



Pillar 3 Disclosures

30 JUNE 2018



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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 30 June 2018 was £1,388 million.

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, MUFG Bank, Ltd. (“MUFG Bank”), 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 and its wholly-owned subsidiary, MUFG Securities (Europe) N.V. (“MUS(EU)”), incorporated on 22nd March 2018 but not yet active.

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 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).

This report was verified and approved internally, including a review by the Board of Directors. There is no requirement for external auditing of these disclosures.

3. Regulatory Approach

MUS(EMEA) is regulated by the UK 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 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 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 MUFG Bank 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 2018	31 Dec 2017
	£m	£m
Own Funds		
Common Equity Tier 1 ("CET1") capital before regulatory adjustments	1,226	1,189
Total regulatory adjustments to CET1	(146)	(131)
CET1 capital	1,081	1,058
Additional Tier 1 ("AT1") capital before regulatory adjustments	307	307
Total regulatory adjustments to AT1 capital	0	0
AT1 capital	307	307
Tier 1 capital	1,388	1,365
Tier 2 ("T2") capital before regulatory adjustments	301	290
Total regulatory adjustments to T2 capital	0	0
T2 capital	301	290
Total capital	1,688	1,655
Capital Ratios		
CET1 (as a percentage of total risk exposure amount)	12.85%	11.6%
Tier 1 (as a percentage of total risk exposure amount)	16.50%	15.0%
Total capital (as a percentage of total risk exposure amount)	20.08%	18.1%
Total Risk Weighted Assets ("RWA")	8,407	9,119

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 Total Capital Requirements set out the minimum capital required.

Table2: Total Capital Requirements

	30 Jun 2018	31 Dec 2017
	Capital required	Capital required
	£m	£m
Pillar 1		
Credit Risk (Including Concentration Risk)	380	404
Market Risk	245	278
Operational Risk	47	47
Total	673	729
Pillar 2	318	341
Total Capital Requirements¹	991	1,070

1 The term ‘Total Capital Requirements’ is defined in the Policy Statement PS30/17 issued by the PRA

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 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 exposures, RWAs and capital requirements.

Table 3: Credit Risk Capital Requirements and RWAs¹

	30 Jun 2018		31 Dec 2017	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Counterparty Credit Risk	2,955	236	3,028	242
Credit Valuation Adjustment risk (“CVA”) ²	1,265	101	1,533	123
Non-Trading Book Credit Risk ³	424	34	339	27
Concentration Risk	106	8	148	12
Total	4,749	380	5,048	404

1 Derivatives, SFTs, and exposures to central counterparties (“CCP”) are included.

2 The 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 Summary¹

	30 Jun 2018			31 Dec 2017		
	Exposure value	RWA	Capital required	Exposure value	RWA	Capital required
	£m	£m	£m	£m	£m	£m
Central Government and Central Banks	200	-	-	141	8	1
Institutions (Excluding CCPs)	3,048	865	69	3,622	1,014	81
Institutions (CCPs)	6,084	325	26	5,776	390	31
Corporates	2,116	1,747	140	1,698	1,531	122
Multilateral Development Banks	11	-	-	14	-	-
Regional Government and Local Authority	57	11	1	89	18	1
International Organisations	30	-	-	34	-	-
Public Sector Entity	17	6	-	122	67	5
Total	11,563	2,954	236	11,497	3,028	242

1 Derivatives, SFTs, and exposures to CCPs 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, 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 5: Market Risk Capital Requirements and RWAs

	30 Jun 2018		31 Dec 2017	
	Capital required £m	RWAs £m	Capital required £m	RWAs £m
VaR	34	430	38	477
Stressed VaR	83	1,033	108	1,348
Incremental Risk Charge	69	866	78	981
Risks Not In VaR	47	582	43	536
Other Market Risk	12	154	11	135
Total	245	3,065	278	3,477

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) 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.

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

Table 6: Operational Risk Capital Requirements and RWAs

	30 Jun 2018		31 Dec 2017	
	Capital required	RWAs	Capital required	RWAs
	£m	£m	£m	£m
The Standardised Approach	47	593	47	593

9. 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 Asset and Liability Committee ("ALCO") and the Board Risk Committee ("BRC").

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.

The table below shows the leverage ratios.

Table 7: Leverage Ratio

	30 Jun 2018 £m	31 Dec 2017 £m
Tier 1 capital	1,388	1,365
Total leverage ratio exposures	54,003	52,196
Leverage ratio	2.57%	2.61%
Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in