



# Pillar 3 Disclosures

30 JUNE 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 the MUFG and was established in 1983. MUS(EMEA)'s Tier 1 capital at 30 June 2017 was £1,325 million.

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

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

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

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

The scope of this document covers MUS(EMEA), including its Dubai branch, on a solo basis. As of 30 June 2017 MUS(EMEA) does 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. The Fourth Capital Requirements Directive (“CRD IV”) to enact Basel 3 was implemented 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 December 2014, the EBA issued ‘*Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013*’. The Guidelines require institutions to disclose Pillar 3 information more frequently than annually if institutions meet certain criteria specified in the Guidelines.

This document is prepared based on the requirements set out in the above Guidelines applicable to MUS(EMEA). This document is available on the corporate website of MUS(EMEA) ([www.mufgsecurities.com](http://www.mufgsecurities.com)).

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

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### 3. Regulatory Approach

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

#### METHODOLOGIES FOR MUS(EMEA)’S CAPITAL CALCULATIONS

##### **Pillar 1 Credit Risk**

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

##### **Pillar 1 Market Risk**

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

##### **Pillar 1 Operational Risk**

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

#### BASIS OF CONSOLIDATION

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

## 4. Capital Resources

MUS(EMEA)'s regulatory capital resources are assessed under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV). MUS(EMEA)'s capital consists of Tier 1 – share capital, 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.

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

**Table 1: Own Funds Disclosure**

	30 Jun 2017	31 Dec 2016
	£m	£m
<b>Own Funds</b>		
Common equity Tier 1 (CET1) capital before regulatory adjustments	1,134	1,129
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(116)	(120)
<b>Common equity Tier 1 (CET1) capital</b>	<b>1,018</b>	<b>1,009</b>
Additional Tier 1 (AT1) capital before regulatory adjustments	307	307
Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	(5)
<b>Additional Tier 1 (AT1) capital</b>	<b>307</b>	<b>302</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>1,325</b>	<b>1,311</b>
Tier 2 (T2) capital before regulatory adjustments	301	309
Total regulatory adjustments to Tier 2 (T2) capital	-	(50)
<b>Tier 2 (T2) capital</b>	<b>301</b>	<b>259</b>
<b>Total capital (TC = T1 + T2)</b>	<b>1,626</b>	<b>1,570</b>
<b>Capital Ratios</b>		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	11%	14%
Tier 1 (as a percentage of total risk exposure amount)	15%	18%
Total capital (as a percentage of total risk exposure amount)	18%	21%
<b>Total Risk Weighted Assets (RWA)</b>	<b>9,136</b>	<b>7,346</b>

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## 5. Capital Requirements

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

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

**Table2: Capital Requirements by Risk Type<sup>1</sup>**

	<u>30 Jun 2017</u>	<u>31 Dec 2016</u>
	Capital required	Capital required
	£m	£m
Credit Risk (Including Concentration Risk)	467	359
Market Risk	228	193
Operational Risk	<u>36</u>	<u>36</u>
<b>Total</b>	<b><u>731</u></b>	<b><u>588</u></b>

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

## 6. Credit Risk

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

### METHODOLOGY

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

Per Article 113 of Capital Requirement Regulation (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. Ratings derived by Moody's and DBRS are applied to MUS(EMEA)'s exposures for credit risk calculation. ECAI ratings are used to determine risk weightings for all the relevant exposure classes.

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

**Table 3: Credit Risk Capital Requirements and RWAs<sup>1</sup>**

	30 Jun 2017		31 Dec 2016	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Counterparty Credit Risk	3,513	281	2,600	208
Credit Valuation Adjustment risk <sup>2</sup>	1,661	133	1,563	125
Non-Trading Book Credit Risk <sup>3</sup>	511	41	250	20
Concentration Risk	145	12	75	6
<b>Total</b>	<b>5,830</b>	<b>467</b>	<b>4,488</b>	<b>359</b>

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

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

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



**Table 4: Counterparty Credit Risk Summary<sup>1</sup>**

	30 Jun 2017			31 Dec 2016		
	Exposure value	RWA	Capital required	Exposure value	RWA	Capital required
	£m	£m	£m	£m	£m	£m
Central Government and Central Banks	281	18	1	646	3	-
Institutions (Excluding CCP)	3,802	1,132	91	3,740	1,040	83
Institutions (CCP)	7,147	366	29	7,835	367	29
Corporates	2,126	1,962	157	1,349	1,160	93
Multilateral Development Banks	22	2	-	60	-	-
Regional Government and Local Authority	163	33	3	142	28	2
International Organisations	18	-	-	195	-	-
Public Sector Entity	-	-	-	-	-	-
<b>Total</b>	<b>13,559</b>	<b>3,513</b>	<b>281</b>	<b>13,968</b>	<b>2,598</b>	<b>208</b>

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

## 7. Market Risk

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

- Value at Risk (“VaR”), Stressed Value at Risk (“SVaR”), and Incremental Risk Charge (“IRC”) measures provide aggregate indicators of potential losses, subject to stated confidence levels and holding periods.
- Risk factor sensitivities measure the impact of moves in each risk factor, allowing concentrations of risk to be identified and controlled.
- Stress testing is used to monitor and control the exposure of the portfolio to extreme moves in market 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, Stressed VaR, Incremental Risk Charge (IRC), and Risks Not In VaR (RNIV) which covers all major asset classes traded by MUS(EMEA).

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

**Table 5: Market Risk Capital Requirements and RWAs**

	30 Jun 2017		31 Dec 2016	
	Capital required	RWAs	Capital required	RWAs
	£m	£m	£m	£m
VaR	40	499	38	474
Stressed VaR	86	1,076	66	819
Incremental Risk Charge (IRC)	52	657	40	502
Risks Not In VaR (RNIV)	37	461	41	509
Other Market Risk	13	158	9	110
<b>Total</b>	<b>228</b>	<b>2,851</b>	<b>193</b>	<b>2,414</b>

## 8. Operational Risk

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

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

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

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

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

**Table 6: Operational Risk Capital Requirements and RWAs**

	30 Jun 2017		31 Dec 2016	
	Capital required £m	RWAs £m	Capital required £m	RWAs £m
<b>The Standardised Approach</b>	<b>36</b>	<b>455</b>	<b>36</b>	<b>455</b>

## 9. Leverage Ratio

MUS(EMEA) assesses leverage ratio to mitigate the risk of excessive leverage. Although at present the leverage ratio is only a reporting requirement, MUS(EMEA) performs detailed analysis of the calculation to understand drivers and sensitivities. This allows MUS(EMEA) to assess its plans to achieve the required leverage ratio by 1st January 2018 set out by Basel Committee.

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 Asset and Liability Committee (ALCO), the Risk Management Committee (RMC) and the Board Risk Committee (BRC). ALCO monitors the leverage ratio level against the regulatory minimum and assesses the actions and timescales involved in meeting the regulatory minimum. In addition, balance sheet limits are in place for key exposure types which mitigate significant increase in leverage ratio exposure measure.

The table below shows the leverage ratios.

**Table 7: Leverage Ratio**

	30 Jun 2017 £m	31 Dec 2016 £m
Tier 1 capital	1,325	1,311
Total leverage ratio exposures	68,811	77,057
<b>Leverage ratio</b>	<b>1.93%</b>	<b>1.70%</b>
Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in