Financial Statements

31 December 2019

Company Number: 1698498

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

MUFG

Contents

Strategic Report . . . 2

Directors' Report . . . 5

Statement of Directors' Responsibilities in Respect of the Strategic Report, Directors' Report and the Financial Statements . . . 25

Business and Risk Management Policies . . . 26

Independent auditor's report to the members of MUFG Securities EMEA plc . . . 38

Company income statement . . . 40

Company statement of comprehensive income . . . 41

Company statement of financial position . . . 42

Company statement of changes in equity . . . 43

Company cash flow statement . . . 44

Notes on Financial Statements . . . 45

Strategic Report

The Strategic Report is prepared in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Principal activities

MUFG Securities EMEA plc ("MUS(EMEA)" or "the Company") is the international capital markets subsidiary of Mitsubishi UFJ Securities Holdings Co., Ltd. ("MUSHD"). MUSHD's parent, and MUS(EMEA)'s ultimate holding company, is Mitsubishi UFJ Financial Group, Inc. ("MUFG").

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. The Company primarily supports this client group from its base in London and additionally operates a branch in the Dubai International Financial Centre. The Company recently established a wholly owned subsidiary in The Netherlands and a Paris branch of that entity. The subsidiary, namely MUFG Securities (Europe) N.V. ("MUS(EU)"), was granted a MiFID II Investment Firm Licence in The Netherlands in December 2018.

The principal activities of the Company remain largely consistent with those disclosed in the previous year financial statements.

Results

The results for the year are set out on page 40 and the profit for the year, after tax, amounted to £84.0 million (2018: £42.8 million). The financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Business review and future development

The Company reported operating income of £374.2 million (2018: £273.3 million) for the year which represents a record revenue performance. The revenue levels are particularly pleasing given the business environment remains challenging mainly due to general market uncertainty and the persistent low interest rate backdrop. Revenue drivers evidence the breadth of the business and client offering across the Company with material gains generated by Flow Products business lines, additionally supported by satisfactory results within Structured Products and Capital Markets Finance fee income. Flow Products benefitted from improved volumes in Rates and Credit businesses, strong client demand for secured financing as well as gains on the restructuring of a large client portfolio. Structured Products continued to deliver for its core Japanese investor base including MUFG client deals – applying structuring expertise to offer innovative products complementing major group transactions. Debt Capital Markets continued to secure strong mandates on a range of notable names with their efforts being recognised across various industry titles (refer to Stakeholder Engagement Report).

Collaboration and integration with other entities across the MUFG network, mainly the UK branch of another MUFG subsidiary, MUFG Bank, Ltd. ("MUFG Bank") is now formally embedded within our business practices. This model is a key enabler in our focus to deliver comprehensive client solutions from origination to distribution across corporate banking as well as securities products. This collaboration supports the group values of a "One MUFG" brand, allowing for strategic and efficient deployment of specialist resources across the client base. Practically this has been achieved through the integration of the EMEA debt primary market teams of the Company and MUFG Bank, which was initiated in 2018.

The cost run rate was above planned levels, driven mainly by increased performance-based compensation accruals given that the full year revenue performance had exceeded expectations. The Company remains focused on cost control, with appropriate management tracking of spend as well as strong remuneration governance (refer to Report of the Remuneration Committee).

Continuation of the "One MUFG" brand initiative further supports the ongoing cost control initiatives, through integration of support services, which are having a positive impact on the Company's cost base. All functional support areas have now been integrated across the Company and the UK branch of MUFG Bank. The recent appointment of a single head of Technology represents the final stage of this process and is key to delivering anticipated synergies and potential for related cost reductions.

Revenue results have been achieved whilst maintaining Value at Risk ("VaR") metrics within internal limits set by the Board of Directors ("the Board"). These metrics reflect management's focus on client-led revenues and targeted risk taking, with capital deployment and associated risk management applied where appropriate (refer to page 29).

The Company manages and monitors its capital base to ensure that sufficient capital is available to support future business plans, its risk appetite, and to meet regulatory requirements. The regulatory agenda continues to evolve and the Company remains well positioned to respond to change whilst maintaining a strong culture of client service.

During the year, the Company issued an additional £255 million ordinary share capital to MUSHD, £157 million of which was matched by an equivalent EUR issuance by MUS(EU) to the Company. This issuance is in line with the capital injection strategy for MUS(EU). Additional Tier 1 capital instruments were also issued to MUSHD totalling £157 million in order to support growth plans across certain business lines as well as supporting capital buffers.

In line with recent regulations, specifically Basel III Leverage Ratio requirements, management has adopted a framework of leverage-based constraints reflective of both industry norms and the Company's high quality, and liquid, balance sheet. This regulation is not binding on the Company until 28 June 2021 – interim internal constraints and planning for a glide path to 2021 are in place and considered adequate. The related profitability impact is mitigated through a selective approach to deployment of available capacity as well as ensuring efficiency through initiatives such as derivative compression. The 2019 closing Leverage Ratio was 2.8% (2018: 2.5%).

Management retains a positive outlook, as the Company continues to make progress against its strategic objectives, as outlined in internal medium-term business plans. Management continue to identify opportunities to leverage MUFG's global franchise strength whilst efficiently utilising the Company's capital, infrastructure and staff resources within defined risk appetite parameters. Deepening relationships with our core clients and a focus on expanding the client coverage across the MUFG network sets firm foundations for the ongoing growth of the business.

The year ahead will also likely see the continued evolution of our business to continue servicing clients across the European Union through our subsidiary, MUS(EU), including the continued novation of certain client portfolios. MUFG has established an Environmental and Social Policy Framework with continued commitment and further definition of this policy likely to influence our business in the future (refer to Stakeholder Engagement Report).

The Board monitors the results of the Company by reference to various performance and risk based key metrics including:

- **Revenue metrics:** total operating income of £374.2 million (2018: £273.3 million) with a focus on quality of earnings and tracking against revenue plans
- **Efficiency metrics:** total operating expenses as a percentage of total operating income of 71% (2018: 78%) with a focus on efficient cost deployment
- **Profitability metrics:** return on equity ("ROE") calculated as profit attributable to owners of the company (refer to page 40), divided by the average of opening and closing total equity excluding Additional Tier 1 ("AT1"), of 6% (2018: 3%) with a focus on maximising ROE in the interests of shareholder returns
- **Capital metrics:** total capital requirements based on Pillar 1 requirements of £755.0 million (2018: £635.0 million) with a focus on optimising capital allocation and drivers of requirements
- **Risk metrics:** Total Value at Risk ("VaR"), as defined in the Business and Risk Management section, of £2.1 million (2018: £3.4 million) with a focus on tracking VaR.

Challenges and uncertainties

The Company faces a number of challenges and uncertainties in the normal course of its business. Operational risks are inherent in the Company's business activities and are covered in more detail under Business and Risk Management Policies on pages 26 to 37. Other uncertainties faced by the Company in the course of its business include: liquidity, funding, credit and market risks; the valuation of financial assets and liabilities in volatile markets; exposure to macro-economic and geopolitical uncertainty; changes to regulatory rules regarding market practices and regulatory capital. Volatility in Pound Sterling versus major trading currencies will impact the financial position of the Company due to the Sterling denominated Capital base; this has been embedded in scenario planning as appropriate.

The UK has stopped being a member of the European Union (effective 11pm, 31 January 2020) and it is clear that the political situation and hence the market outlook is somewhat uncertain. Management has been, and continues to, actively consider the impact of Brexit on the business and will manage this accordingly. Business planning has been updated to include the split of operations across the UK and European locations reflecting the expanded corporate structure. The updates to the business planning did not highlight any new key risks to be considered by the Company though this conclusion is continuously monitored. The renegotiation of legal contracts across a priority counterparty set is complete and is not considered to be a material risk area. Management is not aware of any specific issues faced by the Company that are not faced by the rest of the financial services sector within the United Kingdom as a whole, and is maintaining communication with market peers in this regard. MUS (EU) was operational in H1 2019 and trading results for the year ended 31 December 2019 were ahead of budget.

The London Interbank Offered Rate ("LIBOR") is expected to be phased out of use by the end of 2021. Before the end of 2021, financial services firms including MUFG will need to transition its LIBOR global business to suitable alternative rates with respect to all of its impacted client base. The transition to new products requires a significant review of transaction data, contract data and systems in order to ensure complete and effective transition of client contract arrangements. This transition process poses a number of challenges, including the development of new systems to capture new rates in the relevant timeframe and the significant work required to review and amend legal agreements. Transitioning from one benchmark rate to another may also have a significant impact on a company's financial accounting and reporting. MUFG is taking steps to migrate away from LIBOR to alternative replacement rates. MUFG has set up internal working groups, is assessing impacts and actively managing the LIBOR transition while mitigating associated risks.

Strategic Report (continued)

Challenges and uncertainties (continued)

The Company is exposed to fluctuations in the Japanese market through its debt issuance programme and its investment in high quality Japanese Government securities. The business activities of the ultimate parent company, MUFG, whilst carried out on a global level, are focused on the Japanese market. The downgrade of Japanese debt, interest rate volatility and associated monetary and fiscal policy decisions could impact the results of the Company. Management are fully aware of these risks and monitor them on an ongoing basis as well as ensuring appropriate levels of high quality liquid asset holdings.

Taking the above into consideration, including expected future profitability as well as the Company continuing to be of strategic importance to MUSHD. Additionally, Brexit related uncertainty and the anticipated end of the transition period by 31 December 2020 has been considered by the Board. The Board believes it is reasonable to assume that the Company will have adequate resources in place, or receive future capital injections from the MUFG Group when needed, to continue trading for the foreseeable future. As such, the financial statements have been prepared on the going concern basis.

Corporate governance reporting

Corporate governance reporting under Section 172 of the Companies Act 2006 is included within the Directors' Report which is included on pages 5 to 24.

By order of the Board

Christopher Kyle
Director
25 Ropemaker Street
London EC2Y 9AJ
5 March 2020

Directors' Report

The Directors present their annual report and financial statements for the year ended 31 December 2019.

Directors

The Directors during the year were as follows:

William Fall	Chairman (Independent)	
Stephen Jack	Independent Non-Executive Director	
Diane Moore	Independent Non-Executive Director	(resigned 30 June 2019)
Gordon Sangster	Independent Non-Executive Director	
Eileen Taylor	Independent Non-Executive Director	(appointed 1 April 2019)
Masahiro Kuwahara	Group Non-Executive Director	(resigned 15 May 2019)
Takanori Sazaki	Group Non-Executive Director	(appointed 20 June 2019)
Yasutaka Suehiro	Group Non-Executive Director	
Masamichi Yasuda	Group Non-Executive Director	
John Winter	Chief Executive Officer	(appointed 1 April 2019)
David King	Chief Executive Officer	(resigned 1 April 2019)
Christopher Kyle	Chief Financial Officer	
Nicola Wickes	Chief Risk Officer	(appointed 30 November 2019)
Catherine Brett	Chief Risk Officer	(resigned 17 July 2019)

The Board of Directors currently comprises the Chairman, three Independent Non-Executive Directors, three Group Non-Executive Directors and three Executive Directors. Group Non-Executive Directors are employed by another MUFG Group company and undertake other roles within the Group, in addition to their directorship of the Company. The Board considers all of the Independent Non-Executive Directors to be independent within the criteria set in the UK Corporate Governance Code (the 'Code').

Biographies of each of the current Directors can be found on pages 7 and 9.

Chairman

William Fall continues his role as Chairman and Non-Executive Director. Mr. Fall plays a key role in a number of strategic initiatives relating to oversight of business strategy, client activity, culture and collaboration with other MUFG entities.

Directors' and officers' indemnities

The Company maintained insurance against liabilities for all Directors and officers of the Company during the financial year and at the date of this report.

Dividend and distributions

The Company maintains a Distributable Reserves policy which forms the basis of management information considered ahead of any dividend approval. The policy sets out factors considered relevant to ensuring against any unlawful distribution. The Board ensures that it takes decisions in line with the requirements of section 172 of the Companies Act 2006 as further detailed on page 19.

The dividend and capital strategy of the Company will evolve with the needs of the business as well as the regulatory environment.

In 2019, the Directors approved total coupon payments on Additional Tier 1 ('AT1') capital instruments of £10.2 million (2018: £8.8 million). Refer to Note 24 for terms of issuance and Note 25 for coupon payment details.

On 13 January 2020, the Directors approved a coupon payment on the AT1 capital instruments of £5.4 million. The amount has not been accrued in the results for the period ended 31 December 2019 as it was not due at that date.

No ordinary dividends were approved or paid during the year (2018: Nil).

Directors' Report (continued)

Use of financial instruments

The trading and issuance of financial instruments is integral to the business activities of the Company. Information regarding the use of financial instruments as well as an indication of the company's financial risk management objectives and policies is included within the Business and Risk Management Policies on pages 26 to 37.

Compensation

Certain employees' discretionary remuneration is deferred where the reward exceeds thresholds set by the Remuneration Committee, which meet the guidelines set out by the Prudential Regulatory Authority ('PRA'). Some of these deferrals take the form of Notional Stock Units ('NSU'), which track the performance of MUFG shares (refer to Note 7). Further details on the Company's remuneration structure and policies can be found in the Report of the Remuneration Committee on pages 16 to 24.

Subsequent events disclosure

As at the date of signing, the Directors are not aware of any material events which would warrant further disclosure. Refer to Note 28.

Statement on corporate governance arrangements

The Board is committed to applying the highest standards of corporate governance, as it believes that good corporate governance is at the heart of MUFG's vision to be the world's most trusted financial group; providing the highest quality service for clients while building sustainable trust with the communities in which we operate.

As a privately-owned subsidiary, the Company does not and is not required to apply a corporate governance code. Details of the corporate governance framework adopted by the Company are set out on pages 5 to 24. The Board has elected to benchmark the corporate governance framework adopted by the Company against the provisions and principles of the 2018 UK Corporate Governance Code.

Disclosure of information to the auditor

The Directors who hold office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the same information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Christopher Kyle
Director
25 Ropemaker Street
London EC2Y 9AJ
5 March 2020

The Board of Directors

William Fall Chairman Appointed: 2014 (Chairman since 2015)	**Skills and experience:** Mr Fall was appointed as the Company's first independent Chairman in 2015, having previously served as Senior Independent Non-Executive Director. Mr Fall has over 30 years of international financial services experience, covering wholesale and investment banking, M&A, sales and trading, and debt and equity capital markets. In addition, he has directly managed businesses including commercial banking, cash management and trade finance, retail banking and credit cards. During his career, Mr Fall was the CEO, International, at Bank of America,. Prior to joining MUFG, his most recent role had been at The Royal Bank of Scotland, where he was Co-Head of the Institutional Bank. Mr Fall has extensive senior executive and board committee experience across the UK, US and Europe with corporations and financial institutions. **Other appointments:** Mr Fall is a non-executive director of Ambac UK Ltd., a board member of Historical Royal Palaces (not-for-profit), a director of Alexander Square Garden Ltd., and chairman of Thurloe Owners & Leaseholders Association.
John Winter Chief Executive Officer Appointed: 2019	**Skills and experience:** Mr Winter was appointed as CEO following a 31 year career in financial services which has included senior roles at some of the largest banks globally. An experienced banker and a transformational leader, John is responsible for developing and overseeing MUFG's strategy and governance for its securities business across EMEA. Mr Winter is also responsible for directing the divisions and functions which deliver client solutions through MUFG's Global Corporate & Investment Banking Business Group. Mr Winter started his career at Merrill Lynch in 1985 in New York before moving to London in 1992, joining Deutsche Bank in 1996 as European Head of Debt Capital Markets. He joined Barclays in 2001 as Head of European Investment Banking and was appointed CEO of the Corporate Bank in 2010. **Other appointments:** Mr Winter is a trustee of Richard House Children's Hospice.
Christopher Kyle Chief Financial Officer Appointed: 2015	**Skills and experience:** Mr Kyle is a highly experienced CFO with 30 years' experience financial services. Prior to joining MUFG, Mr Kyle held a number of senior roles, including Head of Logistics, Finance and Change, Markets at RBS and Chief Operating Officer of the Global Investment Bank Division of Barclays Capital. **Other appointments:** Mr Kyle is also a director of the Company's subsidiary MUS(EU).
Nicola Wickes Chief Risk Officer Appointed: 2019	**Skills and experience:** Ms Wickes has over 30 years of experience working with the financial sector, largely in the risk environment. She joined MUFG in 2019. Ms Wickes previously held the position of Board Director of CIBC World Markets plc. and Chief Risk Officer for CIBC in Europe, Asia and Australia. Ms Wickes currently holds a Non-Executive Directorship at the Global Risk Institution in Toronto, Canada, and has worked extensively across all risk disciplines, specialising in Credit Risk at CIBC, UBS and Mellon Bank. **Other appointments:** Ms Wickes is a non-executive director of the Global Risk Institute in Toronto, Canada. In 2019, she was appointed to the board of MUFG Turkey A.Ş.

The Board of Directors (continued)

Stephen Jack Senior Independent Non-Executive Director Appointed: 2015	**Skills and experience:** Mr Jack is a Chartered Accountant who has held senior management positions in a number of international investment banking and broking organisations and now has a portfolio of non-executive roles. His executive roles included being Global CFO of ING Barings – the Investment banking division of ING Group, Group Finance Director of Collins Stewart Tullett plc – a UK listed holding company of both inter dealer broking and stockbroking businesses, and Group CFO of Compagnie Financiere Tradition SA – a Swiss listed inter-dealer broking group. As a non-executive director he has gained experience across the private, public and voluntary sectors. He was chair of the Independent Living Fund from 2007 to 2015. **Other appointments:** Vice chair of Anchor Hanover Group, vice chair of Cambridge Building Society, Trustee of Royal Mencap Society, trustee of Golden Lane Housing and a trustee for the Company's pension scheme. In 2014 he was awarded an OBE for services to disabled people.
Gordon Sangster Independent Non-Executive Director Appointed: 2017	**Skills and experience:** Mr Sangster has a broad international experience of bank treasury, the trading and oversight of fixed income products, middle office controls, back office functions, stress testing, regulatory engagement and legal entity board memberships. Mr Sangster previously worked at Bank of America for 34 years. His last role was Managing Director and Treasurer of Asia Pacific and a member of the Regional Executive Committee, Regional Control Committee and Chair of International BSLMC. His non-executive roles include terms with CEDEL, MBNA Credit Card, CLS Holdings and CLS Bank. **Other appointments:** Chair and non-executive director of the Company's subsidiary MUS(EU).
Eileen Taylor Independent Non-Executive Director Appointed: 2019	**Skills and experience:** Ms Taylor is a seasoned investment banker with 38 years of experience in global leadership roles based in the UK, US and Asia. Ms Taylor has a strong working knowledge of Supervisory Review and Evaluation Process, non-financial risk, recovery and resolution planning and corporate governance. She has previously served as CEO of Deutsche Bank's UK bank, with significant regulatory interaction. Ms Taylor brings experience of managing large, global transformation programmes, as well as significant experience of designing and implementing strategy and running front to back business processes. Ms Taylor is an experienced operational, market and credit risk manager through various Risk and CEO roles. **Other appointments:** Non-executive director of NHS East London Foundation Trust.
Takanori Sazaki Group Non-Executive Director Appointed: 2019	**Skills and experience:** Mr Sazaki was appointed Regional Executive for MUFG Bank, Ltd. in 2018. He is responsible for managing regional governance matters and supporting strategic business plans and promotion. Prior to that, he was Head of Global Corporate and Investment Banking (GCIB) Strategies since July 2016 to develop and implement strategic business plans for GCIB businesses of MUFG. **Other appointments:** Mr Sazaki holds various appointments within the MUFG Group, including senior positions with MUFG, AO MUFG Bank (Eurasia), MUFG Bank and MUS(EU). Mr Sazaki also holds positions externally with the Japanese Chamber of Commerce and Industry, UK (non-executive director and trustee), Nippon Club Limited, Director (non-executive director), The Japanese School Limited, (non-executive director and trustee), Japan House London Trust (trustee), Nippon Club (vice chairman) and Rikkyo School in England (trustee).

Yasutaka Suehiro Group Non-Executive Director Appointed: 2018	**Skills and experience:** Mr Suehiro was an Executive Director of the Company from 2007 to 2012 and was appointed Non-Executive Director in 2018. He is currently Deputy Chief Operational Officer – International of MUSHD. He has been working for MUFG's international securities business in London, New York, and Hong Kong for more than 20 years. His most recent role was the CEO of MUFG Securities (Asia). **Other appointments:** As an officer of MUFG, Mr Suehiro also holds positions with MUSHD, MUFG Securities Americas Inc., MUFG Securities (Canada), Ltd., MUFG Securities Asia Limited and MUFG Securities Asia (Singapore) Limited.
Masamichi Yasuda Group Non-Executive Director Appointed: 2014	**Skills and experience:** Mr Yasuda is Managing Executive Officer and Deputy CEO of the Global Markets Unit of MUFG Bank. He also serves as Executive Officer of the Market Business in the Integrated Global Markets business group. Mr Yasuda joined MUFG Bank in 1983. **Other appointments:** Mr Yasuda holds positions with the following MUFG Group companies: MUFG, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., MUSHD and PT Bank Danamon Indonesia, Tbk. Mr Yasuda is also a non-executive director of The Global Financial Markets Association.

Role of the Board

The objective of the Board is to define, oversee and be accountable for the implementation of governance arrangements that ensure the effective and prudent management for the long term success of the Company. Such oversight is within a framework of effective controls which enables risk to be assessed and managed.

The Board's responsibilities are clearly defined in its terms of reference. Some of the Board's key responsibilities include (amongst other responsibilities):

- Determining and approving the Company's strategy and overseeing its implementation.
- Approving the Company's business plans and monitoring their implementation.
- Monitoring the Company's capital adequacy and liquidity position.
- Ensuring that the Company's business is conducted in a prudent manner.
- Ensuring that the necessary resources are in place for the Company to meet its objectives.
- Determining and approving the development, implementation and maintenance of the Company's emerging and principal risks, overall risk appetite and monitoring their management.
- Approving the Company's annual budget and monitor the Company's performance against budget.
- Approving material changes in the organisational or business structure of the Company.
- Ensuring effective engagement with, and encouraging participation from the shareholder (Mitsubishi UFJ Securities Holding Co., Ltd.) and the Company's other key stakeholders.
- Ensuring compliance of the Company's activities with all applicable regulatory rules and requirements.
- Ensuring adequate succession planning for the Board and senior management (in conjunction with the Nomination Committee) so as to maintain an appropriate balance of skills, experience and knowledge within the Company and on the Board.
- Ensuring maintenance of a sound system of internal control and risk management.
- Approving any material projects within the Company.
- Ensuring that policies and practices are consistent with the Company's values and support its long term sustainable success.
- In conjunction with the Remuneration Committee, determining the Company's remuneration policy for staff, including Directors, the Company Secretary and other senior executives.
- Oversight of the Company's overall corporate governance arrangements.
- Establishing formal and transparent policies and procedure to ensure the independence and effectiveness of Internal Audit and external auditors.

The Board has established certain committees to support it with specific areas within the Board's remit of responsibilities. Details of each committee's members, responsibilities and work during the year can be found in the committee reports on pages 13 to 18.

Separation of responsibilities

The Board has established a clear division of responsibilities between Executive Directors and Non-Executive Directors. In particular, the Board is committed to maintaining a clear separation of responsibilities of the Chairman and the Chief Executive Officer to reflect the unique role that each has within the Company. The table below summarises some of the key responsibilities of the Chairman and Chief Executive Officer:

1. Reporting lines

Chairman	CEO
The Chairman reports to the Board.	The CEO reports to the Chairman (acting on behalf of the Board) and to the Board directly.
The Chairman is not responsible for executive management matters regarding the Company's business. Other than the CEO and the Company Secretary, no executive reports to the Chairman, other than through the CEO and Board.	The CEO is responsible for all executive management matters affecting the Company. All members of executive management report, either directly or indirectly, to him.

2. Key responsibilities

Chairman	CEO
The Chairman's principal responsibility is the effective running of the Board.	The CEO's principal responsibility is running the Company's business.
The Chairman is responsible for ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Company's strategy and overall commercial objectives.	The CEO is responsible for proposing and developing the Company's strategy and overall commercial objectives, which he or she does in close consultation with the Chairman and the Board.

3. Other responsibilities

Chairman	CEO
Running the Board and setting its agenda.	Providing input to the Board's agenda from the executive management team.
Ensuring that Board agendas take full account of the important issues facing the Company and the concerns of all Board members. There should be an emphasis on strategic, rather than routine issues.	Ensuring that he maintains a dialogue with the Chairman on the important and strategic issues facing the group, and proposing Board agenda items to the Chairman which reflect these.
Ensuring that the Board receives accurate, timely and clear information on: • the Company's performance; • the issues, challenges and opportunities facing the Group; and • matters reserved to it for decision.	Ensuring that the executive management team gives appropriate priority to providing reports to the Board which contain accurate, timely and clear information.
Arranging informal meetings of the Directors, including meetings Non-Executive Directors at which the Executive Directors are not present, as required to ensure that sufficient time and consideration is given to complex, contentious or sensitive issues.	Ensuring that the Chairman is alerted to forthcoming complex, contentious or sensitive issues affecting the Company of which he might not otherwise be aware.
Ensuring that there is effective communication by the Company with its shareholder, including by the Executive Directors and other executive management, and ensuring that members of the Board develop an understanding of the strategy and objectives of the whole MUFG Group.	Leading the communication programme with the shareholder.
Ensuring that there is a properly constructed induction programme for new Directors, facilitated by the Company Secretary.	Commenting on induction programmes for new Directors and ensuring that appropriate management time is made available for the process.
Taking the lead in identifying and seeking to meet the development needs both of individual Directors and of the Board as a whole, assisted by the Company Secretary.	Ensuring that the development needs of the Executive Directors and other senior management reporting to him are identified and met.
Ensuring that the performance of the Board as a whole, its Sub-Committees, and individual Directors is formally and rigorously evaluated at least once a year.	Ensuring that performance reviews are carried out at least once a year for each of the Executive Directors. Providing input to the wider Board evaluation process.
Promoting the highest standards of integrity, probity and corporate governance throughout the Company and particularly at Board level.	Promoting, and conducting the affairs of the Company with the highest standards of integrity, probity and corporate governance.

The Board has also appointed a Senior Independent Non-Executive Director, with certain additional responsibilities, such as:

- Providing a sounding board for the Chairman and serving as an intermediary for the other Directors when necessary.
- Being available to the shareholder if it has concerns which contact through the normal channels of Chairman, CEO or other executive has failed to resolve or for which such contact is inappropriate.
- Providing confidential feedback to the Chairman on his performance following any assessment exercise.

No one individual has unfettered powers of decision-making. All Directors have access to the advice and services of the Company Secretary, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

Composition and gender balance

The Board comprises the Chairman, three independent Non-Executive Directors, three Group Non-Executive Directors appointed to represent the shareholder's interests and three Executive Directors.

As a wholly-owned subsidiary company, the Board recognises the importance of ensuring that there is appropriate representation of the Company's shareholder on the Board, and maintaining a majority of Non-Executive Directors on the Board. This also supports the Company in meeting the Code provisions on regular engagement by the Chairman and independent Non-Executive Directors (in particular the chairs of sub-committees of the Board) with shareholder representatives.

The Board is committed to diversity at all levels of the organisation, including on the Board itself. The Board recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element of good corporate governance. A truly diverse Board will include and make good use of differences in, amongst other things, the skills, social and cultural background, race, gender and other distinctions between Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Nomination Committee reviews and assesses the Board's composition and recommends the appointment of new Directors. In reviewing Board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to enable it to discharge its duties and responsibilities effectively in identifying suitable candidates for appointment to the Board.

The table below sets out the gender diversity of the Board.

Name	Gender
William Fall (Chairman)	Male
John Winter (CEO)	Male
Christopher Kyle (CFO)	Male
Nicola Wickes (CRO)	Female
Stephen Jack (Senior Independent Non-Executive Director)	Male
Gordon Sangster (Independent Non-Executive Director)	Male
Eileen Taylor (Independent Non-Executive Director)	Female
Takanori Sazaki (Group Non-Executive Director)	Male
Yasutaka Suehiro (Group Non-Executive Director)	Male
Masamichi Yasuda (Group Non-Executive Director)	Male

The Board's policy is to appoint and retain Non-Executive Directors who can apply their wider knowledge and experience, and to review and refresh regularly the skills and experience the Board requires. The Board is satisfied that each Non-Executive Director is able to devote sufficient time to the role in order to discharge their duties effectively.

Directors' Report (continued)

Board and committee effectiveness

The Board conducts an annual evaluation of its effectiveness and seeks an external evaluation every three years, which is deemed to be best practice, based on the requirements set out in the Code. The last external evaluation was conducted in 2017 and the next external evaluation is scheduled to take place during the first half of 2020. The review will be performed by Boardroom Review Limited. The Senior Independent Non-Executive Director also undertakes an annual evaluation of the Chairman's performance with the other Board Directors.

In December 2019, the Board and its committees conducted a self-assessment review of their effectiveness. This is carried out to ensure that the Board and each committee have fully discharged their roles and responsibilities as set out in their respective terms of reference. The results of these reviews and any follow-up actions will be considered by the Board and committees in the first quarter of 2020.

Attendance of Board and Board committee Meetings

The table below shows the number of meetings each Director attended as a member during the year and the maximum number of meetings they could have attended. Where a Director attended a meeting as an observer rather than as a member, this attendance is not included in the table below.

Name	Board	Nomination Committee	Board Risk Committee	Audit Committee	Remuneration Committee
Chairman					
William Fall	7/7	6/6	10/11	6/6	5/7
Independent Non-Executive Directors					
Stephen Jack	7/7	6/6	10/11	6/6	7/7
Diane Moore	4/4	4/4	6/6	3/3	4/4
Gordon Sangster	7/7	6/6	11/11	6/6	7/7
Eileen Taylor	4/5	3/3	8/8	5/5	3/3
Group Non-Executive Directors					
Masahiro Kuwahara	3/3	-	-	-	-
Takanori Sazaki	3/3	-	-	-	-
Yasutaka Suehiro	7/7	6/6	-	6/6	-
Masamichi Yasuda	7/7	-	-	-	-
Executive Directors					
Catherine Brett	3/4	-	-	-	-
David King	2/2	-	-	-	-
Christopher Kyle	6/7	-	-	-	-
Nicola Wickes	1/1	-	-	-	-
John Winter	5/5	-	-	-	-

Report of the Audit Committee

Membership

Name	Position
Stephen Jack, Chair	Independent Non-Executive Director
William Fall	Independent Non-Executive Director
Gordon Sangster	Independent Non-Executive Director
Eileen Taylor	Independent Non-Executive Director
Yasutaka Suehiro	Group Non-Executive Director

The Board is satisfied that the Committee possesses relevant banking industry capabilities and expertise, and it is further satisfied that Mr Jack possesses relevant financial experience and the requisite competence in accounting.

Though the Code recommends that the Chairman of the Board should not usually be a member of the Audit Committee, the Audit Committee Chair has considered this matter carefully and believes that the Chairman adds considerable value to the Audit Committee's work.

Similarly, Mr Suehiro is a Group Non-Executive Director and is not considered to be independent. The Board believes that, as a privately-owned subsidiary, it is important to ensure that the views and interests of the shareholder are represented at the Audit Committee.

Responsibilities

The objective of the Audit Committee is to assist the Board of Directors in its oversight of:

- The integrity of the Company's financial statements and other financial information provided by the Company to its shareholder, creditors, regulators or other third parties.
- The Company's internal controls and risk management systems.
- The performance of the Company's internal and external auditors.
- The Company's auditing, accounting and financial reporting processes generally.

The Committee is responsible, among other matters, for determining whether the Company's internal controls over financial reporting are appropriate to the risks they are designed to monitor.

The Committee reports to the Board on its work, identifying any issues which it considers require action or improvement and makes recommendations to the Board for approval.

The Executive Directors, some members of senior management, including the Chief Internal Auditor and the external auditors, are invited to attend meetings of the Committee, but only members of the Committee have the right to attend.

The Committee meets privately and separately from the Executive Directors, with the external auditor at least once a year. This meeting provides an opportunity for the external auditor to raise any concerns directly with the Committee.

Areas of focus during the year

The Audit Committee held four scheduled meetings in 2019 and two additional ad hoc meetings to consider key developments in Internal Audit and an information technology deep dive.

The Committee has a number of standing agenda items that it considers each year affecting the Company's financial statements, financial risks, internal control matters, regulatory reporting and external audit. In addition, each year the Committee focuses on a number of operational matters. Some of the items the Committee spent time on during 2019 were:

- Reports from Internal Audit, Compliance and Operational Risk.
- Approval of the annual audit plan.
- Monitoring external auditor independence and objectivity, including review of non-audit services, auditor effectiveness and audit tender and reappointment.
- Considering remediation activity arising from an Internal Audit assessment of the control environment over end-to-end Know Your Client processes.
- The Company's framework and assurance approach to IT and cyber risk.

External audit

The Company's external auditor is Deloitte. Oversight of the relationship with Deloitte is one of the Audit Committee's key responsibilities. The Audit Committee reviewed and approved Deloitte's terms of engagement for the statutory audit and the audit fee.

The Company has a policy which is aimed at safeguarding and supporting the independence and objectivity of the external auditor. The policy regulates the appointment of former audit employees to positions in the Company and sets out the approach to be taken by the Company when using the non-audit services of the external auditor. The policy distinguishes between:

- Pre-approved services – Those non-audit services where it is considered appropriate to use the external auditor (such as statutory and non-statutory audit and assurance work).
- Case-by-case approved services – Where prior approval of the Audit Committee is required.
- Excluded services where the independence of the external auditor could be threatened and the external auditor must not be used.

External audit (continued)

The external auditor has reviewed its own independence in line with these criteria and its own ethical guidance standards, and has confirmed to the Audit Committee that following its review it is satisfied that it has acted in accordance with relevant regulatory and professional requirements, and that its objectivity is not impaired. Having considered compliance with our policy and the fees paid to the external auditor, the Committee is satisfied that the external auditor continues be independent and objective.

Effectiveness of the External Auditor

To assess the effectiveness of the external auditor, the Committee conducts an annual review of the external auditor. The results of the review were evaluated by the Committee in its December 2019 meeting, which concluded that Deloitte continued to perform a high-quality audit, and provided an effective and independent challenge to management.

External audit tender

Deloitte has been the Company's auditor since 2014. As a wholly-owned subsidiary in a global group, the Company is subject to the Group's processes relating to appointment and rotation of its external auditor. If and when the MUFG Group chooses to review its external auditor, the Audit Committee will be responsible for conducting an independent validation process and making recommendations to the Board on:

- The appointment, re-appointment and removal of the external auditor.
- The remuneration and terms of engagement of the external auditor.

The Audit Committee will also consider any questions of resignation or dismissal of the external auditor.

Report of the Nomination Committee

Membership

Name	Position
William Fall, Chair	Independent Non-Executive Director
Stephen Jack	Independent Non-Executive Director
Gordon Sangster	Independent Non-Executive Director
Eileen Taylor	Independent Non-Executive Director
Yasutaka Suehiro	Group Non-Executive Director

Responsibilities

The objective of the Nomination Committee is to advise the Board on succession planning for Board and senior management positions and on the criteria for and selection of new Directors. The Nomination Committee keeps the composition of the Board under review and leads the appointment process for nominations to the Board.

Areas of focus during the year

The Committee has a number of standing agenda items that it considers each year. These include:

- Reviewing the Board Diversity Policy.
- Annual review of the knowledge, skills and experience of individual members of the Board and of the Board collectively, for reporting to the Board and developing individual training plans.
- The Board evaluation process, including the evaluation of the Chairman of the Board by the Senior Independent Non-Executive Director.
- Reviewing the continuing independence of the Independent Non-Executive Directors.
- Reviewing the composition of the Board and its committees.

In addition, the Nomination Committee was tasked with leading the searches for two new Executive Directors of the Company. In each case, the Nomination Committee led robust and independent searches to appoint candidates to the roles of CEO and CRO.

On the appointment of a new CEO, the Committee was charged with working in partnership with its shareholder to identify a strong candidate for the position with an excellent business background and compelling leadership and cultural credentials. A panel was agreed to oversee the project and manage the interactions with head-hunters and candidates, as well as the accompanying internal decision-making process. The Chairman provided advice and support and was directly involved from the point of shortlist candidate interviews until the final selection of the preferred candidate. A full-scale recruitment search and selection process was initiated in August 2018 and after almost seven months of intensive work, including dozens of candidate interviews, the Committee recommended for the Board's approval, the appointment of John Winter in March 2019.

In July 2019, Catherine Brett stepped down as Executive Director and Chief Risk Officer. At the time, Nicola Wickes, Managing Director, Head of Enterprise Risk Management, was appointed to the position of Acting Chief Risk Officer until a permanent candidate would be appointed. The Company previously engaged the external search consultancy Odgers in 2017 when a full extensive external search was conducted of which Catherine Brett was the final successful appointment. It was decided that Odgers be appointed again to refresh this search, from which we invited the strongest candidates to interview alongside Ms Wickes. Given Ms Wickes' background, significant skills and expertise and MUFG experience, it was agreed that she was the stronger candidate and she proceeded to attend a series of interviews. Following strong feedback from the interview process, the Committee (alongside the Board Risk Committee) recommended for the Board's approval the permanent appointment of Ms Wickes as Chief Risk Officer and Executive Director in November 2019.

The Nomination Committee also recommended the appointment of Eileen Taylor as an independent Non-Executive Director and as Chair of the Remuneration Committee. The Nomination Committee noted that Ms Taylor had significant senior executive and board-level experience across a range of UK and international financial services firms. An external search firm was not used in the search for a Remuneration Committee Chair. Instead, Ms Taylor was appointed following strong personal recommendations from several sources. Though the Code recommends that the chair of a remuneration committee should have served on a remuneration committee for at least 12 months prior to the appointment, the Nomination Committee felt that Ms Taylor's wide-ranging skills and experience in the international banking sector (in particular, her senior positions as Global Head of Diversity and Global Head of Regulatory Management at a multinational bank) made her the ideal candidate for the role.

Report of the Remuneration Committee

Membership

Name	Position
Eileen Taylor, Chair	Independent Non-Executive Director
William Fall	Independent Non-Executive Director
Stephen Jack	Independent Non-Executive Director
Gordon Sangster	Independent Non-Executive Director

Responsibilities

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 makes decisions which are consistent with the Company's current and future financial status.

Some of the key responsibilities of the Remuneration Committee are:

- Overseeing the implementation of the Company's Remuneration Policy.
- Ensuring that remuneration is structured in a way that aligns reward and promotes effective risk management.
- Ensuring that remuneration is structured to be compliant with any requirements under the Volcker Rule and does not reward or incentivise employees for prohibited proprietary trading.
- To review compensation recommendations for all employees within the Remuneration Committee's remit in the context of individual and Company performance and review the annual incentive to ensure that any variable remuneration awarded is aligned with appropriate risk and compliance behaviours.
- To consider the remuneration of Directors, taking account of the current UK financial services investment banking market, the shareholder, the regulator(s), and the views of the Chairman and the CEO.
- To consider the application of performance adjustment, including malus and clawback in accordance with the Company's published Adjustment Policy.
- To review proposals for any changes to the policy for pension arrangements for current employees.
- To ensure that any termination arrangements and significant changes of contract for employees subject to the Remuneration Code are compliant with the UK Corporate Governance Code.
- To scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
- To consider what compensation commitments (including pension contributions and all other elements) are contained in the directors' terms of appointment and ensure these are aligned with those available to the workforce.

The Remuneration Committee reports to the Board on its work, identifying any issues which it considers require action or improvement and makes recommendations to the Board for approval. The Chair of the Remuneration Committee is available and engages with the shareholder regularly on aspects of the Committee's role and its work.

The Executive Directors and some members of senior management may be invited to attend meetings of the Committee, but only members of the Committee have the right to attend. Some members of senior management submit reports to the Committee.

The Remuneration Committee did not appoint a remuneration consultant during 2019.

Areas of focus during the year and the Company's approach to remuneration

The remuneration cycle aligns with that of MUFG globally with performance assessment from April to March and with annual pay rises and discretionary bonuses being awarded in June. As such the Committee's work during 2019 is a combination of assessing and rewarding for the performance year April 2018 to March 2019 and the initial assessment for the performance year April 2019 to March 2020.

The Company does not have an Executive Directors' Remuneration policy as Executive Directors are covered within the Company's Remuneration Policy for all staff, as their remuneration follows the approach and structure of other employees.

The Company's shareholder is represented at Remuneration Committee meetings by a Group Non-Executive Director, whose role at these meetings is to review and provide the shareholder's approval of remuneration of all material risk takers ('MRTs') and high earners, including Executive Directors.

The Company operates a robust performance management process which includes objective setting, formal evaluation against objectives, mid-year and year-end performance reviews, 360 degree 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 and Regulatory.
- Culture and 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.

Evaluation against these values forms part of the balanced scorecard in addition to being part of the criteria used when considering remuneration and promotion eligibility. Additionally employees are given a talent mapping reflective of performance and potential. Ratings for the Compliance and Regulatory category and the Culture and Values category were cross-checked by the Compliance, Risk, Audit and Human Resources ('HR') functions respectively.

Employees may be awarded an annual performance-based bonus which is reflective of the performance of the Company, their respective global business, the International Securities 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 the 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 Financial Conduct Authority's ('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. The Company 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 Controlled Function Staff are predominantly paid in fixed remuneration.

The Company encourages effective risk management, discourages excessive risk-taking and supports a strong and appropriate conduct culture. For the performance year 2018–19, the Company'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. The Company 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 is a Tier 1 Capital model and the second is 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.

Remuneration is not a formulaic computation as both quantitative and qualitative considerations are made in agreeing individual awards, as highlighted above. In addition comparability is undertaken of peers to ensure consistency in approach and relative remuneration when factoring in all the relevant inputs.

Report of the Board Risk Committee

Membership

Name	Position
Gordon Sangster, Chair	Independent Non-Executive Director
William Fall	Independent Non-Executive Director
Stephen Jack	Independent Non-Executive Director
Eileen Taylor	Independent Non-Executive Director

Responsibilities

The objective of the Board Risk Committee is to exercise oversight on behalf of the Board of Directors of the key risks of the Company and shall review and make recommendations to the Board on:

- The Company's risk appetite and risk strategy.
- The Company's risk management framework (incorporating principles, policies, methodologies, systems, processes, procedures and people).
- The Company's risk culture to ensure that it supports the Company's risk appetite.

Areas of focus during the year

The Board Risk Committee held eight scheduled meetings and three ad hoc 'deep dive' meetings in 2019. Attendance at the meetings of the Committee during 2019 is outlined on page 12.

The Committee has a number of standing agenda items that it considers each year. These include:

- Review of Risk Profile and Risk Strategy.
- Review of the Risk Unit's business plan and a review of significant business initiatives included in the business plan.
- Review of Risk Management Framework.
- Review of the Board Risk Appetite and recommendation to Board for approval.
- Review of the International CRO's Risk Control Self-Assessment relevant to risk management policies.
- Review of Stress Testing Framework.
- Review of Individual Liquidity Adequacy Assessment Process (ILAAP).
- Review of ICAAP.
- Review of Recovery Plan.
- Review of the Risk input and Adjusted Performance Measures for the Remuneration Process.

In addition to the above standard agenda items, other areas of focus which the Board Risk Committee had oversight of were Brexit preparedness, the evolving UK political situation, wider geopolitical events across EMEA, financial risks arising from climate change, IBOR transition, cyber and technology risks, and material updates to limit changes and/or breaches.

The Board Risk Committee was responsible (alongside the Nomination Committee) for recommending Nicola Wickes for the position of CRO, following the departure of Catherine Brett in July 2019. A detailed summary of the search process is set out in the Nomination Committee report.

Stakeholder Engagement Report

MUFG is a global financial services group with a local presence. We are proud to be part of a global network which spans across EMEA, Asia Pacific, and the Americas. MUFG's aim is to create stability and wealth for its clients, and by extension, we support people and communities that rely on those businesses for the jobs and opportunities they provide, and the taxes contributed into the wider economy.

Well-functioning societies and economies require well-functioning and trusted financial systems. MUFG seeks to play an active, sustainable and socially responsible role within this so there is an obligation on us to be a responsible business, a business with a purpose beyond what we do as a company, contributing more than profit to society. We believe that regular, proactive and constructive engagement with our stakeholders is central to our sustainable and responsible business model.

Our values

Our values are defined by integrity and responsibility, professionalism and teamwork, and challenging ourselves to grow. We will always strive to be fair, transparent, and honest, acting responsibly in the best interest of clients and society as a whole. In this way we will build long-term stakeholder relationships and ensure we give back to our communities.

Within the organisation, we will respect the diversity of our fellow workers and foster a strong spirit of teamwork, while, at the same time, expecting the highest levels of professionalism.

As we challenge ourselves to grow our world-wide business, we adopt a global perspective that allows us to anticipate trends and opportunities for growth. We support this through a responsive and dynamic workplace where everyone can focus on providing outstanding clients service and embrace new challenges.

Section 172 of the Companies Act 2006

The Board ensures that it takes decisions which are in the long term interests of the Company, its shareholder and its stakeholders. Each Director is personally committed to ensuring that the requirements of section 172 of the Companies Act 2006 are satisfied, and that the interests of our stakeholders are promoted by the Board. Examples of how the Board achieves this include:

- Standing agenda items at each Board meeting. For example, the regular Chief Risk Officer's report will help the Board to identify key risks which might impact the business and its stakeholders.
- Our annual Board agenda matrix includes certain items which the Board must consider at regular intervals, such as the Company's approach to health and safety.
- The Board receives bespoke training on its duties under the Companies Act 2006. The Company Secretary also reminds the Board at each Board meeting of the respective duties of the Directors.
- Ensuring that the business and our people achieve high standards of conduct. The Board is responsible for approving the Company's Risk Appetite Statement annually, which defines and assesses the degree of risk (including conduct risk) the Company is prepared to tolerate to achieve its objectives.

The Board has identified the following categories of key stakeholders of our business:

The following sections of this report detail how we engage with our clients, community and suppliers and our responsibilities towards the environment. A separate report on page 22 details our engagement with our workforce.

Stakeholder Engagement Report (continued)

Our clients

MUFG's vision is to be the world's most trusted financial group; providing the highest quality service for clients while building sustainable trust with the communities in which we operate. This corporate vision serves as the underlying policy in conducting all of our activities, and provides guidelines for all group activities as we grow our business.

To achieve our mission, our highest priority is protecting the interests of our clients, whilst maintaining a robust organisation that is effective, professional, and responsive. This requires a high level of understanding and flexibility to meet the individual needs of our clients, ensuring we provide them with reliable and constant support.

To ensure that we are best-serving the needs of our clients, and bringing the full power of MUFG to help achieve their ambitions, MUFG's corporate banking and securities businesses activities in EMEA are being integrated, meaning that the product expertise and corporate loan deal flow of MUFG Bank are now combined with the structuring and distribution capabilities of the MUFG Securities international platform. This ensures that we are optimising the outcomes for both our corporate and institutional investor client bases by leveraging an integrated end-to-end origination to distribution model. Furthermore, activity across the integrated businesses is now overseen by a single CEO and joint management committee. The Board of Directors plays a key role in shaping and overseeing the delivery of this strategy.

This integrated approach has yielded recognition from well-known industry titles such as The Banker, GlobalCapital, Project Finance International, IJGlobal, and TXF.

Highlights from 2019 include:

- GlobalCapital celebrated MUFG's achievement as a 'Coming Force in Corporate Debt Capital Markets', an award which is voted on by clients and market peers, clearly reflecting MUFG's successes in the Debt Capital Markets space.
- The European Wind Investment Awards named MUFG as Lender of the Year and received the award for the Offshore Deal of the Year for Hornsea 1, the world's largest wind farm, where MUFG acted as financial adviser, joint arranger, joint book runner as well as lender and hedge provider to the project.
- MUFG was also named as the winner of four categories in this year's Global Export, Agency and Project Finance awards, and six categories at IJGlobal's Europe and Africa awards.

Our community

Throughout 2019, the Company has continued with its strong community initiatives and engagement.

Our Corporate Social Responsibility ('CSR') programme is a prime example of going above and beyond what we do as a business. Using their two day volunteering allowance, our colleagues give back when they can to the communities we operate in, and in doing so tangibly demonstrate the values that we want to be known for as a responsible business.

We are proud that our volunteers, working in partnership with their communities, have and continue to deliver a hugely positive impact across the region. By empowering our colleagues and encouraging them to give back, we hope to maximise our investment in CSR beyond the funds and effort that we contribute. We hope that our commitment to being a responsible business will ensure that our communities will positively impact the lives of the young people we support in a sustainable way.

Our CSR program is shaped by four key objectives:

- The target is the next generation of young people
- The CSR focus is on issues that are relevant to us as a business: financial education, employability skills, enterprise skills, and also the environment (see below).
- Effective delivery that multiplies the impact of our investment is achieved through partnerships with local community groups, charities and other corporate partners.
- The impact is measurable and reflects the sustainable change we have achieved in the community through our CSR activities and the legacy we create that will outlast the activities and funding themselves.

In November 2019, colleagues across EMEA took part in 'Fitprints for Good,' a month long fundraising challenge in aid of Laureus, which aimed to collectively cover 21,525km – the distance from Johannesburg to London, via our regional offices. We were thrilled to reveal the target was not only achieved, but actually exceeded, with a total distance of 30,937km covered. All this hard work amounted to a grand total of £40,000 being raised for Laureus Sport for Good. Laureus believe in the power of sport to help young people around the world, and the money raised in this challenge will be used directly to advance the work of their 180 grass-roots programmes in 41 countries.

Suppliers and supplier finance

We work closely and collaboratively with all our suppliers to ensure that they supply services to the Company efficiently, responsibly and sustainably. The Company oversees a robust framework of supplier engagement, ongoing management and oversight supported by appropriate policies, processes and risk management processes that are kept under constant review to ensure that the best practice standards are always maintained.

MUFG has implemented a supplier management programme which is designed to ensure that all third party supplier arrangements are subject to industry best practice principles, processes, templates, and tools. This will help MUFG maximise relationship value and minimise risk during the entire supplier relationship lifecycle.

The foundation for effective management of our suppliers is based on the following elements:

- Relationship management and development – Working collaboratively with suppliers to build trust and maximise the mutual value of supplier relationships.
- Cost management – An integral part of supplier selection, commodity management, and ongoing planning. Effective cost management is not a one-off approach at MUFG to reduce its costs, but an ongoing expectation that is built into supplier relationships.

- Risk management – Effective oversight of the risks a supplier brings into the supply chain, which can open up opportunities to drive continuous improvement and create value.
- Contract management – A structured approach to good contract governance ensures all engagements are covered by valid contracts, and all key contract terms and obligations are fully understood, monitored and acted upon.
- Performance management – A structured approach to ensure that business requirements are consistently met by proactively managing service levels via key performance indicators developed from contractual service level agreements.
- Transactional efficiency – Identifying inefficiencies and waste in the transactional processes used by both parties to make the process of working together easier.

Supplier finance is currently not significant nor do we engage in complex supplier finance arrangements and therefore do not deem this a significant topic.

To ensure we manage our suppliers effectively, we use a number of approaches, including:

- We expect all of our suppliers to comply with our CSR standards, such as those relating to modern slavery, data protection, human rights and ethics.
- Having key policies in place designed to ensure that all third party supplier arrangements are subject to industry 'best practice' in terms of competitive bidding, risk evaluation, contract negotiation, contract drafting, contract approval, contract sign off and subsequent oversight of supplier performance throughout the entire contract lifecycle.
- Key controls are in place throughout the entire lifecycle including the oversight of the end to end procurement process which encompasses: supplier engagement, tenders, on-boarding, contract negotiations and annual reviews.
- As we are a UK regulated entity subject to both UK and European rules and regulations – we ensure compliance to the highest standards with all applicable outsourcing requirements – as our customers, counterparties and our regulators need the utmost confidence in the reliability and complete integrity of core systems and platforms used in our financial services business and activities.
- To ensuring ongoing compliance with our regulatory obligations and our own corporate governance requirements –The Company's supplier management framework outlines the clear roles and responsibilities in relation to managing and reporting on supplier risk in order to ensure the expectations of the Board are met.

Environment

MUFG expects to contribute to the realisation of a sustainable environment and society, such as promoting the growth of renewable energy where MUFG as an arranger of clean energy project finance in the solar, hydropower, wind, and geothermal energy sectors. MUFG is also a leading issuer of green, social and sustainability bonds and ESG loans.

MUFG has established an Environmental and Social Policy Framework ('ES Framework'). The ES Framework outlines MUFG's approach to support a sustainable environmental and social development. MUFG has established its Sustainable Business Office to deliver financial solutions to support medium-to long-term changes in the environment and society. MUFG has CSR committee to oversee a number of ESG matters supplemented by regional CSR initiatives to support local communities.

MUFG supports and participates in a number of climate-related international agreements and initiatives:

- Paris Agreement.
- The Financial Stability Board's Task Force on Climate-related Financial Disclosures.
- Principles for Responsible Investment.
- United Nations Environment Programme Finance Initiative.
- Principles of Responsible Banking.
- Principles for Financial Action for the 21st Century.
- CDP (formerly the Carbon Disclosure Project).

The Company is still assessing the impact of climate change on its business and strategy, however, given the nature of its business activities, the Company is of the view that it has a limited carbon footprint.

Report on Culture and Workforce Engagement

I am delighted to present the Company's first report on workforce engagement. I was privileged to have been appointed to the role of Workforce Engagement Ambassador by the Board of Directors in November 2019. I am committed to ensuring that MUFG fosters a culture of openness and transparency, giving employees greater confidence that they can speak up and be listened to. Employee engagement is a passion of mine and I look forward to gaining a deeper understanding from employees about what is working well, but importantly, where improvements could be made.

Eileen Taylor
Workforce Engagement Ambassador and Chair of the Remuneration Committee

Introduction
We place considerable value on how we engage with our employees and the importance of keeping them well informed and involved in matters affecting them as employees. Employees are given the opportunity to share feedback on a wide range of matters affecting their current and future interests. This connectivity and open dialogue is driven through a variety of avenues, including formal and informal meetings, employee networks and committees, the Company's intranet and regular internal communications.

During 2019, the Company established a framework to formalise its approach to workforce engagement. The workforce engagement framework is intended to:

- Ensure the views and concerns of the workforce are taken into account by Boards or other committees, particularly when they are making decisions that could affect the workforce.
- Ensure that feedback on what steps have been taken to address workforce concerns or to explain why particular steps have or have not been taken is shared back with the workforce.

The Board has always been committed to ensuring that the views and concerns of the workforce are considered by the Board and its committees, particularly when they are making decisions that could affect the workforce, and welcomed the decision to formalise this framework across the firm.

Our framework
Our people are the key to our success, and how we engage with them on key issues has always been a critical part of our culture and workforce engagement initiatives. Our leaders and managers are primarily accountable and responsible for the engagement of our employees, and we ensure they are equipped with appropriate tools to manage this alongside expertise and support from our HR team.

The role of the Workforce Engagement Ambassador
To formalise our framework, in November 2019 the Board appointed Eileen Taylor to the role of Workforce Engagement Ambassador given her position as the Chair of the Remuneration Committee, her significant experience of stakeholder management and her extensive involvement with Culture and Inclusion and Diversity programmes throughout her career.

Whilst the framework has recently been formalised, our Culture and Engagement objectives are by no means new to the firm.

Our Workforce Engagement Ambassador is involved directly in workforce initiatives, in addition to acting as a link between the workforce and the Board. The Workforce Engagement Ambassador works closely with HR to gather information from appropriate fora and sources to assess and determine key themes relating to Workforce Engagement at the firm, ensuring these key themes are championed at Board level.

On a monthly basis, the Workforce Engagement Ambassador meets with the Chief HR Officer for EMEA to discuss relevant key developments, events, fora and staff initiatives. Relevant HR topics such as key themes in grievances and employee disputes are also discussed.

The Workforce Engagement Ambassador is also invited to attend all events and fora as she sees fit and has access to minutes and actions coming out of all relevant meetings.

On a bi-annual basis, the Workforce Engagement Ambassador (supported by HR) formally reports to the Board on key themes arising from her engagement with MUFG's people. However, where appropriate or timely, this is done so more regularly.

Opportunities to raise concerns in confidence
We acknowledge that there may be occasions where employees may want to raise concerns or escalate issues on a confidential basis. To enable this, the Company has a number of options in place for employees to speak up in confidence and/or get help and support, including:

- Our Whistleblowing Policy and dedicated hotline to report concerns.
- Our Compliance team.
- Our HR Business Partners.
- The Employee Assistance Programme.
- Our Mental Health First Aiders.

Opportunities to speak up and shape our firm
MUFG has established a number of fora to actively support its Inclusion & Diversity and Culture strategies. These focus on ensuring that the opinions and perspectives of our workforce on key issues affecting employees are heard and can be fed into the firm's overarching priorities, and also to create a culture of collaboration across our business. These include:

- MUFG's Culture Committee and Culture Influencer network.
- MUFG's EMEA Employee Network Programme (covering Inclusion and Diversity priorities including gender, multi-culturalism, disability and mental health, LGBTQ+ and family).
- The EMEA Inclusion & Diversity Steering Committee.
- MUFG Young Voices.

- Focus Groups and forums run by the EMEA Employee Network Programme (in particular, Balance, Mosaic, Family Matters and Disability Works have run focus groups recently open to all employees to raise concerns and give feedback confidentially, with the results shared with HR and senior management as appropriate).
- Sub-fora such as the Japanese Women and Parents & Parents-to-be groups.

Embedding knowledge and understanding through Equality Training
A new mandatory training requirement for all UK employees was launched during 2019 focusing on equality at MUFG. The training has been designed to enable employees to understand the importance of MUFG championing a fair and inclusive culture that provides equal opportunities for all and to support employees in being able to recognise discrimination and providing guidance on what to do about it.

Opportunities to feed back in Employee Surveys
The Company encourages ongoing feedback from all of its employees so it can hear what really matters to its people. In addition to the regular forums for providing feedback, MUFG holds periodic surveys, including a biennial Global Engagement Survey and an annual MUFG Awareness Survey.

Recognition
The 'MUFG Excellence Awards EMEA' is our annual awards programme for senior management to recognise colleagues who have gone above and beyond in their normal roles to deliver success to the business. Putting the spotlight on some of the outstanding role models we have in our business celebrates success but also encourages us all to do better. In 2019, 129 nominations for the awards were received.

Culture
In 2018 we started a Cultural Transformation Programme under the goals of Client Centricity, Achievement and 'One MUFG' (the integration and alignment of MUFG's business units). An additional goal of Risk Culture was added to the Programme in 2019. The Cultural Transformation Programme is led by the Human Resources function, with regular progress updates presented to the Board.

In 2019 the Cultural Transformation Programme progressed with the following initiatives:

- The launch of a Risk Culture Survey to UK staff, assessing the organisation's view on risk culture based on four main topics – Leadership, Organisation, Risk Framework, and Ownership and Escalation.
- Holding an inaugural Excellence Awards EMEA 2019 ceremony with 250 specially selected employees in attendance from across the business. Feedback from attendees on the night was extremely positive. Employees appreciated the value of this event in recognising positive behaviours and successes aligned to our target culture.
- Communication – A Manager Toolkit was launched to all Managing Directors and Directors with line management responsibility. A monthly Managing Director call has also been established to enable senior management to disseminate more confidential messages in an honest forum.
- Cultural Influencers – A group of cultural influencers is tasked with making change happen. In 2019, our CEO met with the cultural influencer group to empower the group to make changes. The group continues to develop tangible actions to effect culture change in the organisation.

Inclusion and Diversity
Our vision is for MUFG to fully embrace diversity and actively embed an inclusive approach to everything we do, attaching a high value to the variety of backgrounds, experiences, perspectives, skills and expertise that our employees bring to work every day. This will give MUFG the platform to achieve sustainable growth in the increasingly diverse, competitive, sophisticated and global environment in which we do business.

Inclusion requires proactive, continued dialogue and positive action to address culture and reform people processes. An inclusive culture also requires a degree of diversity in the first instance. However, just because an organisation is diverse, that does not mean it is inclusive. So, whilst we continue to focus on diversity, building an inclusive culture is key and remains a critical driver of our culture goals of One MUFG, client centricity and achievement.

Recent key highlights of the Inclusion and Diversity ("I&D") programme include:

- A total of 55 I&D events have been held throughout EMEA during 2019, covering topics including gender, multiculturalism, LGBTQ+ rights, mental health and wellbeing, disability and family.
- MUFG celebrated Pride month by amending the MUFG logo to the iconic rainbow colours throughout our London headquarters during June 2019. Complimented by a photo of our management committee wearing pride colours, the campaign was an unmissable symbol of MUFG's support to the LGBTQ+ community.
- Female and BAME insight days were held during November and are designed to be an informative session to promote MUFG to prospective graduate applicants, provide information about careers that are available within finance and to dispel pre-conceived ideas about working in financial services.
- MUFG ranked in the Top 100 undergraduate employees at the National Undergraduate Employability Awards for the first time in 2019, placing at number 78.
- An Agile Working Strategy is in place to ensure MUFG is competitive with our peers in the market. This is essential to enhancing our brand, by having the agile working offering that is necessary to attract and retain talented employees. We launched a Work Smart campaign during National Work Life week in October 2019 to raise awareness of our agile and flexible working practices. We continue to profile our Mental Health First Aider programme, utilising the 48 employees who were accredited during 2018 to signpost employees to resources and support.

Report on Culture and Workforce Engagement
(continued)

Inclusion and Diversity (continued)

- Bring Your Child to Work Day took place on 29 August 2019. On the day, over 40 children were welcomed to MUFG's Ropemaker offices in London to participate in the all-day event. This year, the theme was 'Workplace of the Future' where children designed the ideal workplace of the future in groups.
- MUFG completed the Working Families Benchmarking Survey and the Bloomberg Gender Equality index in collaboration with the global I&D team.
- On 11 July 2019 we hosted our first I&D Forum for Vice Presidents and below. The purpose of the Forum was to equip our colleagues with a consistent understanding of the business case for I&D and to educate and inspire junior members of the employee base to become active in I&D and embed bottom up accountability. Feedback from this event has been positive, with participants requesting a similar event be held in the future.
- We are participating in the 30% Club mentoring scheme, through which 10 mentors and 10 mentees from MUFG are participating in cross-company mentorship. The 30% Club campaign was set up by Dame Helena Morrissey in 2010 with the aim of achieving a minimum of 30% female representation on FTSE 100 boards.

Employees

It is the policy of the Company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion are encouraged.

The Company places considerable value on the involvement of its employees, has continued to keep them informed on personnel policies or issues, matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, the Company's intranet and regular internal communications. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. These communications help to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Company and the broader MUFG companies.

Statement of Directors’ Responsibilities

Statement of Directors’ Responsibilities in Respect of the Strategic Report, Directors’ Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors’ Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Christopher Kyle
Director
25 Ropemaker Street
London EC2Y 9AJ
5 March 2020

Business and Risk Management Policies

Risk Management Framework

The Company maintains positions in financial instruments as an integral part of daily market activities. These positions are held as part of portfolios that are maintained and monitored by instrument or risk type. The risk appetite is set by the Board and individual trading areas are allocated risk limits based on a wide range of market factors and are required to maintain portfolios within those limits. As such they are responsible for maintaining hedges in the portfolios.

A more detailed explanation of risk strategy and factors is given below.

Committees and Corporate Structure

1. Board

The responsibility for risk management resides with the Board, with support from the Board Risk Committee ("BRC"). As part of the Company's business strategy, the Board considers the risks to which the Company 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 the Company which describes the Company'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 the Company'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.

2. Board Risk Committee

The objective of the BRC is to exercise oversight on behalf of the Board over the top and emerging risks facing the Company and to review and make recommendations to the Board on the Company'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 the Company's risk appetite.

As at 31 December 2019, the BRC comprised of the Independent Non-Executive Directors, including the Chair of the Board. The BRC is supported by the regular attendance of the CRO.

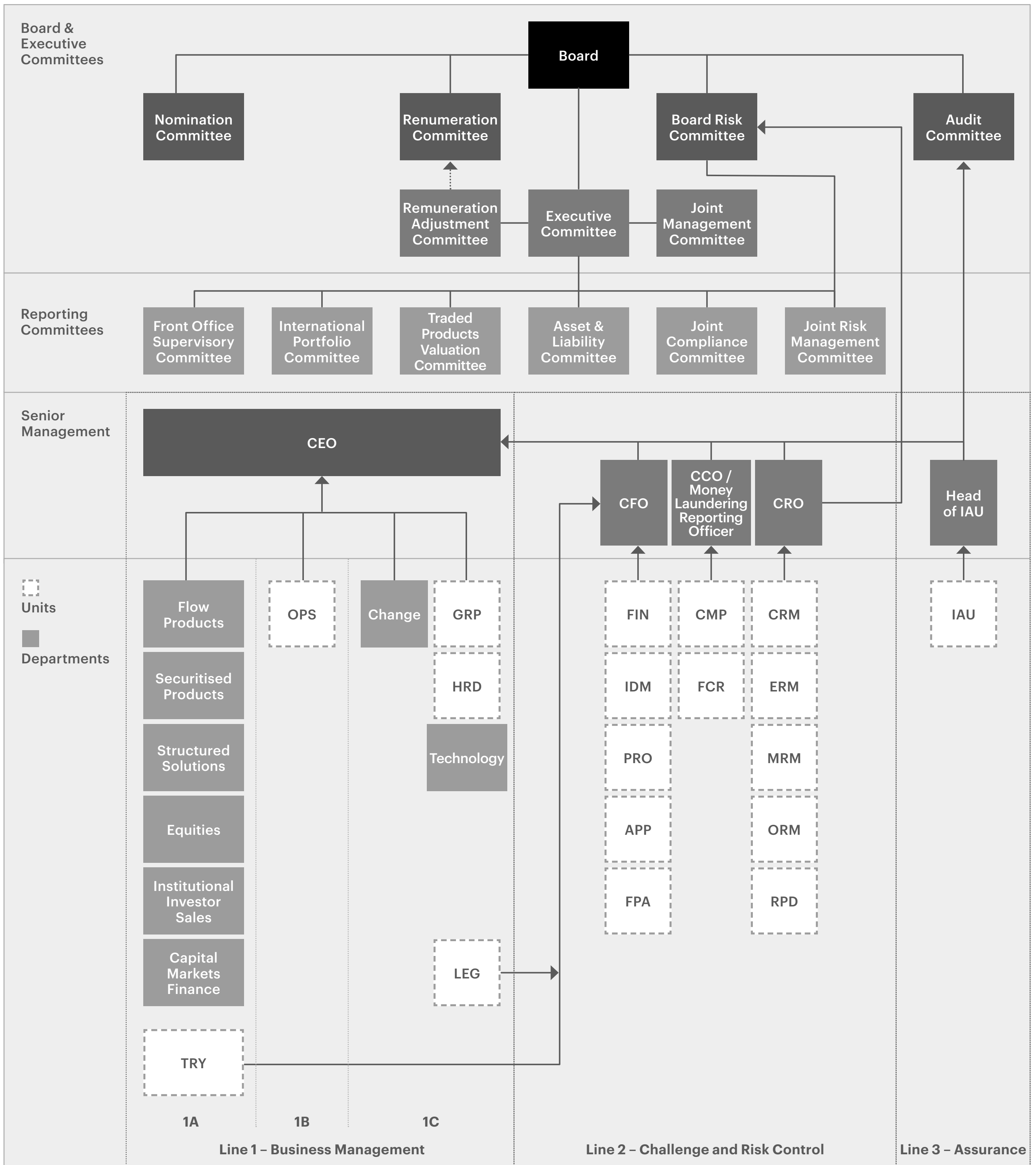
3. Risk structure and other committees

Day-to-day risk management is the responsibility of all employees of the Company. Accountability for second line risk management, with the exception of compliance, conduct and reputational risk, resides with the CRO, who reports directly to the CEO and the BRC. Market, credit, operational, and model risk are overseen by the Joint Risk Management Committee ("JRMC") supported by its underlying sub-committees.

Valuation risk is overseen by the Traded Products Valuation Committee ("TPVC"). Liquidity and capital risk is overseen by the Asset and Liability Committee ("ALCO"), which is chaired by the CFO. Compliance, conduct and legal risk are overseen by the Joint Compliance Committee ("JCC"). Second line risk management of compliance risk and conduct risk resides with the Chief Compliance Officer ("CCO"), who reports directly to the CEO. Reputational risk management resides with the CEO and the Executive Committee.

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

The Company's risk committee and corporate structure as at 31 December 2019 is illustrated below:



Departments

APP – Accounts Payable and Procurement
CMP – Compliance
CRM – Credit Risk Management
ERM – Enterprise Risk Management
FCR – Financial Crime
FIN – Finance
FPA – Financial Planning and Analysis
GRP – Global Research Production Group
HRD – Human Resources
IAU – Internal Audit
IDM – Information and Data Management
LEG – Legal
MRM – Market Risk Management
OPS – Operations
ORM – Operational Risk Management
PRO – Product Control
RPD – Risk Analytics Group
TRY – Treasury

Business and Risk Management Policies (continued)

Three Lines of Defence

Line 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, JRMC and ALCO.

Line 2 – Challenge and Risk Control – Risk Departments, Compliance and other control support departments

- Independent of Front Office, led by the CRO, CFO and the CCO
- Enable the Company to maintain a system of checks and balances
- Escalate risk issues to the JRMC, TPVC, ALCO and where appropriate to the Executive Committee
- The Risk function and the JRMC have a reporting line to the BRC, independent of the CEO.

Line 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 the Company
- Independent reporting line to the Chair of the Audit Committee of the Board.

Risk Appetite

Central to the Company'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. The Company's risk appetite is specified by the Board through a number of metrics including capital, liquidity, earnings volatility, market, operational and credit risk. It is reviewed at regular meetings of the Board and recalibrated annually as part of the Company's budget and planning process. The risk appetite is cascaded through the Company 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 the Company, 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 the Company's risk register.

The Company establishes and is subject to risk management 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.

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

Capital Adequacy

The Company monitors its capital adequacy on an ongoing basis and conducts a formal annual Internal Capital Adequacy Assessment Process ("ICAAP") in 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 the strategy setting and business planning process as well as the process for identification, measurement and control of those 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. The Company 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.

Stress Testing

The Company 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 the Company level and also by department and business line, and reported regularly to Senior Management.

Risk Management by Risk Type

Market Risk

Market risk is the risk of losses from movements in market prices in the trading portfolio. The Company 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 Company, business unit, department, and trader level.

Day–to-day responsibility for the management of market risk resides with the front office departments and responsibility for second line review, challenge and oversight is with the Market Risk Management department. 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 the Company's in house and vendor systems.

The Company makes use of a range of internal models for the quantification of market risk.

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.

The Company 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.

The Company additionally calculates SVaR using an appropriately stressed 1 year lookback period as required by regulatory rules.

VaR Backtesting

The Company carries out a daily comparison of end of day VaR measures to the 1 day change of the portfolio's value on the day the profit and loss figures are produced. In 2019 the number of occasions on which actual 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 Company level, the Company conducts backtesting on a number of sub-portfolios across the different business units.

Stressed VaR

The Company calculates SVaR based on inputs calibrated to historical data from a continuous 12 month period of significant financial stress relevant to the Company's portfolio.

Risks Not In VaR

The Company calculates additional capital under its Risks Not in VaR framework for certain risk factors that are not fully captured in VaR.

Incremental Risk Charge

The Company 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.

VaR considered in isolation has limitations which are listed below in further detail. The Company also uses a wide range of other risk limits, for example stop-loss limits, risk factor sensitivity limits or stress limits, to manage its exposures.

The Company's VaR has the following limitations:

- Calculations are based on historical data which may not be the best estimate of risk factor changes that will occur in the future
- In transforming historical data into future scenarios the Company makes assumptions that may not be the best estimate of how changes will occur in the future
- Focusing on the maximum loss that is expected to be incurred 99% of the time says little about the smaller losses that are expected to be incurred more frequently, or the larger losses in excess of VaR that are expected to be incurred 1% of the time
- VaR is generally based on calculations performed at the end of each business day. The end-of-day figure may not be representative of the figure at other times of the day.

Incremental Risk Charge (continued)

The following table shows VaR figures for 2019 and 2018. The breakdown in terms of different risk factors is as described below. The "Close" column shows the VaR at the year-end date. The "Average" column shows the average VaR measurement from each trading day in the year and the "Maximum" and "Minimum" columns show the highest and lowest VaR value in the year respectively. "Diversification benefit" is the difference between the simple sum of the VaRs for each risk factor, and the Company's overall VaR, which is based on the simultaneous modelling of all risk factors.

As at 31 December 2019	Close £m	Average £m	Maximum £m	Minimum £m
Interest Rate Curve Risk	1.0	1.0	2.7	0.4
Interest Rate Vega Risk	1.0	1.2	2.1	0.6
Asset Spread Risk	1.0	2.0	4.6	1.0
Currency Risk	0.3	0.3	0.7	0.1
Equity Price Risk	0.2	0.2	0.7	0.0
Equity Vega Risk	0.3	0.5	1.1	0.1
Inflation Risk	0.1	0.1	0.1	0.0
Basis Risk	1.2	1.3	1.9	0.9
Diversification benefit	(3.0)	n/a	n/a	n/a
Total VaR	**2.1**	**2.8**	**5.1**	**1.6**

As at 31 December 2018	Close £m	Average £m	Maximum £m	Minimum £m
Interest Rate Curve Risk	1.8	1.6	4.2	0.5
Interest Rate Vega Risk	1.7	2.2	3.2	1.1
Asset Spread Risk	2.4	3.1	3.9	1.9
Currency Risk	0.6	0.5	1.1	0.1
Equity Price Risk	0.4	0.3	1.5	0.0
Equity Vega Risk	0.6	0.5	1.2	0.1
Inflation Risk	0.1	0.1	0.1	0.1
Basis Risk	1.3	1.9	3.6	1.1
Diversification benefit	(5.5)	n/a	n/a	n/a
Total VaR	**3.4**	**4.2**	**5.8**	**2.4**

Interest Rate Curve Risk

The risk of losses arising from changes in market interest rates.

Interest Rate Vega Risk

The risk of losses arising from change in implied interest rate volatility.

Asset Spread Risk

The risk of losses due to the market price of bonds and credit derivatives attributable to changes in such factors as perceived credit quality or liquidity, as distinct from price changes attributable solely to market interest rates.

Currency Risk

The risk of losses arising from changes in market FX rates and changes in implied FX volatility.

Equity Price Risk

The risk of losses due to price movements in the equity market.

Equity Vega Risk

The risk of losses arising from change in implied equity volatility.

Inflation Risk

The risk of losses arising from the changes in the market prices of inflation derivatives, or from price changes in inflation-linked securities attributable to inflation.

Basis Risk

The risk of losses arising from changes in market prices for cross currency basis, tenor basis, and other basis swaps in the interest rate market.

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.

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

The Company 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 front office departments and responsibility for second line review, challenge and oversight is with the Credit Risk Management department. The Credit Risk Management department 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 the Company'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 the Company's Collateral Policy
- Provide credit portfolio monitoring and analysis.

On a monthly basis, Credit Risk Management reports the Company's total credit risk exposure to the Joint Credit Risk Management Committee (JCRMC), which is a sub-committee of the JRMC. Monthly reporting includes a review of large exposures, exposures to lower rated issuers and counterparties, and exposure to higher risk industry and country sectors. The JCRMC escalates material matters to the JRMC. The JRMC is also the forum where credit policies are reviewed and finally approved.

In addition to the JRMC, a summary of the Company'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 derivative counterparty credit risk, the Company has Credit Support Annexes in place with the majority of its counterparties (this includes the exchange of initial margin with certain non-centrally cleared, over-the-counter derivatives counterparties for in-scope products) and guarantee arrangements in place with members of MUFG. Risk is managed net of these guarantees.

An analysis of the Company's credit exposures is included in Note 32.

Credit Concentration Risk

Credit concentration risk is the risk arising from an uneven distribution of exposures, through single name, sector or geographical concentration. The Company analyses the credit concentrations through its daily credit exposure reports. The Company's exposures are concentrated on Government bonds, the financial sector and exposures to Japanese markets and counterparties.

Liquidity Risk

Liquidity risk is the risk that the Company 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 the Company's liquidity risk appetite, which expresses the level of risk the Company 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 the Company'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 the Company
- Ensure that appropriate business incentives are maintained that reflect the cost and availability of liquidity through the Company's Fund Transfer Pricing ("FTP") process and unsecured funding limit allocation process
- Review critical liquidity risk factors and prioritise issues arising
- Determine the Company's funding plans and funding diversification strategy in light of business projections and objectives.

The Company uses a variety of quantitative and qualitative measures to monitor the adequacy of the Company's liquidity resources and to ensure an integrated approach to liquidity risk management. This framework incorporates a range of tools described on the next page:

Business and Risk Management Policies (continued)

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

Funds Transfer Pricing
The Company 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 the Company 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 the Company'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 Company 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, as well as central bank deposits (where applicable). The size of the liquidity buffer is calibrated using both the Company's internal stress testing framework and applicable regulatory requirements. The liquidity portfolio is held on an unencumbered basis without restrictions on rehypothecation and with full Company 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 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.

The Company 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 the Company 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, the Company'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 Company 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 the Company too. The Funding Liquidity Risk Policy identifies general contingency actions to be taken by departments at each stage.

Asset Encumbrance
Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. Due to the nature of its business the Company 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.

The Company monitors the mix of secured and unsecured funding sources and seeks to efficiently utilise collateral to raise secured funding and meet other collateralised obligations.

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

Capital Risk

Capital risk is the risk that the Company has insufficient capital resources to meet the capital requirements that are incurred through execution of the business plan.

The Company aims to manage and control its exposure to Capital Risk through its policies and procedures with the objectives of:

- Holding sufficient capital resources to support the risks in which the Company engages
- Identifying an appropriate capital plan to ensure that this objective is maintained over the three year business plan horizon
- Managing the relative proportions of the constituent parts of capital resources such that the Company meets these objectives in an efficient manner.

The ALCO has primary responsibility for overseeing the Company's capital management. The Company measures key capital sensitivities and analysis of drivers of change in capital adequacy which are regularly reported in the ALCO. The capital position is also reported to the JRMC regularly.

The Company assesses capital risk against minimum regulatory requirements and internal targets at Company level, supported by assessments of capital requirements at business level against internal targets. Capital risk reports are circulated to senior management daily and are discussed at Board and Committee level.

The Company determines and maintains a capital planning buffer to reduce the risk of having to raise capital or reduce business at short notice. The Company's objective is to manage capital to withstand severe but plausible stresses without the need to significantly alter the business. This capital planning buffer is determined on the basis of appropriate stresses to the Company's business.

Model Risk

Model risk is the potential for loss arising from decisions based on incorrect or misused model outputs and reports.

The Company manages model risk by having a segregation of duties between model development and validation of the model. There are governance sub-committees and working groups that oversee the models used by the Company. In the case of risk models, the Joint Model Oversight Committee ("JMOC"), which reports to the JRMC, is responsible for reviewing the output of ongoing validation and for model performance. The Valuations Working Group ("VWG") oversees the use of pricing models. The independent validation of risk models is performed by the Model Risk Management function which is part of the Company's Enterprise Risk Management department and has membership on the JMOC and the VWG.

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.

The Company 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.

The Company employs The Standardised Approach ("TSA") for calculating its Pillar 1 Operational Risk Capital Requirement. The Company 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.

In order to facilitate the management of operational risk, the Company sub-divides its Risk Taxonomy 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.

Operational Risk Management Framework

The Operational Risk Management Framework is defined within the Company's policies and detailed standards, and comprises of the following key elements:

- **Governance:** The Operational Risk Governance Structure outlines the committees and meetings through which key risk and control concerns and incidents are escalated, risk management action is driven and risk management decisions are made
- **Risk appetite:** The Company 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
- **Risk and Control Self Assessments (RCSAs):** Departments within the Company assess the operational risks they face, and the effectiveness of the controls that mitigate those key operational risks, relative to the Company's appetite
- **Self-Identified Issues (SIIs):** Departments identify, record and manage the remediation of deficiencies and/or weaknesses in their risk and control environments
- **Key control attestations:** Managers confirm regularly that their key controls have operated correctly
- **Scenario analysis:** The Company uses scenario analysis to assess the risks of extreme but plausible events
- **Key risk & control indicators:** The Company uses metrics to monitor its operational risk profile and to alert management when risk levels exceed acceptable ranges
- **Internal Operational Risk Events:** The Company 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 performs root cause analysis where applicable
- **External Operational Risk Events:** Business and support departments use information obtained from external events to assess their own risk profile, understand "lessons learned" and evaluate and adapt their current control environment from events which have impacted similar firms' business processes
- **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, the Company uses insurance to mitigate the impact of some operational risks
- **Training:** Staff are required to undertake annually mandatory on-line operational risk awareness training.

The Company has a dedicated operational risk management department. Issues of significance are escalated to the Joint Operational Risk and Controls Committee ("JORCC"), which reports to the JRMC and meets on a monthly basis.

Technology and Cyber Risk

The Technology and Cyber Risk team in the Operational Risk Management Department is responsible for second line oversight and challenge for technology and cyber risk. Technology and cyber risk management information ("MI") is presented to the JORCC and any material matters are escalated to the JRMC.

The Company has a dedicated Technology Risk and Control function in the first line with responsibility for the technology and cyber risk. Areas of focus include the top risks and threats related to: network security; malware and firewall threats; access management; data backups; security patching; user awareness training; monitoring and reporting service and security events. It also delivers testing and mitigation activities to identify any potential security vulnerabilities in the infrastructure platforms and business applications. The Company has an ongoing programme of work that continually invests in improving controls to manage technology and cyber risk.

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 that the liabilities increase with no offsetting increase in the assets.

The Company'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. The Company 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 the Company's pension scheme can be found in Note 8.

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. The breadth of the business plan has increased to accommodate for Brexit (refer to Strategic Report on pages 2 to 4).

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. The Company'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. The Company'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.

The Company's strategic risks also include potential impacts arising from the Company'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.

Financial Risks Arising from Climate Change

Climate Change presents both risks and opportunities for the Company across its customers, business operations and wider stakeholders. The Company recognises climate change risk covers both physical risks (the impact of acute weather events and chronic changes to the climate) and transitional risks (the impact of shifts to a low-carbon economy).

The Board is responsible for the governance of risks arising from climate change with oversight delegated to the BRC. The CRO is the Senior Manager responsible for managing the risks arising from climate change, specifically through the design and implementation of the risk management framework. Given the breadth of climate change and the potential impact across the business all senior managers are responsible for managing risks arising from climate change pertinent to their part of business. The JRMC receives regular updates on the development of the broader approach to climate change risk across MUFG.

The Company's Risk Management Framework is evolving to identify measure, manage and report on financial risks arising from climate change with particular focus on governance, risk management, scenario analysis and disclosure. The Company is working with the MUFG group to develop consistent application of the disclosure recommendations from MUFG's participation in the Task-force for Climate-related Financial Disclosure ("TCFD").

Compliance Risk

Compliance risk, including Financial Crime, is the risk of financial, reputational or other damage to the Company through failing to comply with regulations, rules, guidelines, professional ethics and governance standards, codes of conduct and other similar standards.

The Company maintains a governance structure designed to ensure appropriate management, oversight and second-line assurance of significant risks and associated mitigants, including, in respect of Compliance risk, a Compliance function with sufficient authority, stature, independence, resources and access to the Board. Accountability for compliance rests with functional units across the Company which own their respective compliance risks. The Compliance function is accountable for several controls and mitigants, including monitoring, testing, advising on regulatory change and compliance matters, and escalation of issues arising. The Company'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 that the actions of the company have a negative impact on customers, competition in the marketplace or market integrity and reputation. This risk can crystallise for many reasons, including compliance failures, conflicts of interest, poor culture and individual behaviour. It may negatively impact the company's reputation leading to loss of business, or lead to regulatory sanctions.

Effective identification and management of Conduct risk is a key aspect of the Company's future success. The Company has implemented a Conduct Risk Management Framework which identifies and manages Conduct risk within a robust framework, including:

- Compliance policies, front office desk procedures and a conduct risk operating framework and strategy
- A conduct risk operational framework supporting the continuous process of conduct risk identification and assessment
- Measures of risk appetite for the amount and type of Conduct risk that the Board are willing to accept in achieving the Company's strategic objectives and business plan
- 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
- Company-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.

The Company 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 the Company. The Company 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 including establishing legal enforceability of collateral arrangements for MUS(EMEA) to liquidate or take possession of collateral in a timely manner in the event of the default, insolvency, bankruptcy or other credit event of obligors, negotiation of transaction documentation and the management of all legal and regulatory actions.

Reputational Risk

Reputational risk is the risk of loss arising from reputational damage in the event that the business activities deviate substantially from the expectations and confidence of customers, shareholders, investors, society and other wide-ranging stakeholders and any similar risk. It is usually a secondary risk which exacerbates the loss from another risk type. The Company's business is dependent on its reputation and it will impact its performance should it deteriorate. The Company 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 the Company has no direct control. The Reputational Risk Management Policy sets out how the risk of reputational events is managed.

IBOR transition

Following the announcement by the UK's FCA in July 2017 that LIBOR is expected to be phased out by the end of 2021, MUFG has set up internal working groups to assess impacts and actively manage the LIBOR transition while mitigating associated risks. This transition process poses a number of challenges and exposes the Company to contractual and financial risks. MUFG is taking steps to mitigate these risks through initiatives such as development of new systems and related review and amendment of legal agreements. In addition, the Company continues to engage with industry participants.

Status of Regulatory Capital Resources

The Company's regulatory capital resources are assessed under the Capital Requirements Regulation and the Capital Requirements Directive IV. The Company's capital consists of Tier 1 – share capital, retained earnings and Additional Tier 1 instruments, and Tier 2 – subordinated debt which is fixed term and denominated in Japanese Yen.

The Company enhanced its capital base this year with the objective of primarily meeting demands from the business. Post PRA approval the following capital injections took place during the year:

- In Q1 2019, the Company issued total GBP 157 million (EUR 180 million equivalent) common shares to MUSHD which qualified as Common Equity Tier 1 Capital.
- In October 2019, the Company issued GBP 98 million (USD 125 million equivalent) Subordinated Perpetual Contingent Conversion Security to MUSHD which qualifies as Additional Tier 1 Capital.

The Company 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 the Company'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.

The Company has fulfilled its capital requirements at all times during the year.

The Company's capital resources, Pillar 1 capital requirements and capital ratios for 2019 and 2018 are shown in the table below:

As at 31 December	2019 £m	2018 £m
Total Common Equity Tier 1 Capital after Deductions	1,408	1,114
Additional Tier 1 Capital after Deductions	464	307
Total Tier 2 Capital after Deductions	306	314
Total Capital Resources	**2,178**	**1,735**

As at 31 December	2019 £m	2018 £m
Credit Risk (including Concentration Risk)	485	327
Market Risk	217	261
Operational Risk	53	47
Total Capital Requirements	**755**	**635**

As at 31 December	2019 %	2018 %
Common Equity Tier 1 Ratio (Common Equity Tier 1 / Risk Weighted Assets)	14.9	14.0
Tier 1 Ratio (Tier 1 / Risk Weighted Assets)	19.8	17.9
Total Capital Ratio (Total Capital / Risk Weighted Assets)	**23.1**	**21.8**

Further details of the Company's capital requirements are included within the Company's Pillar 3 disclosure which is published on the Company's website.

Independent auditor’s report to the members of MUFG Securities EMEA plc

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of MUFG Securities EMEA plc (the ‘company’):

- give a true and fair view of the state of the company’s affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors’ responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in Note 35 to the financial statements for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kulbir Grewal ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
5 March 2020

Financial Statements

Company income statement

For the year ended 31 December	Notes	2019 £'000	2018 £'000
Interest income	3	25,737	19,670
Interest expense	4	(24,125)	(13,826)
Net interest income		**1,612**	**5,844**
Fees and commissions income		67,921	92,116
Fees and commissions expense		(17,984)	(22,936)
Net fees and commissions income		**49,937**	**69,180**
Trading income		**315,716**	**207,167**
Net investment income / (expense)		**4,655**	**(8,890)**
Other income		**2,231**	**-**
Total operating income		**374,151**	**273,301**
Administrative expenses	5	(238,049)	(190,296)
Amortisation of intangible assets	14	(21,560)	(18,388)
Depreciation of property, plant and equipment	15	(2,869)	(3,358)
Depreciation of right-of-use assets	16	(4,813)	-
Total operating expenses		**(267,291)**	**(212,042)**
Share of gain / (loss) in subsidiary	17	4,829	(2,557)
Profit on ordinary activities before taxation		**111,689**	**58,702**
Taxation	9	(27,750)	(13,558)
Profit attributable to owners of the company		**83,939**	**45,144**

The above results are derived from continuing operations of the business.

Company statement of comprehensive income

For the year ended 31 December	2019 £'000	2018 £'000
Profit after tax	83,939	45,144
Other comprehensive (loss) / income from continuing operations:		
Revaluation of securities at fair value through other comprehensive income (FVTOCI)		
Net gains / (losses) from changes in fair value	3,694	(5,889)
Net (gains) / losses transferred to net profit	(3,300)	4,539
Taxation	(159)	412
Cash flow hedging reserve		
Net gains / (losses) from changes in fair value	324	(113)
Net (gains) transferred to net profit	(206)	(579)
Taxation	(32)	184
Net investment hedge reserve		
Change in value of the hedged item due to changes in spot rate	(4,137)	254
Changes in value of the hedging instrument due to changes in spot rate	4,137	(254)
Taxation	-	-
Total comprehensive income that may be recycled to profit or loss	**84,260**	**43,698**
Other comprehensive (loss) / income not recycled to profit or loss		
Actuarial (loss) / gains in retirement benefit schemes	(9,230)	1,688
Taxation	2,446	(447)
Total other comprehensive income	**(6,784)**	**1,241**
Total comprehensive income for the year attributable to owners of the company	**77,476**	**44,939**

Financial Statements (continued)

Company statement of financial position

As at 31 December	Notes	2019 £'000	2018 £'000
ASSETS			
Cash and balances at central banks		151,650	412,491
Trading portfolio financial assets	11	14,053,869	10,095,172
Derivative financial instruments	2, 12	15,781,720	14,901,546
Reverse repurchase agreements		33,398,055	26,304,004
Securities sold not delivered	2	-	-
Equity finance assets		416,227	410,655
Cash collateral on securities borrowed		3,684,652	4,147,087
Cash collateral paid to derivative counterparties		2,566,296	2,887,619
Securities at FVTOCI	13	1,333,140	688,422
Deferred tax asset	9	9,788	13,053
Intangible assets	14	69,294	73,188
Property, plant and equipment	15	11,526	15,385
Right-of-use assets	16	31,225	-
Investment in subsidiary	17	172,023	15,516
Other assets	18	811,293	349,053
Total assets		**72,490,758**	**60,313,191**
LIABILITIES			
Deposits by banks		15,189	226,525
Trading portfolio financial liabilities	2, 19	10,513,925	9,158,904
Derivative financial instruments	12	14,723,352	13,215,854
Repurchase agreements		29,053,686	19,711,331
Securities bought not delivered	2	-	-
Cash collateral on securities lent		535,405	659,568
Cash collateral received from derivative counterparties		7,149,115	7,979,572
Financial liabilities designated at fair value	2, 20	6,859,508	5,983,971
Other liabilities	21	702,138	882,767
Senior unsecured loan	22	569,868	594,892
Subordinated liabilities	23	305,951	313,965
Total liabilities		**70,428,137**	**58,727,349**
EQUITY			
Equity instruments	24	1,747,094	1,335,380
Other reserves		924	603
Retained earnings		314,603	249,859
Total equity		**2,062,621**	**1,585,842**
Total liabilities and equity		**72,490,758**	**60,313,191**

Company Number: 1698498

The financial statements on pages 40 to 84 and business and risk management policies on pages 26 to 37 were approved by the Board of Directors and authorised for issue on 28 February 2020 and signed on its behalf by:

Christopher Kyle
Chief Financial Officer
5 March 2020

Company statement of changes in equity

	Equity instruments £'000	Securities held at FVTOCI £'000	Available for sale reserve £'000	Cash flow hedging reserve £'000	Cumulative translation adjustment £'000	Retained earnings £'000	Total equity £'000
2018							
As at 31 December 2017	1,317,590	-	1,485	564	-	212,353	1,531,992
IFRS 9 adoption adjustment	-	1,485	(1,485)	-	-	(104)	(104)
As at 1 January 2018	1,317,590	1,485	-	564	-	212,249	1,531,888
Profit after tax	-	-	-	-	-	45,144	45,144
Issue of equity instruments	17,790	-	-	-	-	-	17,790
AT1 coupon	-	-	-	-	-	(8,775)	(8,775)
Securities held at FVTOCI	-	(938)	-	-	-	-	(938)
Cash flow hedges	-	-	-	(508)	-	-	(508)
Revaluation on equity method investment	-	-	-	-	254	-	254
Transfer of NIH instruments	-	-	-	-	(254)	-	(254)
Actuarial gain	-	-	-	-	-	1,241	1,241
As at 31 December 2018	**1,335,380**	**547**	**-**	**56**	**-**	**249,859**	**1,585,842**
2019							
As at 31 December 2018	1,335,380	547	-	56	-	249,859	1,585,842
IFRS 16 adoption adjustment	-	-	-	-	-	(2,260)	(2,260)
As at 1 January 2019	1,335,380	547	-	56	-	247,599	1,583,582
Profit after tax	-	-	-	-	-	83,939	83,939
Issue of equity instruments	411,714	-	-	-	-	-	411,714
AT1 coupon	-	-	-	-	-	(10,151)	(10,151)
Securities held at FVTOCI	-	235	-	-	-	-	235
Cash flow hedges	-	-	-	86	-	-	86
Revaluation on equity method investment	-	-	-	-	(4,006)	-	(4,006)
Transfer of NIH instruments	-	-	-	-	4,006	-	4,006
Actuarial loss	-	-	-	-	-	(6,784)	(6,784)
As at 31 December 2019	**1,747,094**	**782**	**-**	**142**	**-**	**314,603**	**2,062,621**

Company cash flow statement

For the year ended 31 December	Note	2019 £'000	2018 £'000
Reconciliation of profit before tax to net cash flows from operating activities			
Profit before tax		111,689	58,702
Adjustment for non-cash items:			
Depreciation and impairment of property, plant and equipment		2,869	3,358
Amortisation and impairment of intangible assets		21,560	18,388
Depreciation of right of use asset		4,813	-
Net loss on disposal of property, plant and equipment and intangible assets		31	1,443
(Profit) / loss on investment in subsidiary		(823)	2,483
Changes in operating assets and liabilities:			
Net (increase) / decrease in trading portfolio financial assets and liabilities		(2,603,676)	1,815,994
Net decrease / (increase) in derivative financial instruments		627,324	(3,513)
Net (increase) in securities bought / sold not delivered		-	(5,214)
Net (increase) in reverse repurchase agreements		(7,094,051)	(3,844,009)
Net increase / (decrease) in repurchase agreements		9,342,355	(2,279,596)
Net decrease in assets at amortised cost		-	130,494
Net (increase) / decrease in cash collateral for securities and derivatives		(170,862)	1,223,040
Net (increase) in other assets		(470,234)	(9,059)
Net (decrease) / increase in other liabilities		(229,069)	147,626
Corporation tax paid		(10,867)	(6,194)
Net cash used in operating activities		**(468,941)**	**(2,746,057)**
(Purchase) of property, plant and equipment		(2,634)	(1,390)
(Purchase) of intangible assets		(29,181)	(27,226)
(Purchase) of securities at FVTOCI		(1,044,739)	(1,196,850)
Investment in subsidiary		(155,684)	(17,999)
Proceeds from disposal or transfer of property, plant and equipment		2,182	-
Proceeds from disposal or transfer of intangible assets		11,071	-
Proceeds from sale or redemption of securities at FVTOCI		400,021	1,327,063
Other cash inflows / (outflows) associated with investing activities		321	(1,446)
Net cash from investing activities		**(818,643)**	**82,152**
Proceeds from issuance of ordinary share capital		411,714	17,790
Proceeds from financial liabilities designated at fair value		11,907,152	10,838,582
Repayments of financial liabilities designated at fair value		(11,031,615)	(9,507,033)
(Redemption) / issuances of senior unsecured loan		(25,024)	594,892
(Redemption) / issuances of subordinated debt		(8,014)	23,927
Distributions paid to holders of AT1 capital (net of tax)		(10,150)	(6,406)
Lease payments		(5,984)	-
Net cash from financing activities	10	**1,238,079**	**1,961,752**
Net (decrease) / increase in cash and cash equivalents		**(49,505)**	**(702,153)**
Opening cash and cash equivalents		185,966	888,119
Net cash (decrease) / increase		(76,581)	(650,016)
Foreign exchange		27,076	(52,137)
Closing cash and cash equivalents	10	**136,461**	**185,966**
Cash and balances at central banks		151,650	412,491
Deposits by banks		(15,189)	(226,525)
Total cash and cash equivalents	10	**136,461**	**185,966**

Notes on Financial Statements

1 Accounting policies

Basis of preparation of company accounts

The financial information includes the financial statements of the Company for the year ended 31 December 2019. The financial information has been prepared under the historical cost convention modified by the revaluation to fair value of certain positions, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the Companies Act 2006.

The financial statements have been prepared on a going concern basis due to expected future profitability as well as the Company continuing to be of strategic importance to MUSHD. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 4. The financial position of the Company, its liquidity position and borrowing facilities are described through the financial statements beginning on page 40. In addition, the Business and Risk Management Policies on pages 26 to 37 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and various forms of risk.

The Company has considerable financial resources in place and continues to be of strategic importance to MUSHD; as evidenced by additional capital raised during the period. Additionally, the Company has contracts with both a broad range of customers and financial institutions across different geographic areas. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain global economic outlook. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements, refer to the strategic report on pages 2 to 4.

The Company has elected to make use of the parent company exemption within IFRS 10, exempting it from the requirement to prepare consolidated financial statements. The Company's parent, MUSHD, has been consulted and does not object to this approach. The consolidated financial statements of MUSHD include the results of the Company and its subsidiary. As such, the investment in subsidiary is included within these separate financial statements using the equity method of accounting as defined in IAS 28.

Use of estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. The use of available information and the application of assumptions are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Critical accounting policies where management estimates are applied are:

- the valuation of Level 3 financial instruments, where there is no active market for a financial instrument and valuation techniques are used that depend on unobservable parameters (refer to Note 27),
- discretionary compensation accruals following the change of the performance review cycle as well as related vesting and payment dates (refer to Note 5).

Critical accounting policies where management judgement is applied are:

- Timing of recognition of day 1 PL (refer to Note 27),
- metrics which support the actuarial valuation of the defined benefit pension scheme (refer to Note 8),
- satisfaction of vesting conditions which relate to deferred compensation arrangements, and
- recognition of deferred tax assets (refer to Note 9).

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. The most significant judgements relate to expected future profitability. See below for further comments on fair value measurement of financial assets and liabilities.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are initially measured at fair value.

Financial assets

Financial assets are classified as financial assets at amortised cost, financial assets at fair value through Other Comprehensive Income ("FVTOCI") or financial assets mandatory at fair value through profit and loss ("FVTPL"). The classification of financial assets is determined by a 2 step process: analysis of the business model under which the asset is held; and, where required, analysis of the contractual terms of the financial asset.

Financial assets held at amortised cost

Financial assets may be measured at amortised cost ("AC") where they are:

- Held in a business model under which the Company intends to hold the asset in order to collect payments of principal and interest, and
- The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Where assets are held at amortised cost, the carrying value is calculated using the effective interest rate method, less any impairment.

Financial assets at amortised cost include trade and other receivables, reverse repurchase agreements held for liquidity purposes by the Company's Treasury and certain CLO warehousing loans.

Financial assets held at FVTOCI

Financial assets are measured at fair value through other comprehensive income ("FVTOCI") where they are:

- Held in a business model under which the Company may either sell the asset or hold it in order to collect contractual cash flows, and
- The contractual terms of the asset give rise on specified dates cash flows that are solely payments of principal and interest on the principal ("SPPI") amount outstanding.

Financial assets held at FVTOCI (continued)
Interest income is recognised in the income statement using the effective interest method. Foreign exchange gains or losses on assets held at FVTOCI are recognised in net trading income. Other fair value changes are recognised directly in shareholder's equity within the Securities held at FVTOCI reserve until the investment is sold or impaired, at which time the balance in equity is recognised in the income statement.

This category is used for certain high credit quality debt securities purchased by the Company to satisfy regulatory liquidity obligations, and as such, are available to be sold at short notice to meet the cash demands of the business.

Financial assets held mandatory at FVTPL
Financial assets are mandatory measured at fair value through profit or loss ("FVTPL") where they do not meet the criteria to be carried under a different classification.

Such financial assets are recognised initially at fair value, with transaction costs taken to the income statement, and are subsequently remeasured at fair value. All subsequent gains and losses from changes in the fair value of these assets and liabilities together with related interest income, interest expense and dividends, are recognised in the income statement within trading income as they arise.

The majority of the Company's financial assets are held within this category.

Option to designate a financial asset at FVTPL
The Company may irrevocably designate a financial asset as held at FVTPL upon initial recognition where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from carrying financial assets or financial liabilities on different bases.

Option to carry certain equity investments at FVTOCI
The Company may make an irrevocable designation for certain investments in equity securities, that would otherwise be measured at FVTPL, to present changes in fair value through other comprehensive income. Where the Company chooses this election, dividends on those securities will be recorded through the PL as the Company becomes contractually entitled to receive them. Any other gains or losses on these securities, included those related to currency translation, are recorded in other comprehensive income and may not subsequently be reclassified to PL, but may be transferred between elements of shareholder's equity.

Identification and measurement of impairment
The recognition and measurement of impairment under IFRS 9 is based on an internal expected credit loss (ECL) model. The Company recognises expected credit losses for financial assets carried at amortised cost and FVTOCI. Expected credit losses are estimated on a forward-looking basis as a function of the probability of default, loss given default, and the Company's exposure at default; and represent the difference between all contractual cash flows that are due under the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate of the instrument.

The ECL model applied classifies these financial assets in the following stages:

- Stage 1: Performing assets – 12-month
  ECL Financial instruments that have not experienced significant increase in credit risk since initial recognition. Provision is determined based on probability of default event occurring within the next 12 months ('12-month ECL'). The Company calculates 12 month expected losses for the majority of assets held due to the high credit quality of instruments within the AC and FVTOCI categories
- Stage 2: Under-performing assets – Lifetime ECL
  Financial instruments where a significant increase in credit risk has been identified but it is not in default. Provision is determined based on probability of default event over the expected life of the financial instrument ('Lifetime ECL'). A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk (SICR) since initial recognition, which is assessed by analysis of published credit ratings and other factors where appropriate. The Company assumes that there has been no significant increase in credit risk where the asset is determined to be of low credit risk at the reporting date. An asset has low credit risk where it has been assigned an external rating within the investment grade range
- Stage 3: Non-performing assets – Lifetime ECL
  Financial instruments are classified as Stage 3 where a default has been identified. The definition of default is aligned with the EBA definition within the context of risk management. Stage 3 provisions are determined based on a Lifetime ECL using a Discounted Cash Flow (DCF) method. The company does not currently calculate lifetime ECL for any assets.

The Company calculates 12 month expected losses for the majority of assets held due to the high credit quality of instruments within the AC and FVTOCI categories. 12 month expected credit losses represent that portion of lifetime expected credit losses which result from default events on the asset that are possible within 12 months of the reporting date. The ECL for the current and prior year is not material.

Financial liabilities
Financial liabilities are held at amortised cost except where they meet the conditions listed below to be carried at FVTPL. Where liabilities are held at amortised cost, the carrying value is calculated using the effective interest rate method.

Trading liabilities
Derivatives, short positions in debt (bonds, pass through notes and asset backed securities) and equity securities, or positions which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, are classified as held for trading. Such financial liabilities are recognised initially at fair value, with transaction costs taken to the income statement, and are subsequently remeasured at fair value. All subsequent gains and losses from changes in the fair value of these liabilities together with related interest income, interest expense and dividends, are recognised in the income statement within trading income as they arise.

Financial liabilities designated at FVTPL

Financial liabilities, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management upon initial recognition. The Company may designate financial liabilities at fair value when doing so results in more relevant information due to the following:

- It eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main class of financial instruments designated by the Company includes medium term Note issues and money market loans and deposits. The return on certain instruments has been matched with derivatives. An accounting mismatch would arise if the debt securities and money market transactions were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating these assets and liabilities at fair value, the movement in their fair value will also be recorded in the income statement.
- Groups of financial assets, financial liabilities or combinations thereof are managed and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and information about groups of financial instruments is reported to management on that basis.
- Certain financial instruments contain one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

Where financial liabilities have been designated at FVTPL, movements in their value due to changes in the Company's own credit risk are required to be recorded through other comprehensive income. As the Company does not have significant debt issuances to external investors, it measures changes in the value of issued debt due to movements in own credit by assessing movements in the credit spread charged by investors when they purchase newly issued debt from the treasury function of the immediate parent. The Company sources funds through this treasury function, and carries a credit rating consistent with its immediate parent. Due to the stability of funding costs achieved by the immediate parent, these changes in value were not material during the period. The Company trades structured notes which include embedded derivatives and therefore has elected to designate at FVTPL.

All other subsequent gains and losses from changes in the fair value of these liabilities, together with related interest expense are recognised in the income statement.

Issued debt – financial liability vs equity classification

Issued financial instruments or their components are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of the Company's own equity instruments to the holder of the instrument. The proceeds of the issue are recorded directly in equity, and held at historical cost. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Dividends and other returns to equity holders are recognised as a deduction from distributable reserves within equity when paid or declared by the Company.

Issued financial instruments or their components are classified as liabilities if the underlying contract results in a present obligation for the Company to either deliver cash, another financial asset, or a variable number of the Company's own equity shares to the holder of the instrument. Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit and loss.

Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the remainder of the proceeds are included within equity. No such compound instruments existed at year-end or throughout the year.

Embedded derivatives

Derivatives may be embedded in other contractual arrangements. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host; the terms of the embedded derivatives would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is a financial liability not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The Company has embedded derivatives within its issued structured notes portfolio. Those notes are carried at FVTPL under the fair value option.

Repurchase and resale agreements

Securities which have been sold subject to an agreement to repurchase remain on the balance sheet and a liability based on the net present value of the associated future cash out flows is recorded within liabilities. Securities acquired in purchase and resale transactions are not recognised on the balance sheet and an asset based on the net present value of the associated future cash receipts is recorded within assets.

Certain transactions which are managed by the Treasury business are carried at amortised cost. As such, the balances recorded in assets are subsequently remeasured only to reflect the accrual of interest or expected credit losses. As at 31 December 2019, there were no repurchase and resale agreements at amortised cost.

All other sale and repurchase and reverse repurchase agreements are managed together as a portfolio on a fair value basis and are accounted for at FVTPL. As such, the balances recorded in assets and liabilities are subsequently remeasured at fair value. Gains and losses from changes in the fair value of the associated cash flows are recognised in the income statement as they arise. Assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Derivatives

Where contracts meet the definition of a derivative within IFRS 9, they are recognised initially, and are subsequently remeasured, at fair value. All changes in fair value, except for certain gains and losses related to cash flow hedges and net investment hedges, are recognised in the income statement within trading income as they arise. Fair values are obtained from quoted market prices in active markets, or using valuation techniques where an active market does not exist. Valuation techniques include discounted cash flow models, recent market transactions and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivatives are recognised using trade date accounting.

The company makes use of the exemption from derivative accounting permitted within the standard for regular way purchases and sales of securities – these are accounted for using settlement date accounting.

Financial assets and liabilities are offset and the net amount reported on the balance sheet if, and only if, the entity currently has a legally enforceable right of offset and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. In many cases, even though master netting agreements are in place, the related assets and liabilities are presented gross on the balance sheet as these requirements are not met.

The value of derivative contracts has been adjusted to include the impact of counterparty credit risk ("CVA") and the cost and benefit of future funding ("FVA"). The impact of changes in the Company's own credit risk ("DVA") is materially included within the application of FVA. The Company is the beneficiary of an intercompany guarantee from MUFG Bank which provides the Company with protection against default over a portfolio of corporate derivatives. This guarantee does not meet the definition in IFRS 9 of a financial guarantee, and as such is accounted for as a credit derivative.

Collateral

Cash collateral pledged by the Company on derivative and other liabilities is classified as an asset within financial assets at amortised cost. Cash collateral pledged by counterparties is classified within financial liabilities at amortised cost. These balances are initially measured at fair value and subsequently measured at amortised cost.

Where securities are posted to counterparties as collateral against liabilities of the Company the security will be retained on the Company's balance sheet and will not impact the recorded liability. Collateral received in the form of securities is not recorded on the balance sheet.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or when the Company has transferred both its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expired.

Hedge accounting

The Company elected to maintain the hedge accounting requirements of IAS 39 when it initially adopted IFRS 9 on 1 January 2018. On 1 July 2019, the Company elected to adopt the revised hedge accounting guidance under IFRS 9. At the inception of a hedging relationship, the Company documents the relationship between the hedging instruments and the hedged items, its risk management objective, its strategy for undertaking the hedge, and how it will assess hedge effectiveness.

The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging relationships continue to meet hedge effectiveness requirements. Following the adoption of IFRS 9 hedge accounting, the Company assesses the following hedge effectiveness requirements using a combination of qualitative and, where applicable, quantitative methods:

- An economic relationship exists between the hedged item and the hedging instrument;
- Credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and
- The hedge ratio is consistent with the Company's risk management policy

Hedges are designated by the Company as one of: hedges of the change in fair value of recognised assets or liabilities ("fair value hedges"); hedges of the variability of cash flows attributable to a recognised asset or liability or a forecast transaction ("cash flow hedges"); or hedges of a net investment in a foreign operation.

Fair value hedges

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or groups thereof that are attributable to the hedged risk. If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to the income statement immediately.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in shareholder's equity within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the hedged transaction is recognised in the income statement. When a hedged forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges is recognised in shareholder's equity within the net investment hedge reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement only when the subsidiary is de-recognised. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the subsidiary is de-recognised.

Fair value measurement of financial assets and liabilities

Fair value is the amount for which an asset could be sold, or a liability transferred, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, the Company establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When unobservable market data has a significant impact on the valuation of financial instruments and the model valuations indicate initial profits or losses on the transaction, the entire initial gain or loss is not recognised immediately in the income statement. The initial gain or loss is measured as the difference in fair value indicated by the valuation model price and the transaction price. These gains or losses are deferred and recognised over the life of the transaction on a systematic basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Company enters into an eligible offsetting or economic hedging transaction which provides a market data point to demonstrate observability of the unobservable input(s). Refer to Note 27 for further detail on the fair value of financial instruments.

Transactions in which the Company acts as an agent

Where the Company acts as an intermediary on behalf of another entity and does not have exposure to the significant risks and rewards associated with the activities performed, it is determined to be acting in an agency capacity. When examining relationships, MUS(EMEA) reviews which entity has primary responsibility for providing services to customers, has inventory risk, has latitude to establish prices, or bears credit risk of the transaction. In the absence of evidence or analysis to the contrary, MUS(EMEA) will follow the legal form of transactions and arrangements will be reported as principal relationships.

When the Company acts as an agent on behalf of another entity, neither the amounts collected from clients on behalf of the principal entity nor the amounts paid away to the principal entity are recorded in revenue. Rather, MUS(EMEA) records revenues as the commissions received from the principal, such revenue is accrued as the service is provided. Similarly, unsettled amounts relating to agency trading will not be shown on the balance sheet.

Fees and commissions

Fees and commissions income include fees received when the Company acts as an underwriter or agent and from the provision of advisory services. Revenues are recognised when the performance obligations are satisfied in accordance with the contract. This may be at a particular point in time or over a period of time.

Client money segregation

The Company holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority. Such monies and the corresponding amounts due to clients are not held on the balance sheet as the clients retain beneficial ownership.

Net interest income

The interest balances presented within the income statement represent the returns and costs to the firm of holding regulatory buffer assets and long term investment positions. These positions are held and managed within the Treasury function. Interest income represents coupon income and amortisation of any premium or discount arising upon purchase of securities held at FVTOCI and certain reverse repurchase agreements held at Amortised Cost. Interest expense represents the cost of funding these positions and includes the cost of repurchase agreements held as liabilities at amortised cost, interest payable on subordinated debt, interest payable on senior unsecured debt which is carried at amortised cost and interest costs on other sources of funds that support these investments.

Any coupon receivable or payable on items which are part of the trading activities of the Company are included directly within Trading Income.

Other income

Other income includes revenues for providing administrative support services to other Group companies, recognised when the performance obligations are satisfied.

Foreign currencies
The financial statements are presented in pounds sterling which is the presentation and functional currency of the Company.

Monetary assets and liabilities denominated in foreign currencies and open forward foreign exchange contracts are translated using the rate of exchange prevailing at the balance sheet date. Gains or losses on translation are included in the income statement.

The assets and liabilities of the Company recognised in foreign currencies are translated to the Company's functional currency at the exchange rates of the reporting date. The income and expenses of the Company are translated to the Company's functional currency at the exchange rates at the dates of the transactions.

Property, plant and equipment and intangible assets
Property, plant and equipment and intangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Expenditure to bring purchased software into operational use and internally developed software are recognised as intangible assets when the Company considers that the software will be used in a manner that will generate future economic benefits and can reliably measure the costs of development.

All fixed assets are reviewed for impairment on an annual basis. Assets are impaired where it is considered that the future economic benefit of the asset is lower than its carrying amount. Such impairment losses are included directly in the income statement.

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets and intangible software assets by equal instalments over their estimated useful lives as follows:

Office furniture and fittings	5 years
Office machinery and equipment	3–5 years
Intangible software	4–7 years

Leases
Following the introduction of IFRS 16 'Leases', The Company classifies a contract as containing a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. The Company recognises lease liability and a corresponding right-of-use asset for all arrangements containing a lease, with the exception of short term leases (with the term of 12 months or less) and leases of assets of low value.

Lease liability is initially measured at the present value of the remaining lease payments at the commencement date, discounted applying lessee' incremental borrowing rate when there is no interest rate implicit in the lease, which is included in Other Liabilities (Note 21). The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The associated right-of-use assets are initially recognised at the amount equal to lease liability, adjusted by any accrued or prepaid lease payments and are presented as a separate line in the statement of financial position. Right-of-use asset is depreciated from the commencement date to the earlier of the useful life of the underlying asset or the end of the lease term. The Company applies the requirements of IAS 36 to determine whether the right-of-use asset has been impaired and to account for any identified impairment losses.

Investments in subsidiaries
The Company has elected to make use of the parent company exemption within IFRS 10, exempting it from the requirement to prepare consolidated financial statements. The Company's parent, MUSHD, has been consulted and does not object to this approach. The consolidated financial statements of MUSHD include the results of the Company and its subsidiary. As such, the investment in the subsidiary is included within these separate financial statements using the equity method of accounting as defined in IAS 28.

Under the equity method of accounting, the initial investment in the subsidiary is recorded at cost in the functional currency of the Company. The value of the investment will not be re-measured after the initial recording date, except for the following:

- The Company's share of the net profit / loss of the subsidiary at each reporting date – recording any net income / (expense) as a gain / (loss) in the PL and an increase / (decrease) in the value of the equity investment
- Any dividends or distributions received from the subsidiary will reduce the value of the investment on the balance sheet
- Movements in the value of the equity method investment due to changes in foreign currency exchange rates across periods will be recorded in Other Comprehensive Income.

Taxation
Taxation comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that they relate to items recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of all temporary differences and tax losses that have originated but not reversed by the balance sheet date. Temporary differences are divergences between the Company's results for tax purposes and its results as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Temporary differences and tax losses are taken into account if they have originated prior to the balance sheet date and are expected to reverse in one or more future periods.

Deferred tax is calculated at the tax rates that are expected to be applied to temporary differences or tax losses when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend to settle current tax liabilities and assets on a net basis.

A deferred tax asset is recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax balances are not discounted.

Employee benefits

Staff are remunerated through both salary and annual performance based discretionary compensation awards. Performance based awards are calculated annually, and reflect the performance of both the individual and the Company during that annual period. Portions of performance based awards are paid by the Company on deferred terms. From 2011 onwards, a portion of these deferred awards for certain employees subject to the PRA's Remuneration Code is linked to the performance of the share price of MUFG. These awards are termed Notional Stock Units (NSU's).

Where payments are made on a deferred basis and the cash value is fixed at the award date, the Company recognises the costs of the deferred awards during the period that the award is made, even though cash payments will not be made until future periods. The Company considers that this treatment most effectively represents the costs of employee compensation for the period.

Where payments are made on a deferred basis and the cash value is linked to the MUFG share price, the Company amortises the expected cost of the award across the entire deferral period, and records as an expense only that portion which is deemed to have accrued during the current period. The Company records post grant date changes in the value of the total award due to changes in the MUFG share price directly through expenses.

Pensions

The Company maintains both a defined contribution pension scheme and a defined benefit pension scheme (the defined benefit scheme is closed to new entrants and to future accruals).

For the defined contribution scheme, pension costs are charged to the income statement which represent the contributions payable to the scheme in respect of the accounting period.

For the defined benefit scheme, pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Any increase in the present value of the liabilities of the Company's defined benefit pension scheme expected to arise from employee service in the period is charged to Profit on ordinary activities before taxation. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in administrative expenses. Actuarial gains and losses are recognised in the statement of total comprehensive income. Deficits in the scheme are recognised in the Company's balance sheet. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme.

The Company recognises the effect of material changes to the terms of its defined benefit pension scheme which reduce future benefits as curtailments; gains and losses are recognised in the income statement when the curtailments occur.

The Company revalues its defined benefit scheme at 30 June and 31 December each year, in consultation with the scheme's actuary. The assumptions underlying the calculations are used to determine the expected income statement charge for the year going forward.

Future Accounting Developments

The following standards, which have been issued but are not yet required to be applied, are likely to have an impact on the entity's financial reports (note, standards or amendments which are not expected to have an impact on the Company's financial reporting have not been summarised here):

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

On the 26 September 2019, IASB issued amendments to hedge accounting rules in IAS 39 and IFRS 9, as well as IFRS 7 disclosure requirements. Interbank offer rates (IBOR) reform is expected to have an impact on financial reporting. Given the level of uncertainty about the long-term viability of some interest rate benchmarks, IASB aim to provide relief from certain hedge accounting requirements during the transition period. The amendments include changes to accounting rules in regards to 'highly probable' requirement for cash flow hedges, prospective assessment of 'highly effective' and risk component, with additional disclosures.

Amendments are effective for annual reporting periods beginning on or after January 2020, with earlier adoption permitted. The new guidance is not expected to have a significant impact on the Company's financial results. The Company has elected not to early adopt the IBOR reform.

2 First time adoption of accounting standards

Only those standards which have been adopted and which have a potential impact on the Company's reporting are included below. Other changes to accounting standards in the current year have been adopted but had no material impact.

IFRS 16 "Leases"

The Company adopted IFRS 16 "Leases" from 1 January 2019, using a modified retrospective approach and did not re-state the comparative information. IFRS 16 requires lessees to record operating leases on the statement of financial position as an asset (the right to use the leased item) and a financial liability (the discounted value of future lease payments). An optional exemption exists for short-term and low-value leases. The income statement is affected by these changes, and the operating lease expenses are replaced by depreciation of the right of use asset and interest accretion representing the reversal of discounting against future lease payments. Operating lease payments were previously included within Operating cash flows, under IFRS 16, cash payments against operating leases are reflected as financing cash flows within the Company's Cash Flow Statement, with any interest on the lease liability recorded as operating cash flows.

The Company has identified non-cancellable operating leases relating to its primary office space and certain data centres which have been recorded on the statement of financial position under the new standard. The impact of adoption at 1 January 2019 was an increase in assets of £33.8 million, an increase in liabilities of £36.1 million, and a decrease in retained earnings brought forward of £2.3 million.

After adoption, corresponding cash out flows of £6.0 million have been reported as financing cash flows rather than operating cash flows, an increase in depreciation of right-of-use assets of £3.6 million and interest expense of £0.6 million.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.3%.

The difference between operating lease commitments disclosed in the annual financial statements for the year ended 31 December 2018 and the lease liabilities recognised at the date of initial application under IFRS 16, discounted using the incremental borrowing rate at the date of initial application, was £0.8 million primarily due to new leases identified, as outlined below.

	£'000
Operating lease commitments disclosed as at 31 December 2018	45,870
Discounted using the lessee's incremental borrowing rate at date of initial application	40,738
Add: finance lease liabilities recognised at 31 December 2018	1,575
Add: new lease identified	2,748
Lease liability recognised as at 1 January 2019	**45,061**
of which are:	
Current lease liabilities	5,047
Non-current lease liabilities	40,014
	45,061

Annual Improvements to IFRS Standards 2015–2017 Cycle
The Company adopted certain amendments to IAS 12 "Income Taxes" as part of Annual Improvements to IFRS Standards 2015–2017 Cycle from 1 January 2019. The amendments require an entity to recognise the income tax consequences of dividends as defined in IFRS 9 when it recognises a liability to pay a dividend, The income tax consequences of dividends are recognised in profit and loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. The amendments have been applied retrospectively and the Company restated comparative information. The adoption of the amendments did not have an impact on opening retained earnings and the impact on profit and loss was £2.3m.

IFRS 9 "Financial instruments" – Hedge accounting
The company has elected to adopt the hedge accounting provisions included in IFRS 9 "Financial Instruments" from 1 July 2019, using the retrospective approach without restating comparative information. Upon adoption of IFRS 9 hedge accounting, the Company assessed and determined that all its existing hedging arrangements meet the revised qualifying criteria for hedge accounting and therefore can be treated as continuing hedge arrangements. There was no impact of adoption on the financial statements.

Changes in accounting policies
The Company has voluntarily changed its accounting policy for regular way purchases and sales of financial assets held for trading from 1 January 2019. IFRS 9 allows entities to elect accounting for regular way purchases and sales of financial assets on trade or settlement basis. On 1 January 2019 the Company voluntarily changed its accounting policy for regular way purchases and sales of financial assets classified as held for trading under IFRS 9 to settlement date basis. Previously these had been accounted for using trade date accounting. The Company believes this change is in line with current industry practice in the UK and therefore provides more relevant information in its statement of financial position.

The change in accounting policy to recognise and derecognise these financial instruments on a settlement date basis did not change the amount or timing of gains and losses recognised in the profit or loss account for these instruments because movements in fair value are still recorded between the trade date and settlement date. The impact of this change is as follows:

	As of 31 December 2019			As of 31 December 2018		
	Trade date £'000	Adjustment £'000	Settlement date £'000	Trade date £'000	Adjustment £'000	Settlement date £'000
Assets						
Trading portfolio financial assets	14,146,852	(92,983)	14,053,869	10,062,348	32,824	10,095,172
Securities sold not delivered	350,457	(350,457)	-	478,902	(478,902)	-
Liabilities						
Trading portfolio financial liabilities	10,711,125	(197,200)	10,513,925	9,187,529	(28,625)	9,158,904
Securities bought not delivered	299,994	(299,994)	-	404,862	(404,862)	-
Financial liabilities designated at fair value	6,805,754	53,754	6,859,508	5,996,562	(12,591)	5,983,971

3 Interest income and similar income

	2019 £'000	2018 £'000
Interest on non-trading assets	25,737	19,564
Interest on loans and receivables from banks	-	106
	25,737	**19,670**

4 Interest expense

	2019 £'000	2018 £'000
Interest on non-trading liabilities	2,131	2,302
Interest on senior unsecured loan	19,530	8,926
Interest on subordinated liabilities	2,464	2,598
	24,125	**13,826**

'Interest on senior unsecured loan' refers to the intercompany unsubordinated debt issued to the Company's immediate parent, MUSHD in July 2018 (refer Note 22).

'Interest on subordinated liabilities' refers to intercompany subordinated debt issued to the Company's immediate parent, MUSHD (refer Note 23).

5 Administrative expenses

	2019 £'000	2018 £'000
Wages and salaries	135,327	109,348
Retirement benefits	5,242	5,467
Social security costs	17,801	15,800
Personnel expenses	**158,370**	**130,615**
Auditor's remuneration (Note 6)	812	762
Other administrative expense	78,867	55,170
General and administrative expenses	**79,679**	**59,681**
Total administrative expenses	**238,049**	**190,296**

The average number of employees of the Company was 663 (2018: 646), split 165:498 (2018: 181:465) between front office and support staff respectively.

Included within 'Wages and salaries' is a discretionary compensation accrual representing managements best estimate of the charge.

6 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for audit and other services		
Statutory audit fees	543	523
Audit related assurance services	244	63
Other assurance services	7	124
Services relating to corporate finance	-	34
	794	**744**
Fees payable to the Company's auditor in respect of associated pension schemes	18	18
Total auditor's remuneration	**812**	**762**

7 Share based payment plans

Notional Stock Units

The Company awarded NSUs to a number of employees during the year. The NSUs are deferred over a period of 3, 5 or 7 years, depending on award date and the individuals role, and track the performance of MUFG shares (see accounting policies).

	2019		2018	
	No. Units ('000)	Value	No. Units ('000)	Value
No. of NSUs outstanding as at 1 January	**2,422**		**4,470**	
Granted during the year:				
No. of NSUs granted	1,780		388	
Value in £'000 equivalent at grant date		6,577		1,837
Less:				
No. of NSUs vested during the year	(1,617)		(2,436)	
No. of NSUs forfeited / cancelled (unvested)	(41)		-	
No. of NSUs as at 31 December	**2,544**		**2,422**	
Fair value of outstanding NSUs at 31 December £'000		**10,492**		**8,973**
Average share price at vesting / payment (JPY)		**508**		**675**

8 Retirement benefits

The Company provides a defined contribution pension scheme, the Group Personal Pension Plan ("GPPP"), for employees of the Company. The assets of the scheme are held separately from those of the Company in an independently administered fund. The cost for the period recognised in the income statement was £6.0 million (2018: £5.5 million).

The Company also provides a funded, final salary, defined benefit pension scheme which was closed to new entrants and future accrual in 2011. The assets of the scheme are held separately from those of the Company in a segregated fund administered by trustees. The scheme is deemed to be a registered pension scheme under the terms of Schedule 36 of the Finance Act 2004 with scheme funding target objectives set by this act. Pension valuations are undertaken by independent qualified actuary with reporting guidelines set by the Technical Actuarial Standard with calculations consistent with the International Accounting Standard ("IAS19").

An update to the latest actuarial valuation was performed as at 31 December 2019 and the principal actuarial assumptions at the balance sheet date were as follows:

	2019 %	**2018 %**
Discount rate	1.90	2.90
RPI inflation assumption	3.20	3.40
CPI inflation assumption	2.20	2.40
LPI pension increase assumption	3.10	3.25

The discount rate assumption is based upon published corporate bond indices. The inflation assumptions reference Bank of England published yield curve data.

The underlying mortality assumption is based upon the standard table known as S3PXA_L on a year of birth usage with CMI_2018 future improvement factors with a long term annual rate of future improvement of 1.25% p.a. (2018: S2PXA_L on a year of birth usage with CMI_2017 future improvement factors with a long term annual rate of future improvement of 1.25% p.a.). This results in the following life expectancies:

- Male age 65 now has a life expectancy of 23 years (previously 23 years)
- Female age 65 now has a life expectancy of 24 years (previously 24 years)

The amounts recognised in the balance sheet as at the year end are as follows:

	2019 £'000	**2018 £'000**
Present value of funded obligations	(192,877)	(159,135)
Fair value of plan assets	209,050	183,822
Recognisable surplus in the scheme	**16,173**	**24,687**
Related deferred tax (liability)	(4,283)	(6,539)
Net pension asset	**11,890**	**18,148**

The amounts recognised in the income statement within administrative expenses total £716k credit (2018: £540k credit). The projected income for the calendar year 2020 is £307k credit within administrative expenses.

All scheme costs are met directly by the Company and are therefore excluded from these disclosures.

Changes to the present value of the scheme liabilities for the year end are as follows:

	2019 £'000	2018 £'000
Present value of unfunded obligation at opening	159,135	185,795
Interest cost	4,582	4,813
Past service cost	-	92
Actuarial remeasurement	35,457	(17,236)
Benefits paid	(6,297)	(14,213)
Curtailments / settlements	-	(116)
Present value of obligation at closing	**192,877**	**159,135**

Changes in the fair value of the scheme assets for the year end are as follows:

	2019 £'000	2018 £'000
Fair value of plan assets at opening	183,822	201,644
Expected return on plan assets	5,298	5,329
Actuarial remeasurement	26,227	(15,548)
Benefits paid by fund	(6,297)	(14,213)
Contributions paid by the Company	-	6,610
Fair value of scheme assets at closing	**209,050**	**183,822**

The expected contribution to be paid by the Company for the forthcoming year (year ending 31 December 2020) is Nil.

The market value of total scheme assets for the year end are as follows:

	2019 £'000	2018 £'000
UK equities	54,666	46,000
Overseas equities	124,087	99,150
Absolute return	10,037	32,367
Property funds	2,124	2,054
UK corporate bonds	7,793	357
Cash	10,343	3,894
Total	**209,050**	**183,822**

All scheme assets have a quoted market price in an active market. The assets of the scheme are held separately from those of the Company in funds under the control of the Trustees of the scheme.

8 Retirement benefits (continued)

The amounts recognised in Other Comprehensive Income for the year end are as follows:

	2019 £'000	2018 £'000
Actual return less expected return on scheme assets	26,227	(15,548)
Experienced gains and losses arising on scheme liabilities	(260)	(37)
Changes in assumptions underlying the present value of scheme liabilities	(35,197)	17,273
Actuarial (loss) / gain recognised in OCI	**(9,230)**	**1,688**

Movement in recognisable surplus during the year are as follows:

	2019 £'000	2018 £'000
Surplus at start of year	24,687	15,849
Income recognised in income statement	716	540
Contributions paid by the company	-	6,610
Recognised actuarial gain	(9,230)	1,688
Surplus at end of year	**16,173**	**24,687**

Analysis of present value of scheme liabilities:

	2019 %	2018 %
Deferred members	72	74
Current pensioners	28	26
Total	**100**	**100**

The below table shows the impact on the present value placed on the scheme's liabilities of the stated changes to the actuarial assumptions (refer page 56). These sensitivities have been determined by a full recalculation of the present value using the different assumptions and are therefore fully accurate (2018: same approach).

	2019 %	2018 %
Discount rate +/- 0.5%	-10 / +12	-10 / +11
RPI and CPI +/- 0.5%	+3 / -3	+3 / -3
Life expectancy +/- 1 year	+5 / -5	+4 / -4
Pension increase (in payment and deferment) +/- 0.5%	+3 / -3	+3 / -3

The weighted average duration of the scheme liabilities is approximately 22.5 years (2018: 22 years).

9 Applicable taxes

	2019 £'000	2018 £'000
UK corporation tax		
Current year	(22,625)	(5,453)
Adjustments in respect of prior years	2,347	(1,277)
	(20,278)	(6,730)
Foreign tax		
Current year	(852)	(1,301)
Total current tax	**(21,130)**	**(8,031)**
Deferred tax		
Origination and reversal of timing differences	(3,967)	(6,503)
Adjustments in respect of prior years	(2,653)	976
Total deferred tax	**(6,620)**	**(5,527)**
Total tax expense	**(27,750)**	**(13,558)**

Corporation tax is calculated at 27% (2018: 27%) of the estimated taxable profit for the year. The Company continues to be subject to the 8% corporation tax surcharge applicable to banks and brokers.

The charge for the year can be reconciled to the profit in the income statement as follows:

	2019 £'000	2018 £'000
Profit on ordinary activities before taxation	111,689	58,702
Tax at the UK corporation tax rate of 27% (2018: 27%)	(30,156)	(15,850)
Tax effect of expenses that are not deductible in determining taxable profits	(1,446)	(52)
Foreign tax suffered	(622)	(949)
Deferred tax prior year adjustment	(2,653)	976
Revaluation of deferred tax assets	(754)	163
Current tax prior year adjustment	2,347	(1,277)
Share of group bank surcharge allowance	1,447	1,752
Tax impact of profit / (loss) in subsidiary	1,346	(690)
AT1 coupon	2,741	2,369
Tax expense for the year	**(27,750)**	**(13,558)**

9 Applicable taxes (continued)

In addition to the amount charged to the income statement, the following amounts related to tax have been recognised in Equity:

	2019 £'000	2018 £'000
Current tax		
AT1 coupon	-	-
Deferred tax		
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of net defined benefit liability	2,446	(447)
Items that may be reclassified subsequently to profit or loss		
Securities held at FVTOCI (gains) / losses in period	(159)	412
Cash flow hedges (gains) / losses in period	(32)	184
Total income tax recognised in other comprehensive income	**2,255**	**149**

Deferred tax assets

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current reporting period.

	Balance as at 1 January 2019 £'000	Adjustment to opening reserves £'000	Charge to profit or loss £'000	Charge to OCI £'000	Balance as at 31 December 2019 £'000
Accelerated tax depreciation	3,650	-	(522)	-	3,128
Research & development expenditure	357	-	(3,215)	-	(2,858)
Deferred compensation	8,790	-	2,454	-	11,244
Spreading of IFRS16 transitional adjustment	-	1,099	(364)	-	735
Spreading of IFRS9 transitional adjustment	31	-	(3)	-	28
Spreading of IFRS13 transitional adjustment	1,667	-	(305)	-	1,362
Cash flow hedge reserve	(19)	-	-	(32)	(51)
Securities at FVTOCI	(371)	-	92	(159)	(438)
Retirement benefit obligations	(6,539)	-	(190)	2,446	(4,283)
Tax losses	5,487	-	(4,566)	-	921
Total	**13,053**	**1,099**	**(6,619)**	**2,255**	**9,788**

Deferred tax assets are valued at the applicable corporation tax rate based on the period in which the underlying temporary difference is expected to reverse. The current UK corporation tax rate of 19% will reduce to 17% in April 2020 based on legislation enacted at the end of 2019. These rates have been taken into consideration in valuing the Company's deferred tax assets. The deferred tax assets above have been recognised based on supporting profit forecasts demonstrating sufficient future profits against which the assets can be utilised. Under UK tax rules, tax losses can be carried forward indefinitely. The offset of pre April 2015 losses carried forward by UK banks and brokers is limited to 25% of taxable profits. Whilst the restriction on the use of carried forward losses will result in them being utilised over a longer period it should not impact the ultimate recoverability of the losses and hence a deferred tax asset has been recognised.

10 Notes to the cash flow statement

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their face value. Cash and cash equivalents as shown in the statement of cash flows can be reconciled to the related items in the balance sheet position as shown below.

	2019 £'000	2018 £'000
Cash and balances at central banks	151,650	412,491
Deposits by banks repayable on demand	(15,189)	(226,525)
Total cash and cash equivalents	**136,461**	**185,966**

The table below details changes to the Company's liabilities arising from financing activities, including both cash and non-cash changes.

	Balance as at 1 January 2019 £'000	Financing cash and interest flows £'000	Changes in fair values £'000	Effect of changes in foreign exchange rates £'000	Balance as at 31 December 2019 £'000
Own issued notes	1,675,167	(226,486)	(92,413)	(47,794)	1,308,474
Commercial paper	986,940	125,272	(1,996)	13,857	1,124,073
Other financial liabilities	1,717,975	745,616	(31)	(85,066)	2,378,494
MUSHD loan facility	1,603,889	418,414	(1,227)	27,391	2,048,467
Senior unsecured loan	594,892	(956)	-	(24,068)	569,868
Subordinated liabilities	313,965	5	-	(8,019)	305,951
Total liabilities from financing activities	**6,892,828**	**1,061,865**	**(95,667)**	**(123,699)**	**7,735,327**

11 Trading portfolio financial assets

	2019 £'000	2018 £'000
Government bonds	2,459,971	2,544,808
Corporation bonds	961,901	1,061,911
Other public sector securities	49,471	353,250
Total debt securities	**3,471,343**	**3,959,969**
Equity instruments	10,582,526	6,135,203
Total trading portfolio financial assets	**14,053,869**	**10,095,172**
Of which listed:		
Debt securities	3,029,714	3,713,052
Equity instruments	7,405,204	3,796,221
Of which unlisted:		
Debt securities	441,629	246,917
Equity instruments	3,177,322	2,338,982
	14,053,869	**10,095,172**

12 Derivative financial instruments

	2019		
	Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Derivatives held for trading			
Foreign exchange contracts	264,060,955	4,547,653	4,120,654
Interest rate contracts	3,810,980,439	10,191,068	9,758,156
Credit derivative contracts	44,154,054	629,369	481,488
Equity contracts	20,345,412	229,894	177,855
Commodities contracts	821,131	183,627	184,086
Total trading contracts	**4,140,361,991**	**15,781,611**	**14,722,239**
Derivatives designated as fair value hedges			
Interest rate swaps contracts	878,380	1	901
Derivatives designated as cash flow hedges			
Currency swaps contracts	1,832	-	212
Derivatives designated as net investment hedges			
Currency swaps contracts	169,646	108	-
Total hedging contracts	**1,049,858**	**109**	**1,113**
Total derivatives financial instruments	**4,141,411,849**	**15,781,720**	**14,723,352**

	2018		
	Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Derivatives held for trading			
Foreign exchange contracts	258,221,821	5,217,177	4,711,321
Interest rate contracts	2,989,603,633	8,479,452	7,829,708
Credit derivative contracts	32,855,773	600,513	231,351
Equity contracts	15,363,479	433,536	269,812
Commodities contracts	855,979	170,759	171,291
Total trading contracts	**3,296,900,685**	**14,901,437**	**13,213,483**
Derivatives designated as fair value hedges			
Interest rate swaps contracts	396,024	109	127
Derivatives designated as cash flow hedges			
Currency swaps contracts	1,832	-	398
Forward foreign exchange contracts	191,962	-	1,794
Derivatives designated as net investment hedges			
Currency swaps contracts	15,946	-	52
Total hedging contracts	**605,764**	**109**	**2,371**
Total derivatives financial instruments	**3,297,506,449**	**14,901,546**	**13,215,854**

OTC credit derivatives include a credit derivative asset, which relates to a financial guarantee provided by a group company, MUFG Bank, for the uncollateralised derivatives exposures within a portfolio of corporate counterparties. At year end the present value of this derivative totalled £115m (2018: £329m), this amount is offset by a CVA adjustment in respect of the exposure to the underlying corporate counterparties. This largely pertains to interest rate and foreign exchange contracts.

12 Derivative financial instruments (continued)

CVA is measured on a portfolio basis by counterparty, and later allocated at a transaction level for financial reporting; allocations are based on absolute derivative notional values.

	2019 £'000	2018 £'000
Gains and losses arising from fair value hedges:		
On hedging instruments	(14,142)	15,664
On the hedged items attributable to the hedged risk	14,098	(15,540)
Net (losses) / gains	**(44)**	**124**
Gains and losses arising from net investment hedges:		
On hedging instruments	4,138	(256)
On the hedged items attributable to the hedged risk	(4,006)	254
Net gains / (losses)	**132**	**(2)**

The gains and losses on ineffective portions of fair value hedges are recognised immediately in Trading Income.

The net movement in cash flow hedging reserves comprises additions to the balance from movements in the value of derivatives designated in effective hedges and reclassifications of balances from the reserve into Trading Income. The closing reserve balance is presented net of tax. Reserve balances are transferred to the income statement in the same periods during which the hedged items affect profit or loss. The gains and losses on ineffective portions of derivatives designated in cash flow and net investment hedging relationships are recognised immediately in Trading Income in the Income statement. During the year, the ineffectiveness recorded in the income statement was not significant (2018: not significant).

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of bonds due to movements in market interest rates. Cash flow hedges consist of foreign currency exchange contracts to hedge the foreign currency risks arising from recognised financial assets denominated in foreign currencies. Net investment hedges consist of foreign currency exchange contracts to hedge the foreign currency risks arising from the revaluation of the investment in subsidiary.

Net investment hedges consist of foreign currency exchange contracts to hedge the exposure to foreign currency which arises from translation of the equity method investment.

13 Securities at fair value through other comprehensive income

The following table gives the carrying value of securities at fair value through other comprehensive income by major classifications.

	2019 £'000	2018 £'000
Government bonds	610,071	192,236
Other public sector securities	722,142	485,289
Corporate bonds	802	10,764
Total debt securities	**1,333,015**	**688,289**
Equity instruments	125	133
Total securities at FVTOCI	**1,333,140**	**688,422**

Expected credit losses have been calculated for securities within this category and reported as an adjustment to both profit or loss and OCI. Expected credit losses as at 31 December 2019 were £78k (2018: £4k).

14 Intangible assets

	Software £'000	Capital lease asset £'000	Total £'000
Cost			
As at 1 January 2018	155,255	1,092	156,347
Additions	27,226	-	27,226
Impairment	(1,443)	-	(1,443)
Disposals	-	-	-
As at 31 December 2018	**181,038**	**1,092**	**182,130**
IFRS 16 adoption adjustment	-	(1,092)	(1,092)
As at 1 January 2019	**181,038**	**-**	**181,038**
Additions	29,181	-	29,181
Disposals	(49,233)	-	(49,233)
Reclassification to other assets	(10,602)	-	(10,602)
As at 31 December 2019	**150,384**	**-**	**150,384**
Amortisation			
As at 1 January 2018	90,143	411	90,554
Charge for the Year	18,119	269	18,388
Disposals	-	-	-
As at 31 December 2018	**108,262**	**680**	**108,942**
IFRS 16 adoption adjustment	-	(680)	(680)
As at 1 January 2019	**108,262**	**-**	**108,262**
Charge for the Year	21,560	-	21,560
Disposals	(48,732)	-	(48,732)
As at 31 December 2019	**81,090**	**-**	**81,090**
Carrying amount			
As at 31 December 2018	**72,776**	**412**	**73,188**
As at 31 December 2019	**69,294**	**-**	**69,294**

The reclassification from work-in-progress to other assets relates to the infrastructure set up of MUS(EU).

15 Property, plant and equipment

	Leasehold improvements £'000	Office furniture & fittings £'000	Office machinery & equipment £'000	Capital lease asset £'000	Total £'000
Cost					
As at 1 January 2018	13,999	1,561	23,986	3,704	43,250
Additions	32	-	1,358	-	1,390
Disposals	-	-	-	-	-
As at 31 December 2018	**14,031**	**1,561**	**25,344**	**3,704**	**44,640**
IFRS 16 adoption adjustment	-	-	-	(3,704)	(3,704)
As at 1 January 2019	**14,031**	**1,561**	**25,344**	**-**	**40,936**
Additions	1,156	-	1,478	-	2,634
Disposals	(39)	(1,413)	(14,794)	-	(16,246)
Reclassification to other assets	(1,173)	-	(998)	-	(2,171)
As at 31 December 2019	**13,975**	**148**	**11,030**	**-**	**25,153**
Depreciation					
As at 1 January 2018	4,954	1,453	18,176	1,314	25,897
Charge for the year	922	30	1,458	948	3,358
Disposals	-	-	-	-	-
As at 31 December 2018	**5,876**	**1,483**	**19,634**	**2,262**	**29,255**
IFRS 16 adoption adjustment	-	-	-	(2,262)	(2,262)
As at 1 January 2019	**5,876**	**1,483**	**19,634**	**-**	**26,993**
Charge for the year	922	25	1,922	-	2,869
Disposals	(38)	(1,403)	(14,794)	-	(16,235)
As at 31 December 2019	**6,760**	**105**	**6,762**	**-**	**13,627**
Carrying amount					
As at 31 December 2018	**8,155**	**78**	**5,710**	**1,442**	**15,385**
As at 31 December 2019	**7,215**	**43**	**4,268**	**-**	**11,526**

The reclassification from work-in-progress to other assets relates to the infrastructure set up of MUS(EU).

16 Leases

The Company's leases include office space and data centre in addition to previously recognised finance leases for certain fixtures, equipment and software. Lease terms vary between periods of 5 to 20 years.

Lease contracts include lease and non-lease components. For the office lease, the Company has chosen to apply the practical expedient and account for lease and non-lease components as a single contract. For the data centre lease, the Company has elected to separate the components based on their respective stand-alone prices.

Right-of-use assets ("ROU assets") are measured at cost, which comprises the amount of the initial measurement of lease liability with no other payments, initial direct costs or restoration costs applicable .

Lease liability is measured on the net present value basis and includes fixed payments only as all leases are on a fixed repayment basis. No arrangements have been entered into for contingent rental payments, residual value guarantees, purchase options or penalties for terminating the lease.

Payments relating to short term leases, which are signed for the period of 12 months or less, are recognised on the straight line basis. The Company does not have any leases classified as low value.

Right-of-use assets

	Property £'000	Office machinery & equipment £'000	Software £'000	Total £'000
2019				
IFRS 16 adoption adjustment	30,391	3,742	412	34,545
Balance as at 1 January 2019	**30,391**	**3,742**	**412**	**34,545**
Increase in ROU after rent increase	1,493	-	-	1,493
Depreciation charge for the year	(2,830)	(1,714)	(269)	(4,813)
Balance as at 31 December 2019	**29,054**	**2,028**	**143**	**31,225**

	2019 £'000	2018 £'000
Other amounts recognised in the income statement		
Interest on lease liability	430	-
Expense relating to short-term leases	975	-
Amounts recognised in the cash flow statement		
Total cash outflow for leases	5,984	-

Refer to Note 31 for maturity analysis of lease liabilities.

17 Investment in subsidiary

	2019 £'000	2018 £'000
As at 1 January	15,516	-
Initial investment	-	39
Purchase of equity	155,684	17,960
Share of net profit / (loss)	4,829	(2,557)
Impact of foreign currency revaluation	(4,006)	74
As at 31 December	**172,023**	**15,516**

On 22 March 2018, the Company formed a wholly owned subsidiary incorporated in The Netherlands. The subsidiary, MUS(EU), and its branch in Paris are central to our strategy to support the continued servicing of clients across Europe after the UK's exit from the European Union. MUS(EU) was granted a MiFID II Investment Firm Licence in The Netherlands in December 2018.

18 Other assets

	2019 £'000	2018 £'000
Loans	326,497	-
CLO Warehouse	138,742	-
Prepayments and accrued income	15,175	11,356
Current taxation	1,098	1,148
Pension asset (Note 8)	16,173	24,687
Other debtors	313,608	311,862
	811,293	**349,053**

'Loans' relate to partial draw down on facilities granted to clients and are recognised at fair value, refer to Note 30 for undrawn facilities. 'CLO Warehouse' is a EUR denominated revolving senior loan held at amortised cost. 'Other debtors' is driven by margin deposits at brokers and central clearers £195m (2018: £213m), the remaining balance is driven by intercompany receivables as well as default fund deposits.

19 Trading portfolio financial liabilities

	2019 £'000	2018 £'000
Government bonds	3,198,861	5,368,504
Corporation bonds	205,478	500,821
Other public sector securities	12,809	42,912
Total debt securities	**3,417,148**	**5,912,237**
Equity instruments	7,096,777	3,246,667
Total trading portfolio financial liabilities	**10,513,925**	**9,158,904**
Of which listed:		
Debt securities	3,299,345	5,550,352
Equity instruments	7,053,110	3,246,667
Of which unlisted:		
Debt securities	161,470	361,885
	10,513,925	**9,158,904**

20 Financial liabilities designated at fair value

	2019 £'000	2018 £'000
Own issued notes	1,308,474	1,675,167
Commercial paper	1,124,073	986,940
Other financial liabilities	2,378,494	1,717,975
MUSHD loan facility	2,048,467	1,603,889
	6,859,508	**5,983,971**

Own issued notes include issuances with structured payment profiles. The Company issues these notes to raise term funding and satisfy investor demand, and carries them at fair value through profit and loss. The structured return profiles include securities which pay coupon only where certain conditions relating to equity performance, foreign currency movements, or other factors are met.

Commercial paper represents short term issuances where the funding typically carries a 3 month term.

Other financial liabilities represent funded swap transactions.

MUSHD loan facility represents senior unsecured intercompany borrowings lent under an uncommitted loan facility which allows the Company to borrow funds from MUSHD.

The Company has assessed the change in value of these liabilities due to changes in own credit with reference to published credit assessments and a proxy cost of funds curve. In light of the observed stability of the proxy spread for own credit, the Company has assessed this change in value to be immaterial.

21 Other liabilities

	2019 £'000	2018 £'000
Payables to structured entities	269,581	477,728
Tax and social security	17,137	10,490
Lease liabilities	40,959	1,575
Other creditors	374,461	392,974
	702,138	**882,767**

Decrease in 'Payables to structured entities' includes cash collateral repayments following the exit of a CLO Note position as well as trade maturities partially offset by increased collateral postings on current trades. 'Other creditors' is driven by margin related balances £209m (2018: £263m), the remaining balance is driven by compensation related accruals, intercompany payables and brokerage fees.

22 Senior unsecured loan

On 26 July 2018, the Company issued USD 750 million contingent subordinated senior securities to MUSHD. The securities contain an embedded option for the issuer to convert them to MREL compliant instruments upon the Company receiving such notice from the UK resolution authority. The embedded MREL amendment option may be exercised by the Company within 90 days of receipt of notification from the UK resolution authority of both the terms and amount of MREL that the authority requires of the Company.

Interest on these securities will be paid quarterly with fixings against 3-month USD LIBOR +99bps. The conversion to MREL compliant debt does not affect the rate of interest paid, though the debt may be written off if required by the UK resolution authority.

As at 31 December 2019, the securities are carried at amortised cost of £569.9 million (2018: £594.9 million) with an equivalent fair value of £570.1 million (2018: £595.0 million), refer to Note 27.

23 Subordinated liabilities

	2019 £'000	2018 £'000
JPY 24.0 billion floating rate loan due December 2026 at 6-month JPY LIBOR +80bps	166,883	171,253
JPY 20.0 billion floating rate loan due December 2026 at 6-month JPY LIBOR +80bps	139,068	142,712
	305,951	**313,965**

Subordinated loans are agreed between the Company and its immediate parent, MUSHD.

24 Equity instruments

	2019 £'000	2018 £'000
Ordinary shares of £1 each		
Share capital as at 1 January	1,028,401	1,010,611
Issued during the year	254,840	17,790
Allotted, called up and fully paid as at 31 December	**1,283,241**	**1,028,401**
Additional Tier 1 capital		
Additional Tier 1 capital as at 1 January	306,979	306,979
Issued during the year	156,874	-
Total Additional Tier 1 capital as at 31 December	**463,853**	**306,979**
Total equity instruments	**1,747,094**	**1,335,380**

At 31 December 2019, the Company has in issue, £1,283 million (2018: £1,028 million) £1 ordinary shares which carry no right to fixed income. The company has authorised share capital of £2,000 million (2018: £2,000 million) with a nominal value of £1 per share.

During the year, the Company issued an additional £255 million ordinary share capital to MUSHD, £157 million of which was matched by an equivalent EUR issuance by MUS(EU) to the Company. This issuance is in line with the capital injection strategy for MUS(EU) and represents the key driver for the movement in "Investment in subsidiary" as reflected within the Balance Sheet.

Additional Tier 1 capital instruments are issued to MUSHD. During the year, the company issued a further Additional Tier 1 capital instruments to MUSHD with a value of approximately £157 million. Consistent with previous issuances, the instruments include a contingent conversion feature which has the effect of converting the instruments to ordinary share capital of the Company if a trigger event, being a breach of minimum Common Equity Tier 1 capital ratio, occurs at any time. The instruments are perpetual and are subordinated to senior creditors and subordinated loan creditors of the Company. The instruments bear a floating rate of interest. All interest payments are cancellable in certain circumstances, where certain distribution tests are breached, and are non-cumulative.

25 Distributions on equity instruments

In 2019, the Directors approved total coupon payments on Additional Tier 1 ("AT1") capital instruments of £10.2 million (2018: £8.8 million). Refer to Note 24 for terms of issuance.

On 13 January 2020, the Directors approved a coupon payment on the AT1 capital instruments of £5.4 million. The amount has not been accrued in the results for the year ended 31 December 2019 as it was not due at that date.

No ordinary dividends were approved or paid during the year (2018: Nil).

26 Report on Directors' remuneration and interests

	2019 £'000	2018 £'000
Short term employment benefits	3,665	2,597
Post employment benefits	3	18
Other long term benefits	1,114	660
Notional share based payments	669	396
Remuneration of key management personnel	**5,451**	**3,671**
Realised MTM / interest on NSUs & other long term benefits	(144)	265
Total remuneration of key management personnel	**5,307**	**3,936**

The number of Directors who were members of the Group defined contribution personal pension plan during the period was reduced to 1 (2018: 2).

NSUs are cash settled awards linked to the share price of the ultimate holding company, MUFG. Deferred NSU compensation expense is pro-rated across the entire deferral period. Deferred cash compensation expense is recognised during the period the award is made.

Non-executive Directors provided by other Group companies receive no fees or other remuneration for their services to the Company. The key management are the same personnel as the Directors of the Company.

The emoluments of the highest paid Director were as follows:

	2019 £'000	2018 £'000
Short term employment benefits	1,548	913
Post employment benefits	-	9
Other long term benefits	656	371
Notional share based payments	394	223
Remuneration award	**2,598**	**1,516**
Realised MTM / interest on NSUs & other long term benefits	-	157
Total remuneration	**2,598**	**1,673**

27 Fair value of financial instruments

The majority of the Company's assets and liabilities are carried on the balance sheet at fair value, in which case fair value is equal to the carrying value. The following table presents a comparison by category of book amounts and fair value of the Company's financial assets and liabilities for those items which are not carried at fair value on the balance sheet.

	2019		2018	
	Carrying value £'000	**Fair value £'000**	**Carrying value £'000**	**Fair value £'000**
Assets				
at amortised cost				
Cash collateral paid to derivative counterparties	2,566,296	2,566,296	2,887,619	2,887,619
Other assets	484,796	484,796	349,053	349,053
Liabilities				
at amortised cost				
Cash collateral received from derivative counterparties	7,149,115	7,149,115	7,979,572	7,979,572
Other liabilities	702,138	702,138	882,767	882,767
Senior unsecured loan	569,868	570,094	594,892	594,965
Subordinated liabilities	305,951	305,892	313,965	315,925

FX gains of £455m (2018: loss of £476m) were recognised on financial assets and liabilities not carried at fair value, driven by revaluation of cash collateral received from derivative counterparties. The currency exposure is economically hedged with instruments held at fair value, with FX gains and losses and associated fair value gains and losses being recognised net in the income statement as trading income.

Valuation of financial assets and liabilities

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves, exchange rates, volatilities and prepayment and default rates. The Company measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Issued structured notes and certain other hybrid instrument liabilities are designated at fair value. The spread applied to these instruments is derived from the spreads at which the Company issues structured notes. The change in fair value due to credit risk on these instruments is not significant (2018: not significant).

The fair value of certain financial instruments is measured using valuation techniques that are determined in full or partly on assumptions that are not supported by observable market prices. The effect of changing these assumptions to a range of reasonably possible alternative assumptions would provide a range from £34.8 million (2018: £35.5 million) lower to £26.7 million (2018: £27.4 million) higher than the fair value recognised in the financial statements for these assets and liabilities, with the current year range driven by increased volume of equity financing trades.

The movements in balances of level 3 items are detailed on page 74.

The Company has prepared a Value-at-Risk analysis which reflects interdependencies between market risk factors, refer to page 30.

27 Fair value of financial instruments (continued)

	2019			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Financial assets at FVTPL				
Trading portfolio financial assets	9,889,098	4,164,771	-	14,053,869
Reverse repurchase agreements – fair value	-	33,398,055	-	33,398,055
Securities sold not delivered	-	-	-	-
Cash collateral on securities borrowed	-	3,684,652	-	3,684,652
Derivative financial instruments	3,765	15,440,939	337,016	15,781,720
Equity finance assets	-	416,227	-	416,227
Other assets	-	326,497	-	326,497
Financial assets at FVTOCI				
Securities at FVTOCI	858,348	474,667	125	1,333,140
	10,751,211	**57,905,808**	**337,141**	**68,994,160**
Liabilities				
Financial liabilities at FVTPL				
Trading portfolio financial liabilities	10,253,764	260,161	-	10,513,925
Repurchase agreements – fair value	-	29,053,686	-	29,053,686
Securities bought not delivered	-	-	-	-
Cash collateral on securities lent	-	535,405	-	535,405
Derivative financial instruments	46,851	14,201,072	475,429	14,723,352
Financial liabilities designated at FVTPL				
Financial liabilities designated at fair value	-	6,640,772	218,736	6,859,508
	10,300,615	**50,691,096**	**694,165**	**61,685,876**

	2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Financial assets mandatorily at FVTPL				
Trading portfolio financial assets	6,489,585	3,414,620	190,967	10,095,172
Reverse repurchase agreements – fair value	-	26,304,004	-	26,304,004
Securities sold not delivered	-	-	-	-
Cash collateral on securities borrowed	-	4,147,087	-	4,147,087
Derivative financial instruments	5,698	14,298,870	596,978	14,901,546
Equity finance assets	-	410,655	-	410,655
Financial assets at FVTOCI				
Securities at FVTOCI	300,048	388,241	133	688,422
	6,769,264	**49,435,622**	**788,078**	**56,546,886**
Liabilities				
Financial liabilities at FVTPL				
Trading portfolio financial liabilities	8,636,109	522,795	-	9,158,904
Repurchase agreements – fair value	-	19,711,331	-	19,711,331
Securities bought not delivered	-	-	-	-
Cash collateral on securities lent	-	659,568	-	659,568
Derivative financial instruments	6,424	12,722,699	486,731	13,215,854
Financial liabilities designated at FVTPL				
Financial liabilities designated at fair value	-	5,412,208	571,763	5,983,971
	8,685,336	**39,431,876**	**1,058,494**	**48,729,628**

The table below shows a reconciliation from the beginning balances to the end balances for the fair value of instruments in level 3 of the fair value hierarchy. This does not include movements in level 1 or level 2 derivatives that are also used to hedge the level 3 assets and liabilities.

	Trading portfolio financial assets £'000	Derivative assets £'000	Securities at FVTOCI £'000	Available for sale securities £'000	Derivative liabilities £'000	Financial liabilities designated at fair value £'000
2018						
As at 31 December 2017	-	412,617	-	131	(423,002)	(269,128)
IFRS 9 adoption adjustment	-	-	131	(131)	-	-
Opening balance 1 January 2018	-	412,617	131	-	(423,002)	(269,128)
Total gains / (losses) in profit or loss	11,079	293,321	-	-	(103,997)	50,358
Total gains in reserves	-	-	2	-	-	-
Purchases	179,888	-	-	-	-	-
Issues	-	-	-	-	-	(113,635)
Settlements	-	(108,960)	-	-	40,268	54,578
Transfers into level 3	-	-	-	-	-	(299,738)
Transfers from level 3	-	-	-	-	-	5,802
Closing balance 31 December	**190,967**	**596,978**	**133**	**-**	**(486,731)**	**(571,763)**
Net unrealised gains / (losses) in PL	11,079	294,140	-	-	(69,908)	62,241
2019						
As at 31 December 2018	190,967	596,978	133	-	(486,731)	(571,763)
Total gains / (losses) in profit or loss	3,343	(174,499)	-	-	5,465	(42,307)
Total gains in reserves	-	-	(8)	-	-	-
Purchases	-	-	-	-	-	-
Issues	-	-	-	-	-	(15,858)
Settlements	(194,310)	(86,943)	-	-	5,837	77,816
Transfers into level 3	-	1,480	-	-	-	(3,507)
Transfers from level 3	-	-	-	-	-	336,883
Closing balance 31 December	**-**	**337,016**	**125**	**-**	**(475,429)**	**(218,736)**
Net unrealised gains / (losses) in PL	3,343	(169,920)	-	-	(10,020)	(20,193)

2018 "Purchases" represents a collateralised loan obligation ("CLO") structure purchased during the year. The position is considered a level 3 item due to limited depth of 3rd party quotes for underlying loans (refer to page 76). The position was traded during 2019.

2018 "Transfers into level 3" are driven by structured notes which have been reclassified from level 2 of the hierarchy. The notes contain exotic embedded derivatives, primarily linked to either foreign exchange rates or equity prices which drive the returns and valuation of the notes. During that period, there had been a decrease in the observability of the key inputs to the valuation models and a corresponding increase in the significance of the unobservable valuation inputs. These products represent the transfers from level 3 in 2019.

27 Fair value of financial instruments (continued)

Financial instruments valued using models with unobservable inputs

The amount that has yet to be recognised in the Company income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is nil (2018: nil).

Financial assets designated at fair value

The Company did not have any financial assets designated at fair value at 31 December 2019 (2018: Nil).

Significant unobservable inputs

The disclosures below describe the valuation techniques and significant unobservable inputs for assets and liabilities classified as Level 3 along with the range of values used for those significant unobservable inputs. Level 3 financial liabilities designated at fair value totalling £219m (2018: £572m) contain embedded derivatives with inputs represented by the Interest rate, Foreign exchange and Equity derivatives described in the table below.

2019	Total assets £'000	Total liabilities £'000	Valuation technique(s)	Significant unobservable inputs	Range Min	Range Max	Units
Trading portfolio financial assets							
Trading portfolio financial assets	-	-	Discounted cash flow model	Loan price	90.50	100.25	%
	-	-					
Derivatives							
Interest rate derivatives	62,449	(153,236)	Option model	IR – IR Correlation	35.00	60.00	%
				FX – IR Correlation	35.00	60.00	%
				Option volatility	2.27	100.00	%
				Barrier Shift	19.00	23.00	bps
Foreign exchange derivatives	46,881	(99,235)	Option model	IR – IR Correlation	30.00	70.00	%
				FX – IR Correlation	35.00	60.00	%
				Correlation – underlying assets	60.00	60.00	%
				Option volatility	7.47	16.97	%
Equity derivatives	44,017	(38,872)	Option model	Equity – FX Correlation	(58.36)	27.00	%
			Basket correlations	Correlation – underlying assets	78.00	81.00	%
				Equity – FX Correlation	(58.36)	56.42	%
			Discounted cash flow	Term of Litigation swap	1.00	13.00	Month
Commodities	183,628	(184,086)	Option model	Commodity – IR Correlation	25.00	75.00	%
				Commodity – gas swap rate	2.46	5.84	%
Credit derivatives	41	-	Discounted cash flow	Recovery rate	0.00	0.00	%
	337,016	**(475,429)**					

2018	Total assets £'000	Total liabilities £'000	Valuation technique(s)	Significant unobservable inputs	Range Min	Range Max	Units
Trading portfolio financial assets							
Trading portfolio financial assets	190,967	-	Discounted cash flow	Loan price	90.50	100.25	%
	190,967	**-**					
Derivatives							
Interest rate derivatives	317,535	(129,719)	Option model	IR – IR Correlation	35.00	43.16	%
				FX – IR Correlation	60.00	60.00	%
				Option volatility	10.97	100.00	%
				Barrier Shift	10.00	23.00	bps
Foreign exchange derivatives	55,089	(162,132)	Option model	IR – IR Correlation	35.00	70.00	%
				FX – IR Correlation	45.00	60.00	%
				Correlation – underlying assets	65.00	65.00	%
				Option volatility	9.69	18.22	%
Equity derivatives	51,646	(23,571)	Option model	Equity – FX Correlation	7.00	7.00	%
			Basket correlations	Correlation – underlying assets	51.70	82.00	%
				Term of Litigation swap	1.00	1.00	Year
Commodities	170,759	(171,291)	Option model	Commodity – IR Correlation	25.00	75.00	%
				Commodity – gas swap rate	2.59	5.39	%
Credit derivatives	1,949	(18)	Discounted cash flow	Loan price	90.50	100.25	%
	596,978	**(486,731)**					

The following provides a summary description of significant unobservable inputs included in the table on the preceding page:

- Correlation is a measure of the relationship between the movements of two variables (i.e. how much the change in one variable may be linked to the change in the other variable). Correlation is often an input into valuation of derivative contracts with more than one underlying risk. A significant increase in correlation in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.
- A barrier shift is the mechanism by which reference levels are amended within a trade representation to be more conservative. These are commonly used within trades which contain barrier reference levels or digital optionality to allow better risk management and to align trade valuations to fair value. The actual payoff would be based on the contractual terms of reference rather than the shifted version.
- Prepayment probability is the probability of voluntary, unscheduled repayments by a borrower. Unscheduled prepayment affects the average life of transactions by altering the timing of principal repayment and the amount of interest earned. A significant increase in a prepayment probability can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the financial contract.
- Option volatility is a measure of the degree of variation in price movements for a given derivative underlying, and therefore represents an estimate of how much a particular underlying instrument, parameter or index could change on average over time. In general, a significant increase in volatility in isolation will result in an increase in fair value for the holder of a simple option.
- Term of litigation swap relates to a series of swaps linked to an asset which is affected by a legal case, where the payments under the swap terminate soon after the litigation ends. The term of the swap is therefore difficult to quantify and needs to be estimated from available information and legal commentary. A decrease in the expectation of the term of the swap would generally result in an unfavourable move in the fair value.
- Loan price refers to independent valuations which are supported by a number of 3rd party quotes. For CLO warehouse structures the depth of 3rd party quotes obtained is a key benchmark used to determine minimum observability requirements. Loans that have only one or two third party quotes to support the evaluated price are deemed to be level 3. These quotes are inputs to the fair valuation of both the notes (held within Trading portfolio financial assets) and related derivatives held on the balance sheet.

28 Post-balance sheet events

Brexit planning and related implementation continues to develop. At the date of signing the UK has stopped being a member of the European Union (effective 11pm, 31 January 2020). Business planning updates did not highlight any new key risks to be considered which would require revision of our core plan, although this is being continuously monitored. Further details on the Brexit plan are included in the Strategic Report, pages 2 to 4.

The Directors' approved an AT1 coupon payment on 13 January 2020, refer to Note 25 for details.

29 Collateral

Assets are pledged as collateral to secure liabilities under repurchase agreements, securities lending agreements, borrowing transactions, to Note holders as part of structuring transactions and agreements for derivative transactions. The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	2019 £'000	2018 £'000
Trading securities	3,653,636	3,249,483
Investment securities	624,154	193,655
Total assets pledged as collateral	**4,277,790**	**3,443,138**

Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, the Company is allowed to resell or repledge the collateral held. The fair value of collateral accepted with the right to repledge to others was as follows:

	2019		2018	
	Fair value £'000	Sold or repledged £'000	Fair value £'000	Sold or repledged £'000
Accepted collateral	62,536,058	56,668,056	54,922,849	48,055,638

These balances represent substantially all of the collateral received by the Company in relation to assets. The Company has the obligation to return the collateral on the maturity date of the secured transaction. The process by which assets are pledged as collateral and accepted as collateral is generally conducted under standard documentation used by financial market participants.

Transferred Assets

The Company enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities, but the transfer does not qualify for de-recognition as stated in the accounting policies. The Company will continue to recognise financial assets transferred when it retains control of the security, retains rights to receive cash flows from the assets, and substantially all the risks and rewards of ownership. The carrying amount of debt securities that have been transferred to special purpose entities but do not meet the criteria for de-recognition in as at 31 December 2019 were nil (2018: nil).

Collateral Management of Repurchase Agreements

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are mainly collateralised by highly rated credit bonds (predominantly government and corporate bonds). The repurchase agreements are treated as collateralised financing transactions and are carried at the contract amounts at which the securities will subsequently be reacquired or resold as specified in the respective agreements. It is the Company's policy to generally take possession of securities purchased under agreements to resell at the time such agreements are made. The Company's agreements with counterparties contain provisions allowing for additional collateral to be obtained, or excess collateral returned, based on market valuations of such collateral. The Company re-values the collateral underlying its repurchase and reverse repurchase agreements on a daily basis. In the event the market value of such securities falls below the related agreement to resell at contract amount plus accrued interest, the Company will generally request additional collateral.

Unconsolidated structured entities in which the Company has an interest

The Company is involved with various special purpose entities in the normal course of business. These have been established as structured entities such that voting or similar rights are not the deciding factor in determining control of the entity.

The structured entities are typically asset repackaging transactions established to source funding, purchase credit protection or provide returns to investors that are not otherwise readily available in the market. The principle risk to the structure is the credit risk of the securities acting as collateral to the investors who retain the risk and rewards.

The following tables represent the total assets, maximum exposure to loss and assets and liabilities which relate to the Company's interest in non-consolidated special purpose vehicles ("SPVs"). Maximum exposure is determined by the carrying amount of any on-balance sheet assets net of any recourse liabilities, where applicable.

As at 31 December 2019	SPVs for structured financing £'000	Repackaged instruments £'000	Other £'000	Total £'000
Trading portfolio financial assets	-	204,290	-	204,290
Derivative financial instruments	1,745,846	99,172	198,603	2,043,621
Reverse repurchase agreements	101,239	525,186	826,330	1,452,755
Equity Finance Assets	-	34,203	209,559	243,762
Derivative cash collateral pledged	3,659	-	-	3,659
Other assets	24	239,779	160,435	400,238
Total Assets	**1,850,768**	**1,102,630**	**1,394,927**	**4,348,325**
Derivative financial liabilities	26,665	8,977	271	35,913
Financial liabilities designated at fair value	-	890,629	-	890,629
Repurchase agreements	2,258	-	-	2,258
Other liabilities	-	152,647	-	152,647
Derivative cash collateral received	4,926	-	94,858	99,784
Total Liabilities	**33,849**	**1,052,253**	**95,129**	**1,181,231**
Maximum Exposure	**1,838,462**	**1,101,106**	**1,300,069**	**4,239,637**

As at 31 December 2018	SPVs for structured financing £'000	Repackaged instruments £'000	Other £'000	Total £'000
Trading portfolio financial assets	-	190,967	-	190,967
Derivative financial instruments	1,619,851	110,364	154,808	1,885,023
Reverse repurchase agreements	25,971	454,026	855,020	1,335,017
Other assets	-	-	-	-
Total Assets	**1,645,822**	**755,357**	**1,009,828**	**3,411,007**
Derivative financial liabilities	39,963	8,949	-	48,912
Financial liabilities designated at fair value	-	828,206	-	828,206
Other liabilities	-	55,681	301,157	356,838
Derivative cash collateral received	1,111	33,773	98,085	132,969
Total Liabilities	**41,074**	**926,609**	**399,242**	**1,366,925**
Maximum Exposure	**1,644,848**	**665,904**	**610,587**	**2,921,339**

30 Guarantees, commitments and contingent liabilities

At the year end, the Company was committed to provide facilities in favour of external counterparties. The facilities are provided in major currencies and total £533.1 million (2018: £224.3 million) equivalent; where facilities are partially drawn down the undrawn portion is reported as a commitment and the drawn portion reflected as a loan on the Balance Sheet within Other Assets amounting to £326.5m as at 31 December 2019 (2018: nil), refer to Note 18. Once drawn, balances are measured at FVTPL.

31 Contractual maturity analysis

The breakdown of financial liabilities by contractual maturity is shown in the table below. These are based on the contractual terms, expect for derivatives which are deemed to be on demand. The balances do not agree directly to the balances in the balance sheet as the table incorporates contractual cash flows on an undiscounted basis. The repurchase agreement balances are presented on a gross basis, not taking account of any balances which have been offset in the balance sheet. Derivative contracts are reflected as on demand at their fair value. The subordinated liabilities bear interest at variable rates which are not known until specified fixing dates have occurred.

	2019					
	On demand £'000	**Due within 3 months £'000**	**Due between 3 and 12 months £'000**	**Due between 1 and 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Deposits by banks	15,189	-	-	-	-	15,189
Trading portfolio financial liabilities	10,513,925	-	-	-	-	10,513,925
Repurchase agreements	1,826,537	32,913,275	403,153	630,049	-	35,773,014
Cash collateral on securities lent	278,316	262,074	-	-	-	540,390
Cash collateral received from derivatives counterparties	7,149,115	-	-	-	-	7,149,115
Derivatives	14,723,352	-	-	-	-	14,723,352
Financial liabilities designated at fair value	-	3,453,771	2,393,716	520,144	539,257	6,906,888
Other liabilities (excl. lease liability)	587,308	672	24,882	38,954	6,722	658,538
Lease liability	-	242	4,443	18,330	20,585	43,600
Senior unsecured loan	-	4,193	11,738	608,137	-	624,068
Subordinated liabilities	-	-	2,498	10,319	311,590	324,407
	35,093,742	**36,634,227**	**2,840,430**	**1,825,933**	**878,154**	**77,272,486**

	2018					
	On demand £'000	**Due within 3 months £'000**	**Due between 3 and 12 months £'000**	**Due between 1 and 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Deposits by banks	226,525	-	-	-	-	226,525
Trading portfolio financial liabilities	9,158,904	-	-	-	-	9,158,904
Repurchase agreements	1,189,653	29,383,878	487,747	451,334	-	31,512,612
Cash collateral on securities lent	659,568	-	-	-	-	659,568
Cash collateral received from derivatives counterparties	7,979,572	-	-	-	-	7,979,572
Derivatives	13,215,854	-	-	-	-	13,215,854
Financial liabilities designated at fair value	-	2,295,012	2,363,306	821,479	732,023	6,211,821
Other liabilities	826,777	3,945	18,056	28,674	5,315	882,767
Senior unsecured loan	-	6,850	21,053	850,804	-	878,707
Subordinated liabilities	-	-	2,539	10,478	323,565	336,582
	33,256,853	**31,689,685**	**2,892,701**	**2,162,769**	**1,060,903**	**71,062,912**

The Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Financial liabilities designated at fair value include certain Note issuances with structured payment profiles. The notes are issued across a range of currencies and interest rate profiles, with the most prevalent being JPY floating rate notes. The Company issues these notes to raise term funding and satisfy investor demand, and carries them at fair value through profit and loss. Some of the notes may be redeemed prior to maturity subject to certain knock-out events, at the option of the issuer or holder of the debt. These factors are contractually specified at the point of issuance.

32 Offsetting financial assets and financial liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the Company reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on:

- All financial assets and liabilities that are reported net on the balance sheet; and
- All derivative financial instruments, reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of IAS 32 described above.

The net amounts presented in the following table are not intended to represent the Company's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting on balance sheet			Related amounts not offset			Exposure		
	Gross amounts £'000	Amounts offset £'000	Net amounts on balance sheet £'000	Financial instruments £'000	Cash collateral £'000	Financial collateral £'000	Net amount £'000	Not subject to enforceable netting £'000	Balance sheet total £'000
As at 31 December 2019									
Derivative financial assets	13,932,368	74,868	13,857,500	9,388,106	1,129,268	52,014	3,288,112	1,924,220	15,781,720
Reverse repurchase agreements	38,856,611	6,773,842	32,082,769	1,871,339	118,459	30,012,214	80,757	1,315,286	33,398,055
Secured lending	3,684,652	-	3,684,652	86,935	-	3,565,083	32,634	-	3,684,652
Total Assets	**56,473,631**	**6,848,710**	**49,624,921**	**11,346,380**	**1,247,727**	**33,629,311**	**3,401,503**	**3,239,506**	**52,864,427**
Derivative financial liabilities	13,400,355	74,868	13,325,487	9,388,106	2,222,362	813,633	901,386	1,397,865	14,723,352
Repurchase agreements	35,791,985	6,738,299	29,053,686	1,871,339	6,379	27,149,375	26,593	-	29,053,686
Secured borrowing	535,405	-	535,405	86,935	-	447,272	1,198	-	535,405
Total Liabilities	**49,727,745**	**6,813,167**	**42,914,578**	**11,346,380**	**2,228,741**	**28,410,280**	**929,177**	**1,397,865**	**44,312,443**
As at 31 December 2018									
Derivative financial assets	13,638,287	141,242	13,497,045	8,572,142	1,427,179	8,402	3,489,322	1,404,501	14,901,546
Reverse repurchase agreements	37,826,175	11,863,783	25,962,392	937,883	143,037	24,818,442	63,030	341,612	26,304,004
Secured lending	4,147,087	-	4,147,087	41,376	-	4,072,105	33,606	-	4,147,087
Total Assets	**55,611,549**	**12,005,025**	**43,606,524**	**9,551,401**	**1,570,216**	**28,898,949**	**3,585,958**	**1,746,113**	**45,352,637**
Derivative financial liabilities	12,373,981	139,352	12,234,629	8,572,142	2,363,291	43,315	1,255,881	981,225	13,215,854
Repurchase agreements	31,506,790	11,795,459	19,711,331	937,883	-	18,524,982	248,466	-	19,711,331
Secured borrowing	659,568	-	659,568	41,376	-	611,455	6,737	-	659,568
Total Liabilities	**44,540,339**	**11,934,811**	**32,605,528**	**9,551,401**	**2,363,291**	**19,179,752**	**1,511,084**	**981,225**	**33,586,753**

33 Related party transactions

Balances and transactions between the Company and related parties are disclosed below.

	2019				
	Parent Company £'000	Subsidiary £'000	MUFG £'000	Other related parties £'000	Total £'000
Income	105	1,917	100,300	3,482	105,804
Expenses	35,838	6,102	7,988	2,351	52,279
Total assets	4,899	540,838	14,155,449	627,016	15,328,202
Total liabilities	3,137,553	1,016,776	7,920,289	417,046	12,491,664

	2018				
	Parent Company £'000	Subsidiary £'000	MUFG £'000	Other related parties £'000	Total £'000
Income	60	-	103,876	2,237	106,173
Expenses	23,184	-	3,458	1,979	28,621
Total assets	114	1,933	15,041,080	402,947	15,446,074
Total liabilities	2,420,672	-	8,624,240	308,766	11,353,678

All related parties are wholly owned subsidiaries of MUFG, with the exception of Morgan Stanley Group companies, which are presented as 'Other Related Parties' due to their affiliate status with MUFG.

Transactions executed with related parties are entered into at market price on an arm's length basis considered to be materially in line with Japanese funding rates for similar institutions. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Income includes fee allocations from the Equity and Structuring businesses which relate to the sourcing of Group orders and income for inter-regional Note issuances, respectively. Expenses includes interest for subordinated loans and management fees paid to the parent company as well as fees paid for a keepwell and guarantees in place between MUS(EMEA), MUFG Bank and MUFG. The keepwell guarantee provided by MUFG Bank and MUFG covers unsecured liabilities external to the MUFG Group up to an $8 billion limit. Total assets include the credit derivative, which is a MUFG Bank guarantee, referred to in Note 12.

There are no material related party transactions with key management, and persons connected with them, other than remuneration disclosed in Note 26.

34 Group information

MUFG Securities EMEA plc is a private company incorporated in the England and Wales under the Companies Act 2006. The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 2 to 4. The address of the registered office is:

MUFG Securities EMEA plc
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

The Company's immediate parent undertaking is Mitsubishi UFJ Securities Holdings Co. Ltd., a company registered in Japan. The Company's ultimate parent company and ultimate controlling party is Mitsubishi UFJ Financial Group, incorporated in Japan.

The audited consolidated financial statements of Mitsubishi UFJ Securities Holdings Co., Ltd. are made available to the public annually and may be obtained from its registered office at:

Mitsubishi UFJ Securities Holdings Co., Ltd.
5-2, Marunouchi 2-chome
Chiyoda-ku
Tokyo 100-0005
Japan

Notes on Financial Statements (continued)

35 Country by country reporting

Article 89 of the Capital Requirements Directive ("CRD IV") requires CRD IV regulated entities to report on certain tax, financial and statistical data for each country in which they operate. The Company is a qualifying institution under the terms of CRD IV.

As the Company has elected to make use of the parent company exemption within IFRS 10, the preceding notes have been prepared on a company only basis, whereas the following disclosure is on a consolidated basis to comply with this directive.

Details of the subsidiaries and branches are as follows:

Country	Entity	Nature of actvities
United Kingdom	MUFG Securities (EMEA) plc	Financial services
United Arab Emirates	MUFG Securities (EMEA) plc (Dubai Branch)	Financial services
Netherlands	MUFG Securities (Europe) N.V.	Financial services
France	MUFG Securities (Europe) N.V. (Paris Branch)	Financial services

	United Kingdom	United Arab Emirates	Netherlands	France
Average number of employees	659	4	12	20
Turnover (£'000)	371,121	3,030	6,875	16,733
Profit / (loss) before tax (£'000)	111,689	-	(2,167)	7,064
Corporation tax paid (£'000)	10,867	-	-	-

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9AJ

©2020 Mitsubishi UFJ Financial Group. All rights reserved.