



# Pillar 3 Disclosure

31ST DECEMBER 2017



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## 1. About MUS(EMEA)

MUFG Securities EMEA plc (“MUS(EMEA)”) is a wholly-owned investment banking subsidiary of Mitsubishi UFJ Securities Holdings Co. Ltd. (MUSHD), which is wholly owned by Mitsubishi UFJ Financial Group (“MUFG”) and was established in 1983. MUS(EMEA)’s Tier 1 capital at 31 December 2017 was £1,365 million and the average number of employees during the year was 629.

MUS(EMEA) is active throughout the international capital markets, focusing on fixed income, equity, and structured finance products. It is engaged in market-making and dealing in the fixed income, 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, with total assets of ¥313 trillion (£2.1 trillion) at 31 December 2017. 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 31 December 2017 MUS(EMEA) did not have any subsidiaries

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## 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.

The Basel Committee agreed updates to the Basel framework in July 2009, commonly referred to as Basel 2.5. These seek to better capture risk from securitisation and trading book exposures and were incorporated into European law via amendments to the CRD known as the “Third Capital Requirements Directive” or “CRD3”.

Basel 3, released in December 2010, builds on Basel 2.5. It sets higher capital and liquidity requirements to be phased in over the coming years. In the EU, Basel 3 was implemented through the Capital Requirement Regulation (“CRR”) and Fourth Capital Requirements Directive (“CRD IV”) in January 2014. The UK Prudential Regulation Authority (PRA) published final rules for implementing CRD4 in its Policy Statement 7/13. Reporting and Disclosure requirements are covered in the Policy Statement.

In November 2016, the European Commission proposed a number of amendments to the existing CRR and CRD IV (collectively referred to as ‘CRR2’). These amendments cover some of the proposals already completed or under development by the Basel Committee. The amendments include the following:

- A binding leverage ratio (“LR”) and changes to the exposure measure
- A binding detailed net stable funding ratio (“NSFR”)
- A new Standardised Approach for counterparty credit risk
- The eligible capital for the large exposures purpose is limited to Tier 1 capital
- The implementation of new standards on total loss-absorbing capacity (“TLAC”)
- Changes to the rules for determining the trading and non-trading book boundary and the methodologies for calculating market risk capital charges

The CRR2 changes are expected to be finalised in 2018 and apply from 1 January 2021, although certain elements have slightly different timeframe. These proposed changes will need to be considered alongside the implications arising from the UK's negotiations over its exit from the European Union. MUS(EMEA) is monitoring and preparing for these changes to ensure any upcoming regulatory requirements are met.

The Pillar 3 report is prepared in accordance with the CRR and CRD IV as well as the European Banking Authority ("EBA") guidelines (EBA/GL/2016/11) on disclosure requirements issued in December 2016. The report is available on the corporate website of MUS(EMEA) ([www.mufgsecurities.com](http://www.mufgsecurities.com)). Disclosure in respect of remuneration as required under Article 450 of the CRR is separately published on the same website and forms part of the Pillar 3 disclosure for MUS(EMEA).

This report was verified and approved internally, including a review by the Board of Directors to ensure that the external disclosures convey MUS(EMEA)'s capital and risk profile comprehensively, subject to materiality and proprietary confidentiality. There is no requirement for external auditing of these disclosures.

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### 3. Regulatory Approach

MUS(EMEA) is regulated by the UK 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 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 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 disclosure, MUS(EMEA) is presented on a solo basis and there is no difference between the financial accounting consolidation and the regulatory consolidation.

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## 4. Risk Management Structure

### COMMITTEE AND CORPORATE STRUCTURE

MUS(EMEA) has a strong risk management culture with principles, processes and frameworks to identify, measure and manage its risks and capital effectively.

#### **Board**

The responsibility for risk management resides with the Board, with support from the Board Risk Committee (“BRC”). As part of MUS(EMEA)’s business strategy, the Board considers the risks to which MUS(EMEA) is exposed, and specifies an appetite and management strategy for each of these risks. The primary financial, operational and reputational risks are defined and discussed in further detail in the following sections.

The Board has approved an enterprise-wide risk management framework for MUS(EMEA) which describes MUS(EMEA)’s approach to risk appetite, strategy, governance, reporting and controls to ensure that risks taken are appropriately measured, monitored, reported, controlled and limited to the confines of MUS(EMEA)’s risk appetite. The Board is ultimately responsible for reviewing the adequacy of the enterprise-wide risk management framework. The Directors consider that the framework currently in place is adequate.

#### **Board Risk Committee**

The objective of the BRC is to exercise oversight on behalf of the Board over the key risks facing MUS(EMEA) and to review and make recommendations to the Board on MUS(EMEA)’s risk appetite and risk strategy, risk management framework (incorporating principles, policies, methodologies, systems, processes, procedures and people), and risk culture to ensure that it supports MUS(EMEA)’s risk appetite.

As at 31 December 2017, the Committee comprised of the Independent Non-Executive Directors, including the Chair of the Board. The Committee is supported by the regular attendance of the Chief Risk Officer (“CRO”). Regulatory change and reviewing MUS(EMEA)’s preparation to comply with new rules continued to be a key area for the Committee, including the requirements of the Market in Financial Instruments Directive II (“MiFID II”). Other topics focussed on by the Committee included: Risks arising from the integration of key business functions with BTMU; preparations and stresses arising from political changes such as the UK’s negotiations over its departure from the EU; information security and cyber risk; internal assessments of the adequacy and projections for capital, liquidity and the leverage ratio; the overall risk appetite of MUS(EMEA) and the risk profile of each of MUS(EMEA)’s business lines.

#### **Remuneration Committee**

The objective of the Remuneration Committee is to assist the Board of Directors to exercise independent judgement in approving remuneration proposals and recommending a remuneration policy to the Board on an annual basis. The Committee shall make decisions which are consistent with the MUS(EMEA)’s current and future financial status.



## **Nomination Committee**

The objective of the Nomination Committee is to advise the Board of Directors on the criteria for and selection of new directors. It shall keep the composition of the Board under review and lead the appointment process for nominations to the Board.

## **Audit Committee**

The objective of the Audit Committee is to assist the Board of Directors in its oversight of (i) the integrity of MUS(EMEA)'s financial statements and other financial information provided by MUS(EMEA) to its shareholders, creditors, regulators or other third parties; (ii) MUS(EMEA)'s internal controls and risk management systems; (iii) the performance of MUS(EMEA)'s internal and external auditors and (iv) MUS(EMEA)'s auditing, accounting and financial reporting processes generally. The Committee is responsible, among other matters, for determining whether MUS(EMEA)'s internal controls over financial reporting are appropriate to the risks they are designed to monitor.

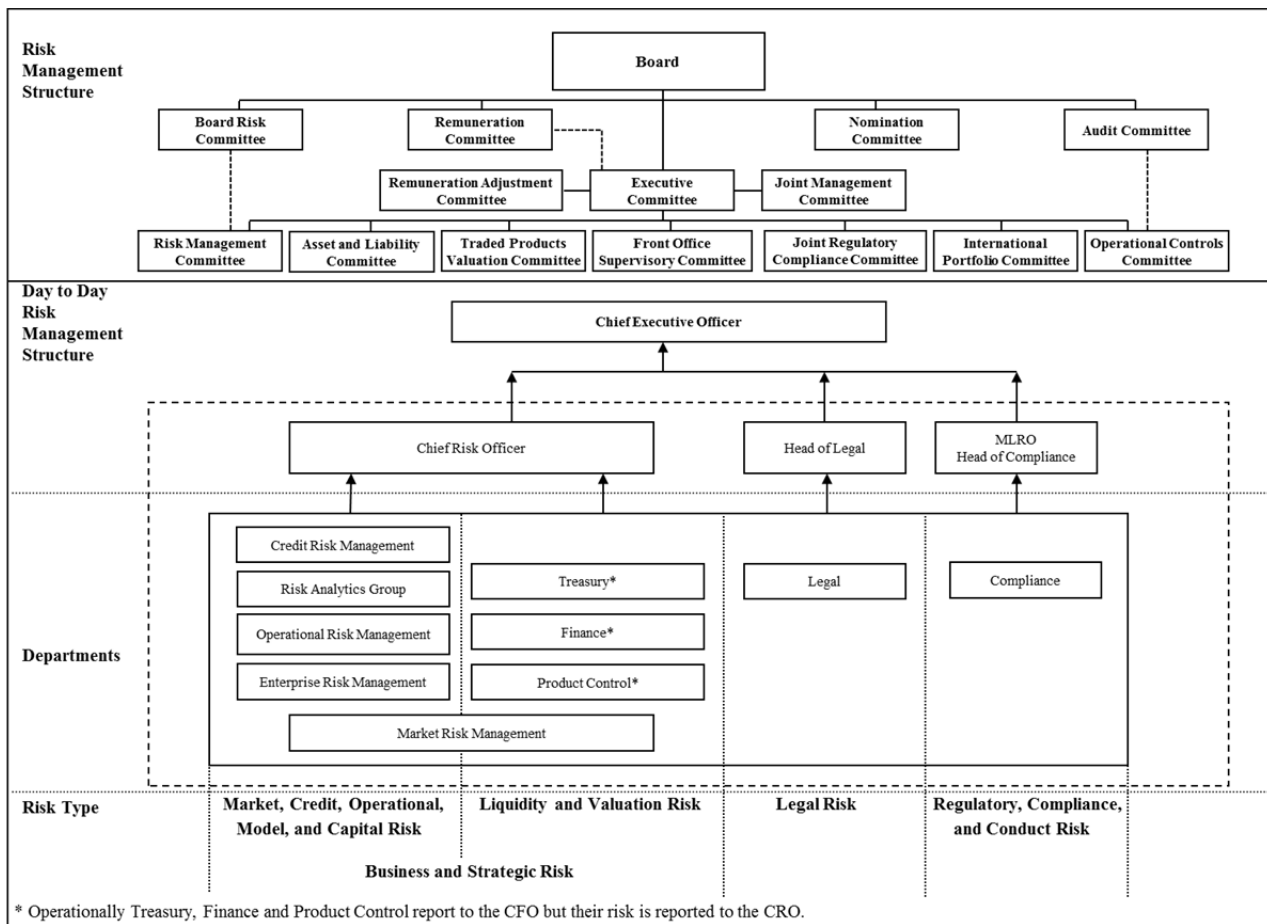
## **Risk structure and other committees**

Day-to-day risk management of all risks, with the exception of compliance, conduct, legal and reputational risk, resides with the CRO, who reports directly to the Chief Executive Officer ("CEO") and the BRC. Market, credit, operational, and model risk are overseen by the Risk Management Committee ("RMC") supported by its underlying working groups.

Valuation risk is overseen by the Traded Products Valuation Committee ("TPVC"). Liquidity and capital risk is overseen by the Asset and Liability Committee ("ALCO"). Compliance, conduct and legal risk are overseen by the Joint Regulatory Compliance Committee. Day-to-day risk management of compliance risk and conduct risk resides with the Head of Compliance, who reports directly to the CEO. Legal risk management resides with the Head of Legal, who reports directly to the CEO. Reputational risk management resides with the CEO and the Executive Committee.

Each of these executive sub-committees reports to the Executive Committee, which reports directly to the Board. In addition, the RMC reports to the BRC, via the CRO.

MUS(EMEA)'s risk committee and corporate structure as at 31st December 2017 is illustrated below:



## THREE LINES OF DEFENCE

Responsibility for risk management resides at all levels, from the Board and the Executive Committee down through the organisation to each department head, risk specialist and analyst. This is recognised through the “Three Lines of Defence approach”, on which MUS(EMEA)’s governance of risk is centred. These three lines are:

- 1) Business Management – Front Office and functional support departments  
 Department Heads and all Front Office staff are responsible for:
  - Managing the risks inherent in their business activities
  - Supervision, ensuring competence and training of their staff
  - Escalating risk issues to the Executive Committee, Joint Management Committee, RMC, ALCO, or the Operational Controls Committee (“OCC”).
- 2) Challenge and Risk Control – Risk Departments and other control support departments
  - Independent of Front Office, led by the CRO, the Chief Financial Officer (“CFO”) and the Head of Compliance
  - Enable MUS(EMEA) to maintain a system of checks and balances
  - Escalate risk issues to the RMC, TPVC, ALCO, OCC and where appropriate to the Executive Committee
  - The Risk function and the RMC have a reporting line to the BRC, independent of the CEO.
- 3) Assurance – Internal Audit
  - Assurance role carried out by Internal Audit
  - Independent opinion to Senior Management and the Audit Committee of the Board

- Objective appraisal of the adequacy and effectiveness of the internal control systems designed and installed by Senior Management and their remediation
- Reports to Senior Management on whether the control systems are fulfilling, or are likely to fulfil, the control objectives of MUS(EMEA)
- Independent reporting line to the Chair of the Audit Committee of the Board.

## SENIOR MANAGEMENT

Board members as of 31 December 2016 are listed in the table below.

**Table 1: Board Members**

<b>William Fall</b> Chairman/ Independent Non- Executive Director	Mr. Fall has been a director since 2015, during which time he has been Chair of the Board Risk Committee and became the Chairman of the Board in October 2015. His most recent role was Co-Head of the Institutional Bank, at Royal Bank of Scotland. Prior to this, Mr Fall was the CEO, International, at Bank of America. He has also held senior positions at Kleinwort Benson, Westpac Banking Corporation and Straumur-Burdaras and also sits on several charitable Boards.
<b>Akihiro Sugimura</b> Group Non- Executive Director	Mr. Sugimura became a director in 2017. He has been at MUFG for 33 years since he joined Mitsubishi Bank in 1984, and has worked mainly in Global Markets and Global Corporate Banking. He has lived outside of Japan for sixteen years, including eight years in UK, five years in Germany, two years in Hong Kong and a year in the US. He transferred to the UK in September 2016 and responsible for overseeing MUS businesses internationally as Regional Executive Officer of Mitsubishi UFJ Securities Holdings Co., Ltd (MUSHD). Prior to his current role, he was Senior Executive Officer and Supervisory Executive for International Corporate Strategy Division at MUSHD. He has a BA in Economics from Keio University and MSc in Management from Stanford Business School.
<b>Masahiro Kuwahara</b> Group Non- Executive Director	Mr. Kuwahara has been a director to MUS(EMEA) since 2016. Mr. Kuwahara commenced his banking career with The Mitsubishi Bank, Limited in 1986. He has held a number of positions gaining extensive global banking experience. In 2016 he assumed responsibility for the overall strategic leadership of BTMU's EMEA business as Chief Executive Officer for Europe, Middle East and Africa.
<b>Masamichi Yasuda</b> Group Non- Executive Director	Mr. Yasuda has been a director since 2014. He is Chief Risk Officer and Chief Credit Officer for BTMU. In the global market business, he gained valuable experience in sales and trading, portfolio management, and asset and liability management. He also is skilled in corporate strategy and corporate finance management and operations.
<b>Diane Moore</b> Independent Non- Executive Director	Mrs. Moore has been a director since 2013 and is Chair of the Nomination and Remuneration Committees. She has been the Senior INED since 11th March 2016. She is a specialist in financial services regulation, banking supervision and strategic management, having worked in senior positions at the Bank of England and other central banks, as well as the FSA. She is also the Non-Executive Chair of the Audit Committee at the London branch of BTMU and holds additional non-executive positions within the Cantor Fitzgerald Group and at Axis Bank UK.
<b>Stephen Jack</b> Independent Non- Executive Director	Mr. Jack has been a director since September 2015 and is Chair of the Audit Committee. He is a Chartered Accountant who has held senior management positions in a number of international investment banking and broking organisations including being Global CFO of ING Barings, Group Finance Director of Collins Stewart Tullett plc and Group CFO of Compagnie Financiere Tradition SA. As a Non-Executive director he has gained experience across other sectors. He is currently Vice Chair of Anchor Trust, England's largest not for profit provider of care and housing for older people, and a Non-executive Director of the Cambridge Building Society. In May 2014 he also became a trustee of the Royal Mencap Society and was awarded an OBE for services to disabled people. Most recently, he became a trustee of Golden Lane Housing in December 2016.
<b>Gordon Sangster</b> Independent Non- Executive Director	Mr Sangster has been a Director since September 2017 and is Chair of the Board Risk Committee. Prior to joining MUSE Mr Sangster was International Treasurer at Bank of America NA and prior to this appointment held a number of positions in Bank of America NA in both the Corporate Bank and Finance in a career spanning 35 years. In

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addition Mr Sangster has held a number of INED appointments which included CLS both as a Board member and Chair of the Audit Committee. Mr Sangster has an honours degree in Physics from Edinburgh University and is FCCA, ACMA and ACIS qualified.

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**David King**  
Executive Director

Mr. King has been a director since 2010. He joined MUS(EMEA) as Chief Financial Officer in 2010 and was appointed as Chief Executive Officer in 2014. He has held several management roles in Finance and Product Control during his career at KPMG, RBS, HBOS and Lloyds. He is a qualified Accountant.

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**Chris Kyle**  
Executive Director

Mr. Kyle has been a director since 2014. He is currently Chief Financial Officer at MUS(EMEA) and the London branch of BTMU, having experience in various senior roles such as CFO and Chief Operating Officer of the Global Banking & Markets Division at RBS, Barclays, and Dresdner Kleinwort Benson. He is a Qualified Accountant.

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**Arthur Maycock**  
Executive Director

Mr. Maycock has been a Director since 2013. Prior to joining MUS(EMEA) as Chief Risk Officer in 2013, he was a senior risk specialist at the Federal Reserve Bank of New York. He has held various senior management positions in risk management at Merrill Lynch and Salomon Brothers.

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## Diversity

Inclusion & Diversity continues to be a key area of focus for MUS(EMEA). Over the past 12 months the aim has been to raise awareness of Inclusion & Diversity and its importance to the firm, increase understanding through education, drive change and embed accountability for progress.

MUFG signed the HM Treasury Women in Finance Charter in July 2017. The CEO of MUS(EMEA) has been named as one of the Accountable Executives for Gender Diversity and the firm has set a target to increase the proportion of women in senior management by at least 10% over 5 years. All Management Committee members were given an individual Inclusion & Diversity objective to ensure progress is made against the target. A Gender Strategy has also been put in place to support senior leaders with the Inclusion & Diversity plans they are required to make for their business units.

The organisation has five employee networks which are becoming increasingly active across the EMEA region and focus on raising awareness. These are: Family Matters (all aspects of family, including carers), Pride Alliance (LGBT & Allies), Mosaic (Multiculturalism), Balance (Gender Diversity) and disABILITY WORKS (Disability, including Mental Health).

## Risk appetite

Central to MUS(EMEA)'s risk management is a clear risk appetite, consistent with its business profile and plans, as well as a strong and independent review and challenge structure. This facilitates optimisation of risk/return and assists Senior Management to effectively control and coordinate risk taking across the business. MUS(EMEA)'s risk appetite is specified by the Board through a number of metrics including capital, liquidity, earnings volatility, market and credit risk. It is reviewed at regular meetings of the Board and reset annually as part of MUS(EMEA)'s budget and planning process. The risk appetite is cascaded through MUS(EMEA) via the allocation of limits to front office departments and individual traders.

Risk limits impose an upper constraint on the level of exposure to a particular factor or a combination of factors. Limits are imposed to express the Board and Senior Management's appetite for certain risk types and to facilitate prudent allocation of such risk appetite to individual risk takers or group of risk takers, taking

client needs and revenue targets into consideration. These are set at MUS(EMEA), business unit, department, and trader level and risk limits are monitored daily.

The establishment of the risk appetite is largely a top down process and is supplemented and reinforced by a bottom up approach to risk identification, the results of which are maintained in MUS(EMEA)'s risk register.

MUS(EMEA) establishes and is subject to risk policies. These policies formalise the behaviours and standards expected in support of the risk culture. Policies are established across each primary risk type to formalise the processes by which business activities should fall within the appetite for each risk. Additionally, risk policies are established to ensure quality of risk measurement, risk monitoring, and appropriate avenues for escalation to occur.

MUS(EMEA) has established formal processes governing new business, complex transactions and new product mandates which support the identification of any additional risk to MUS(EMEA), and ensure that the risks related to the proposal are within the risk appetite of MUS(EMEA) and has the support of MUS(EMEA)'s risk management functions.

### **Risk monitoring**

The Chief Risk Officer has risk reporting lines from relevant support business functions to aid identification of risks. Risk issues are escalated to RMC and the Executive Committee. The BRC has delegated responsibility from the Board for independent oversight, review and challenge of MUS(EMEA)'s risk profile against the agreed risk appetite under both normal and stressed conditions.

The risk profile is monitored and reported at the Joint Management Committee, Executive Committee and RMC as well as to the Board and BRC and is escalated outside the regular meeting framework if daily monitoring reveals any issues.

### **New products and complex transactions**

MUS(EMEA) subjects all new business and complex transactions to the scrutiny of the New Business and Complex Transaction Committee, which reports to the Executive Committee and is comprised of representatives from all the relevant support functions. All new products go through the New Products Approval process which identifies the risks of the proposed product and considers the range of mitigation techniques, including hedging. Once all issues are resolved, the new products are approved by the CRO.

Complex transactions are subject to a similar approval process as new products. The CRO is responsible for determining whether any complex transaction is within MUS(EMEA)'s risk appetite and the final approval of all complex transactions.

### **Stress testing**

MUS(EMEA) has a stress testing framework that includes scenario stress testing (comprising macroeconomic and event stress testing based upon forward looking, historical and reverse stress testing), as well as single risk factor stress tests (which are designed to identify and quantify risk concentrations to

particular risk factors). Results of stress testing are calculated at MUS(EMEA) level and also by department and business line, and reported regularly to Senior Management.

MUS(EMEA) undertakes stress testing across each of its businesses using stressed market moves across the market risk factors of relevance for each of those businesses.

### **Leverage ratio**

MUS(EMEA) assesses leverage ratio to mitigate the risk of excessive leverage. MUS(EMEA) performs daily analysis of the leverage ratio to understand drivers and sensitivities. MUS(EMEA)'s leverage ratio exposure measure is mainly 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 ALCO, the RMC and BRC.

At present MUS(EMEA) is not subject to a binding regulatory minimum leverage ratio requirement. ALCO monitors the leverage ratio against the expected level and timing of a regulatory minimum to ensure action plans are in place to meet this regulatory minimum. In addition, balance sheet limits are in place for key exposure types which mitigate significant increase in leverage ratio exposure measure.

The disclosure of the leverage ratio below is based on the end point CRR definition of Tier 1 capital and the CRR definition of leverage exposure. MUS(EMEA)'s leverage ratio is not affected by the exemption of qualifying central bank claims. Hence, there is no difference between the UK leverage ratio and the CRR leverage ratio.

Disclosures on the leverage ratio follow the EBA disclosure templates are presented below.

**Table 2: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures**

		At 31 Dec 2017	At 31 Dec 2016
		£m	£m
1	Total assets as per published financial statements	56,929	82,429
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-	-
4	Adjustments for derivative financial instruments	(5,776)	(7,155)
5	Adjustments for securities financing transactions "SFTs"	1,158	1,735
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	47	41
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(162)	7
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>52,196</b>	<b>77,057</b>

**Table 3: Leverage Ratio Common Disclosure**

CRR Leverage Ratio Exposures		At 31 Dec 2017	At 31 Dec 2016
		£m	£m
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	12,055	9,843
2	(Asset amounts deducted in determining Tier 1 capital)	(132)	(115)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	11,923	9,727
<b>Derivative exposures</b>			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	211	740
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	8,691	10,343
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	2,536	5,289
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(2,447)	(2,287)
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	9,568	6,957
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(8,551)	(5,900)
11	Total derivative exposures (sum of lines 4 to 10)	10,008	15,142
<b>Securities financing transaction exposures</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	42,243	61,678
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(13,184)	(11,267)
14	Counterparty credit risk exposure for SFT assets	1,159	1,736
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	30,218	52,147
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposures at gross notional amount	47	41
18	(Adjustments for conversion to credit equivalent amounts)	-	-
19	Other off-balance sheet exposures (sum of lines 17 to 18)	47	41
<b>Capital and total exposures</b>			
20	Tier 1 capital	1,365	1,311
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	52,196	77,057
<b>Leverage ratio</b>			
22	Leverage ratio	2.61%	1.70%
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased In	Fully Phased In



**Table 4: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

The table shows a breakdown of the on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by asset class.

CRR Leverage Ratio Exposures		At 31 Dec 2017	At 31 Dec 2016
		£m	£m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	12,055	9,843
EU-2	Trading book exposures	9,853	6,840
EU-3	Banking book exposures, of which:	2,202	3,003
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	1,591	2,473
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	12	15
EU-7	Institutions	350	370
EU-8	Secured by mortgages of immovable properties	-	-
EU-9	Retail exposures	-	-
EU-10	Corporate	25	14
EU-11	Exposures in default	-	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	224	131

## 5. Capital Resources

MUS(EMEA)'s regulatory capital resources are assessed under the CRR and CRDIV. MUS(EMEA)'s capital consists of Tier 1 – share capital, retained earnings and Additional Tier 1, 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.

MUS(EMEA) has fulfilled its capital requirements at all times during the year. The breakdown of year-end capital for 2016 and 2017 is shown below. Further detail on capital instruments, including the terms and conditions of capital instruments in EBA templates, is provided in the Appendix (Table 30) to this document.

**Table 5: Capital Resources**

Capital Resources	At 31 Dec 2017	At 31 Dec 2016
	£m	£m
Total common Equity Tier 1 capital after deductions	1,058	1,009
Additional Tier 1 capital after deductions	307	302
Total Tier 2 capital after deductions	290	259
Total capital resources	1,655	1,570

**Table 6: Capital Ratios**

Capital Resources	At 31 Dec 2017	At 31 Dec 2016
	%	%
Common Equity Tier 1 Ratio	11.6	13.7
Tier 1 Ratio	15.0	17.8
Total Capital Ratio	18.1	21.3

## 6. 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.

**Table 7: Capital Requirements**

Capital Requirements	At 31 Dec 2017 £m	2017 Average £m	At 31 Dec 2016 £m	2016 Average £m
Credit Risk (Including Concentration Risk)	404	423	359	397
Market Risk	278	236	193	194
Operational Risk	47	39	36	35
Total	729	698	588	626

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

The capital requirements increased from the end of 2016 to 2017 across all risk types. Detailed description in respect of each risk type is provided in the following sections.

### Internal Capital Adequacy Assessment Process (ICAAP)

MUS(EMEA) monitors its capital adequacy on an ongoing basis and conducts a formal annual ICAAP through which it assesses its risks, controls and capital.

The Board is involved in all the key elements of the ICAAP and approves the business and capital plans, Risk Appetite Statement, stress testing framework and preparation of the ICAAP document. The ICAAP process is closely aligned with MUS(EMEA)'s strategy setting and business planning process as well as the process for identification, measurement and control of its risks.

Stress testing is used to assess the impact of severe but plausible financial stresses on either individual or multiple risk factors and to determine appropriate capital buffers. MUS(EMEA) manages its risk and capital resources with the objective of maintaining a regulatory ratio comfortably in excess of the minimum capital resources required by the regulators.

### Capital Buffers

A number of capital buffers were introduced under CRD IV. In the UK, CRD IV capital buffers are being phased in from 1 January 2016 with the exception of the countercyclical capital buffer ("CCyB"). At end 2017, the UK CCyB rate remained at 0%. However, at its meeting in September 2017, the Financial Policy Committee (FPC) maintained the UK CCyB rate at 0.5% (effective from June 2018) and reaffirmed that it expected to increase the rate to 1% in November 2018.

Outside the UK, the only CCyB rates in force at 31 December 2017 were 2% set by Norway and Sweden, 1.25% set by Hong Kong and Iceland, and 0.5% set by Czech Republic and Slovakia. The geographical breakdown and institution specific CCyB disclosure is included in the Appendix (Table 32 and 33).

## 7. 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 from derivatives and securities financing transactions (SFT). 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 Internal Models Method. MUS(EMEA) uses the mark-to-market method to determine the exposure value which is the sum of current replacement cost and potential future credit exposure.

Per Article 113 of 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, with the exception of securitisation exposures where DBRS has been selected. ECAI ratings are used to determine risk weightings for all the relevant exposure classes. Tables below provide details of MUS(EMEA)'s credit risk capital requirements:

**Table 8: Credit Risk Capital Requirements<sup>1</sup>**

Capital Requirements	At 31 Dec 2017	At 31 Dec 2016
	£m	£m
Counterparty credit risk	242	208
Concentration risk	12	6
Non-Trading book credit risk <sup>2</sup>	27	20
Credit valuation adjustment	123	125
Total credit risk capital requirement	404	359

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.

**Table 9: Counterparty Credit Risk Summary**

	At 31 Dec 2017			At 31 Dec 2016		
	Exposure Value	RWAs <sup>1</sup>	Capital Required	Exposure Value	RWAs <sup>1</sup>	Capital Required
	£m	£m	£m	£m	£m	£m
Central Government and Central Banks	141	8	1	646	3	-
Institutions (Excluding CCP)	3,622	1,014	81	3,740	1,040	83
Institutions (CCP)	5,776	390	31	7,835	367	29
Corporates	1,698	1,531	122	1,349	1,160	93
Multilateral Development Banks	14	-	-	60	-	-
Regional Government and Local Authority	89	18	1	142	28	2
International Organisations	34	-	-	195	-	-
Public Sector Entity	122	67	5	-	-	-
Total	11,497	3,028	242	13,968	2,598	208

1 Risk weighted asset

**Table 10: Non Trading Book Issuer Exposure**

	At 31 Dec 2017			At 31 Dec 2016		
	Exposure Value	RWAs	Capital Required	Exposure Value	RWAs	Capital Required
	£m	£m	£m	£m	£m	£m
Central Government and Central Banks	474	7	1	976	20	2
Institutions (Excluding CCP)	32	2	-	39	6	1
Corporates	8	2	-	7	1	-
Multilateral Development Banks	220	-	-	678	-	-
Regional Government and Local Authority	7	1	-	-	-	-
International Organisations	72	-	-	-	-	-
Public Sector Entities	5	-	-	15	-	-
Grand Total	818	12	1	1,757	28	2

MUS(EMEA) has exposures to intragroup entities which exceed the large exposure limits defined in the CRR and MUS(EMEA) holds capital against these exposures. MUS(EMEA) monitors large exposures to third parties on the daily basis.

### Credit Risk Management

MUS(EMEA) manages its credit risks in accordance with policies originated and approved within MUS(EMEA) and endorsed by its parent company. Counterparty exposure is managed through a process of credit risk assessment, limit setting, exposure monitoring and exception reporting.

MUS(EMEA) assesses the default probabilities of individual counterparties by using a rating methodology incorporating external ratings, the market price of credit risk and internal fundamental analysis.

Day-to-day responsibility for the management of credit risk resides with the Credit Risk Management department, which is organisationally independent from the front office departments, and the Risk Analytics Group which is responsible for the design of new credit risk management models. Daily credit risk reports are prepared for Senior Management and trading departments using MUS(EMEA)'s in house and vendor systems. Their objective is to:

- Identify, quantify, monitor and control credit risk exposure
- Provide sufficient, timely and relevant data of credit risk exposure by counterparty across all product classes and against each respective approved credit limit
- Maintain static data for all counterparties
- Produce timely credit risk reports as appropriate
- Mitigate credit risk by receiving collateral in accordance with MUS(EMEA)'s Collateral Policy
- Provide credit portfolio monitoring and analysis.

On a monthly basis, Credit Risk Management reports MUS(EMEA)'s total credit risk exposure to the RMC, including a review of large exposures, exposures to lower rated issuers and counterparties, and exposure to higher risk industry and country sectors. The RMC is also the forum where credit policies are reviewed and finally approved.

In addition to the RMC, a summary of MUS(EMEA)'s credit risk exposure is also reported monthly to the BRC.

Credit exposure is normally measured on a net basis i.e. by taking account of received collateral and aggregating trades with both positive and negative values provided that a legally enforceable master netting agreement has been executed that permits close-out netting. To mitigate credit risk, MUS(EMEA) has Credit Support Annexes in place with the majority of its counterparties and guarantee arrangements in place with members of MUFG; risk is managed net of these guarantees.

### Credit Limits for Counterparty Credit Exposures

Credit limits for counterparty credit exposures are assigned within the overall credit process. The credit limits are assigned taking into account various factors, such as credit worthiness of the counterparty, type of transactions undertaken with the counterparty, contractual terms, credit risk mitigants and overall risk appetite within MUS(EMEA). The risk appetite is a key consideration and the credit limits are established to ensure that exposure remains within risk appetite. In addition, specific credit limits are assessed and allocated to third parties based on the estimated exposure measure.

MUS(EMEA) expresses its aggregate appetite for credit risk, including counterparty risk, by allocating an amount of capital to credit risk, that is approved by the Board. Limits for individual counterparties and groups are allocated within this capital allocation taking into account the credit assessment of the counterparty and group as well as the nature of the business relationship with that counterparty.

The tables below show breakdowns of regulatory counterparty credit exposures by geography, industry, credit quality and residual maturity. Details of derivatives exposures and exposures to Credit Default Swaps are also included.

**Table 11: Counterparty Exposure by Exposure Class and Geography**

At 31 December 2017	UK £m	Europe ex. UK £m	Japan £m	Asia ex Japan £m	North America £m	Other £m	Total £m
Central government and central banks	50	92	-	-	-	-	141
Institutions (Excluding CCP)	973	1,135	546	38	700	231	3,622
Institutions (CCP)	3,440	448	580	-	1,268	40	5,776
Corporates	101	471	188	28	491	420	1,698
Multilateral development banks	-	2	-	3	9	-	14
Regional government and local authority	-	7	-	43	-	39	89
International Organisations	-	34	-	-	-	-	34
Public sector entities	-	-	-	-	-	122	122
Total	4,563	2,188	1,314	112	2,469	852	11,497

At 31 December 2016	UK £m	Europe ex. UK £m	Japan £m	Asia ex Japan £m	North America £m	Other £m	Total £m
Central government and central banks	297	249	-	-	-	100	646
Institutions (Excluding CCP)	1,046	1,092	567	21	761	253	3,740
Institutions (CCP)	5,635	502	547	-	1,111	40	7,835
Corporates	77	445	68	63	401	295	1,349
Multilateral development banks	-	9	-	-	51	-	60
Regional government and local authority	9	5	-	118	-	9	142
International Organisations	-	195	-	-	-	-	195
Public sector entities	-	-	-	-	-	-	-
Total	7,064	2,497	1,182	202	2,325	698	13,968

**Table 12: Corporate Counterparty Exposure by Industry**

	At 31 Dec 2017 £m	At 31 Dec 2016 £m
Financial and insurance activities <sup>1</sup>	1,360	1,000
Wholesale and retail trade	126	123
Mining and quarrying	121	126
Manufacturing	49	47
Electricity, gas, steam and air conditioning supply	20	20
Information and communication	11	-
Other services activities	11	-
Transporting and storage	-	31
Total	1,698	1,349

1 'Financial and insurance activities' category contains Insurance, Other financial firms, and Special purpose entities among others

**Table 13: Counterparty Exposure by Credit Quality Step**

At 31 December 2017	CQS 1 £m	CQS 2 £m	CQS 3 £m	CQS 4 £m	Unrated £m	Total £m
Central government and central banks	3	-	-	-	139	141
Institutions (Excluding CCP)	681	1,209	122	-	1,609	3,622
Institutions (CCP)	-	-	-	-	5,776	5,776
Corporates	153	31	20	-	1,494	1,698
Multilateral development banks	11	-	-	-	3	14
Regional government and local authority	7	-	-	-	82	89
International Organisations	-	-	-	-	34	34
Public sector entities	-	-	-	-	122	122
Total	856	1,241	142	-	9,259	11,497

At 31 December 2016	CQS 1 £m	CQS 2 £m	CQS 3 £m	CQS 4 £m	Unrated £m	Total £m
Central government and central banks	14	12	-	-	619	646
Institutions (Excluding CCP)	791	1,236	264	-	1,450	3,740
Institutions (CCP)	-	-	-	-	7,835	7,835
Corporates	100	96	24	-	1,129	1,349
Multilateral development banks	54	-	-	-	6	60
Regional government and local authority	5	-	-	-	137	142
International Organisations	5	-	-	-	191	195
Public sector entities	-	-	-	-	-	-
Total	968	1,344	288	-	11,367	13,968



**Table 14: Counterparty Exposure by Residual Maturity**

At 31 December 2017	Less than 1 year £m	1-5 years £m	More than 5 years £m	Total £m
Central government and central banks	139	-	3	141
Institutions (Excluding CCP)	1,751	195	1,676	3,622
Institutions (CCP)	461	1,035	4,280	5,776
Corporates	1,185	466	48	1,698
Multilateral development banks	3	2	9	14
Regional government and local authority	82	5	3	89
International Organisations	34	-	-	34
Public sector entities	122	-	-	122
<b>Total</b>	<b>3,776</b>	<b>1,703</b>	<b>6,018</b>	<b>11,497</b>

At 31 December 2016	Less than 1 year £m	1-5 years £m	More than 5 years £m	Total £m
Central government and central banks	619	-	27	646
Institutions (Excluding CCP)	1,736	205	1,799	3,740
Institutions (CCP)	799	777	6,260	7,835
Corporates	709	549	91	1,349
Multilateral development banks	6	38	16	60
Regional government and local authority	137	-	5	142
International Organisations	195	-	-	195
Public sector entities	-	-	-	-
<b>Total</b>	<b>4,201</b>	<b>1,569</b>	<b>8,197</b>	<b>13,968</b>

**Table 15: Derivatives Exposure and Collateral Summary**

At 31 December 2017	Excluding CCP £m	CCP £m	Total £m
Gross exposure of derivatives contracts	28,978	20,642	49,619
of which: positive fair value of derivative contracts	17,512	14,232	31,744
Less: netting benefits	16,349	16,126	32,475
Net exposure after netting benefits	12,629	4,515	17,144
Less: collateral held	7,864	1,106	8,970
Net exposure after credit mitigation	4,765	3,410	8,174

At 31 December 2016	Excluding CCP £m	CCP £m	Total £m
Gross exposure of derivatives contracts	34,729	36,490	71,129
of which: positive fair value of derivative contracts	23,544	24,274	47,818
Less: netting benefits	22,443	30,324	52,767
Net exposure after netting benefits	12,286	6,167	18,452
Less: collateral held	7,591	675	8,266
Net exposure after credit mitigation	4,695	5,492	10,187

**Table 16: Credit Default Swap**

Notional Amount	At 31 Dec 2017	At 31 Dec 2016
	£m	£m
Protection bought	9,016	6,714
Protection sold	9,568	6,988

Note:

Credit derivative products are principally used for intermediations only. This is to enable our clients to take a position (or positions) in the underlying securities.

### **Residual Credit Risk**

Residual credit risks are those that are not captured by standard credit risk models. MUS(EMEA)'s residual credit risk is made up of issuer positions in the Banking Book and wrong way risk from reverse repo, bought CDS or certain cross currency swaps.

MUS(EMEA) uses a combination of pre-trade approval, large haircuts, Credit Support Annexes ("CSAs") and correlated credit provisions to mitigate residual credit risk.

### **Credit Concentration Risk**

Credit concentration risk is the risk arising from an uneven distribution of exposures, through single name, sector or geographical concentration. MUS(EMEA) analyses the credit concentrations through its daily credit exposure reports. MUS(EMEA)'s exposures are concentrated on government bonds, the financial sector and exposures to Japanese markets and counterparties. In addition, MUS(EMEA) carries out stress testing and scenario analysis on its largest credit exposures.

### **Credit Risk Mitigation**

Credit mitigation is encouraged to reduce credit risk and can be achieved through:

- Risk reducing trades – these do not need approval
- Collateral arrangements – which must be legally enforceable to be recognised as mitigation
- Guarantee arrangements – through which exposure may be transferred to the guarantor

Securities financing transactions involving the use of bonds/debt securities as collateral are considered on the basis of the rating of the counterparty and the rating and haircut of the collateral. The combination of these two factors determines the standard terms and level of pre-approval required. Securities financing transactions involving the use of equities as collateral are considered on the basis of the rating of the counterparty and the haircut. Credit Risk Management (CRM) may restrict the types of collateral available for trades with a specific counterparty. Collateral should be daily tradable assets having firm price available in the markets or trading platforms. Reference assets, which are not marked to market or not readily tradable in the market have to be pre-approved by the CRO or their delegate and are considered structured securities. Asset Backed Securities are considered acceptable reference assets, not requiring specific pre-approval.

MUS(EMEA) provides derivative products for BTMU clients as a core business. Most of these transactions are covered by a guarantee from BTMU that transfers credit risk to BTMU. Collateral is generally cash collateral for derivatives and high quality government bonds. Concentrations of collateral received through securities financing are reported to Senior Management.

## Collateral Management

### Collateral & credit reserves

MUS(EMEA) has Credit Support Annexes and/or Contractual Margining Agreements in place which cover the majority of its non-BTMU guaranteed derivative exposures. The majority of these have low or zero thresholds and are not dependent upon MUS(EMEA)'s or other MUFG members' credit rating. For BTMU guaranteed exposures, they are collateralised on the daily basis. For derivative transactions, the collateral provided is predominantly cash denominated in Japanese yen. For SFTs, the collateral is mainly securities issued by European and Japanese governments. For structured financing, the collateral is assessed on a case-by-case basis to ensure adequate collateral is provided for exposures taken by MUS(EMEA). MUS(EMEA) applies regulatory volatility adjustments to collateral for the capital calculation in line with CRR.

Documentation requirements depend on the type of product and level of credit risk. Market-Standard Master Agreements are required for market traded instruments. Any agreement that is used should also have a clean legal opinion for enforceability, close out netting and collateral set off, as appropriate, or else the exposure measure reflects the lack of such legal arrangements. For most counterparties, trading is subject to a market-standard Credit Support Annex with daily margining and zero threshold. Non-standard agreements need to be individually approved. MUS(EMEA) makes adjustments to P&L in respect of expected losses by counterparty using a Credit Valuation Adjustment.

Since September 2016 MUS(EMEA) has been obliged to exchange initial margin and variation margin with certain non-centrally cleared over-the-counter derivatives counterparties and has received approval from the National Futures Association to allow it to use an internal model for the calculation of initial margin under the Commodity Futures Trading Commission's rules. It uses the Standardized Initial Margin Model developed by the International Securities Dealers Association to calculate initial margin in accordance with those rules.

### Collateral downgrade

MUS(EMEA) manages its exposure to collateral downgrades. Executive Committee approval is required for legal agreements with counterparties which contain clauses pertaining to MUS(EMEA)'s downgrade (i.e. require extra collateral in the event of a downgrade).

In addition, MUS(EMEA) monitors daily the idiosyncratic stress scenario which reflects a firm specific stress event triggered by market wide concerns about MUS(EMEA)'s capacity to meet liabilities as they fall due and this takes into account the impact of the amount of collateral MUS(EMEA) would have to provide given a downgrade in its credit rating.

### Wrong Way Risk Policy

Wrong way risk is the risk that counterparty exposures increase at the same time as the probability of counterparty failure to pay also increases. This can result in a wrong way risk or legal dependence between: (i) the counterparty and collateral held, and/or (ii) the counterparty and the performance/ market exposure of its' derivative contracts. As part of the credit review process, each counterparty is normally assessed and measured for wrong-way risk. If material wrong way risk is identified the collateral/underlying asset is

deemed ineligible for regulatory risk calculations and risk is measured on an uncollateralised basis. MUS(EMEA) undertakes daily and monthly monitoring of MUS(EMEA)'s wrong way risk positions.

### Settlement and Delivery Risk

Settlement risk is the risk of loss when a counterparty fails to meet its reciprocal obligation to exchange cash or securities on the due date. Failure to perform may result from the counterparty's default due to solvency or liquidity problems, operational problems, market liquidity constraints, or other factors. Non-reciprocal risk, i.e. pre-settlement credit risk is captured as part of the main credit risk measure.

On-the-day settlement risk arises when MUS(EMEA) initiates payment or delivery to the counterparty and continues until the reciprocal payment or delivery is received. With Delivery Versus Payment (DVP) settlement, the risk of loss of the principal is effectively mitigated. Free of Payment (FOP) transactions represent a certain level of risk as MUS(EMEA) will be exposed to the loss of the full principal amount as well as market risk during settlement until a replacement transaction is completed. MUS(EMEA)'s key controls include:

- Delivery Risk limits reflecting MUS(EMEA)'s assessment of the counterparty's credit worthiness.
- Delivery Risk is monitored daily to ensure that settlements are performed within the approved settlement limits.
- Pre-approval requirement for FOP transactions.

### Securitisation

The securitisation regulatory framework defined by the CRR specifies two methods for calculating credit risk requirement for securitisation positions in the non-trading book: the Standardised approach and the IRB approach. MUS(EMEA) uses the Standardised approach.

Currently MUS(EMEA)'s securitisation exposures are limited to CLO warehouse businesses where MUS(EMEA) provides liquidity to the warehouse. Under this structure, MUS(EMEA) is considered a sponsor to the structure and the exposures to the CLO warehouse businesses are risk-weighted as non-trading book securitisation exposures for regulatory purposes.

At 31 December 2017, MUS(EMEA) had securitisation exposures which are shown in the table below.

**Table 17: Securitisation Exposure**

	At 31 Dec 2017			At 31 Dec 2016		
	Exposure Value	RWAs	Capital Required	Exposure Value	RWAs	Capital Required
	£m	£m	£m	£m	£m	£m
<b>As sponsor</b>						
Loans to corporates	159	167	13	73	73	6

## 8. 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 rates and 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 MUS(EMEA), business unit, department, and 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 Standardised Approach. MUS(EMEA)’s internal market risk models comprise VaR, SVaR, 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.

**Table 18: Market Risk Capital Requirements**

Capital Requirements	At 31 Dec 2017 £m	At 31 Dec 2016 £m
VaR	38	38
Stressed VaR	108	66
Incremental Risk Charge (IRC)	78	40
Risks Not In VaR (RNIV)	43	41
Other Market Risk	11	9
Total Market Risk Capital Requirements	278	193

### VaR Modelling

The VaR of a trading book is an estimate of the potential loss on risk positions as a result of movements in market rates and prices over a specific time horizon and to a given confidence level.

MUS(EMEA) uses VaR methodologies to monitor the price risks arising from different trading books across portfolios. This is measured based on a 99% confidence level and a 1-day holding period.

Actual profit and loss outcomes are also monitored to test the validity of the assumptions made in the calculation of VaR. The VaR outputs are based on a full revaluation historical simulation model and a 2-year data window.

MUS(EMEA) additionally calculates SVaR using an appropriately stressed 1-year lookback period as required by regulatory rules.

The table below shows VaR figures for 2017 and 2016. The “Close” column shows the VaR at the year-end date, whereas the Average, Maximum and Minimum measures are calculated from the VaR measurements for each trading day. “Diversification benefit” is the difference between the simple sum of the VaRs for each risk factor, and MUS(EMEA)’s overall VaR, which is based on the simultaneous modelling of all risk factors.

**Table 19: Breakdown of VaR**

	At 31 Dec 2017 Close £m	2017 Average £m	2017 Maximum £m	2017 Minimum £m
Interest Rate Curve Risk	1.5	2.1	3.8	0.7
Interest Rate Vega Risk	1.1	1.9	2.9	1.0
Asset Spread Risk	2.2	1.7	2.7	0.9
Currency Risk	0.6	0.8	1.8	0.2
Equity Price Risk	0.6	0.6	1.4	0.0
Equity Vega Risk	0.5	0.6	1.6	0.1
Inflation Risk	0.1	0.2	0.5	0.1
Basis Risk	1.8	2.0	3.1	1.1
Diversification benefit	-5.2	n/a	n/a	n/a
<b>Total VaR</b>	<b>3.2</b>	<b>3.5</b>	<b>5.0</b>	<b>2.4</b>

	At 31 Dec 2016 Close £m	2016 Average £m	2016 Maximum £m	2016 Minimum £m
Interest Rate Curve Risk	1.2	2.0	3.8	0.6
Interest Rate Vega Risk	2.0	2.5	5.0	0.6
Asset Spread Risk	1.7	1.1	3.3	0.6
Currency Risk	1.6	1.0	2.4	0.3
Equity Price Risk	1.3	0.7	2.5	0.1
Equity Vega Risk	0.7	0.7	1.7	0.2
Inflation Risk	0.4	0.3	0.6	0.1
Basis Risk	2.9	1.6	3.0	1.0
Diversification benefit	-8.4	-6.9	n/a	n/a
<b>Total VaR</b>	<b>3.4</b>	<b>3.0</b>	<b>5.0</b>	<b>1.7</b>

### VaR Backtesting

MUS(EMEA) carries out a daily comparison of end of day VaR measures to the 1-day change of the portfolio’s actual value and hypothetical value on the day the profit and loss figures are produced. In 2017 the number of occasions on which actual trading book outcomes or hypothetical trading book outcomes exceeded the previous day’s VaR was within the acceptable tolerances of the model. In addition to the VaR backtesting at the aggregate MUS(EMEA) level, MUS(EMEA) conducts backtesting on a number of sub-portfolios across the different business units.

## Stressed VaR

MUS(EMEA) calculates Stressed VaR based on inputs calibrated to historical data from a continuous twelve-month period of significant financial stress relevant to MUS(EMEA)'s portfolio.

The table below shows the highest, the lowest, the mean and at 31 December 2017 and 2016 the stressed VaR measures over the reporting period and as per the period end.

**Table 20: Stressed VaR (One-day Equivalent)**

	2017 £m	2016 £m
At 31 December	7.8	4.6
Maximum	12.9	9.1
Minimum	3.1	3.8
Average	8.1	6.0

## Risks Not In VaR

MUS(EMEA) calculates additional capital under its RNIV framework for certain risk factors that are not fully captured in VaR.

## Incremental Risk Charge

MUS(EMEA) calculates IRC which captures risk from the default and rating migration of non-securitised credit exposures in the trading book. The IRC is calculated daily and is included in regulatory capital calculations. IRC is calculated using a Monte Carlo model of portfolio rating migration and default. Risk is measured over a 1-year horizon to a confidence level of 99.9% and is calculated on current positions assuming that risk will be at similar levels throughout the year.

Liquidity horizon is calculated taking various factors into account, such as size of positions, type of issuer, concentration versus total issue, liquidity of pricing source etc. MUS(EMEA) portfolio weighted average liquidity horizon is 3.19 months.

The table below shows the highest, the lowest, the mean and at 31 December 2017 and 2016 the Incremental Risk Charge over the reporting period and as per the period end

**Table 21: Incremental Risk Charge**

	2017 £m	2016 £m
At 31 December	78.5	40.2
Maximum	80.8	64.7
Minimum	37.4	33.3
Average	53.5	44.4

## Other Market Risk

Other market risk consists of positions not captured in the VaR model. Exclusion from the VaR model may be due to the VaR model not being able to adequately capture the risk or not having regulatory permission to include a position in the VaR model.

The table below shows the market risk capital requirements under the Standardised Approach.

**Table 22: Market Risk Capital Requirement – Standardised Approach**

Capital Requirements	At 31 Dec 2017 £m	At 31 Dec 2016 £m
Equity position risk	0.9	2.2
Foreign exchange position risk	4.7	2.3
Interest rate position risk	5.2	4.2
Total	10.8	8.8

### **Inclusion in the Trading Book**

Trading intent is a crucial element in deciding whether a position should be treated as a trading or banking book exposure. For regulatory purposes, the trading book covers all positions in CRD financial instruments which are held with trading intent. Positions in the trading book are subject to market risk capital, computed using models where MUS(EMEA) has the regulatory approval mentioned above. Otherwise the market risk capital requirement is calculated using the Standardised Approach as defined in the CRR.

### **Prudent Valuation Adjustment**

Where there are a range of plausible alternative valuations, the Prudent Valuation Adjustment (PVA) is applied to accounting fair values. All trading book positions are subject to PVA which is calculated in accordance with Article 105 of the CRR.



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## 9. Interest Rate Risk in Banking Book

MUS(EMEA)'s interest rate risk in the banking book remains relatively small. MUS(EMEA) calculates VaR internally on these positions on a daily basis as part of its monitoring process. In addition, MUS(EMEA) periodically carries out stress testing which includes these positions.

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## 10. 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) manages and controls its exposure to operational risk through its policies and procedures, which are designed 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 primarily scenario based capital model to determine whether it should hold any additional capital for Operational Risk.

### **Operational Risk Management Framework**

In order to facilitate the management of Operational Risk, MUS(EMEA) sub-divides it into the seven Basel II categories, i.e.:

- 1) Execution, delivery and process management
- 2) Clients, products and business practices
- 3) Internal fraud risks
- 4) External fraud risks
- 5) Employment practices and workplace safety
- 6) Business disruption and systems failures
- 7) Damage to physical assets

The Operational Risk Management framework is defined within MUS(EMEA)'s policies and detailed standards, and comprises of the following key elements:

- Risk appetite: MUS(EMEA) has defined its Operational Risk Appetite in both quantitative and qualitative terms, reflecting both the financial and non-financial impacts that can arise from operational risk
- Self-assessments: Managers within MUS(EMEA) assess the effectiveness of their controls at mitigating the key operational risks, relative to MUS(EMEA)'s appetite
- Key control attestations: Managers confirm regularly that their key controls have operated correctly
- Scenario analysis: MUS(EMEA) uses scenario analysis to assess the risks of extreme but plausible events
- Key risk & control indicators: MUS(EMEA) uses metrics to monitor its operational risk profile and to alert management when risk levels exceed acceptable ranges
- Incidents & losses: MUS(EMEA) systematically collects details of both operational risk losses (or gains) above a certain threshold and details of incidents, even if they have not led to losses (or gains) and root cause analysis where applicable
- Remedial actions: Progress in completing remedial actions is tracked and reported
- Reporting: The operational risk function and management uses reports to understand, monitor, manage and control operational risks
- Insurance policies: As part of its risk management approach, MUS(EMEA) uses insurance to mitigate the impact of some operational risks
- Training: Staff are required to undertake annual mandatory on-line operational risk awareness training.

MUS(EMEA) has a dedicated Operational Risk Management function. Issues of significance are escalated to the OCC, which meets on a monthly basis and is attended by members of Senior Management and heads of the control functions.

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## 11. Liquidity Risk

Liquidity risk is the risk that MUS(EMEA) has insufficient resources to meet its financial obligations as they fall due. This risk could arise from both institution-specific and market-wide events.

### Oversight

The ultimate responsibility for liquidity risk management sits with the Board who sets MUS(EMEA)'s liquidity risk appetite, which expresses the level of risk MUS(EMEA) chooses to take in pursuit of its strategic objectives. The Board mandate to the Executive Committee in respect of liquidity risk includes specification of liquidity stress testing, approval of business line unsecured funding limits, transfer pricing rates/policy and the contingency funding plan.

The Executive Committee has determined the powers and discretions delegated to the ALCO which meets monthly or on an ad-hoc basis (as appropriate) to:

- Review and define the funding and liquidity risk policy
- Monitor MUS(EMEA)'s liquidity risk profile and review compliance with the Board approved liquidity risk appetite
- Oversee and review stress testing
- Measure, monitor and mitigate liquidity risk exposures for MUS(EMEA)
- Ensure that appropriate business incentives are maintained that reflect the cost and availability of liquidity through MUS(EMEA)'s Fund Transfer Pricing ("FTP") process and unsecured funding limit allocation process
- Review critical liquidity risk factors and prioritise issues arising
- Determine MUS(EMEA)'s funding plans and funding diversification strategy in light of business projections and objectives.

MUS(EMEA) uses a variety of quantitative and qualitative measures to monitor the adequacy of MUS(EMEA)'s liquidity resources and to ensure an integrated approach to liquidity risk management. This framework incorporates a range of tools described below:

### Internal Stress Testing

MUS(EMEA)'s primary liquidity stress testing tool is the Maximum Cumulative Outflow, which is designed to capture all material drivers of liquidity risk (both on and off balance sheet) and to evaluate the subsequent liquidity outflow in order to determine the size of liquidity resources needed to navigate the stress event. The model has been developed using scenarios based on market practice, regulatory requirements and past experience in stressed market conditions. It is based on a synthesis of scenarios categorised as baseline (reflective of normal business conditions), systemic (refers to a market-wide liquidity event) and combined (analogous of a combined market and MUS(EMEA) specific stress event). Stress testing is conducted on both an aggregated currency basis and by material individual currency.

### Fund Transfer Pricing

MUS(EMEA) seeks to align its liquidity risk appetite with the strategic objectives of the business through regulating the demand for liquidity and allocating the cost of liquidity on the basis of unsecured funding

usage and underlying liquidity requirements. The ALCO is responsible for the FTP policy framework, and Treasury is responsible for the day to day application of the FTP framework. The cost of funding is allocated to businesses on the basis of the funding requirements to finance current inventory positions and ongoing business activities. The cost of liquidity reserved to cover contingent liquidity outflows is also allocated to the business – this includes liquidity reserved to cover regulatory liquidity requirements.

## **Funding Plan**

The balance sheet projection process balances aggregate business line requests for unsecured funding against Treasury's assessment of the projected balance sheet, funding requirements and capacity for MUS(EMEA) to raise unsecured financing. The ALCO will review and approve funding plans including allocation of funding limits to business lines. This ensures that business activities do not impose an unknown strain on MUS(EMEA)'s ability to source adequate liquidity in normal business conditions, and allows Treasury to plan and sustain appropriate levels of liquidity in anticipation of business line funding usage. As part of funding liquidity risk monitoring, Treasury looks at the short and long term currency mismatch horizons in accordance with the Board's guideline.

## **Liquid Asset Buffer**

The liquidity requirement is quantified through both the internal stress testing framework and regulatory requirement. MUS(EMEA) holds its liquidity portfolio in a stock of high quality government bonds and bonds issued by multi-lateral development banks, local government and agency issuers. The liquidity portfolio is held on an unencumbered basis without restrictions on rehypothecation and with full MUS(EMEA) legal ownership. The investment criteria for the liquidity portfolio are approved by ALCO with risk limits imposed and monitored by Market Risk Management.

## **Contingency Funding Plan**

The Contingency Funding Plan ("CFP") allows senior management to identify internal and external triggers indicative of a stress event, and to initiate the most effective response for stabilising and mitigating liquidity risk exposures through clear operational plans, clearly defined decision making responsibilities and effective communication with both internal and external stakeholders. The CFP also specifies the means through which additional funding should be sourced during a period of heightened liquidity concern.

MUS(EMEA) also maintains detailed recovery plans which consider actions to facilitate recovery or an orderly resolution from a severe stress.

## **Liquidity Stage Assessment**

The principal assessment framework within the Funding Liquidity Risk Management Policy is the liquidity stage assessment. This is a formal assessment of the external environment affecting MUS(EMEA) and other companies within the MUSHD Group.

The liquidity stage is determined by an evaluation of the availability of funding and is monitored through a combination of early warning indicators, MUS(EMEA)'s internal stress testing and compliance with regulatory liquidity requirements. Elevation of the liquidity stage is specifically linked to activation of the CFP, which provides a range of mitigating actions to be taken. Such actions are taken following consideration of any relevant market, economic or client impact. In the event the liquidity stage is elevated, formal approval is

required from the ALCO, which will in turn escalate and sanction actions as appropriate. Monitoring of the liquidity stage is conducted at MUS(EMEA) and MUSHD level on an on-going basis. Any elevation of liquidity stage risk at the MUSHD level is deemed to represent a worsening of conditions that would impact MUS(EMEA) too. The Funding Liquidity Risk Policy identifies general contingency actions to be taken by departments at each stage.

Disclosures on the Liquidity Coverage Ratio are presented below.

**Table 23: LCR Common Disclosure**

At 31 December 2017	Total unweighted value (average <sup>1</sup> ) £m	Total weighted value (average <sup>1</sup> ) £m
<b>Liquidity Asset Buffer</b>		
Level 1 assets	3,243	3,243
Level 2A assets	544	462
Level 2B assets	154	77
<b>Cash Outflows</b>		
Wholesale cash outflows (secured and unsecured)	32,883	2,962
Outflows related to derivative exposures and other collateral requirements	1,740	821
Outflows related to unsecured debt maturities	298	298
Other contractual funding obligations	2,469	2,804
Total Cash Outflows	37,390	6,885
<b>Cash Inflows</b>		
Wholesale cash inflows (secured and unsecured)	26,452	2,845
Inflows related to derivative exposures	182	182
Other cash inflows	2,120	2,239
Total Cash Inflows	28,755	5,266
<b>Total Liquid Asset Buffer</b>		3,782
Total Net Cash Outflows (post 75% inflow cap)		1,842
<b>Liquidity Coverage Ratio</b>		209%

1 Average figures: 3rd of January 2017 – 29th of December 2017

At 31 December 2016	Total unweighted value (average <sup>2</sup> ) £m	Total weighted value (average <sup>2</sup> ) £m
<b>Liquidity Asset Buffer</b>		
Level 1 assets	2,699	2,699
Level 2A assets	933	793
Level 2B assets	25	13
<b>Cash Outflows</b>		
Wholesale cash outflows (secured and unsecured)	35,429	3,542
Outflows related to derivative exposures and other collateral requirements	1,142	649
Outflows related to unsecured debt maturities	245	245
Other contractual funding obligations	8,048	223
Total Cash Outflows	44,864	4,659
<b>Cash Inflows</b>		
Wholesale cash inflows (secured and unsecured)	30,673	3,512
Inflows related to derivative exposures	350	350
Other cash inflows	1,885	186
Total Cash Inflows	32,908	4,047
<b>Total Liquid Asset Buffer</b>		3,505
Total Net Cash Outflows (post 75% inflow cap)		1,175
<b>Liquidity Coverage Ratio</b>		304%

2 Average figures: 4th January 2016 – 31st December 2016

**Table 24: LCR Disclosure Template**

Scope of consolidation : solo		Total weighted value			
		Currency and units (GBP million)			
Quarter ending on		31 Mar 2017	30 Jun 2017	29 Sep 2017	29 Dec 2017
Number of data points used in the calculation of averages		3	3	3	3
		Total adjusted value			
		£m	£m	£m	£m
21	Liquidity buffer	3,588	3,601	3,830	3,964
22	Total net cash flows	1,847	1,513	1,883	1,934
23	Liquidity coverage ratio (%)	199%	240%	205%	208%

**Table 25: Liquidity Risk Management**

Comment	
Strategies and processes in the management of the liquidity risk	<p>MUS(EMEA) employs a number of tools and policies to manage liquidity risk. These include:</p> <p>(i) Board approved liquidity risk appetite. This specifies the amount of liquidity risk deemed acceptable in the pursuit of its strategic goals. The Board requires there are sufficient liquidity resources (in the form of a portfolio of unencumbered High Quality Liquid assets (HQLA) Level 1, credit quality step (CQS) 1 plus JGBs and central bank deposits (where applicable)) such that all funding requirements and unsecured debt obligations falling due within two separately defined stress scenarios can be met without the need to roll unsecured funding or the forced liquidation of assets. The two scenarios envisage a 90 day market stress, as well as a 30 day combined market and MUFG stress. In addition the Firm requires sufficient liquidity resources are available to ensure regulatory liquidity compliance (Pillar 1 and Pillar 2 add-ons).</p> <p>(ii) control of unsecured funding usage. MUS(EMEA) allocated unsecured funding limits to business lines and monitors compliance against these limits on a daily basis, with breaches highlighted and mitigating actions taken.</p> <p>(iii) A Funds Transfer Pricing process designed to allocate the cost of liquidity to the users of liquidity.</p> <p>(iv) Currency stress testing. MUS(EMEA)'s framework envisages a 2 week FX market lockout. This will drive the currency composition of the liquidity buffer</p> <p>(v) A Contingency Funding Plan outlining early warning indicators (internal and external), internal triggers to determine the severity of any potential liquidity stress event as well as escalation and activation procedures. The CFP will also outline potential steps to be taken in the event the CFP is activated, as well as the means to determine whether the stress has passed and process for deactivating the CFP.</p> <p>(vi) Liquidity prediction - assessment of available resources to meet potential changes in balance sheet composition over the business planning horizon.</p>
Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)	<p>The overall liquidity risk appetite is set by the MUS(EMEA) Board and cascaded throughout the firm. The Board delegates responsibility over the day to day management of liquidity risk to the Executive Committee who in turn empower the Asset &amp; Liability Committee with responsibility for the day to day management of liquidity risk.</p> <p>MUS(EMEA) employs the "3 lines of defence" model in the management of liquidity risk. The primary responsibility for monitoring and managing MUS(EMEA)'s liquidity risk profile sits with Treasury function. Treasury is independent of business lines and forms part of the support functions reporting to the CFO. Treasury owns the overall stress testing framework and ensures there is sufficient liquidity available to both support business activities and to ensure compliance with the Board approved liquidity risk appetite as well as regulatory requirements. The second line of defence is provided by the Liquidity Risk Management function who ensure that liquidity risk is appropriately measured, assessed and reported. This function provides review and challenge of all components of the liquidity risk management framework. Internal audit (as third line) provides independent review and assurance to the Board.</p>
Scope and nature of liquidity risk reporting and measurement systems	<p>Regulatory reporting and monitoring compliance conforms with the Prudential Regulation Authority's requirements. The firm has robust systems and procedures in place to be able to meet these requirements.</p>

Comment	
<p>Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants</p>	<p>Policies for managing liquidity risks include:</p> <p>(i) Internal stress testing. The underlying assumptions and methodology are approved by the Board. The stress models are calculated on a daily basis by the Liquidity Risk Management team and circulated to senior management. Clear escalation processes with clear linkages to the Contingency Funding Plan in the event triggers are breached.</p> <p>(ii) Wholesale refinancing mismatch limits will limit the term mismatch inherent in the Firm. Limits are in place and monitored on a daily basis with clear escalation points in the event of limit breaches.</p> <p>(iii) The size of the liquidity buffer is quantified with respect to both the internal stress tests and regulatory tolerances. Governance surrounding the investment of the liquidity buffer ensures compliance with senior management approved risk limits. Market Risk Management will monitor compliance against such limits on a daily basis.</p> <p>(iv) Funds Transfer Pricing framework will allocate liquidity costs to business lines on the basis of their unsecured funding usage and underlying liquidity requirements.</p> <p>(v) Allocation of unsecured funding limits is based on both the firm's business plans as well as an assessment of the availability of funding. This ensures that limits can be supported without reliance on short term financing.</p> <p>(vi) FX limits. MUS(EMEA) conducts liquidity stress tests for all material currencies assuming a 2 week FX market lockout. In addition the Board has set limits on longer term structural currency imbalances. Both the currency stress tests and longer cross currency limits are monitored on a daily basis.</p> <p>(vii) Contingency funding plan is regularly tested and ensures that a template exists for timely and consistent decision making in the event of a stress. It provides criteria for the invocation of the CFP by identifying triggers, it provides clear operational plans with clearly defined decision making responsibilities in order to effectively navigate a potential stress event as well as the framework for the deactivation of the CFP once the crisis is deemed to have passed.</p>
<p>A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy</p>	<p>The MUS(EMEA) Board approved the Firm's ILAAP in November 2017. The ILAAP (Internal Liquidity Adequacy Assessment Process) is a regulatory requirement requiring the firms to "identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with the risk appetite established by the firm's management body". In approving the ILAAP, the Board documents that the firm's liquidity risk profile and systems used to manage liquidity risks are consistent with the risk appetite approved by the Board. The ILAAP demonstrates MUS(EMEA)'s overall liquidity adequacy through its stress testing results, regulatory liquidity compliance, elaboration of key liquidity risks and material mitigants.</p>
<p>A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in Annex II of these guidelines) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body</p>	<p>Liquidity risk is the risk that MUS(EMEA) is unable to meet liabilities as they become due without significant cost or that MUS(EMEA) is unable to meet the minimum regulatory requirements. Liquid assets are required to protect the business from risks arising from its risk appetite. The risk appetite is to manage the balance sheet so as to withstand severe but plausible stresses without the need to significantly alter the our business. Therefore MUS(EMEA) will seek to:</p> <p>(i) maintain appropriate levels of liquidity to ensure the firm manages its liquidity risk and ensure an optimal return on capital</p> <p>(ii) ensure that balance sheet usage is diversified by tenor and liquidity</p> <p>(iii) maintain a liquidity profile that allows a stress test survival period of either 30 days (combined) or 90 days (market) to be met by LAB and available liquid assets.</p> <p>(iv) maintain an appropriate trigger above ILG minimum to ensure sufficient time for management actions.</p>

## Asset Encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. Due to the nature of its business MUS(EMEA) funds a portion of debt securities via repurchase agreements and other similar secured borrowing. Additionally debt securities and cash are provided to meet initial and variation margin requirements from central clearing counterparts and margin requirements arising from derivative and repurchase agreements.

MUS(EMEA) monitors the mix of secured and unsecured funding sources and seeks to efficiently utilise collateral to raise secured funding and meet other collateralised obligations. Disclosures on the asset encumbrance are shown in the tables below.

**Table 26: Encumbered and Unencumbered Assets**

At 31 December 2017 Assets		Encumbered assets				Unencumbered assets			
		Carrying amount		Fair value		Carrying amount		Fair value	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		£m	£m	£m	£m	£m	£m	£m	£m
		010	030	040	050	060	080	090	100
<b>010</b>	<b>Assets of the reporting institution</b>	<b>8,341</b>				<b>62,244</b>			
030	Equity instruments	1,168				1,844			
040	Debt securities	3,626		3,626		1,431		1,431	
050	of which: covered bonds	-		-		-		-	
060	of which: asset-backed securities	-		-		378		378	
070	of which: issued by general governments	3,380		3,380		523		523	
080	of which: issued by financial corporations	190		190		204		204	
090	of which: issued by non- financial corporations	123		123		105		105	
120	Other assets	3,332				58,707			
121	of which...								

Note: Columns 030, 050, 080 and 100 are only required to be disclosed from 2018 and onwards



**Table 27: Collateral Received**

At 31 December 2017		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	
		£m	of which notionally eligible EHQLA and HQLA £m	£m	of which EHQLA and HQLA £m
		010	030	040	060
<b>130</b>	<b>Collateral received by the reporting institution</b>	63,009		4,533	
140	Loans on demand	-		-	
150	Equity instruments	3,063		165	
160	Debt securities	52,482		4,314	
170	of which: covered bonds	146		1	
180	of which: asset-backed securities	1,068		856	
190	of which: issued by general governments	46,754		2,628	
200	of which: issued by financial corporations	2,951		662	
210	of which: issued by non-financial corporations	1,130		269	
220	Loans and advances other than loans on demand	7,736		-	
230	Other collateral received	-		-	
231	of which: ...	-		-	
<b>240</b>	<b>Own debt securities issued other than own covered bonds or asset-backed securities</b>	-		-	
<b>241</b>	<b>Own covered bonds and asset-backed securities issued and not yet pledged</b>			-	
<b>250</b>	<b>Total assets, collateral received and own debt securities issued</b>	71,290			

Note: Columns 030 and 060 are only required to be disclosed from 2018 and onwards

**Table 28: Encumbered Assets/Collateral Received and Associated Liabilities**

At 31 December 2017		Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
		£m	£m	£m	£m
		010		030	
010	Carrying amount of selected financial liabilities	67,065		58,143	

At 31 December 2016		Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
		£m	£m	£m	£m
		010		030	
010	Carrying amount of selected financial liabilities	71,244		57,386	

## Table 29: Information on Importance of Encumbrance

D - Information on importance of encumbrance
<p>Due to the nature of its business MUS(EMEA)'s asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations.</p> <p>MUS(EMEA) funds a portion of trading portfolio assets and other securities via repurchase agreements and other secured borrowing. Collateral in asset form are pledged to counterparties to support their credit exposures to MUS(EMEA) and to clearing brokers/houses to meet derivative initial margin requirements. Because of this, levels of encumbrance are relatively high within MUS(EMEA).</p> <p>MUS(EMEA) monitors the mix of secured and unsecured funding sources and seeks to utilise available collateral to raise funding to meet its needs. Similarly a portion of unencumbered assets may be monetised in a stress under the contingency funding plan to generate liquidity through use as collateral for secured funding or through outright sale.</p>

### Regulation

MUS(EMEA) assesses liquidity adequacy as part of its Internal Liquidity Adequacy Assessment Process that it submits to the PRA. MUS(EMEA)'s compliance with prevailing regulatory liquidity requirements including the Liquidity Coverage Ratio are complemented by the internal stress testing framework. MUS(EMEA) manages its liquidity prudently, holding its Liquid Asset Buffer well in excess of the regulatory requirement.

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## 12. Other Risks

### **Pension Risk**

Pension risk is the risk that there is a shortfall in the value of the assets of the defined benefit pension scheme relative to its liabilities. The main risk is that the assets that the pension scheme holds decline significantly and there is no offsetting change in liabilities or the liabilities increase with no offsetting increase in the assets.

MUS(EMEA)'s defined benefit pension scheme was closed to new members on 2 July 1999. The assets held are not an exact match to the liabilities. A mandatory actuarial valuation of the fund is carried out every three years for the pension trustees. The Statement of Funding Principles of the scheme requires a recovery plan to eliminate any funding deficit over the next 10 years or sooner. The scheme was closed to future accrual on 31 January 2011. This action limited the future growth of the estimated liabilities of the defined benefit scheme. MUS(EMEA) calculates its pension risk on an annual basis as part of its ICAAP process and holds capital to mitigate against the possibility of a material deficit in its pension fund.

Further details on MUS(EMEA)'s pension scheme can be found in MUS(EMEA)'s financial statements.

### **Business Risk**

Business risk is the sensitivity between expected revenues and expected costs. It is a measure of how easily the cost base can be managed in relation to lower than expected revenues. The risk of doing business is categorised as the volatility of the business planning forecast compared to the realised revenue which is dependent on the market environment.

### **Strategic Risk**

Strategic risk is the risk of loss that may arise from the pursuit of an unsuccessful business plan including insufficient diversification of revenue sources. Strategic risk is a necessary consequence of doing business and covers a number of financial risk types. Strategic risks are generally longer term risks whereas shorter term risks will usually be captured as part of business risk. MUS(EMEA)'s primary approach to the management of strategic risk is through its business planning processes which highlight the key dependencies of its strategy, which allows for the assessment of strategic risk at the point that the strategy is devised and agreed. MUS(EMEA)'s programme of qualitative reverse stress testing is intended to focus on key strategic risks, identifying scenarios that could lead to their realisation as well as contingent actions that could be taken to address their emergence and mitigate the impact of the strategic risk being realised.

MUS(EMEA)'s strategic risks also include potential impacts arising from MUS(EMEA)'s relationship with its stakeholders and its relationship with MUFG. These risks include but are not limited to ongoing group support, maintenance of satisfactory relationships with key regulators, continued ability to meet core client demands, and the ability to attract and retain high quality staff.

### **Compliance Risk**

Compliance risk is the risk of damage to MUS(EMEA) by failing to comply with financial services regulations, rules, guidelines, industry codes of conduct, organisation standards, professional ethics,

Board and Senior Management standards or guidelines and other codes of conduct applicable to its business activities

MUS(EMEA)'s businesses are managed to achieve alignment between compliance risk profile and compliance risk appetite. Risk appetite is clearly defined and reflects MUS(EMEA)'s strategy and values. Decision-making is based on a thorough understanding of compliance risks, supported by robust analytics and measurement capabilities.

MUS(EMEA) maintains a governance structure that ensures appropriate management, oversight and assurance of significant risks and associated mitigation strategies, including, a compliance function with sufficient authority, stature, independence, resources and access to the Board. Accountability for compliance is shared by groups across MUS(EMEA) with front office and back office departments who own their respective compliance risks. The Compliance function is accountable for oversight of compliance controls; and the Internal Audit function accountable for providing independent assurance. MUS(EMEA)'s compliance and internal control infrastructures evolve with changes to its risk profile, including its growth, and to the external regulatory landscape.

## **Conduct Risk**

Conduct risk is the risk of damage on MUS(EMEA)'s corporate value as a result of negative impact on public benefit, effective competition, market integrity or customer protection due to the inappropriate execution of our business activities through failure to comply with laws and regulations, breach of a social norm, improper business or market practice or lack of client's viewpoints.

Effective identification and management of Conduct Risk is a key aspect of MUS(EMEA)'s future success. Appropriate and demonstrable conduct risk management is not only an expectation of the regulators, it will additionally promote enhancement of the relationships MUS(EMEA) has with its clients. MUS(EMEA) has implemented a Conduct Risk Management Framework in response to regulatory demands for firms to efficiently identify, document and manage their conduct risks through an auditable process. Individual steps were previously in place but are now consolidated under the framework as follows:

- Compliance policies, front office desk procedures and a conduct risk operating framework and strategy
- A conduct risk appetite which defines the amount and type of conduct risk that the Board are willing to seek, accept or tolerate in order to achieve the firms' strategic objectives and business plan
- An operational framework to support the continuous process of conduct risk identification and assessment
- A formal compliance monitoring programme to review the effectiveness of key controls to mitigate potential conduct risk exposure
- Production and analysis of conduct risk management information
- MUS(EMEA)-wide conduct risk training and awareness programme

## **Legal Risk**

Legal risk is the risk of loss or damage to the firm by failing to comply with any laws, regulations or contractual obligations applicable to its business activities or failure to take appropriate steps to manage legal claims or actions.

MUS(EMEA) manages legal risk by compliance with all applicable laws and regulations and promoting honesty and integrity by all staff. It seeks to promote prudent business growth and profitability through the rigorous control of legal and regulatory risks in support of the wider objectives of MUS(EMEA).

MUS(EMEA) has an established permanent Legal function that is independent of business activities and has sufficient resources to carry out its role including:

- Identification of the main legal and regulatory risk issues affecting the business, recommending how these will be managed and, where appropriate, elevating residual risks to the relevant front office department, risk management department or the Board and its sub-committees
- Identifying and advising on legal and regulatory change and its impact on the business and assisting with scoping and implementation of mitigating systems, controls and infrastructure
- Managing legal and regulatory risk through due diligence, review of contracts and transactions, negotiation of transaction documentation and the management of all legal and regulatory actions

### **Reputational Risk**

Reputational risk is the risk of loss arising from events that damage MUS(EMEA)'s or the Group's reputation. It is usually a secondary risk which exacerbates the loss from another risk type. MUS(EMEA)'s business is dependent on its reputation and it will impact its performance should it deteriorate. MUS(EMEA) has a Reputational Risk Framework, policy and controls to mitigate the impact and reduce the likelihood of reputational incidents.

Such incidents can occur in any type of risk from market through to operational, or from external risks over which MUS(EMEA) has no direct control. The Reputational Risk Management Policy sets out how the risk of reputational events is managed.

### **Challenges and Uncertainties**

Following the outcome of the UK Referendum vote, it is clear that the political situation and hence the market outlook is less certain. MUS(EMEA) management has actively been considering the impact of Brexit on the business and has a contingency plan in place including the setup of a European subsidiary in the EU in 2018 to continue to provide services to EU clients. The aim of this contingency is to minimise the uncertainty arising from the UK's exit from the EU and ensure the firm can continue to offer relevant and innovative solutions across Europe, and around the world. Management are not aware of any specific issues faced by the MUS(EMEA), that are not faced by the financial services sector within the United Kingdom as a whole, and are maintaining communication with market peers. UK and appropriate EU regulators have been contacted and presented with interim analysis and planning.

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## 13. Valuation and Accounting Policies

The financial statements of MUS(EMEA) as prepared in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union should be read in conjunction with this document. See footnotes to the financial statements for details of accounting and valuation principals applicable to these positions.

Trading portfolio financial assets, reverse repurchase agreements, derivative financial instruments and financial instruments available for sale are stated at fair value. The fair value of these financial instruments is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

The fair values of financial instruments are determined by reference to observable market prices where these are available and the market is active. Where market prices are not available or are unreliable because of poor liquidity, fair values are determined using valuation models, which where possible, use observable market parameters. The process of calculating the fair value using valuation techniques may necessitate the estimation of certain pricing parameters, assumptions or model characteristics.

MUS(EMEA) maintains systems and controls sufficient to provide reliable valuation estimates, including documented policies, clearly defined roles and responsibilities and departments accountable for verification that are independent of the front office. MUS(EMEA) makes use of various policies in the control framework for the valuation of financial instruments including but not limited to those in respect of model validation, independent price verification, provisions and valuation adjustments, P&L reporting, mark to market pricing and new products implementation.

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## 14. Disclosures Made Available in the Financial Statements

- The definitions for accounting purposes of past due and impaired.
- Policy for hedge accounting.

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## 15. Immaterial Disclosure Points

The following is a list of disclosure requirements that deem to be immaterial for MUS(EMEA) to disclose:

- Disclosures in relation to retail banking, commercial banking because MUS(EMEA) does not conduct those businesses.
- Indicators of global systemic importance, because MUS(EMEA) is not identified as Global Systemically Important Institution (G-SII).
- Non-trading book exposures in equities, because there is no equity exposure in the non-trading book.

## 16. Appendix

### OWN FUNDS DISCLOSURE

**Table 30: Main Features of Capital Instruments**

#	Features	Common Equity	Additional Tier 1	Subordinated Loan
1	Issuer	MUFG Securities EMEA plc	MUFG Securities EMEA plc	MUFG Securities EMEA plc
2	Unique identifier (e.g. CUSIP, ISIN, or Bloomberg identifier for private placement)	BBG000D8HBY7	N/A	N/A
3	Governing law(s) of the instrument	English Law	English Law	English Law
	Regulatory treatment			
4	Transitional CRR III rules	Common Equity Tier 1	Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common shares	Other Tier1 Instruments	Other Tier 2 Instruments
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	GBP 1,011 million	GBP 307 million	GBP 290 million
9	Nominal amount of instrument	N/A	GBP 307 million	JPY 44 billion
10	Accounting classification	Shareholders' equity	Liability	Liability
11	Original date of issuance	N/A	15/12/2016	15/12/2016
12	Perpetual or dated	Perpetual	Perpetual	15/12/2026
13	Original maturity date	N/A	N/A	N/A
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	N/A	Floating	Floating
18	Coupon rate and any related index	N/A	6 month GBP LIBOR + 2.3625% pa	6 month JPY LIBOR + 80bp
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	Common Equity Tier 1 Capital Ratio falls below 7.00%	N/A
25	If convertible, fully or partially	N/A	Fully	N/A
26	If convertible, conversion rate	N/A	Ordinary shares	N/A

#	Features	Common Equity	Additional Tier 1	Subordinated Loan
			equal to aggregate principal amount divided by £1.00	
27	If convertible, mandatory or optional conversion	N/A	Mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	Ordinary Shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	MUFG Securities EMEA plc	N/A
30	Write-down feature	No	No	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-down mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The most subordinated claim	Subordinated to the claims of all senior creditors	Subordinated to the claims of all senior creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A



**Table 31: Own Funds Disclosure Template**

Own Funds		At 31 Dec 2017	At 31 Dec 2016
		£m	£m
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	1,011	1,011
	of which: Instrument type 1	-	-
	of which: Instrument type 2	-	-
	of which: Instrument type 3	-	-
2	Retained earnings	178	138
3	Accumulated other comprehensive income (and any other reserves)	-	(19)
3a	Funds for general banking risk	-	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,189	1,129
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	(59)	(65)
8	Intangible assets (net of related tax liability) (negative amount)	(49)	(38)
9	Empty set in the EU	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(7)	(12)
11	Fair value reserves related to gains or losses on cash flow hedges	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	-
13	Any increase in equity that results from securitised assets (negative amount)	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
15	Defined-benefit pension fund assets (negative amount)	(16)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	(5)
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
20	Empty set in the EU	-	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-
20c	of which: securitisation positions (negative amount)	-	-
20d	of which: free deliveries (negative amount)	-	-
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-
22	Amount exceeding the 15% threshold (negative amount)	-	-

Own Funds		At 31 Dec 2017	At 31 Dec 2016
		£m	£m
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
24	Empty set in the EU	-	-
25	of which: deferred tax assets arising from temporary difference	-	-
25a	Losses for the current financial year (negative amount)	-	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	-
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	-	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(131)	(120)
29	Common Equity Tier 1 (CET1) capital	1,058	1,009
<b>Additional Tier 1 (AT1) capital: instruments</b>			
30	Capital instruments and the related share premium accounts	307	307
31	of which: classified as equity under applicable accounting standards	307	307
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	-
35	of which: instruments issued by subsidiaries subject to phase-out	-	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	307	307
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	(5)
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	-	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	-	-

Own Funds		At 31 Dec 2017 £m	At 31 Dec 2016 £m
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	(5)
44	Additional Tier 1 (AT1) capital	307	302
45	Tier 1 capital (T1 = CET1 + AT1)	1,365	1,311
<b>Tier 2 (T2) capital: instruments and provisions</b>			
46	Capital instruments and the related share premium accounts	290	309
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	-	-
49	of which: instruments issued by subsidiaries subject to phase-out	-	-
50	Credit risk adjustments	-	-
51	Tier 2 (T2) capital before regulatory adjustment	290	309
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	(50)
54a	Of which new holdings not subject to transitional arrangements	-	-
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-	-
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	-	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-	(50)
58	Tier 2 (T2) capital	290	259
59	Total capital (TC = T1 + T2)	1,655	1,570
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	-	-
	Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	-

Own Funds		At 31 Dec 2017 £m	At 31 Dec 2016 £m
	Of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	-
60	Total risk-weighted assets	9,119	7,361
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	11.6%	13.7%
62	Tier 1 (as a percentage of total risk exposure amount	15.0%	17.8%
63	Total capital (as a percentage of total risk exposure amount	18.1%	21.3%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	5.8%	5.1%
65	of which: capital conservation buffer requirement	1.250%	0.625%
66	of which: countercyclical buffer requirement	0.011%	0.019%
67	of which: systemic risk buffer requirement	n/a	n/a
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	n/a	n/a
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.1%	9.2%
69	[non-relevant in EU regulation]	n/a	n/a
70	[non-relevant in EU regulation]	n/a	n/a
71	[non-relevant in EU regulation]	n/a	n/a
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	75	101
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
74	Empty set in the EU	-	-
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	11	20
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	-	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase-out arrangements	-	-

Own Funds		At 31 Dec 2017	At 31 Dec 2016
		£m	£m
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase-out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

## COUNTERCYCLICAL CAPITAL BUFFER ('CCYB') DISCLOSURE

**Table 32: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer**

Level of application: Individual

At 31 December 2017		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
Row	Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
010	Australia	1.2	-	10.9	-	-	-	0.1	0.3	-	0.4	0.00	0.000%
010	Austria	-	-	0.2	-	-	-	-	0.0	-	0.0	0.00	0.000%
010	Bahrain	-	-	2.2	-	-	-	-	0.3	-	0.3	0.00	0.000%
010	Belgium	2.8	-	75.7	-	-	-	0.2	1.2	-	1.4	0.01	0.000%
010	Bermuda	4.4	-	13.0	-	-	-	0.4	1.1	-	1.5	0.01	0.000%
010	Bulgaria	0.0	-	-	-	-	-	0.0	-	-	0.0	0.00	0.000%
010	Canada	17.7	-	0.6	-	-	-	1.4	0.0	-	1.5	0.01	0.000%
010	Cayman Islands	258.0	-	56.9	-	-	-	20.6	4.5	-	25.1	0.11	0.000%
010	Chile	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	China	-	-	5.4	-	-	-	-	0.2	-	0.2	0.00	0.000%
010	Curacao	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Czech Republic	-	-	3.3	-	-	-	-	0.3	-	0.3	0.00	0.500%
010	Denmark	-	-	17.7	-	-	-	-	1.4	-	1.4	0.01	0.000%
010	Egypt	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Finland	-	-	5.5	-	-	-	-	0.4	-	0.4	0.00	0.000%
010	France	133.2	-	185.3	-	-	-	10.1	14.0	-	24.1	0.10	0.000%
010	Germany	4.5	-	126.3	-	-	-	0.4	4.1	-	4.4	0.02	0.000%
010	Gibraltar	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Guernsey	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Hong Kong	0.0	-	20.8	-	-	-	0.0	1.8	-	1.8	0.01	1.250%
010	Hungary	0.0	-	0.0	-	-	-	-	0.0	-	0.0	0.00	0.000%
010	India	19.6	-	8.5	-	-	-	1.6	0.7	-	2.2	0.01	0.000%

At 31 December 2017		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
Row	Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100		
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
010	Indonesia	-	-	0.1	-	-	-	-	0.0	-	0.0	0.00	0.000%
010	Ireland	209.2	-	8.0	-	-	-	16.7	0.6	-	17.4	0.08	0.000%
010	Israel	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Italy	-	-	181.5	-	-	-	-	14.5	-	14.5	0.06	0.000%
010	Japan	231.8	-	35.8	-	-	-	17.5	1.8	-	19.4	0.08	0.000%
010	Jersey	-	-	9.3	-	-	-	-	1.1	-	1.1	0.00	0.000%
010	Jordan	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Kazakhstan	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Kuwait	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Liberia	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Luxembourg	1.3	-	61.2	-	-	-	0.1	4.8	-	4.9	0.02	0.000%
010	Malaysia	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Marshall Islands	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Mauritius	8.3	-	-	-	-	-	0.7	-	-	0.7	0.00	0.000%
010	Mexico	-	-	12.4	-	-	-	-	0.2	-	0.2	0.00	0.000%
010	Morocco	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Netherlands	108.8	-	96.2	-	-	-	7.2	3.5	-	10.8	0.05	0.000%
010	Norway	0.1	-	-	-	-	-	0.0	-	-	0.0	0.00	2.000%
010	Oman	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Pakistan	-	-	0.4	-	-	-	-	0.0	-	0.0	0.00	0.000%
010	Philippines	1.0	-	0.2	-	-	-	0.1	0.0	-	0.1	0.00	0.000%
010	Poland	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	Portugal	-	-	3.0	-	-	-	-	0.2	-	0.2	0.00	0.000%
010	Qatar	2.5	-	-	-	-	-	0.1	-	-	0.1	0.00	0.000%
010	Saudi Arabia	-	-	-	-	-	-	-	-	-	-	-	0.000%

At 31 December 2017		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
Row	Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
010	Singapore	0.0	-	4.0	-	-	-	0.0	0.4	-	0.4	0.00	0.000%
010	South Africa	-	-	-	-	-	-	-	-	-	-	-	0.000%
010	South Korea	-	-	31.2	-	-	-	-	0.4	-	0.4	0.00	0.000%
010	Spain	0.0	-	7.3	-	-	-	0.0	0.6	-	0.6	0.00	0.000%
010	Sweden	-	-	1.7	-	-	-	-	0.1	-	0.1	0.00	2.000%
010	Switzerland	25.5	-	24.2	-	-	-	0.4	1.4	-	1.8	0.01	0.000%
010	Taiwan	7.5	-	-	-	-	-	0.6	-	-	0.6	0.00	0.000%
010	Turkey	0.0	-	17.8	-	-	-	0.0	1.8	-	1.8	0.01	0.000%
010	United Arab Emirates	11.4	-	22.8	-	-	-	0.2	2.0	-	2.2	0.01	0.000%
010	United Kingdom	190.7	-	57.1	-	-	-	16.5	4.0	-	20.5	0.09	0.000%
010	United States	482.6	-	237.3	-	158.7	-	29.8	17.4	13.4	60.6	0.26	0.000%
010	Virgin Islands (British)	76.1	-	59.3	-	-	-	6.1	1.4	-	7.5	0.03	0.000%
<b>020</b>	<b>Total</b>	<b>1,798.2</b>	<b>-</b>	<b>1,402.9</b>	<b>-</b>	<b>158.7</b>	<b>-</b>	<b>130.8</b>	<b>86.6</b>	<b>13.4</b>	<b>230.8</b>	<b>1.00</b>	

**Table 33: Amount of institution-specific countercyclical capital buffer**

Row		At 31 December 2017	At 31 December 2016
		Column	Column
		010	010
		£m	£m
010	Total risk exposure amount	9,119	7,361
020	Institution specific countercyclical buffer rate	0.01%	0.02%
030	Institution specific countercyclical buffer requirement	1.0	1.4



