Remuneration Disclosure

31 March 2019

MUFG Securities EMEA plc
A member of MUFG, a global financial group

2019 Mitsubishi UFJ Financial Group

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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, Inc. (MUFG) and was established in 1983. MUS(EMEA)'s Tier 1 capital at 31 December 2018 was £1,421 million and the average number of employees during the year was 646.

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 ¥307 trillion (£2.2 trillion) at 31 December 2018. MUFG's services include commercial banking, trust banking, investment banking, credit cards, consumer finance, asset management, leasing and other financial service activities.

MUS(EMEA) actively trades in fixed income, equity and structured finance products, providing client solutions across primary and secondary markets. The client group includes financial institutions, corporations and central banks. MUS(EMEA) primarily supports this client group from its base in London and additionally operates a branch in the Dubai International Financial Centre.

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.

The UK Referendum on EU Membership ("Brexit") continues to be an important consideration for MUS(EMEA). MUS(EMEA) has actively been assessing and considering the impact of Brexit on the business and as a result has initiated its contingency plan, including the establishment of a wholly owned subsidiary in The Netherlands. The subsidiary, namely MUFG Securities (Europe) N.V. ("MUS(EU)"), as well as a branch of that entity in Paris, are central to our strategy to support the continued servicing of clients across Europe.

MUS(EU) was granted a MiFID II Investment Firm Licence in The Netherlands in December 2018 and MUS(EU) commenced trading in March 2019.

The scope of this document covers MUS(EMEA), including its Dubai branch, and MUS(EU).

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".

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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 (“CRD4”) 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 February 2019, the Council of the EU has endorsed an agreement on a set of revised rules aimed at reducing risks in the EU banking sector. The package agreed by the Council and the Parliament comprises two regulations and two directives, relating to:

- Bank capital requirements (amendments to regulation 575/2013 and directive 2013/36/EU);
- The recovery and resolution of banks in difficulty (amendments to directive 2014/59/EU and regulation 806/2014).

The amendments in the package above to the existing CRR and CRD IV (collectively referred to as ‘CRR2’) include the following:

- A binding leverage ratio (LR) and changes to the exposure measure
- A binding detailed net stable funding ratio (NSFR)
- 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 2019 and apply from two years after the date of entry into force of the amending regulation, although certain elements have slightly different timeframe. These proposed changes will need to be considered alongside the implications arising from the UK leaving 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. This document sets out the Pillar 3 quantitative and qualitative disclosures in respect of remuneration, as required under Article 450 of the CRR and is published annually on the corporate website of MUS(EMEA) (www.mufgsecurities.com) as part of the Pillar 3 disclosure for MUS(EMEA).

The Pillar 3 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.

As part of integration activity across the MUFG group, MUFG Securities performance management and compensation timeline will be aligning to MFG Bank’s performance year of April to March. As a result final year-end bonuses will be paid in June each year. This Remuneration Report has therefore been completed and approved separately to allow the disclosure of final year-end compensation. There is no requirement for external auditing of these disclosures.

3. Remuneration Philosophy

MUS(EMEA) is committed to promoting a culture of high performance and ethical standards, where talented individuals can achieve excellent business results, develop their careers and be appropriately rewarded.

MUS(EMEA)’s approach to remuneration is to ensure that employees are remunerated appropriately for their skills, experience and the sustainable value they bring to the business.

MUS(EMEA)’s reward programmes are designed to achieve the following:

- Reward those who deliver superior performance in a way that is responsible and is aligned with risk and compliance requirements;

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- Align employee reward with the Business Plan and performance of the Company;
- Motivate and reward people who demonstrate behaviours in line with the Company's values: Integrity & Responsibility, Professionalism & Teamwork and Challenge ourselves to grow;
- Embed effective risk disciplines and to be fully compliant with all appropriate governance;
- Adjust for malus (reduction in unpaid bonus or unvested bonus) and claw-back (repayment of paid bonus, only applicable to Material Risk Takers (MRTs)) where appropriate;
- Attract, recognise, develop and retain key talent;
- Provide a total reward package that is competitive and attractive within the market place.
- A transparent, clearly communicated and well understood approach to remuneration, which ensures employees are treated fairly and remuneration decisions are free from any form of discrimination and/or inequality; and
- Comply with all applicable regulatory and legal requirements including, but not limited to, the Volcker Rule, applicable employment, tax and equality legislation, the Remuneration Code, CRD IV, European Banking Standard guidelines and other relevant Codes and guidance.

4. Remuneration Policy

MUS(EMEA) reviews its Remuneration Policy on an annual basis. Reviews are undertaken to ensure remuneration is structured in a way which aligns reward with and promotes effective risk management. Compliance with the Remuneration Part of the PRA's Rulebook and the FCA's Dual Regulated Firm's Remuneration Code (herein, collectively referred to as the Remuneration Code) is also assessed.

The Policy outlines the link between pay and performance as well as the philosophy and structure of remuneration at MUS(EMEA).

As part of integration with MUFG Bank, a new common global HR framework was introduced in 2018, with the intention of creating one MUFG experience across both entities on an international level. As part of this review, consideration was given to the Reward philosophy and core principles under the Compensation and Benefits workstream.

As such, the Remuneration Policy was reviewed in June 2018 and January 2019 to ensure full alignment with this framework. The reviews were completed by Human Resources with input from Risk, Compliance and Finance where appropriate, before being submitted to the Remuneration Committee for their review and approval. The Remuneration Committee were given delegated authority to approve the Remuneration Policy on behalf of the Board of Directors ("the Board") in 2018.

5. Composition and mandate of the Remuneration Committee

The Remuneration Committee provides independent oversight of MUS(EMEA)'s remuneration processes and policies and achieves this through a process of rigorous review and challenge as and whenever appropriate. In doing so, the Remuneration Committee takes into account the interests of its various stakeholders.

For performance year 2018, the Remuneration Committee exercised independent judgement in reviewing and approving remuneration proposals from the Executive Committee. The Remuneration Committee was responsible for reviewing proposals in relation to the total individual remuneration packages of Material Risk Takers ("MRTs"), including senior members of the Risk & Compliance functions and all high-earning employees. During the 2018 financial year the Remuneration Committee met nine times as well as the INEDs holding other private sessions as required.

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MUS(EMEA)'s Material Risk Takers ("MRTs") definition is:

1. Individuals who perform a Senior Management Function for MUS(EMEA);
2. Risk-takers as defined in the Material Risk Takers Regulation (Articles 2 & 3 of the Commission Delegate Regulation (EU) No 604/2014); and
3. Any other employee who, in the opinion of the Remuneration Committee, has a material impact on the Company's risk profile including, but not limited to, Conduct Risk.

In addition to the above, Risk identifies the different types of risk the firm is exposed to as per the Internal Capital Adequacy Assessment Process (ICAAP), to identify any additional roles which should be captured as MRTs within these additional risk categories.

As part of the MUFG integration activity, consideration is also given to MUFG Bank employees who are 'dual hatted' and pose any material risk to MUS(EMEA) as well as MUFG Bank.

In 2018 the Remuneration Committee consisted of four Independent Non-Executive Directors who were voting members as well as observers who were excluded from meetings when their personal remuneration was discussed. The current Independent Non-Executive Directors are also members of the Audit Committee and the Board Risk Committee.

For performance year 2018 the voting members and observers of Remuneration Committee included an Independent Non-Executive Director (Chairman), three Independent Non-Executive Directors, Deputy Chief Operation Officer – International, Chief Executive Officer, Chief Financial Officer, Head of Compliance, Chief Risk Officer, Chief Administration Officer, Head of Human Resources and members of the Performance and Reward team.

6. Link between Pay and Performance

MUS(EMEA) operates a robust performance management process which includes objective setting, formal evaluation against objectives, mid-year and year-end performance reviews, 360 feedback and the allocation of an overall performance rating. These are completed within a balanced scorecard which assesses individual performance in terms of "What" is delivered and "How" individuals behave. The balanced scorecard has four quadrants covering the "What" and "How" elements of performance, specifically:

"What" – specific individual performance objectives for the year. Performance objectives are set by each individual and signed off by the appraising manager, categorised under:

- Individual Deliverables
- Financial Goals

"How" – employees are expected to behave in alignment with the firm's policies, procedures and values. Role dependent mandatory objectives set out 'how' individuals are expected to demonstrate this under the categories:

- Compliance, Risk & Regulatory
- Culture & Values

The Company also operates a Performance Framework. This is made available to all employees and sets out the behaviours employees are expected to demonstrate at each corporate title level. These are aligned to the Company's values, as follows:

- Integrity and responsibility
- Professionalism and teamwork
- Challenge ourselves to grow

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Evaluation against these values forms part of the balanced scorecard in addition to being part of the criteria used when considering promotion eligibility. Additionally employees are given a talent mapping reflective of performance and potential.

For 2018, performance calibration and a guided distribution of ratings was also introduced to ensure performance ratings are applied accurately, fairly and consistently throughout the organisation. Managers were asked to provide indicative performance ratings for each category as well as an overall performance rating using their experience of the individual's performance as well as taking 360 feedback into consideration. Ratings for the Compliance & Regulatory category and the Culture & Values category were cross checked by Compliance, Risk, Audit and HR respectively.

All of these components ensure that employees are given the opportunity to develop throughout their career at MUFG Securities and enables MUFG Securities to identify and reward employees who are performing and behaving in a way that is consistent with the Company's strategy and core values.

Bonuses are allocated from MUS(EMEA)'s bonus pool to employees based on individual performance, taking into account performance against the different aspects of the balanced scorecard. Thus remunerating individuals based both on what they deliver, and how they behave in accordance with the Company's policies, procedures and values. For the performance year 2018, the distribution of the bonus pool was made iteratively, taking into account, not only individual performance, but also flight risk and key retention of top talent within the business.

As part of the integration activity with MUFG Bank and in creating a new common global HR framework, MUFG Securities performance management and compensation timeline has been moved to align to MUFG Banks' timeline of April to March. To achieve this, 2018 was a transitional year with the performance management and compensation period running for 15 months (i.e. January 2018 to March 2019).

7. Remuneration Design and Structure

There are two key components to MUS(EMEA) remuneration:

- Fixed remuneration
- Variable remuneration.

Remuneration consists broadly of fixed compensation (including salary, Role Based Allowances, pension benefits and other standard benefits) and variable remuneration in the form of a performance related bonus, a portion of which may be deferred on a mandatory basis. Material Risk Takers who are Non-Executive Directors receive set remuneration. A number of MRTs are seconded to MUS(EMEA) from Tokyo and their remuneration is determined by MUFG, or a subsidiary of MUFG, as appropriate. MUS(EMEA) ensures that their variable remuneration is compliant with the Remuneration Code.

Fixed Remuneration

Fixed compensation, primarily salary, is intended to remunerate employees for their skills and experience, taking into account local market practice. MUS(EMEA) has a stepped salary range approach across all corporate titles for Front Office and Support.. The salary ranges have been set at levels which enable MUS(EMEA) to operate a fully flexible bonus policy. They are reviewed annually to ensure that the structure is competitive and reflective of sound remuneration principles and practices. Changes to the base salary framework must be approved by the Remuneration Committee.

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Fixed remuneration for all employees is reviewed on an annual basis, typically in the early part of the performance year, in line with the performance review process. This ensures that performance from the previous performance year can be taken into consideration when reviewing individual remuneration.

Variable Remuneration

Employees may be awarded an annual performance-based bonus which is reflective of the performance of MUS(EMEA), the International Business (being all other MUFG Securities entities outside of Japan), the relevant business unit and each employee's individual performance in the performance year. Individual performance is assessed through the individual's Balanced Scorecard. Bonuses are used to reward those who demonstrate MUS(EMEA)'s firm-wide cultural values and who deliver superior performance in a way that is consistent with risk and compliance requirements.

Bonus awards are determined in accordance with the relevant provisions and guidance of the PRA's and FCA's Remuneration Code. All such awards may be subject to (i) deferral, (ii) performance adjustment in line with prevailing policies and (iii) claw-back in relation to bonus awards made to Material Risk Takers. MUS(EMEA) does not operate any long-term incentive schemes which are separate from the deferral programmes applied to annual variable remuneration.

When setting individual variable remuneration, the ratio between fixed and proposed variable remuneration is reviewed for reasonableness. The ratio of fixed and variable remuneration is capped at 1:2 for MRTs, however Control Function Staff are predominantly paid in fixed remuneration.

To assist with the transitional 15 month period in performance year 2018, employees received a 'discretionary stub bonus' in June 2018. This stub bonus was taken into account when determining the full year bonus (i.e. for 15 months) and deducted from the final bonus award in June 2019.

Remunerating Staff in Control Functions

The framework for MUS(EMEA)'s organisational structure is based on clear and separate functional reporting lines following the three lines of defence model.

The structure of the control function departments is formalised in the Company's organisational charts. Control function employees secure appropriate authority through their respective reporting lines whereby all heads of control functions report directly to MUS(EMEA)'s CEO. Additionally, the CRO has a second reporting line to the International Chief Risk Officer, the Head of Compliance has a second reporting line to the Global Head of Compliance (within MUSHD) and the Head of Internal Audit has a reporting line into the Independent Non-Executive Director Chair of the Audit Committee, as well as the Global Head of Internal Audit (within MUSHD). In addition, appropriate authority is granted through MUS(EMEA)'s committee structure which includes the Executive Committee and the Risk Management Committee, as well as the Board, Audit, Risk and Remuneration Committees, as documented in the Company's Senior Management Framework.

Responsibilities for setting objectives, undertaking performance assessments and proposing bonus recommendations for control function employees' lies with the relevant control function heads. Regarding remuneration, MUS(EMEA) consults with external providers to ensure that both base compensation and, where appropriate, variable performance bonuses are set at market levels so as to attract and retain suitably qualified employees in the control functions with the necessary experience to fulfil their roles. The output from the Balanced Scorecard is an important consideration when determining individual bonus awards.

Deferral

In the performance year 2018 MUS(EMEA) continued to operate two deferral programmes for variable remuneration. The first deferral programme was for MRTs who are subject to the PRA's and FCA's remuneration rules, unless the de minimis concession applied (i.e. their total compensation is less than £500,000 and their total

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bonus is no more than 1/3rd of their total compensation). Section 8 provides a more detailed overview of the deferral plan for Material Risk Takers.

The second deferral programme ("Global Deferral Plan") applies to all other employees (and MRTs who meet the de minimis criteria), whose total bonus was over a certain threshold and various deferral percentages apply depending on the level of bonus.

As a result of the integration activity across MUFG Securities and MUFG Bank, The Global Deferral Plan was revised in 2018 and included a lower eligibility threshold and revised deferral percentage table. These changes only applied to 2018 year-end bonuses. Stub bonuses were subject to the previous Global Deferral Plan rules. Deferrals for both bonuses (i.e. Stub Bonus and Year-End), were granted at year end and are to follow the same vesting schedule.

8. MRT Deferral Plan

For the performance year 2018, MRTs were subject to a deferral schedule based on their Total Variable Pay Award. In accordance with the Remuneration Code, for MRTs receiving a bonus of up to £500,000, a deferral of 40% is applied to the bonus under the terms of MUS(EMEA)'s Deferred Compensation Plan for Material Risk Takers, unless the de minimis level set by the PRA applied. For MRTs who received a bonus of £500,000 or more, the deferral percentage was 60% which is calculated and applied in the same way.

Of the portion of bonus not deferred, 50% was paid to participating MRTs up front and 50% was retained for 12 months in phantom MUFG stock (details of this share-linked instrument are provided below). Of the portion of bonus deferred, 50% has been deferred as cash and 50% has been deferred in phantom MUFG stock.

In addition, in relation to the deferred phantom MUFG stock, MUS(EMEA) has applied a 12 month retention period which follows each vesting event.

Due to the 2018 performance year being a 15 month period, deferrals were calculated separately on the Stub Bonus and Year-End Bonus. This was to ensure that MRTs who were subject to the de minimis rules were not included in the MRT deferral scheme due to the transition period alone.

Vesting, malus and Clawback

MRTs are sub-categorised into Senior Managers, Risk Managers and Material Risk Takers. The vesting period of the deferral will be determined by the MRT's category. Senior Managers will be subject to a 7 year deferral period; Risk Managers will be subject to a 5 year deferral period and Material Risk Takers will be subject to a 3 year deferral. An award does not vest if an employee gives notice to terminate his/her employment or has his/her employment terminated due to gross misconduct. Deferred awards are also subject to malus and clawback provisions, as outlined in the firm's Adjustment Policy such as, for example, where there is reasonable evidence of employee misbehaviour or material error; the firm or business unit suffers a material failure of risk management.

Share-linked instrument

The 2018 MRT deferral plan and retained portion of the non-deferred bonus links a portion of variable remuneration to the performance of the Mitsubishi UFJ Financial Group as a whole via awards of phantom MUFG stock. The phantom MUFG stock awards are linked to MUFG stock from the date of award to the end of each retention period following vesting.

9. Risk Adjustment

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MUS(EMEA) encourages effective risk management, discourages excessive risk taking and supports a strong and appropriate conduct culture. For the performance year 2018, MUS(EMEA)'s approach to risk adjustment was two-fold via ex-ante and ex-post risk adjustment. Ex-ante risk adjustment was performed through the setting of risk adjusted budget-contributions for each business unit, with risk limit structures that were consistent with those budgets. Aggregate bonus spend was determined with reference to these risk adjusted approaches. MUS(EMEA) operates two models of risk adjustment to reflect both the nature of the risks being taken by desks and the capital costs these risks incur. The models are used to inform the overall pool as well as department level pools. Their use helps to ensure that financial return is appropriately offset against the risk undertaken to achieve that return. The first model used was a Tier 1 Capital model and the second was a Total Regulatory Capital model. Ex-post risk adjustment is on-going through the mechanisms of performance adjustment in relation to the movement in the value of MUFG stock and the application of malus and clawback provisions on an individual or aggregate basis, where applicable.

10. Benefits

Material Risk Takers received standard benefits that were the same as those provided to all other employees.

11. Quantitative Remuneration Information

During performance year 2018 the Company had 117 MRT's (including leavers). The aggregate remuneration was £62.65xm for the 15 month performance period. This was split between the Front Office businesses (£44.21m) and the Support Units, including management (£18,44m).

The disclosure table below provides additional details of MRT remuneration, split between Senior Management (10/117) and other members of staff whose actions has a material impact on the risk profile of the Company (107/117).

In line with disclosure rules to state the number of individuals being remunerated €1,000,000 or more and broken down into €500,000 pay bands, of the 117 MRTs, 9 individuals were remunerated €1,000,000 or more during the performance year. The remuneration for these individuals is broken down into pay bands as follows: 6x €1m-€1.5m; 1x €1.5m-€2m; 1x €3.5m-€4.0m. This is based on the 12 month equivalent of the 15 month pay cycle.

	Senior Management £m	All other MRT Staff £m	Total £m
Fixed remuneration	5.14	38.18	43.32
Variable remuneration	3.59	15.50	19.10
Variable remuneration (cash)	1.80	9.65	11.45
Variable remuneration (phantom shares)	1.80	5.85	7.65

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	Senior Management £m	All other MRT Staff £m	Total £m
Outstanding deferred remuneration (vested)	0.51	2.39	2.90
Outstanding deferred remuneration (unvested)	5.22	9.22	14.44
Deferred remuneration awarded in the performance year	2.11	5.56	7.67
Deferred remuneration paid out in the performance year	3.34	13.24	16.58

The above table is based on 15 months Total Compensation

Prior to the payment of deferred and retained remuneration during the performance year, the Remuneration Committee reviewed the payments with input from Risk, Compliance and Human Resources and determined that none of the payments were to be reduced through malus provisions.

14 severance payments, totalling £2,174,248 were made to MRTs on the termination of their employment during highest amount paid to a single individual was £275,022.

No sign-on payments were paid to MRTs during the performance year.

12. Compliance with the Remuneration Code

MUS(EMEA) ensures compliance with the Remuneration Code by seeking advice from professional advisors and through its governance processes which are in place to approve compensation proposals. The latter includes rigorous review by the Remuneration Committee and MUSHD, with subsequent review of MUS(EMEA)'s compliance with the Remuneration Code by Internal Audit on an annual basis. Where required to do so, MUS(EMEA) also publishes information on its remuneration structures which create transparency regarding its compliance with the Remuneration Code. This document sets out a number of aspects of compensation which are compliant with the Code such as its approach to risk adjustment, identifying Material Risk Takers and remuneration structures applicable to MRTs.

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