



Pillar 3 Disclosures

30 JUNE 2016



Contents

1. About MUS(EMEA)	3
2. Introduction	4
3. Regulatory Approach	5
4. Capital Resources	6
5. Capital Requirements	7
6. Credit Risk	8
7. Market Risk	10
8. Operational Risk	11
9. Leverage Ratio	12

1. About MUS(EMEA)

Mitsubishi UFJ Securities International (MUSI) has been renamed MUFG Securities EMEA plc (MUS(EMEA)) as part of a broader shift by Mitsubishi UFJ Financial Group (MUFG) to provide one-stop financial solutions to customers around the world. The name change became effective on 1 July 2016.

MUS(EMEA) is a wholly-owned investment banking subsidiary of Mitsubishi UFJ Securities Holdings Co. Ltd. (MUSHD), which is wholly owned by the MUFG and was established in 1983. MUS(EMEA)'s share capital at 30 June 2016 was £1,011 million.

MUS(EMEA) is active throughout the international capital markets, focusing on debt, equity, derivatives and structured products. It is engaged in market-making and dealing in the debt, equity-linked and derivatives financial markets; and the management and underwriting of issues of securities, and securities investment.

MUS(EMEA) provides a wide range of services to governments, their monetary authorities and central banks, supra-national and sub-national organisations, private financial institutions and corporates.

MUS(EMEA) works in close partnership with MUFG and its corporate bank, the Bank of Tokyo-Mitsubishi UFJ Ltd (BTMU), to ensure its clients experience seamless product delivery that meets all of their objectives.

MUFG was formed in October 2005 through the merger of Mitsubishi Tokyo Financial Group and UFJ Holdings and is one of the world's largest and most diversified financial groups. MUFG's services include commercial banking, trust banking, investment banking, credit cards, consumer finance, asset management, leasing and other financial service activities.

The scope of this document covers MUS(EMEA), including its Dubai branch, on a solo basis. As of 30 June 2016 MUS(EMEA) does not have any subsidiaries.

2. Introduction

The Basel II Framework was implemented in the European Union via the Capital Requirements Directive (“CRD”) in June 2006. The framework is made up of three pillars:

- Pillar 1 (Minimum capital requirements)
Pillar 1 sets out ‘minimum capital requirements’. It covers the calculation of risk weighted assets (RWA) and the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and concentration risk.
- Pillar 2 (Supervisory review process)
Pillar 2 capital framework is intended to ensure that firms have adequate capital to support the relevant risks in their business, and that they have appropriate processes to ensure compliance with CRD IV. It considers whether additional capital is required over and above the Pillar 1 capital requirements. A firm’s internal capital adequacy assessment process (‘ICAAP’) supports this process.
- Pillar 3 (Market discipline)
Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements. It covers external disclosures of capital and risk exposures to increase transparency and improve comparability and consistency of disclosures.

In December 2014, the EBA issued ‘*Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013*’. The Guidelines require institutions to disclose Pillar 3 information more frequently than annually from 2016 if institutions meet certain criteria specified in the Guidelines.

This document is prepared based on the requirements set out in the above Guidelines applicable to MUS(EMEA). This is the first interim Pillar 3 disclosures published by MUS(EMEA) and it is available on the corporate website of MUS(EMEA) (www.mufgsecurities.com).

The interim Pillar 3 disclosures were verified and approved internally, including a review by the Board of Directors. There is no requirement for external auditing of these disclosures.

3. Regulatory Approach

MUS(EMEA) is regulated by the UK Prudential Regulatory Authority (“PRA”) and Financial Conduct Authority (“FCA”) and is subject to minimum capital adequacy standards. MUS(EMEA) calculates appropriate capital requirements for each of its material risks.

Methodologies for MUS(EMEA)’s Capital Calculations

Pillar 1 Credit Risk

MUS(EMEA)’s credit risk requirement is measured under the Standardised Approach in accordance with Title 2 of Part Three within the Capital Requirements Regulation (CRR).

Pillar 1 Market Risk

The calculation of MUS(EMEA)’s market risk capital requirements is primarily based on its internal Value at Risk (“VaR”) model which has been approved by the PRA. Market risk capital requirements for a small number of positions are calculated using the Standardised Approach.

Pillar 1 Operational Risk

MUS(EMEA) calculates its operational risk using the Standardised Approach in accordance with Title 3 of Part Three within CRR.

Basis of Consolidation

In this document, MUS(EMEA) is presented on a solo basis and there is no difference between the financial accounting consolidation and the regulatory consolidation.

4. Capital Resources

MUS(EMEA)'s regulatory capital resources are assessed under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV). MUS(EMEA)'s capital consists of Tier 1 – share capital and retained earnings, and Tier 2 – subordinated debt which is fixed term and denominated in Japanese Yen.

MUS(EMEA) manages its risk profile and its capital resources with the objective of maintaining a capital ratio in excess of the Capital Resources Requirement for its risk profile at all times. The management of MUS(EMEA)'s capital is carried out under the principle that it should not unexpectedly need to raise new capital or significantly reduce its risk taking in order to meet its capital management objectives.

MUSHD and MUS(EMEA)'s affiliate BTMU provide support arrangements to MUS(EMEA), including a 'Keep Well Agreement'. MUS(EMEA) is not aware of any material impediments to the transfer of capital resources from its parent or affiliate.

The breakdown of own funds and capital ratios is shown below.

Table 1: Own Funds Disclosure

	30 Jun 2016	31 Dec 2015
	£m	£m
Own Funds		
Common equity Tier 1 (CET1) capital before regulatory adjustments	1,094	1,078
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(138)	(98)
Common equity Tier 1 (CET1) capital	956	980
Additional Tier 1 (AT1) capital before regulatory adjustments	-	-
Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	956	980
Tier 2 (T2) capital before regulatory adjustments	775	658
Total regulatory adjustments to Tier 2 (T2) capital	-	-
Tier 2 (T2) capital	775	658
Total capital (TC = T1 + T2)	1,731	1,638
Capital Ratios		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.6%	15.1%
Tier 1 (as a percentage of total risk exposure amount)	11.6%	15.1%
Total capital (as a percentage of total risk exposure amount)	21.1%	25.3%
Total Risk Weighted Assets (RWA)	8,224	6,482

5. Capital Requirements

The Pillar 1 framework provides the basis for capital requirements arising from credit, market and operational risk. It covers the calculation of risk weighted assets (RWA) and the capital requirements. The Pillar 2 framework requires firms to hold capital for all risks not sufficiently covered in the Pillar 1 framework and ensures that firms have adequate capital to support the relevant risks in their business.

In the table below, MUS(EMEA)'s Pillar 1 capital requirements set out the minimum capital required under the CRD IV.

Table2: Capital Requirements by Risk Type¹

	30 Jun 2016	31 Dec 2015
	Capital required	Capital required
	£m	£m
Credit Risk (Including Concentration Risk)	421	312
Market Risk	202	172
Operational Risk	35	35
Total	658	519

1 Capital requirements represent the Pillar 1 capital charges at 8% of risk weighted assets (RWA).

6. Credit Risk

Credit risk is the risk of loss resulting from client, issuer or counterparty default and arises on credit exposure in all forms, including settlement risk. MUS(EMEA) measures credit risk capital requirements using the Standardised Approach.

Methodology

MUS(EMEA) takes counterparty and/or issuer credit risk through most of its business activities. Counterparty credit risk arises for derivatives and securities financing transactions (SFTs). It is calculated in both the trading and non-trading books. Under CRD IV, four methods may be used to calculate exposure values for counterparty credit risk. These four methods are Mark to Market, Original exposure, Standardised and IMM method. MUS(EMEA) uses the Mark to Market method (MTM, also known as Current Exposure method) to determine the exposure value which is the sum of current replacement cost and potential future credit exposure.

Per Article 113 of the CRR, MUS(EMEA) is required to use rating agencies' credit assessments for the determination of risk weights under the Standardised Approach to credit risk. The credit assessment should be produced by an eligible External Credit Assessment Institution (ECAI) and used in a consistent manner over time. For regulatory purposes, MUS(EMEA) has selected Moody's Rating Agency as its nominated ECAI. Ratings derived by Moody's are applied to MUS(EMEA)'s exposures for credit risk calculation. ECAI ratings are used to determine risk weightings for all the relevant exposure classes.

Tables below provide details of MUS(EMEA)'s credit risk exposures, RWAs and capital requirements.

Table 3: Credit Risk Capital Requirements and RWAs¹

	30 Jun 2016		31 Dec 2015	
	RWAs £m	Capital required £m	RWAs £m	Capital required £m
Counterparty Credit Risk	2,805	224	2,204	176
Non-Trading book credit risk ²	172	14	127	10
Concentration risk	761	61	469	38
Credit valuation adjustment risk ³	1,524	122	1,106	88
Total	5,262	421	3,906	312

1 Derivatives, securities financing transactions (SFTs), and exposures to central counterparties are included.

2 Non-trading book credit risk includes both on and off balance sheet items including fixed assets and non-trading book issuer exposures.

3 The Credit Valuation Adjustment (CVA) is the capital charge accounting for potential mark to market losses due to credit quality deterioration of counterparty. MUS(EMEA) uses Standardised Approach to calculate the CVA.

Table 4: Counterparty Credit Risk Summary¹

	30 Jun 2016			31 Dec 2015		
	Exposure value	RWA	Capital required	Exposure value	RWA	Capital required
	£m	£m	£m	£m	£m	£m
Central Government and Central Banks	417	-	-	354	-	-
Institutions (Excluding CCP)	3,562	1,054	84	2,528	770	62
Institutions (CCP)	8,169	554	44	6,660	485	39
Corporates	1,404	1,182	95	1,266	930	74
Multilateral Development Banks	69	-	-	55	-	-
Regional Government and Local Authority	74	15	1	84	17	1
International Organisations	320	-	-	45	-	-
Public Sector Entity	-	-	-	1	-	-
Total	14,015	2,805	224	10,993	2,202	176

1 Derivatives, securities financing transactions (SFTs), and exposures to central counterparties are included

7. Market Risk

Market risk is the risk of losses from movements in market prices in the trading portfolio. MUS(EMEA) uses a variety of risk measures to quantify and control this risk, with the overall objective of ensuring that potential losses arising from market risk remain within the appetite set by the Board:

- Value at Risk (“VaR”), Stressed Value at Risk (“SVaR”), and Incremental Risk Charge (“IRC”) measures provide aggregate indicators of potential losses, subject to stated confidence levels and holding periods.
- Risk factor sensitivities measure the impact of moves in each risk factor, allowing concentrations of risk to be identified and controlled.
- Stress testing is used to monitor and control the exposure of the portfolio to extreme moves in market prices. A range of stress tests is run, covering exposures to relevant market factors and scenarios in various market conditions.
- Stop loss and drawdown limits monitor actual losses at department or individual trader level.

Day-to-day responsibility for the management of market risk resides with the Market Risk Management department, which is organisationally independent from the front office departments. The Risk Analytics Group is responsible for the design of new market risk management models. Daily market risk reports are prepared for senior management and trading departments using MUS(EMEA)’s in house and vendor systems.

The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standard rules. MUS(EMEA)’s internal market risk models comprise VaR, Stressed VaR, Incremental Risk Charge (IRC), and Risks Not In VaR (RNIV) which covers all major asset classes traded by MUS(EMEA).

The table below shows the market risk capital requirements and RWAs.

Table 5: Market Risk Capital Requirements and RWAs

	30 Jun 2016		31 Dec 2015	
	Capital required £m	RWAs £m	Capital required £m	RWAs £m
VaR	31	391	21	263
Stressed VaR	67	833	56	700
Incremental Risk Charge (IRC)	43	541	53	663
Risks Not In VaR (RNIV)	57	712	37	463
Other Market Risk	4	52	5	63
Total	202	2,529	172	2,150

8. Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

MUS(EMEA) aims to manage and control its exposure to Operational Risk, and through its policies and procedures, MUS(EMEA) targets to ensure that it:

- Mitigates the risk of exposure to fraud
- Processes transactions correctly, accurately and on a timely basis
- Protects the integrity and availability of information processing facilities, infrastructure and data
- Maintains the confidentiality of its client information
- Employs appropriate numbers of skilled staff and complies with relevant employment laws and regulations
- Establishes workplace environments that are safe for both employees and visitors
- Reduces both the likelihood of an incident occurring and the impact should an incident occur.

MUS(EMEA) employs The Standardised Approach (“TSA”) for calculating its Pillar 1 Operational Risk Capital Requirement. MUS(EMEA) is committed to adopting leading industry practices for managing and measuring Operational Risk, and has also developed a scenario based capital model to determine whether it should hold any additional capital for Operational Risk.

The table below shows the operational risk capital requirements and RWAs.

Table 6: Operational Risk Capital Requirements and RWAs

	30 Jun 2016		31 Dec 2015	
	Capital required £m	RWAs £m	Capital required £m	RWAs £m
The Standardised Approach	35	435	35	435

9. Leverage Ratio

MUS(EMEA) assesses leverage ratio results to mitigate the risk of excessive leverage. Until 2017 the definition of the leverage ratio, minimum requirements and disclosures are subject to further regulatory review.

In December 2015 the Bank of England Financial Policy Committee issued a Policy Statement regarding the implementation of the leverage ratio for UK Banks. Under this implementation MUS(EMEA) is not required to meet the leverage ratio requirement until 1st January 2018. MUS(EMEA) has plans to increase its leverage ratio through reduction in exposure to achieve the required leverage ratio by 1st January 2018.

Although the regulatory leverage ratio definition which MUS(EMEA) is required to adhere to is subject to further development and at present no minimum requirement applies, MUS(EMEA) performs regular analysis of the calculation to understand drivers and sensitivities. This allows MUS(EMEA) to assess its plans to achieve the required leverage ratio by 1st January 2018.

Leverage ratio exposure measure is primarily driven by securities financing transactions, derivatives and inventory. In addition, Tier 1 capital resources and any applicable deductions impact on the leverage ratio. Leverage ratio is reported to the Risk Management Committee, the Asset and Liability Committee (“ALCO”) and the Board Risk Committee. The board has set a specific risk appetite level for the leverage ratio. ALCO monitors the leverage ratio level against the 1st January 2018 regulatory minimum and assesses the actions and timescales involved in meeting the regulatory minimum and the board risk appetite.

The table below shows the leverage ratio at year-end 2015 and 30 Jun 2016.

Table 7: Leverage Ratio

	30 Jun 2016 £m	31 Dec 2015 £m
Tier 1 capital	956	980
Total leverage ratio exposures	66,780	53,938
Leverage ratio	1.43%	1.82%
Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in