MUFG Securities (Europe) N.V.

Pillar 3 Disclosure

30TH JUNE 2022

MUFG

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1. About MUFG Securities (Europe) N.V.

MUS(EU) (the "Company") is part of the International securities business of Mitsubishi UFJ Financial Group Inc. ("MUFG"). The Company is based in Amsterdam and is a wholly owned subsidiary of MUFG Securities (EMEA) plc ("MUS(EMEA)"). MUS(EMEA) is based in London and authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA"). The Company is authorised and supervised in the Netherlands by the Authority for the Financial Markets ("AFM") and supervised by De Nederlandsche Bank ("DNB"). MUS(EMEA) is wholly owned by Mitsubishi UFJ Securities Holdings Co. Ltd. ("MUSHD") which is a wholly-owned intermediate holding company of MUFG and is responsible for the securities and investment banking business of MUFG, including the Company.

The Company is active throughout European capital markets, focusing on debt, credit, equity, derivatives and structured products. It is engaged in market-making and dealing in the debt, credit, equity-linked and derivatives financial markets, and the management and underwriting of issues of securities and securities investment. The Company works in close partnership with MUFG and its corporate bank, the MUFG Bank Ltd. ("MUFG Bank") and its Dutch subsidiary MUFG Bank Europe N.V. ("MBE") in London and Europe. The Company operates a Paris branch to build on the current client base as well as further leverage the MUFG presence within France. However, it is intended to act as a sales function and introducer. There are no current plans for the Company to have any other branches or subsidiaries. The Company provides its cross border services and activities into the other E.E.A. countries on the basis of its MiFID II passport. The Company was granted a MiFID II Investment Firm Licence in The Netherlands in December 2018 and commenced trading in March 2019.

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

2. Introduction

The Basel II Framework was implemented in the European Union via the Capital Requirements Directive ("CRD") in June 2006. The framework is made up of three pillars:

- Pillar 1 (Minimum capital requirements)
  Pillar 1 sets out 'minimum capital requirements'. It covers the calculation of risk weighted assets ("RWA") and the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and concentration risk.

- Pillar 2 (Supervisory review process)
  Pillar 2 capital framework is intended to ensure that firms have adequate capital to support the relevant risks in their business, and that they have appropriate processes to ensure compliance with the Fifth Capital Requirements Directive ("CRD V"). It considers whether additional capital is required over and above the Pillar 1 capital requirements. A firm's internal capital adequacy assessment process ("ICAAP") supports this process.

- Pillar 3 (Market discipline)
  Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements. It covers external disclosures of capital and risk exposures to increase transparency and improve comparability and consistency of disclosures.

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

Basel III, released in December 2010, builds on Basel 2.5. It sets higher capital and liquidity requirements to be phased in over the coming years until fully implemented on the 1st January 2023. In the EU, Basel III was implemented through the Capital Requirements Regulation ("CRR") and Fifth Capital Requirements Directive ("CRD V") in June 2021.

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

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

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

- A binding leverage ratio and changes to the exposure measure
- A binding detailed net stable funding ratio ("NSFR")
- A new Standardised Approach for counterparty credit risk
- Changes to the rules for determining the trading and non-trading book boundary and the methodologies for calculating market risk capital charges

The CRR2 changes were finalised in 2019 and applied in the EU from 28th June 2021.

The Pillar 3 disclosures are prepared in accordance with the CRR and CRD V as well as the European Banking Authority ("EBA") guidelines (EBA/GL/2016/11) on disclosure requirements issued in December 2016. The disclosures are available on the Company's corporate website (https://www.mufgemea.com/governance) in respect of remuneration as required under Article 450 of the CRR is separately published on the same website and forms part of the Pillar 3 disclosure for the Company.

The Pillar 3 disclosures were verified and approved internally, including reviews by the Management Board and Supervisory Board to ensure that the external disclosures convey the Company's capital and risk profile comprehensively, subject to materiality and proprietary confidentiality. There is no requirement for external auditing of these disclosures.

3. Regulatory Approach

The Company is authorised and supervised in the Netherlands by the DNB and is subject to minimum capital adequacy standards. The Company calculates appropriate capital requirements for each of its material risks.

3.1 Methodologies for capital calculations

Pillar 1 Credit Risk

The Company's credit risk requirement is measured under the Standardised Approach in accordance with Title 2 of Part Three within CRR.

Pillar 1 Market Risk

The calculation of the Company's market risk capital requirements is based on the Standardised Approach in accordance with Title 4 of Part Three within CRR.

Pillar 1 Operational Risk

The Company calculates its operational risk using the Standardised Approach in accordance with Title 3 of Part Three within CRR.

4. Key Prudential Metrics

The table below summarises the main prudential regulation measures and ratios.

Table 1: Key Metrics (EU KM1)

		30 Jun 2022 €m	31 Dec 2021 €m	30 Jun 2021 €m
	Available own funds (amounts)			
1	Common Equity Tier 1 ("CET1") capital	220	208	207
2	Tier 1 capital	220	208	207
3	Total capital	220	208	207
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	540	355	540
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	40.81%	58.72%	38.33%
6	Tier 1 ratio (%)	40.81%	58.72%	38.33%
7	Total capital ratio (%)	40.81%	58.72%	38.33%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional CET1 SREP requirements (%)	5.15%	5.15%	5.15%
EU 7b	Additional AT1 SREP requirements (%)	1.72%	1.72%	1.72%
EU 7c	Additional T2 SREP requirements (%)	2.29%	2.29%	2.29%
EU 7d	Total SREP own funds requirements (%)	17.15%	17.15%	17.15%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.50%	2.50%	2.50%
EU 11a	Overall capital requirements (%)	19.65%	19.65%	19.65%
12	CET1 available after meeting the total SREP own funds requirements (%)	31.16%	49.07%	28.68%
	Leverage ratio			
13	Total exposure measure excluding claims on central banks	3,500	2,965	4,573
14	Leverage ratio excluding claims on central banks (%)	6.29%	7.03%	4.53%

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5. Capital Resources

The Company's regulatory capital resources are assessed under the CRR and CRD V and consist of Common Equity Tier 1 ("CET1") – share capital and retained earnings.

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 breakdown of own funds and capital ratios is shown below.

Table 2: Own Funds Disclosure

Capital Resources	30 Jun 2022 €m	31 Dec 2021 €m
Common Equity Tier 1 ("CET1") capital before regulatory adjustments	226	215
Total regulatory adjustments to CET1	(6)	(7)
CET1 capital	**220**	**208**
Tier 1 capital	**220**	**208**
Total capital	**220**	**208**
CET1 (as a percentage of total risk exposure amount)	40.8%	58.7%
Tier 1 (as a percentage of total risk exposure amount)	40.8%	58.7%
Total capital (as a percentage of total risk exposure amount)	40.8%	58.7%
Total RWA	**540**	**355**

6. Capital Requirements

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

In the table below, the Company's Total Capital Requirements set out the minimum capital required under CRD V.

Table 3: Capital Requirements

Total Capital Requirements	30 Jun 2022 €m	31 Dec 2021 €m
Credit Risk (Including Concentration Risk)	17	14
Market Risk	19	7
Operational Risk	7	7
Total	**43**	**28**

7. Credit Risk

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

7.1 Methodology

The Company takes counterparty and/or issuer credit risk through most of its business activities. Counterparty credit risk arises from derivatives and securities financing transactions ("SFTs"). It is calculated in both the trading and non-trading books. The Company uses the Standardised Approach for counterparty credit risk.

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 ("CRM") department. CRM is organisationally independent from the front office departments, and the Risk Analytics Group ("RAG") 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.

Per Article 113 of CRR, the Company is required to use rating agencies' credit assessments for the determination of risk weights under the standardised approach to credit risk. The credit assessment should be produced by an eligible External Credit Assessment Institution ("ECAI") and used in a consistent manner over time. For regulatory purposes, the Company has selected Moody's Rating Agency as its nominated ECAI. ECAI ratings are used to determine risk weightings for all the relevant exposure classes. Tables below provide details of the Company's credit risk capital requirements:

Table 4: Credit Risk Capital Requirements and RWAs[1]

	30 Jun 2022		31 Dec 2021	
	Capital Required €m	RWAs €m	Capital Required €m	RWAs €m
Counterparty Credit Risk	6	78	4	53
Credit Valuation Adjustment risk ("CVA")[2]	6	78	5	62
Non-Trading Book Credit Risk[3]	5	59	5	64
Concentration Risk	-	-	-	-
Total	**17**	**215**	**14**	**178**

1 Derivatives, SFTs, and exposures to central counterparties ("CCP") are included.
2 CVA is the capital charge accounting for potential mark to market losses due to credit quality deterioration of counterparty. The Company uses the Standardised Approach to calculate the CVA.
3 Non-trading book credit risk includes both on and off balance sheet items including fixed assets and non-trading book issuer exposures.

The Company has exposures to intragroup entities and monitors these along with large exposures to third parties on a daily basis**.**

Table 5: Counterparty Credit Risk Summary[1]

	At 30 Jun 2022			At 31 Dec 2021		
	Exposure Value €m	RWA €m	Capital Required €m	Exposure Value €m	RWAs €m	Capital Required €m
Central Government and Central Banks	11	-	-	33	1	0
Institutions (Excluding CCP)	48	10	1	30	6	0
Institutions (CCP)	39	1	0	22	0	0
Corporates	183	67	5	101	46	4
Multilateral Development Banks				-	-	-
Regional Government and Local Authority				-	-	-
International Organisations				9	-	-
Public Sector Entity				-	-	-
Total	282	78	6	195	53	4

1 Derivatives, SFTs, and exposures to CCPs are included

8. 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 ("MRM") department. RAG 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 market risk capital requirement is measured using the Standardised Approach and the Company does not have permission from the DNB to use internal models for capital requirements.

The table below shows the market risk capital requirements.

Table 6: Market Risk Capital Requirements and RWAs

	30 Jun 2022		31 Dec 2021	
	Capital required	RWAs	Capital required	RWAs
	€m	€m	€m	€m
Standardised Approach	19	236	7	93
Total	**19**	**236**	**7**	**93**

9. Leverage ratio

The Company assesses the leverage ratio to mitigate the risk of excessive leverage. The Company performs regular analysis of the leverage ratio to understand drivers and sensitivities. The Company's leverage ratio exposure measure is mainly driven by SFTs, derivatives and inventory which includes mainly trading securities and available-for-sale securities. In addition, Tier 1 capital resources and any applicable deductions impact on the leverage ratio. Leverage ratio is reported to the Asset and Liability Committee ("ALCO") and Management Board.

The Company is subject to binding regulatory minimum leverage ratio requirements. ALCO monitors the leverage ratio against the regulatory minimum. In addition, balance sheet limits are in place for key exposure types which mitigate significant increase in leverage ratio exposure measure.

The disclosure of the leverage ratio below is based on the end point CRR definition of Tier 1 capital and the CRR definition of leverage exposure.

Disclosures on the leverage ratio are presented below.

Table 7: Leverage Ratio

	30 Jun 2022 €m	31 Dec 2021 €m
Tier 1 capital	220	208
Total leverage ratio exposures	3,500	2,965
Leverage ratio	**6.29%**	**7.03%**

10. Liquidity Risk

Liquidity risk is the risk that the Company has insufficient resources to meet its financial obligations as they fall due, or incurs a significantly higher cost than usual in securing the required funds. This risk could arise from both institution specific and market-wide events.

10.1 Oversight

The ultimate responsibility for liquidity risk management sits with the Management 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 Management Board 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 Funds 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.

10.2 Liquidity Coverage Ratio ("LCR")

In line with the EBA rules, the LCR requires the Company to hold sufficient unencumbered High Quality Liquid Assets ("HQLA") to meet expected contractual and contingent outflows over a 30 day stress period. The table below shows the liquidity coverage ratio.

Table 8: Liquidity Coverage Ratio

		30 Jun 2022 €m	31 Dec 2021 €m	30 Jun 2021 €m
	Liquidity Coverage Ratio			
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	403.15	352.75	327.59
16	Total net cash outflows (adjusted value)	174.59	139.50	115.75

17	Liquidity coverage ratio (%)	258%	283%	307%

10.3 Net Stable Funding Ratio ("NSFR")

In line with the EBA rules, the NSFR requires the Company to have sufficient long term stable funding to meet the long term funding requirements of its assets and off-balance sheet activities.

The table below shows the net stable funding ratio.

Table 9: Net Stable Funding Ratio

		30 Jun 2022 €m	31 Dec 2021 €m	30 Jun 2021 €m
	Net Stable Funding Ratio ("NSFR")[1]			
18	Total available stable funding	281.35	n/a	n/a
19	Total required stable funding	136.34	n/a	n/a
20	NSFR ratio (%)	206%	n/a	n/a

[1] NSFR data for 31st December 2021 and earlier is not disclosed as minimum compliance only became binding from 1st January 2022

11. 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.

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 event occurring and the impact should an event 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.

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

Table 10: Operational Risk Capital Requirements and RWAs

	30 Jun 2022		31 Dec 2021	
	Capital Required €m	RWAs £m	Capital Required €m	RWAs £m
The Standardised Approach	7	88	7	84

12. List of Abbreviations

Glossary	
AFM	Authority for the Financial Markets
ALCO	Asset and Liability Committee
AT1	Additional Tier 1 Capital
CCP	Central Counterparty
CET1	Common Equity Tier 1 Capital
CRD	Capital Requirements Directive
CRM	Credit Risk Management
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
DNB	De Nederlandsche Bank
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
FCA	Financial Conduct Authority
FTP	Funds Transfer Pricing
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IRC	Incremental Risk Charge
LCR	Liquidity Coverage Ratio
MBE	MUFG Bank Europe N.V.
MRM	Market Risk Management
MUFG	Mitsubishi UFJ Financial Group
MUFG Bank	MUFG Bank, Ltd. MUFG's corporate bank.
MUS(EMEA)	MUFG Securities EMEA plc. Parent company of MUS(EU)
MUS(EU)	MUFG Securities (Europe) N.V.
MUSHD	Mitsubishi UFJ Securities Holdings Co. Ltd. MUS(EMEA)'s parent company, which is wholly owned by Mitsubishi UFJ Financial Group.
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
RAG	Risk Analytics Group
RWA	Risk Weighted Assets
SFT	Securities Financing Transaction
SREP	Supervisory Review Process
SVaR	Stressed Value at Risk
T2	Tier 2 Capital
TSA	The Standardised Approach, used for calculating Operational Risk Capital.
VaR	Value at Risk