No underwriting positions held for five days or fewer are available on the balance sheet which can be deducted in accordance with article 47 of CRR.

No additional Tier 1 items available on the balance sheet, therefore no deductions were made regarding article 56 of CRR. No deductible Tier 2 items available on the balance sheet, with regard to article 66 of CRR.

Prudential filter / deductions applied to CET1 items

Regarding article 79 of CRR, MBE did not apply for a temporary waiver of deduction from own funds.

3.3 Restrictions applied to the calculation of Own Funds

No restrictions were applied to the calculation of own funds. MBE only has a restriction regarding the payment of dividend. In note 15 (Issued capital and reserves) of the AR, this restriction is explained.

3.4 Summary of the institution's approach on ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) comprises the entire continuous capital management process and focuses on the capital adequacy requirements set by the supervisory authorities. Hence, on request of its supervisor 'De Nederlandsche Bank' (DNB) MBE submits its ICAAP[1] as part of the yearly Supervisory Review and Evaluation Process (SREP) on an annual basis.

MBE drafts an ICAAP package using the Standardized Approach for pillar 1 risks and internal quantitative analysis to determine additional capital requirements under pillar 2 risks.

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

MBE follows the following process steps:

- Review and update of stress scenarios
- Adapt and validate the models
- Calculation of outcomes for Base Case projections and stress scenarios
- Validation of outcomes for Base Case projections and stress scenarios
- Analysis of outcomes
- Preparation of capital plan
- Review of the capital plan
- Preparation of capital adequacy statement

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

3.5 Results ICAAP

The ICAAP results presented below are based on the latest submitted ICAAP (the August 2019) as part of the SREP 2019 process. The reference date of the 2019 ICAAP was aligned with the reference date of the 2019 Annual Statement (31 March 2019). The ICAAP 2020, with reference data 31 March 2020, is expected to be submitted to our regulator by end of August 2020.

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

[1] Together with its Internal Liquidity Adequacy Assessment Process (ILAAP).
[2] Please note, the standard 'ICAAP template' format has been used to present MBE's capitalization figures.

Own funds & capital

Results ICAAP

Calculation SREP capital (Bottom-up assessment)			
	Pillar 1 Capital	ICAAP Capital	SREP Capital
in thousands of €s	Basel 2	ICAAP (own confidence level)	Total
Pillar 1 risks			
Credit and dilution risk (CRR 92.3 a)	1,056,680	1,056,680	1,056,680
Position risk and large exposures (CRR 92.3 b)	0	0	0
FX, settlement and comodies risk (CRR 92.3 c)	0	0	0
Credit valuation adjustment risk (CRR 92.3 d)	370	370	370
Operational risk (CRR 92.3 e)	25,592	25,592	25,592
Counterparty risk (CRR 92.3 f)	5,841	5,841	5,841
Total Pillar 1 risk	**1,088,483**	**1,088,483**	**1,088,483**
Pillar 2 risks			
Concentratioin risk:		257,325	257,325
countries		0	0
sectors		0	0
single name		257,325	257,325
other		0	0
Other credit risk		0	0
Market risk		0	0
Operational risk		43,970	43,970
Interest rate risk banking book		91,989	91,989
Business model risk & profitability		40,000	40,000
Pension risk		11,000	11,000
Integrity risk		36,000	36,000
Total Pillar 2 risk		**480,284**	**480,284**
Total Pillar 1 + Pillar 2		1,568,766	1,568,766

This results in total required capital for pillar 1 and 2 of € 1.6 billion, resulting in a bottom up ICAAP-ratio of 11.5% given the TREA of 13.6 billion. A forward looking analysis of the capital requirements is presented in the Capital Plan of MBE.

3.6 Overview minimum capital requirements SA approach for each expoure class

Please find below the overview of the capital requirements using the SA approach for each exposure class:

Own funds & capital

Overview minimum capital requirements SA approach for each expoure class

in thousands of €s	Risk weighted exposure amounts (RWEAs)		Minimum capital requirements
	31-Mar-20	31-Mar-19	31-Mar-20
Credit risk (excluding CCR)	11,602,585	13,208,500	928,207
Of which the standardised approach	11,602,585	13,208,500	928,207
Counterparty credit risk - CCR	123,761	77,635	9,901
Of which the standardised approach	98,941	73,015	7,915
Of which CVA	24,820	4,620	1,986
Settlement risk	0	0	0
Securitisation exposures in the banking book (after the cap)	206,411	0	16,513
Of which standardised approach	206,411	0	16,513
Market risk	0	0	0
Of which the standardised approach	0	0	0
Operational risk	298,359	319,896	23,869
Of which basic indicator approach	298,359	319,896	23,869
Total	12,231,116	13,606,032	978,489

3.7 CCYB (Countercyclical buffer) specification

in thousands of €s	General credit exposures		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements		Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	Exposure value under the standardised approach	Exposure value under the IRB approach			Relevant credit risk exposures - Credit risk	Total			
Breakdown by country:									
BG	19,901		0	19,901	4	4	10,011	0.10%	0.50%
CZ	93,936		0	93,936	92	92	65,736	0.64%	1.75%
DK	21,157		0	21,157	17	17	21,157	0.21%	1.00%
FR	889		0	889	0	0	889	0.01%	0.25%
IE	190,873		0	190,873	153	153	190,658	1.85%	1.00%
LU	70,900		0	70,900	13	13	64,240	0.62%	0.25%
NO	45,724		0	45,724	37	37	45,724	0.44%	1.00%
SK	65,010		0	65,010	78	78	65,010	0.63%	1.50%
Total	508,390		0	508,390	393	393	463,425	4.50%	

3.8 Own Funds calculations in accordance with 92 (3b and c) CRR

For this section we refer to the AR note 28 (Risk management) section 28.4 (Market risk).

3.9 Own Funds calculations in accordance with Part Three, Title III, Chapter 3 (SA Approach)

For this section we refer to chapter 3.5; part of the ICAAP calculations.

3.10 Leverage ratio and how MBE applies article 499 (2 and 3)

Please find below the disclosure of MBE's leverage ratio:

Own funds & capital

Leverage ratio and how MBE applies article 499 (2 and 3)

in thousands of €s	CRR leverage ratio exposures	
	31-Mar-20	31-Mar-19
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs, but including collateral)	14,879,274	19,343,011
(Asset amounts deducted in determining Tier 1 capital)	-14,269	-12,027
Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 2)	14,865,006	19,330,984
Derivative exposures		
Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	54,042	45,230
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	44,899	39,890
Exposure determined under Original Exposure Method		
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework		
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
(Exempted CCP leg of client-cleared trade exposures)		
Adjusted effective notional amount of written credit derivatives		
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
Total derivatives exposures (sum of lines 4 to 10)	98,941	85,120
Securities financing transaction (SFT) exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		
(Netted amounts of cash payables and cash receivables of gross SFT assets)		
Counterparty credit risk exposure for SFT assets		
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013		
Agent transaction exposures		
(Exempted CCP leg of client-cleared SFT exposure)		
Total securities financing transaction exposures (sum of lines 12 to 15a)		
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	15,795,835	16,942,833
(Adjustments for conversion to credit equivalent amounts)	-10,127,137	-11,309,873
Other off-balance sheet exposures (sum of lines 17 and 18)	5,668,698	5,632,960
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
Capital and total exposure measure		
Tier 1 capital	1,769,831	1,836,823
Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	20,632,645	25,049,064
Leverage ratio		
Leverage ratio	8.58%	7.33%
Choice on transitional arrangements and relevant exposures		
Choice on transitional arrangements for the definition of the capital measure		
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013		

MBE has chosen to disclose the leverage ratio only based on full Tier 1 capital and not to make use of the derogations from Chapter 1 and 2 of title 1 part ten CRR.

The leverage ratio of 8.58% is well above the internal target of 4.5%. Under the current regulations, the amount of capital necessary to meet the leverage ratio requirements is higher than the amount of capital necessary to meet risk-weighted capital ratio requirements.

3.11 Breakdown exposure amount reconciled with annual report

Please find below a detailed breakdown of MBE's total assets reconciled with the Annual Report (AR) for calculating available leverage ratio.

in € thousands	Applicable amount
Total assets as per published financial statements	14,669,608
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	
Adjustments for derivative financial instruments	44,899
Adjustment for securities financing transactions (SFTs)	
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5,668,698
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	
Other adjustments	249,439
Leverage ratio total exposure measure	20,632,645

3.12 Process description for managing the risk of excessive leverage

To manage the risk of excessive leverage, leverage ratio control is part of our capital planning. The leverage ratio reflects the ratio between MBE's Tier 1 capital and total risk exposure. The Risk Appetite Statement (RAS) describes MBE's risk appetite in relation to the leverage ratio and other aspects. The accompanying Early Warning Indicator (EWI) framework lays down intervention levels to identify a falling leverage ratio and prevent or reduce further deterioration at an early stage.

Capital planning is a continuous process. The capital plan is established annually and contains a projection of our capital position and requirements over a multi-year horizon. Actual capital position is reviewed on the basis of the most recent figures and monthly reported in the Risk Appetite Dashboard (RAD) to the Risk Management Committee (RMC) for evaluation. We assess the leverage ratio against the regulatory requirements, internal minimum of at least 4.5% and risk appetite of at least 5.5%. This assessment is used to steer the capital to the desired level if necessary, for example by raising new capital, transferring risk within the MUFG Group or obtaining high quality collateral from our parent company. In addition, we may slow down the growth of the total risk exposure to prevent the leverage ratio from falling too far.

3.13 Description of factors with an impact on the leverage ratio

A minimum level for the leverage ratio is to prevent banks from building up excessive debts. The former cabinet (Rutte II) expressed its ambition of a minimum leverage ratio for the Netherlands of 4.0%. The coalition agreement of the Rutte III government as published states that as soon as Basel IV becomes effective, the minimum requirement will be aligned with the European minimum requirement, which is expected to be at least 3%, with a possible surcharge for Systemically Important Institutions. Given existing minimum and appetite levels defined in RAS, proposed changes would not have a material impact on MBE.

4. Credit risk

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

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

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

Overall credit risk is evaluated by the Risk Management Committee. Daily monitoring of positions and/or limits is performed by the Credit Management Division, while periodic evaluation of compliance with the policy framework, credit risk assessments and credit stress testing is performed by the Risk Management Division.

4.1 Description counterparty credit risk policies

For this section we refer to the AR note 28 (Risk management) section 28.2 (Credit risk).

4.2 Overview net credit exposure derivatives

For this section we refer to the AR note 5 (Derivatives).

4.3 Measures of value of counterparty credit risk under SA approach

Derivatives of MBE are measured at fair value. Therefore the exposure value relating to counterparty credit risk is based on the mark-to-market method.

4.4 Description of the approach and methods adopted for determining specific and general credit adjustment

For this section we refer to the AR note 28 (Risk management) section 28.2 (Credit risk). Accounting wise MBE defines a loan impaired, when it is overdue more than 90 days. The definition of default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due. A default occurs when the borrower is more than 90 days past due on any material obligation to MBE, and/or MBE considers the borrower unlikely to make its payments in full without recourse action on MBE's part, such as taking formal possession of any collateral held.

4.5 Net exposure amounts

Please find below MBE's total net exposure amounts per asset class:

Credit risk

Net exposure amounts

in thousands of €s	Net value of exposures at the end of the period	Average net exposure over the period
Central governments or central banks	1,116,129	1,531,898
Institutions	5,606,034	5,551,822
Corporates	22,684,255	25,718,277
Exposures in default	61,380	79,805
Other exposures	119,361	97,260
Total standardised approach	29,587,159	32,979,061

4.6 Distribution net exposure amounts

Please find below MBE's total net exposure amounts per different categories:

Geographical distribution net exposure amounts

	Significant Countries											
in thousands of €s	DE	NL	GB	ES	AT	PL	BE	JP	CH	IT	Other Countries	Total net value of exposures at the end of the period
Central governments or central banks	189,904	576,053	0	17,478	15,036	218,349	26,953	0	0	0	72,357	1,116,129
Institutions	801,066	1,127,387	2,890,250	194,082	104	96,006	97	316,041	9,205	21,530	150,268	5,606,034
Corporates	7,886,220	4,518,020	103,099	2,543,619	2,390,357	1,370,742	1,333,546	328,541	492,005	324,444	1,393,661	22,684,255
Exposures in default	58,937	0	0	0	0	0	0	0	0	0	2,443	61,380
Other exposures	60,019	51,787	0	6,531	0	0	1,024	0	0	0	0	119,361
Total standardised approach	8,996,146	6,273,246	2,993,349	2,761,710	2,405,496	1,685,096	1,361,620	644,582	501,210	345,974	1,618,729	29,587,159

Industry distribution net exposure amounts

in thousands of €s	Financial and insurance activities	Manu-facturing	Wholesale and retail trade	Electricity, gas, steam and air conditioning supply	Infor-mation and commu-nication	Transport and storage	Admi-nistrative and support service activities	Professional, scientific and technical activities	Construction	Others	Total
Central governments or central banks	1,067,203	0	0	0	0	0	0	0	0	48,926	1,116,129
Institutions	5,606,034	0	0	0	0	0	0	0	0	0	5,606,034
Corporates	1,331,662	7,056,533	4,784,133	4,338,130	1,579,984	1,323,445	807,852	573,474	508,161	380,880	22,684,255
Exposures in default	6,857	0	52,169	2	0	0	0	0	2,352	0	61,380
Other exposures	118,927	0	0	0	0	0	0	0	0	434	119,361
Total standardised approach	8,130,684	7,056,533	4,836,302	4,338,132	1,579,984	1,323,445	807,852	573,474	510,514	430,240	29,587,159

Credit risk

Distribution net exposure amounts

Residual maturity distribution net exposure amounts

in thousands of €s	On Demand	<= 1 week	> 1 week <= 1 month	> 1 month <= 1 year	> 1 year <= 5 years	> 5 years <= 10 years	> 10 years	Total
Central governments or central banks	877,361	238,753	0	0	5	10	0	1,116,129
Institutions	2,415,114	558,302	157,426	1,118,597	1,249,454	107,142	0	5,606,034
Corporates	4,619,220	319,055	1,589,870	5,147,949	9,620,000	1,388,160	0	22,684,255
Exposures in default	160	47,577	2,582	3,893	7,031	137	0	61,380
Other exposures	118,920	0	0	27	243	171	0	119,361
Total standardised approach	8,030,775	1,163,687	1,749,878	6,270,466	10,876,734	1,495,620	0	29,587,159

4.7 Distribution gross exposure amounts

Please find below MBE's total net exposure amounts per different categories:

Industry distribution gross exposure amounts

in thousands of €s	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Financial and insurance activities	80,000	8,124,925	74,242	0	0	0	8,130,684
Manufacturing	0	7,057,947	1,414	0	0	0	7,056,533
Wholesale and retail trade	102,019	4,786,009	51,726	0	0	0	4,836,302
Electricity, gas, steam and air conditioning supply	205	4,340,409	2,482	0	0	0	4,338,132
Information and communication	0	1,580,310	326	0	0	0	1,579,984
Transport and storage	0	1,325,026	1,581	0	0	0	1,323,445
Administrative and support service activities	0	808,033	181	0	0	0	807,852
Professional, scientific and technical activities	0	573,543	69	0	0	0	573,474
Construction	2,624	508,278	388	0	0	0	510,514
Others	0	430,406	166	0	0	0	430,240
Total	184,848	29,534,886	132,575	0	0	0	29,587,159

Credit risk

Distribution gross exposure amounts

Geographical distribution gross exposure amounts

in thousands of €s	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
DE	181,926	8,881,216	125,932	0	0	0	8,937,209
NL	0	6,274,548	1,301	0	0	0	6,273,246
GB	0	2,994,206	857	0	0	0	2,993,349
ES	2,829	2,761,101	2,220	0	0	0	2,761,710
AT	0	2,405,846	349	0	0	0	2,405,496
PL	94	1,685,271	269	0	0	0	1,685,096
BE	0	1,361,753	133	0	0	0	1,361,620
JP	0	644,604	22	0	0	0	644,582
CH	0	501,438	228	0	0	0	501,210
IT	0	346,696	722	0	0	0	345,974
Other Countries	0	1,678,208	542	0	0	0	1,677,666
Total	184,848	29,534,886	132,575	0	0	0	29,587,159

4.8 Reconciliation of changes in credit risk adjustments for impared exposures

For this section we refer to the AR note 4 (Loans and advances to customers).

4.9 Description of balance sheet netting policy

Not applicable since MBE does not apply balance sheet netting.

4.10 Description collateral valuation policy

To mitigate credit risk, counterparty limits and collateral management are essential instruments.

For this purpose, the following main types of collateral are taken on a case by case basis depending on credit type, credit quality (especially for impaired assets), credit exposure and country:

- Deposit Collateral
- Guarantee
- Government Bond
- Credit Insurance
- Receivable/claim
- Movable Property

The policy and procedures of MUFG Bank Ltd. regarding Asset and Evaluation, Disclosure of Non-Performing Loans, Write off and Reserve is the overarching framework for recognition of Non-Performing loans as well as Collateral evaluation and classification in the main ledger systems of MBE required for Risk and Regulatory reporting.

The collateral classification list is periodically reviewed.

Collateral type	Value
Guarantee	100%
Deposit Collateral	100%

Description collateral valuation policy

Collateral type	Value
Government Bond	90%

For Regulatory & Risk Reporting purposes, market value of certain collateral is daily monitored and adjustments are applied in accordance with the Financial Collateral Comprehensive Method (FCCM) in order to take account of price volatility, creditworthiness of the issuer, term, currency and maturity mismatches.

4.11 Main types of guarantor and credit derivative counterparty and their creditworthiness

MBE defines cash, high quality liquid bonds and credit insurance from eligible insurance company as high quality collateral. High quality collateral is largely related to collateral from MUFG Bank Ltd. to mitigate the legal lending limit (LLL). See also note 4 of the AR for a description of the received collaterals.

4.12 Market- & Credit risk concentrations within credit mitigation taken

A material part of MBE's collateral portfolio is obtained from its parent undertaking and comprise mainly cash pledges or bond borrowing.

5. Securitisation

MBE acts as investor in the securitization market.

5.1 Breakdown total securitization exposure

Please find below MBE's total gross exposure amounts per different categories:

	Institution acts as investor			
	Traditional		Synthetic	Sub-total
in thousands of €s	STS	Non-STS		
Total exposures		1,158,095.87		1,158,095.87
Retail (total)				
residential mortgage				
credit card				
other retail exposures				
re-securitisation				
Wholesale (total)		1,158,095.87		1,158,095.87
loans to corporates				
commercial mortgage				
lease and receivables		1,158,095.87		1,158,095.87
other wholesale				
re-securitisation				

5.2 Capital requirements of securitization

Please find below the capital requirements of MBE's total securitization exposure.

	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)		RWEA (by regulatory approach)		Capital charge after cap	
in thousands of €s	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-SA	1250%/ deductions	SEC-SA	1250%/ deductions	SEC-SA	1250%/ deductions
Total exposures	379,174	499,044		33,148		911,365		206,411		16,513	
Traditional securitisation	379,174	499,044		33,148		911,365		206,411		16,513	
Securitisation	379,174	499,044		33,148		911,365		206,411		16,513	
Retail underlying											
Of which STS											
Wholesale	379,174	499,044		33,148		911,365		206,411		16,513	
Of which STS											
Re-securitisation											
Synthetic securitisation											
Securitisation											
Retail underlying											
Wholesale											
Re-securitisation											

6. Liquidity risk

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

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

6.1 LCR

Please find below MBE's LCR calculations per quarter (Q2 2019 – Q1 2020):

	Quater ended 31-Mar-20		Quater ended 31-Dec-19		Quater ended 30-Sep-19		Quater ended 30-Jun-19	
in thousands of €s	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets								
Total HQLA		1,900,961		1,936,417		2,042,729		2,061,237
Cash outflows								
Retail deposits and deposits from sme, of which	0	0	0	0	0	0	0	0
Stable deposits								
Less stable deposits								
Unsecured wholesale funding, of which	9,804,168	4,259,561	9,977,955	4,289,841	10,148,652	4,384,028	10,186,492	4,479,540
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
Non-operational deposits (all counterparties)	9,804,168	4,259,561	9,977,955	4,289,841	10,148,652	4,384,028	10,186,492	4,479,540
Unsecured debt								
Secured wholesale funding								
Additional requirements, of which:	7,790,133	805,477	7,840,609	804,632	7,933,452	809,355	8,028,963	812,234
Outflows related to derivative exposures and other collateral requirements	1,612	1,612	711	711	696	696	568	568
Outflows related to loss of funding on debt products								
Credit and liquidity facilities	7,788,522	803,865	7,839,898	803,921	7,932,756	808,659	8,028,395	811,666
Other contractual funding obligations								
Other contingent funding obligations	6,740,567	175,674	6,961,860	179,914	7,078,653	177,239	6,672,306	155,037
Total cash outflows	24,334,868	5,240,712	24,780,424	5,274,387	25,160,758	5,370,621	24,887,761	5,446,811
Cash inflows								
Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
Inflows from fully performing exposures	5,240,074	4,106,627	5,370,869	4,229,051	5,395,281	4,262,667	5,542,996	4,431,497
Other cash inflows	3,071,306	616,415	2,980,963	598,543	2,838,184	569,702	2,754,101	552,637
Total cash inflows	8,311,380	4,723,042	8,351,832	4,827,594	8,233,465	4,832,368	8,297,097	4,984,134

Liquidity risk

LCR

	Quater ended 31-Mar-20		Quater ended 31-Dec-19		Quater ended 30-Sep-19		Quater ended 30-Jun-19	
Fully excempt inflows								
Inflows subject to 90% cap								
Inflows subject to 75% cap	8,311,380	4,723,042	8,351,832	4,827,594	8,233,465	4,832,368	8,297,097	4,984,134
Ratio calculation								
Total HQLA		1,900,961		1,936,417		2,042,729		2,061,237
Total net cash outflows	16,023,488	1,310,178	16,428,592	1,318,597	16,927,292	1,342,655	16,590,664	1,361,703
Liquidity Coverage Ratio (%)		145.10%		146.84%		152.47%		151.89%

Please note, figures are 12 months calculated averages based on the reported figures to the regulator.

6.2 NSFR

Please find below MBE's NSFR calculations for Q1 2020

	Unweighted value by residual maturity				Weighted value
in thousands of €s	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items					
Capital items and instruments					
Own funds				2,069,831	2,069,831
Other capital instruments					
Retail deposits					
Stable deposits					
Less stable deposits					
Wholesale funding:		11,167,938	376,493	3,580,483	8,205,124
Operational deposits					
Other wholesale funding		11,167,938	376,493	3,580,483	8,205,124
Interdependent liabilities					
Other liabilities:	34,346	453,073			0
NSFR derivative liabilities	34,346				
All other liabilities andcapital instruments not included in the above categories		453,073			0
Total available stable funding (ASF)					10,274,955
Required stable funding (RSF) Items					
Total high-quality liquid assets (HQLA)					0
Deposits held at other financial institutions for operational purposes					
Performing loans and securities:		10,178,079	873,485	5,198,944	8,704,388
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut					
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions					
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns,and PSEs, of which:		6,871,471	530,381	4,541,448	11,943,300
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk					
Performing residential mortgages, of which:					

Liquidity risk

NSFR

in thousands of €s	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk					
Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products					
Interdependent assets					
Other assets:					195,688
Physical traded commodities					
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets				54,229	19,883
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories		152,998			175,805
Off-balance sheet items		11,079,815			553,991
Total RSF					9,454,068
Net Stable Funding Ratio (%)					108.68%

7. Market risk

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

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

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

7.1 Own funds requirements relating to market risk

For this section we refer to the AR note 28 (Risk management) in section 28.4 (Market risk).

	RWEAs
Outright products	
Interest rate risk (general and specific)	0.00
Equity risk (general and specific)	0.00
Foreign exchange risk	0.00
Commodity risk	0.00

The table above shows the four different market risks under the Market Risk framework of the CRR/CRDIV. Total RWA for market risk is zero. Only foreign exchange risk is applicable to MBE. However, the calculated RWA related to foreign exchange risk (€ 6.8m) is below the applicable threshold (based on CRR article 351). Therefore MBE is not required to hold RWA for foreign exchange risk, hence overall RWA reported for market risk is zero.

7.2 Overview equity

For this section we refer to the AR consolidated statement of changes in equity.

7.3 Interest rate risk

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. Please find below the interest rate risk in the banking book per 31-Mar-2020[3].

[3] Please note that the table represents the quarterly regulatory report that MBE prepares for the Dutch supervisor, DNB. Internal stress testing may differ due to reasons including but not limited to: different stress scenarios, different interest rate shock values and different timing of shocks (e.g. sudden vs gradual). Besides, total column and Others column does not contain all currencies as consistent with the Quartely report that MBE prepares for DNB.

Market risk

Interest rate risk

Income at risk (in thousands of €s)	Total	EUR	USD	Others
Net interest income 1 year	62,048	30,935	27,327	3,786
Net interest income 2 years	54,500	26,670	23,941	3,889
Economic value own funds	1,877,801	1,865,911	17,483	-5,594
Earnings at risk (parallel shift)				
EAR 1 yr absolute 200 bp up	4,050	6,991	-3,504	563
EAR 1 yr in % of prognosed interest income 200 bp up	6.53%	22.60%	-12.82%	14.88%
EAR 2 yr absolute 200 bp up	38,271	29,227	5,709	3,334
EAR 2 yr in % of prognosed interest income 200 bp up	70.22%	109.59%	23.85%	85.73%
EAR 1 yr absolute 200 bp down	-11,404	-51	-10,413	-940
EAR 1 yr in % of prognosed interest income 200 bp down	-18.38%	-0.16%	-38.11%	-24.81%
EAR 2 yr absolute 200 bp down	-12,887	-51	-11,802	-1,034
EAR 2 yr in % of prognosed interest income 200 bp down	-23.65%	-0.19%	-49.30%	-26.59%
Economic value own funds (sudden parallel shift)				
Own funds at risk absolute 200 bp up	26,526	21,999	3,447	1,081
Own funds at risk % of own funds 200 bp up	1.41%	1.18%	19.72%	-19.32%
Own funds at risk absolute 200 bp down	-13,626	-9,082	-3,600	-944
Own funds at risk % of own funds 200 bp down	-0.73%	-0.49%	-20.59%	16.88%
Duration own funds				
Price value of 1 bp	306			
Regulatory capital				
Regulatory capital (Tier 3 excluded)	2,069,831			
Outlier criterium				
Outlier criterium	0.66%			

Key Interest Rate Risk Appetite Indicators (RAIs) are:

Delta Economic Value of Equity (EVE)

EVE is a present-value based measure which compares the discounted value of expected cash flows under an adjusted interest rate scenario with expected cash flows under a base interest rate scenario. The difference in present value between the adjusted and base scenario is denoted ΔEVE. ΔEVE is calculated using an externally acquired vendor model which uses data from MBE and the vendor reporting tool. This tool produces IRRBB reports which depend on business-specific parameterization motivated by assumptions, expert judgement, and statistical analysis.

The RAI levels are as follows:

	Lower bond (>=)	Upper bond (<)
Risk Averse	N.A.	2.50%
Accepted Risk	2.50%	5.00%
Stress	5.00%	10.00%
Severe Stress	10.00%	15.00%
Critical	15.00%	N.A.

Outlier Criterion (Supervisory Stress Test)

The Outlier Criterion is what the EBA refers to as the Supervisory Outlier Test (or Stress Test) and it calculates the impact of a sudden parallel +/-200 basis points shift of the yield curve on EVE. The aggregate EVE change

Interest rate risk

for each interest rate scenario shock is calculated adding together any negative and positive changes to EVE occurring in each currency of the bank. Positive changes are weighted by a factor of 50%.

The RAI levels are as follows:

	Lower bond (>=)	Upper bond (<)
Risk Averse	N.A.	2.50%
Accepted Risk	2.50%	5.00%
Stress	5.00%	15.00%
Severe Stress	15.00%	20.00%
Critical	20.00%	N.A.

Change in the Present Value of a Basis Point (PV01)

PV01 of equity is derived from the modified duration of equity and measures the absolute change of the equity value resulting from a 1 basis point (0.01%) parallel shift of the yield curve.

The RAI levels are as follows:

	Lower bond (>=)	Upper bond (<)
Risk Averse	N.A.	225
Accepted Risk	225	450
Stress	450	1,820
Severe Stress	1,820	2,275
Critical	2,275	N.A.

Change in Net Interest Income (Delta NII)

The change of NII is an earnings-based metric and measures the change of the net interest income over a particular time horizon resulting from a sudden or gradual interest rate movement. The time horizon used at MBE is two years, which is in line with the quarterly reporting guidance on IRRBB of the local regulator.

The RAI levels are as follows:

	Lower bond (>=)	Upper bond (<)
Risk Averse	N.A.	5.00%
Accepted Risk	5.00%	25.00%
Stress	25.00%	50.00%
Severe Stress	50.00%	75.00%
Critical	75.00%	N.A.

The boundaries are determined based on current calculations, but also take a future outlook into account. In general, NII is most negatively impact in the scenarios where the interest rates decrease. However, as a zero floor is applied on both the asset and the liability side and because interest rates are currently historically low, the impact of the negative shifts of the yield curves is limited.

In higher interest rate environments the impact of decreasing interest rates is higher, as the decreasing rates will not hit the floor.

The upper bound of the accepted risk level has been set to 25%, which is based on the delta NII calculations with upward moving interest rate scenarios (which are hardly impacted by the floor).

Delta NII is set as one of the Risk Appetite Indicators for IRRBB, alongside Delta EVE, supervisory outlier test and PV01. This is recommended because of the 0% floor[3] that is applied to the loans and the deposits. This floor creates, to a certain extent, a protection for decreasing interest rates on NII. This makes it more suitable to steer on EVE in a low interest rate environment.

For further details we refer to the AR note 28 (Risk management) part 28.3 Balance Sheet Risk and part 28.4 Market Risk.

7.4 Foreign Exchange Risk (FX)

Foreign Exchange Risk (or Currency Risk) reflects the current and prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

It is MBE's policy to eliminate the currency risks arising from any activity. The currency risk is hedged by matching currencies for funding and lending transactions and by entering into FX spot and FX forward deals with MUFG Bank EHQ to immediately match FX open positions resulting from transactions with customers. MBE will continue this policy going forward. The remaining FX open position is managed within approved FX limits. The foreign exchange risk is mitigated by a (small) FX net position limit (USD 500ths) and forward fx position limit (USD 1m 3 months equivalent).

MBE is subject to a Pillar 1 capital requirement for foreign exchange risk (according to SA) and assessed whether 'de minimis' criterion for the foreign exchange risk is exceeded as given in CRR article 351. The 'de minimis' rule is exceeded as MBE's overall net foreign exchange position (non-euro currencies) is higher than 2% of its total capital. As of March 2020, the TREA related to foreign exchange risk (currency risk) amounts to €6.9m, which is equal to the net foreign-exchange position (both long and short) over all non-euro currencies. This is lower than the 'de minimis' criterion. Therefore, MBE is not subject to Pilar 1 capital requirement for foreign exchange risk.

[3] Stressed IRRBB values include the following internal assumptions: deposit rates are floored to 0% and the yield curve is floored at -1% as per EBA requirements.

8. Operational risk

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

MBE has defined seven level 2 risks for Operational Risk: IT Risk, Information Security Risk, Operations Risk, Crisis Risk, Vendor/Outsourcing Risk, Product/Service Risk and Model Risk. The capitalization for Operational Risk is analyzed on two levels. In Pillar 1 MBE applies BIA approach and for Pillar 2 MBE capitalizes for an additional EUR 44 mln.

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

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

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

8.1 Own funds requirements relating to operational risk

For this section we refer to 3.6 for the own funds requirement relating to operational risk. MBE makes use of the so called basic indicator approach (BIA).

8.2 Remuneration policy

For this section we refer to the AR note 27 (Key management remuneration). Next to this the Remuneration report is disclosed:

Introduction

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

The Reward Policy is the cornerstone of MBE's approach to rewarding its employees. It promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Bank. Its objective is to align MBE's and MUFG's strategic objectives and core values with the reward for

Remuneration policy

employee performance, whilst ensuring compliance with regulatory requirements. The Reward Policy allows MBE to provide locally competitive pay to attract and retain employees, while operating a consistent framework that rewards the achievement of business objectives and the delivery of shareholder value in a sustainable way.

This Policy has been drafted taking MUFG Group's policies and principles on remuneration into account, with deviations applied as necessary to align to local requirements. The policy complies with all local and EU regulation including: MiFID II, the 'Act on remuneration Policies of Financial Undertakings'[4], the '*Guidelines on Sound Remuneration Policies*' as issued by the European Banking Authority (EBA), the '*Regulation on Sound Remuneration Policies under WFT 2014*[5] as issued by the De Nederlandsche Bank and the '*Dutch Banking Code*' as issued by the Dutch Association of Banks (hereinafter: 'DBA').

Remuneration of the Management Board

Remuneration elements

The Management Board consists of five members, including the President (CEO) who is an expatriate from Tokyo Head Office. Three of the other board members are employed locally and have an employment contract for an indefinite period with the Bank. Their remuneration consists of a fixed annual income, pension contribution and fringe benefits, such as the salary supplement as compensation for the loss of pension accrual above € 107,593 and a bank car or car allowance.

Fixed annual income

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

For the Fixed Pay rates of the expatriate Management Board members (the President and one other Management Board member), the Bank follows the conditions as provided by the Bank's shareholder. Both the Supervisory and Management Board understand that the shareholder in principle applies to its staff principles of sound remunerations based on CRDIV[6]. For the avoidance of doubt, the Bank will explain in its annual report if this leads to a deviation from the Banking Code and the Bank will apply this policy to these Management Board Members in proportion to the amount of time such person spends on the bank in a relevant year.

Benchmarking

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

Performance objectives

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

4 'Wet beloningsbeleid financiele ondernemingen' : law of January the 28th, 2015.
5 'Regeling beheerst beloningsbeleid 2014':decree of the Dutch Central Bank of July the 21st, 2014.
6 EU directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (2013/36/EU).

Remuneration policy

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

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

Pension

The local Management Board members participate in the same pension scheme as all other staff of MBE. Additional pension compensation may be granted. Every employee in service before 1st Jan 2015 who earns more than € 107,395 receives a gross supplement to their salary. This is a percentage of the income based on years of service, salary, age and retirement date. This also applies to the Management Board.

Other

The fringe benefits provided to the Management Board members are in line with the fringe benefits that apply to all other employees. In the event of termination of employment at the initiative of MBE, Management Boards members are entitled to compensation with a maximum of one year’s fixed annual income.

Further information on the Management Board members pay is provided in the AR.

9. Other risk

MBE reports encumbered assets as per reporting date.

9.1 Breakdown of encumbered and unencumbered assets

in thousands of €s	Carrying amount of encumbered assets		Carrying amount of unencumbered assets	
		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	8,238	8,238	14,661,394	3,192,608
Equity instruments				
Debt securities			164,777	164,777
of which: covered bonds				
of which: asset-backed securities				
of which: issued by general governments				
of which: issued by financial corporations				
of which: issued by non-financial corporations				
Other assets	8,238	8,238	14,496,617	3,027,831

9.2 Breakdown of collateral received and own debt securities issued

in thousands of €s	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution			4,211,079	4,211,079
Loans on demand				
Equity instruments				
Debt securities			4,211,079	4,211,079
of which: issued by general governments			4,211,079	4,211,079
Loans and advances other than loans on demand				
Other collateral received				
Own debt securities issued other than own covered bonds or asset-backed securities				
Own covered bonds and asset-backed securities issued and not yet pledged				
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED				

Sources of encumbrance

9.3 Sources of encumbrance

in thousands of €s	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	7,021	8,238

9.4 Credit risk rating

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

9.5 Breakdown of exposures under the standardised approach by asset class and risk weight

Exposure classes	Risk weight					Total
in thousands of €s	0%	20%	50%	100%	250%	
Central governments or central banks	1,067,200	0	0	0	48,916	1,116,116
Institutions	0	108,077	402,364	1,254,271	0	1,764,712
Corporates	0	0	0	10,019,315	0	10,019,315
Exposures in default	0	0	0	61,380	0	61,380
Other items	97,432	553	0	21,363	0	119,348
TOTAL	1,164,633	108,630	402,364	11,356,329	48,916	13,080,871

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