MUFG Securities EMEA plc Consolidated Pillar 3 Disclosure

30TH JUNE 2022

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1. About MUFG Securities EMEA plc

MUFG Securities EMEA plc ("The Group") is a wholly-owned international capital markets subsidiary of Mitsubishi UFJ Securities Holdings Co. Ltd. ("MUSHD"), which is wholly owned by Mitsubishi UFJ Financial Group ("MUFG") and was established in 1983. The Group's Tier 1 capital at 30 June 2022 was £1,958 million.

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

The Group 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 Group primarily supports this client group from its base in London and additionally operates a branch in the Dubai International Financial Centre.

The Group established a wholly owned subsidiary in The Netherlands, namely MUFG Securities (Europe) N.V. ("MUS(EU)"), as well as a branch of that entity in Paris, to support the continued servicing of clients across Europe. MUS(EU) was granted a MiFID II Investment Firm Licence in The Netherlands in December 2018 and commenced trading in March 2019. The scope of this document covers MUS(EMEA) and MUS(EU) on a consolidated basis.

The Group works in close partnership with MUFG and its corporate bank, MUFG Bank, Ltd. ("MUFG Bank"), to ensure its clients experience seamless product delivery that meets all of their objectives.

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. In the EU, Basel III was implemented through the Capital Requirements Regulation ("CRR") and CRD IV in January 2014. The UK Prudential Regulation Authority ("PRA") published final rules for implementing CRD IV in its Policy Statement 7/13. Reporting and Disclosure requirements are covered in the Policy Statement.

In the UK, all European legislation that was in place on 31 December 2020 was onshored into UK law, subject to certain amendments. In Oct 2021, the PRA published PS22/21 Implementation of Basel standards – Final rules. The final rules specified how the PRA implements the remaining Basel standards with the PRA rules set out in PS22/21. The Pillar 3 disclosures are prepared in accordance with the CRR and the CRD that came into force on 1st January 2022 and were implemented via the PRA Rulebook.

The disclosures are available on the Group's corporate website (www.mufgemea.com). Disclosure 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 Group.

The Pillar 3 disclosures were verified and approved internally, including a review by the Board of Directors to ensure that the external disclosures convey the Group'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 Group is regulated by the UK PRA and Financial Conduct Authority ("FCA") and is subject to minimum capital adequacy standards. The Group calculates appropriate capital requirements for each of its material risks.

3.1 Methodologies for capital calculations

Pillar 1 Credit Risk

The Group'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 Group's market risk capital requirements is primarily based on its Value at Risk ("VaR") model which has been approved by the PRA. Market risk capital requirements for a small number of positions are calculated using the Standardised Approach.

Pillar 1 Operational Risk

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

Basis of consolidation

In this disclosure, the Group is presented on a consolidated basis and there is no difference between the financial accounting consolidation and the regulatory consolidation used for regulatory reporting purposes.

4. Key Prudential Metrics

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

Table 1: Key Metrics (KM1)

		30 Jun 2022 £m	31 Dec 2021 £m	30 Jun 2021 £m
	Available own funds (amounts)			
1	Common Equity Tier 1 ("CET1") capital	1,494	1,516	1,377
2	Tier 1 capital	1,958	1,980	1,841
3	Total capital	2,225	2,262	2,128
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	10,333	9,263	8,630
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	14.46%	16.37%	15.96%
6	Tier 1 ratio (%)	18.95%	21.38%	21.34%
7	Total capital ratio (%)	21.53%	24.43%	24.66%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	2.57%	2.57%	2.92%
UK 7b	Additional AT1 SREP requirements (%)	0.86%	0.86%	0.97%
UK 7c	Additional T2 SREP requirements (%)	1.14%	1.14%	1.30%
UK 7d	Total SREP own funds requirements (%)	12.56%	12.56%	13.19%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%
UK 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 (%)	0.04%	0.04%	0.04%
UK 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%
UK 10a	Other Systemically Important Institution buffer	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.54%	2.54%	2.54%
UK 11a	Overall capital requirements (%)	15.10%	15.10%	15.73%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.40%	9.31%	8.54%
	Leverage ratio			
13	Total exposure measure excluding claims on central banks[1]	54,597	63,528	61,873
14	Leverage ratio excluding claims on central banks (%)	3.59%	3.12%	2.98%

[1] Leverage ratio for 31st December 2021 and earlier includes central bank claims as the exclusion was not applicable to the Group prior to 2022.

5. Capital Resources

The Group's regulatory capital resources are assessed under the CRR and CRD V. The Group's capital consists of Tier 1 – share capital, retained earnings and Additional Tier 1 ("AT1"), and Tier 2 – subordinated debt which is fixed term and denominated in Japanese yen.

The Group 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 Group'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.

MUFG and the Group's affiliate MUFG Bank provide support arrangements to the Group, including a 'Keep Well Agreement'. The Group is not aware of any material impediments to the transfer of capital resources from its parent or affiliate.

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

Table 2: Own Funds Disclosure

Capital Resources	30 Jun 2022 £m	31 Dec 2021 £m
Common Equity Tier 1 ("CET1") capital before regulatory adjustments	1,711	1,708
Total regulatory adjustments to CET1	(217)	(192)
CET1 capital	**1,494**	**1,516**
Additional Tier 1 ("AT1") capital before regulatory adjustments	464	464
Total regulatory adjustments to AT1 capital	0	0
AT1 capital	**464**	**464**
Tier 1 capital	**1,958**	**1,980**
Tier 2 ("T2") capital before regulatory adjustments	266	282
Total regulatory adjustments to T2 capital	0	0
T2 capital	**266**	**282**
Total capital	**2,225**	**2,262**
CET1 (as a percentage of total risk exposure amount)	14.5%	16.4%
Tier 1 (as a percentage of total risk exposure amount)	19.0%	21.4%
Total capital (as a percentage of total risk exposure amount)	21.5%	24.4%
Total RWA	**10,333**	**9,263**

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 Group'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)	409	349
Market Risk	358	325
Operational Risk	60	67
Total	**827**	**741**
Pillar 2A	**471**	**422**
Total Capital Requirements[1]	**1,298**	**1,163**

1 The term 'Total Capital Requirements' is defined in the Policy Statement 30/17 issued by the PRA

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 Group measures credit risk capital requirements using the Standardised Approach.

7.1 Methodology

The Group 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. Under CRD V, four methods may be used to calculate exposure values for counterparty credit risk. These four methods are Mark-to-Market, Original Exposure, Standardised and Internal Models Method. The Group uses the mark-to-market method to determine the exposure value which is the sum of current replacement cost and potential future credit exposure.

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 Group's in house and vendor systems.

Per Article 113 of CRR, the Group 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 Group has selected Moody's Rating Agency as its nominated ECAI, with the exception of securitisation exposures where DBRS, a global credit rating agency, has been selected. ECAI ratings are used to determine risk weightings for all the relevant exposure classes. Tables below provide details of the Group's credit risk capital requirements:

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

	30 Jun 2022		31 Dec 2021	
	Capital Required	RWAs	Capital Required	RWAs
	£m	£m	£m	£m
Counterparty Credit Risk	213	2,657	234	2,930
Credit Valuation Adjustment risk ("CVA")[2]	80	1,002	46	580
Non-Trading Book Credit Risk[3]	104	1,295	56	694
Concentration Risk	13	160	12	155
Total	**409**	**5,114**	**348**	**4,360**

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 Group 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 Group occasionally has exposures to intragroup entities which exceed the large exposure limits defined in the CRR and the Group holds capital against these exposures. The Group monitors large exposures to third parties on the 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	97	0	0	159	39	3
Institutions (Excluding CCP)	3,794	995	80	3,124	774	62
Institutions (CCP)	3,844	244	20	9,309	530	42
Corporates	1,075	1,000	80	1,090	973	78
Multilateral Development Banks	20	1	0	7	-	-
Regional Government and Local Authority	73	15	1	1	0	0
International Organisations	37	-	-	25	-	-
Public Sector Entity	1,129	402	32	1,083	614	49
Total	10,069	2,657	213	14,798	2,930	234

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 Group 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 Group, 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 Group's in house and vendor systems.

The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the Standardised Approach. The Group's internal market risk models comprise VaR, SVaR, IRC, and Risks Not In VaR ("RNIV") which covers all major asset classes traded by the Group.

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
VaR	64	794	59	743
Stressed VaR	156	1,956	136	1,699
Incremental Risk Charge	44	544	48	600
Risks Not In VaR	73	912	72	899
Other Market Risk	21	262	10	125
Total	**358**	**4,468**	**325**	**4,066**

9. Leverage ratio

The Group assesses the leverage ratio to mitigate the risk of excessive leverage. The Group performs regular analysis of the leverage ratio to understand drivers and sensitivities. The Group'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"), Board Risk Committee ("BRC") and Board.

The PRA published PS21/21 "The UK leverage ratio framework" in Oct 2021. Per the policy statement, the Group will be subject to the binding regulatory minimum leverage ratio requirement of 3.25% plus a countercyclical leverage ratio buffer rate of 35% of the firm's Countercyclical Buffer ("CCyB") rate. The new leverage ratio binding requirement will be effective from 1 Jan 2023.

ALCO monitors the leverage ratio against the upcoming regulatory minimum to ensure action plans are in place to meet this regulatory minimum. In addition, balance sheet limits are in place for key exposure types which mitigate significant increase in leverage ratio exposure measure.

Embedded within balance sheet limits is the provision for a leverage buffer which serves to absorb an increase in leverage exposures in the event of future GBP weakness. This is required due to a mismatch on certain USD denominated traded exposures versus the GBP denominated capital base. During periods of GBP weakness, equivalent USD exposure values will increase relative to the capital base. This leverage buffer is re-calibrated periodically during periods of market volatility.

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 follow the PRA disclosure templates are presented below.

Table 7: Leverage Ratio

	30 Jun 2022 £m	31 Dec 2021 £m
Tier 1 capital	1,958	1,980
Total leverage ratio exposures	54,597	63,528
Leverage ratio	**3.59%**	**3.12%**

10. Liquidity Risk

Liquidity risk is the risk that the Group 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 Board who sets the Group's liquidity risk appetite, which expresses the level of risk the Group chooses to take in pursuit of its strategic objectives. The Board mandate to the EMEA 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 ("CFP").

The EMEA 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 Group'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 Group
- Ensure that appropriate business incentives are maintained that reflect the cost and availability of liquidity through the Group's Funds Transfer Pricing ("FTP") process and unsecured funding limit allocation process
- Review critical liquidity risk factors and prioritise issues arising
- Determine the Group's funding plans and funding diversification strategy in light of business projections and objectives.

The Group uses a variety of quantitative and qualitative measures to monitor the adequacy of the Group's liquidity resources and to ensure an integrated approach to liquidity risk management.

10.2 Liquidity Coverage Ratio ("LCR")

In line with the PRA rulebook, the LCR requires MUS(EMEA) 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)	6,122	5,815	5,725
UK 16a	Cash outflows - Total weighted value	6,820	7,166	7,554
UK 16b	Cash inflows - Total weighted value	4,641	4,752	5,045
16	Total net cash outflows (adjusted value)	2,180	2,414	2,509
17	Liquidity coverage ratio (%)	288%	247%	231%

10.3 Net Stable Funding Ratio (NSFR)

In line with the PRA rulebook, the NSFR requires MUS(EMEA) 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	12,676	n/a	n/a
19	Total required stable funding	10,667	n/a	n/a
20	NSFR ratio (%)	119%	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 Group 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 Group employs The Standardised Approach ("TSA") for calculating its Pillar 1 operational risk capital requirement. The Group 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	RWAs	Capital Required	RWAs
	£m	**£m**	**£m**	**£m**
The Standardised Approach	60	751	67	837

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12. List of Abbreviations

Glossary	
ALCO	Asset and Liability Committee
AT1	Additional Tier 1 Capital
BRC	Board Risk Committee
CCP	Central Counterparty
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 Capital
CFP	Contingency Funding Plan
CRD	Capital Requirements Directive
CRM	Credit Risk Management
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
ECAI	External Credit Assessment Institution
FCA	Financial Conduct Authority
FTP	Funds Transfer Pricing
The Group	The consolidated MUFG Securities EMEA plc entity, comprised of the solo MUFG Securities EMEA plc entity and MUS(EU).
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IRC	Incremental Risk Charge
LCR	Liquidity Coverage Ratio
MRM	Market Risk Management
MUFG	Mitsubishi UFJ Financial Group
MUFG Bank	MUFG Bank, Ltd. MUFG's corporate bank.
MUS(EMEA)	MUFG Securities EMEA plc. The solo MUFG Securities entity, not including MUS(EU).
MUS(EU)	MUFG Securities (Europe) N.V. A wholly owned subsidiary of MUS(EMEA) in The Netherlands.
MUSHD	Mitsubishi UFJ Securities Holdings Co. Ltd. The Group'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
RNIV	Risks Not In VaR
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