MUFG Securities EMEA plc Consolidated Pillar 3 Disclosure

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

Contents

1. About MUFG Securities EMEA plc

MUFG Securities EMEA plc ("The Group") is a wholly-owned investment banking subsidiary of Mitsubishi UFJ Securities Holdings Co. Ltd. ("MUSHD"), which is wholly owned by Mitsubishi UFJ Financial Group ("MUFG") and was established in 1983. The Group's Tier 1 capital at 30 June 2020 was £1,902 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 works in close partnership with MUFG and its corporate bank, MUFG Bank, Ltd. ("MUFG Bank"), to ensure its clients experience seamless product delivery that meets all of their objectives.

The 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.

Following the UK Referendum on EU Membership ("Brexit"), 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 MUFG Securities EMEA plc and MUS(EU) on a consolidated basis.

2. Introduction

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

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

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

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

The Basel Committee agreed updates to the Basel framework in July 2009, commonly referred to as Basel 2.5. These seek to better capture risk from securitisation and trading book exposures and were incorporated into European law via amendments to the CRD known as the "Third Capital Requirements Directive" or "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 Fourth Capital Requirements Directive ("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 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 IV (collectively referred to as "CRR2") include the following:

- A binding leverage ratio ("LR") and changes to the exposure measure
- A binding detailed net stable funding ratio ("NSFR")
- 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 will apply from 28th June 2021 though certain elements have a slightly different timeframe. These changes will need to be considered alongside the implications arising from the UK leaving the European Union. The Group is monitoring and preparing for these changes to ensure any upcoming regulatory requirements are met.

The Pillar 3 disclosures are prepared in accordance with the CRR and CRD IV as well as the European Banking Authority ("EBA") guidelines (EBA/GL/2016/11) on disclosure requirements issued in December 2016. The disclosures are available on the Group's corporate website (www.mufgemea.com).

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.

METHODOLOGIES FOR THE GROUP'S 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 internal models which have 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. Capital Resources

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

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.

MUSHD 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 1: Own Funds Disclosure

Capital Resources	30 Jun 2020 £m	31 Dec 2019 £m
Common Equity Tier 1 ("CET1") capital before regulatory adjustments	1,572	1,577
Total regulatory adjustments to CET1	(134)	(147)
CET1 capital	**1,438**	**1,430**
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	**1,902**	**1,894**
Tier 2 ("T2") capital before regulatory adjustments	330	305
Total regulatory adjustments to T2 capital	0	0
T2 capital	**330**	**305**
Total capital	**2,232**	**2,199**
CET1 (as a percentage of total risk exposure amount)	16.4%	16.3%
Tier 1 (as a percentage of total risk exposure amount)	21.6%	21.5%
Total capital (as a percentage of total risk exposure amount)	25.4%	25.0%
Total Risk Weighted Assets ("RWA")	**8,795**	**8,793**

5. Capital Requirements

The Pillar 1 framework provides the basis for capital requirements arising from credit, market and operational risk. It covers the calculation of RWAs 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 the CRD IV.

Table 2: Total Capital Requirements

Pillar 1 Capital Requirements	30 Jun 2020 £m	31 Dec 2019 £m
Credit Risk (Including Concentration Risk)	406	433
Market Risk	240	218
Operational Risk	58	53
Total	**704**	**703**
Pillar 2A	**457**	**378**
Total Capital Requirements[1]	**1,161**	**1,081**

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

6. Credit Risk

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

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 ("SFT"). It is calculated in both the trading and non-trading books. Under CRD IV, four methods may be used to calculate exposure values for counterparty credit risk. These four methods are Mark-to-Market, Original Exposure, Standardised and Internal Models Method. 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 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 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.
The tables below shows details of the Group's credit risk exposures, RWAs and capital requirements.

Table 3: Credit Risk Capital Requirements and RWAs[1]

	30 Jun 2020		31 Dec 2019	
	RWAs £m	Capital required £m	RWAs £m	Capital required £m
Counterparty Credit Risk	3,242	259	3,250	260
Credit Valuation Adjustment risk("CVA")[2]	933	75	1,017	81
Non-Trading Book Credit Risk[3]	762	61	982	79
Concentration Risk	137	11	166	13
Total	**5,074**	**406**	**5,415**	**433**

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.

Table 4: Counterparty Credit Risk Summary[1]

	At 30 Jun 2020			At 31 Dec 2019		
	Exposure Value £m	RWAs £m	Capital Required £m	Exposure Value £m	RWAs £m	Capital Required £m
Central Government and Central Banks	370	1	0	515	0	0
Institutions (Excluding CCP)	4,013	975	78	5,195	1,263	101
Institutions (CCP)	9,511	447	36	7,406	351	28
Corporates	1,158	1,025	82	1,667	1,527	122
Multilateral Development Banks	4	-	-	10	-	-
Regional Government and Local Authority	114	23	2	56	11	1
International Organisations	59	-	-	117	-	-
Public Sector Entity	989	771	61	227	98	8
Total	**16,218**	**3,242**	**259**	**15,193**	**3,250**	**260**

1 Derivatives, SFTs, and exposures to CCPs are included

7. Market Risk

Market risk is the risk of losses from movements in market prices in the trading portfolio. 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 the 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 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 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 5: Market Risk Capital Requirements and RWAs

	30 Jun 2020		31 Dec 2019	
	Capital required	RWAs	Capital required	RWAs
	£m	£m	£m	£m
VaR	35	441	31	384
Stressed VaR	76	953	83	1,039
Incremental Risk Charge	58	726	60	748
Risks Not In VaR	60	744	38	474
Other Market Risk	11	131	6	75
Total	**240**	**2,995**	**218**	**2,720**

8. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

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 incident occurring and the impact should an incident 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 6: Operational Risk Capital Requirements and RWAs

	30 Jun 2020		31 Dec 2019	
	Capital required	RWAs	Capital required	RWAs
	£m	£m	£m	£m
The Standardised Approach	58	726	53	657

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 securities financing transactions, 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"), the Board Risk Committee ("BRC") as well as being referenced in the external financial statements.

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. The Group's leverage ratio is not affected by the exemption of qualifying central bank claims. Hence, there is no difference between the UK leverage ratio and the CRR leverage ratio.

The table below shows the leverage ratios.

Table 7: Leverage Ratio

	At 30 Jun 2020 £m	At 31 Dec 2019 £m
Tier 1 capital	1,902	1,893
Total leverage ratio exposures	65,364	68,188
Leverage ratio	**2.91%**	**2.78%**
Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

10. Glossary of Terms

Glossary	
ALCO	Asset and Liability Committee
AT1	Additional Tier 1 Capital
BRC	Board Risk Committee
CCP	Central Counterparty
CET1	Common Equity Tier 1 Capital
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
FCA	Financial Conduct Authority
The Group	The consolidated MUFG Securities EMEA plc entity, comprised of the solo MUFG Securities EMEA plc entity and MUS(EU).
ICAAP	Internal Capital Adequacy Assessment Process
IRC	Incremental Risk Charge
LR	Leverage Ratio
MUFG	Mitsubishi UFJ Financial Group
MUFG Bank	MUFG Bank, Ltd. MUFG's corporate bank.
MUS(EU)	MUFG Securities (Europe) N.V. A wholly owned subsidiary of MUFG Securities EMEA plc in The Netherlands.
MUSHD	Mitsubishi UFJ Securities Holdings Co. Ltd. The Group's parent company, which is wholly owned by Mitsubishi UFJ Financial Group.

Glossary	
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
RNIV	Risks Not In VaR
RWA	Risk Weighted Assets
SFT	Securities Financing Transaction
SVaR	Stressed Value at Risk
T2	Tier 2 Capital
TSA	The Standardised Approach, used for calculating Operational Risk Capital.
VaR	Value at Risk