

FINANCIAL STATEMENTS

31 DECEMBER 2018

COMPANY NUMBER: 1698498



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 outcome of the UK Referendum on EU Membership ("Brexit") continues to be an important consideration. The Company has actively been assessing and considering the impact of Brexit on its ability to serve its clients and, as a result, has initiated its contingency plan, including the establishment of a wholly owned subsidiary in The Netherlands and a Paris branch of that entity. The subsidiary, namely MUFG Securities (Europe) N.V. ("MUS(EU)"), as well as the Paris branch, are central to our strategy to support the continued servicing of clients across Europe. MUS(EU) was granted a MiFID II Investment Firm Licence in The Netherlands in December 2018. As at the date of signing this report, MUS(EU) had not yet commenced trading.

The principal activities of the Company remain largely consistent with those disclosed in previous years.

Results

The results for the year are set out on page 19 and the profit for the year, after tax, amounted to £42.8 million (2017: £79.8 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 business environment remains challenging mainly due to general market uncertainty and the persistent low interest rate backdrop. The Company reported operating income of £273.3 million (2017: £325.0 million) for the year which, whilst being below budgeted levels, represents the third highest income result in the history of the Company. Revenue drivers evidence the breadth of the business and client offering across the Company with material trading gains within Structured Products and Rates Trading desks as well as notable fee gains within Debt Capital Markets. 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. Rates Trading revenues have slowed, mainly due to reduced volumes, though client demand for secured financing has remained strong. Debt Capital Markets continued to secure strong mandates on a range of notable names; the successful year included a Top 10 league table position for EMEA Corporate Investment Grade Bonds and Issuers.

Collaboration and integration with colleagues across the MUFG network, mainly the UK branch of another MUFG subsidiary, MUFG Bank, Ltd. ("MUFG Bank") continues the momentum built over the previous year and has increased our ability to support clients to access global capital markets. This collaboration supports the group values of a "One MUFG" brand allowing for a broader product offering and improved revenue potential in a cost efficient environment. A major initiative for 2018 was the integration of the EMEA debt primary market teams of the Company and MUFG Bank, which promotes strategic and efficient deployment of this specialist resource across the client base.

The cost run rate was below expected levels, driven mainly by lower headcount and reduced performance-based compensation accruals given that the full year revenue performance had fallen short of expectations. The Company remains focused on cost control, with appropriate management tracking of spend as well as strong remuneration governance.

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. Most functional support areas have now been integrated across the Company and the UK branch of MUFG Bank, with the significant exception of Technology, which is expected to be integrated during 2019 with further 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 9).

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.

In line with recent regulations, specifically Basel III Leverage Ratio requirements, management has adopted a framework of leverage-based constraints reflective of industry norms and the Company's high quality, and liquid, balance sheet. This regulation is not considered to be binding on the Company until early 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 2018 closing Leverage Ratio was 3% (2017: 3%).

Strategic Report (continued)

Business review and future development (continued)

Management retains a positive outlook, as the Company continues to make progress against its strategic objectives and infrastructure change programme, 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.

Looking forward, the key near term focus of the Company will be further integration and co-location of staff of the Company with MUFG Bank across our offices situated in London. The year ahead will also see the potential evolution of our business to continue servicing clients across the European Union through our subsidiary, MUS(EU), including the relocation or hiring of new staff in Amsterdam and Paris.

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 £273.3 million (2017: £325.0 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 78% (2017: 67%) 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 19), divided by the average of opening and closing total equity excluding Additional Tier 1 ("AT1"), of 3% (2017: 7%) with a focus on maximising ROE in the interests of shareholder returns
- **Capital metrics:** total capital requirements based on Pillar 1 requirements of £642.0 million (2017: £729.0 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 £3.4 million (2017: £3.2 million) with a focus on tracking VaR.

Challenges and uncertainties

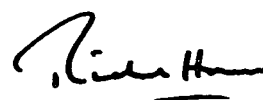
The Company faces a number of challenges and uncertainties in the normal course of its business. Operational risks are inherent in the Company's business activities and are covered in more detail under Business and Risk Management Policies on pages 6 to 16. Other uncertainties faced by the Company in 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.

Following the outcome of the UK Referendum vote, it is clear that the political situation and hence the market outlook is less certain. 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, with the main impact being a broader cost base. 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 due to Brexit as well as the challenges and uncertainties highlighted above. The renegotiation of legal contracts across a target counterparty set is in progress 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. UK and appropriate EU regulators have been contacted and presented with interim analysis and planning. At time of writing, Management are targeting April 2019 or earlier for go-live of trading on MUS(EU). This target has been affirmed based on: the granting of the MiFID II Investment Firm Licence in The Netherlands; adequate progress of legal renegotiation; availability of office premises; adequate planning and progress of on-site staffing and support infrastructure.

The Company is exposed to fluctuations in the Japanese market through its debt issuance programme and its investment in high quality Japanese Government securities for funding and liquidity purposes. The business activities and related credit exposures 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 has plans in place to limit the impact to the Company.

Taking the above into consideration, including expected future profitability as well as the Company continuing to be of strategic importance to MUSHD, the Board believes it is reasonable to assume that the Company will have adequate resources in place, or receive future capital injections when needed, to continue trading for the foreseeable future. As such, the financial statements have been prepared on the going concern basis.

By order of the Board



Richard House
Company Secretary
25 Ropemaker Street
London EC2Y 9AJ
28 February 2019

MUFG Securities EMEA plc

Directors' Report

The Directors present their annual report and financial statements for the year ended 31 December 2018.

Directors

The Directors during the year were as follows:

William Fall	Chairman (Independent)	
Diane Moore	Independent Non-Executive Director	
Stephen Jack	Independent Non-Executive Director	
Gordon Sangster	Independent Non-Executive Director	
Masamichi Yasuda	Group Non-Executive Director	
Masahiro Kuwahara	Group Non-Executive Director	
Akihiro Sugimura	Group Non-Executive Director	(resigned 1 August 2018)
Yasutaka Suehiro	Group Non-Executive Director	(appointed 1 August 2018)
David King	Chief Executive Officer	
Christopher Kyle	Chief Financial Officer	
Arthur Maycock	Chief Risk Officer	(resigned 31 May 2018)
Catherine Brett	Chief Risk Officer	(appointed 1 August 2018)

Group Non-Executive Directors are employed by another MUFG company and undertake other roles within the group, in addition to their directorship of the Company. In accordance with the UK Corporate Governance Code's 2018 definition, the Independent Non-Executive Directors are considered to be independent.

Chairman

William Fall continues his role as independent 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 dividend and capital strategy of the Company will evolve with the needs of the business as well as the regulatory environment.

In 2018, the Directors approved total coupon payments on Additional Tier 1 ("AT1") capital instruments of £8.8 million (2017: £5.1 million). Refer to Note 23 for terms of issuance and Note 24 for coupon payment details.

On 15 January 2019, the Directors approved a coupon payment on the AT1 capital instruments of £4.9 million. The amount has not been accrued in the results for the year ended 31 December 2018 as it was not due at that date.

No ordinary dividends were approved or paid during the year (2017: Nil).

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 is included within the Business and Risk Management Policies on pages 6 to 16.

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).

Directors' Report (continued)

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.

A Diversity and Inclusion working group has been established with the objective of maintaining and preserving our culture of high performance in a workplace that respects, appreciates and values individual differences. A formal Diversity and Inclusion Policy has been published internally, with employee demographics reviewed and emerging themes considered.

Corporate social responsibility

As a responsible business MUS(EMEA) has a focused Corporate Social Responsibility ("CSR") programme that aims to have a positive impact in the communities in which our business operates. Our CSR activities concentrate on supporting our local communities – in particular young people and the environment.

Through the Company's charity partnerships employees volunteer to use their skills and experience to support the community, maximising the positive impact on young people and the environment. The Company also supports charities through donations and continues to leverage employees' charitable activities through matched fundraising and "Give As You Earn" schemes. The Company's focus for 2019 will be to continue to promote a culture of integrity and social responsibility by maintaining the programme.

Disclosure of information to the auditor

The Directors who held 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 s418 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



Richard House
Company Secretary
25 Ropemaker Street
London EC2Y 9AJ
28 February 2019

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.

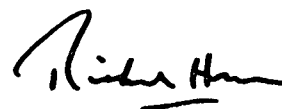
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard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



Richard House
Company Secretary
25 Ropemaker Street
London EC2Y 9AJ
28 February 2019

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 2018, 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 Chief Risk Officer ("CRO"). Risk culture and regulatory change continued to be a key area of focus for the BRC. Other topics focussed on by the BRC included: risks arising from geopolitical uncertainty; risks arising from the integration of key business functions with MUFG Bank; preparations and stresses arising from political changes relating to the UK's negotiations over its departure from the European Union; information security, operational resilience, technology and cyber risk; implementation of the General Data Protection Regulation ("GDPR"); internal assessments of the adequacy and projections for capital, liquidity and the Leverage Ratio; the overall risk appetite of the Company and the risk profile of each of the Company's business lines.

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 Chief Executive Officer ("CEO") and the BRC. Market, credit, operational, and model risk are overseen by the Joint Risk Management Committee ("JRMCM") supported by its underlying sub-committees.

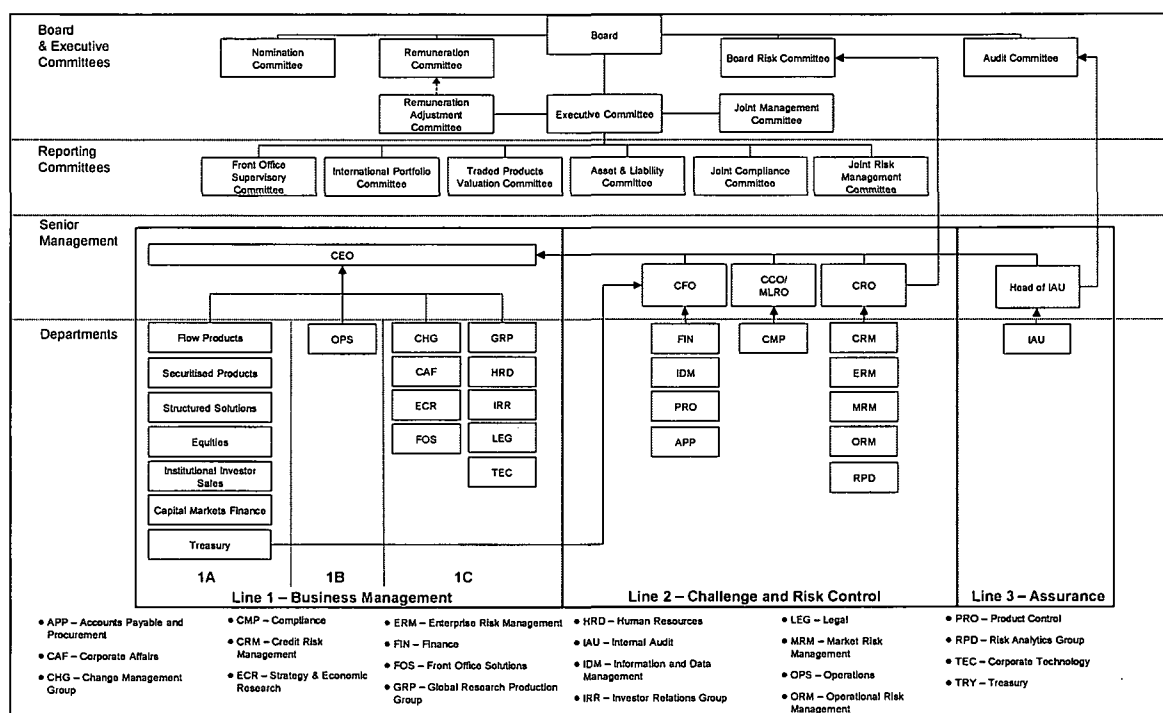
Valuation risk is overseen by the Traded Products Valuation Committee ("TPVC"). Liquidity and capital risk is overseen by the Asset and Liability Committee ("ALCO"), which is chaired by the Chief Financial Officer ("CFO"). Compliance, conduct and legal risk are overseen by the Joint Compliance Committee ("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 JRMCM reports to the BRC, via the CRO.

MUFG Securities EMEA plc

Business and Risk Management (continued)

The Company's risk committee and corporate structure as at 31st December 2018 is illustrated below:



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, JRM 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 JRM, TPVC, ALCO and where appropriate to the Executive Committee
- The Risk function and the JRM 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.

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Business and Risk Management (continued)

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 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.

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 2018 the number of occasions on which actual trading book outcomes exceeded the previous day's VaR was within the acceptable tolerances of the model.

MUFG Securities EMEA plc

Business and Risk Management (continued)

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.

The following table shows VaR figures for 2018 and 2017. 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 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	-
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

As at 31 December 2017	Close £'m	Average £'m	Maximum £'m	Minimum £'m
Interest Rate Curve Risk	1.5	2.1	3.8	0.7
Interest Rate Vega Risk	1.1	1.9	2.9	1.0
Asset Spread Risk	2.2	1.7	2.7	0.9
Currency Risk	0.6	0.8	1.8	0.2
Equity Price Risk	0.6	0.6	1.4	-
Equity Vega Risk	0.5	0.6	1.6	0.1
Inflation Risk	0.1	0.2	0.5	0.1
Basis Risk	1.8	2.0	3.1	1.1
Diversification benefit	(5.2)	n/a	n/a	n/a
Total VaR	3.2	3.5	5.0	2.4

MUFG Securities EMEA plc

Business and Risk Management (continued)

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 Credit Risk Management department, which 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 Credit Risk Management Committee (CRMC), 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 CRMC 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 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 33.

MUFG Securities EMEA plc

Business and Risk Management (continued)

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 below:

Internal Stress Testing

The Company's primary liquidity stress testing tool is the Maximum Cumulative Outflow, which is designed to capture all material drivers of liquidity risk (both on and off balance sheet) and to evaluate the subsequent liquidity outflow in order to determine the size of liquidity resources needed to navigate the stress event. The model has been developed using scenarios based on market practice, regulatory requirements and past experience in stressed market conditions. It is based on a synthesis of scenarios 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.

Fund 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 liquidity requirement is quantified through both the internal stress testing framework and regulatory requirement. 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 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.

MUFG Securities EMEA plc

Business and Risk Management (continued)

Contingency Funding Plan

The Contingency Funding Plan ("CFP") allows senior management to identify internal and external triggers indicative of a stress event, and to 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 JRMC has secondary responsibility due to the direct impact of market, credit, operational and other risks on capital requirements and capital resources. The Company measures key capital sensitivities and analysis of drivers of change in capital adequacy which are regularly reported to the ALCO and the JRMC.

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 assessments are reported regularly to the ALCO and the JRMC. 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.

MUFG Securities EMEA plc

Business and Risk Management (continued)

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 models is performed by the Independent Risk Validation function which is part of the Company's Internal Audit 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 it 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
- Self-assessments: Managers within the Company assess the effectiveness of their controls at mitigating the key operational risks, relative to the Company's appetite
- 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
- Incidents & losses: 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 root cause analysis where applicable
- 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.

MUFG Securities EMEA plc

Business and Risk Management (continued)

Technology and Cyber Risk

The Operational Risk Management Department is responsible for second line oversight and challenge of operational risks including 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 function which is responsible for first line control of technology and cyber risk, including: network security; monitoring malware and firewall threats; access management; data backups; patching; conducting user awareness training; monitoring and reporting incidents and penetration testing to identify any potential security vulnerabilities in the infrastructure platforms and business applications. The Company also has a dedicated IT Risk and Control function that is responsible for IT controls and ensures cyber risks are managed. 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 1 to 2).

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.

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 that ensures appropriate management, oversight and assurance of significant risks and associated mitigation strategies, 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 overall oversight of compliance controls, including monitoring, testing, advising on regulatory change and compliance matters, and escalation of issues arising. The Internal Audit function is accountable for providing independent assurance. The Company's compliance and internal control infrastructures evolve with changes to its risk profile, including its growth, and to the external regulatory landscape.

MUFG Securities EMEA plc

Business and Risk Management (continued)

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 identifies manages Conduct risk within a robust framework, which includes:

- Compliance policies, front office desk procedures and a conduct risk operating framework and strategy
- 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
- An operational framework to support the continuous process of conduct risk identification and assessment
- 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, 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.

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.

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 minimum requirement for own funds and eligible liabilities ("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. At year end, these balances did not form part of Tier 1 or Tier 2 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.

MUFG Securities EMEA plc

Business and Risk Management (continued)

The Company's capital resources, Pillar 1 capital requirements and capital ratios for 2018 and 2017 are shown in the table below:

	2018	2017
	£'m	£'m
as at 31 December		
Total Common Equity Tier 1 Capital after Deductions	1,114	1,058
Additional Tier 1 Capital after Deductions	307	307
Total Tier 2 Capital after Deductions	314	290
Total capital resources	1,735	1,655
Credit Risk (including Concentration Risk)	327	404
Market Risk	261	278
Operational Risk	47	47
Total capital requirements	635	729
	2018	2017
	%	%
as at 31 December		
Common Equity Tier 1 Ratio (Common Equity Tier 1 / Risk Weighted Assets)	14.0	11.6
Tier 1 Ratio (Tier 1 / Risk Weighted Assets)	17.9	15.0
Total Capital Ratio (Total Capital / Risk Weighted Assets)	21.8	18.1

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.

Audit Committee

The Audit Committee meets at least four times a year and is comprised of five non-executive directors and is chaired by Stephen Jack. At least one of the members is deemed to have recent and relevant financial experience and all the members have strong backgrounds in financial services. The Audit Committee has responsibility for providing the Board with assurance on: the effectiveness of the internal control and risk management systems; the integrity of financial reporting; the performance of the Internal and External Auditors; compliance with regulatory requirements and the reliability of the Company's auditing; accounting and financial reporting processes generally.

Over the past year, the Audit Committee has: reviewed and recommended the financial statements to the Board after considering the work done by the External Auditor and reviewing matters of materiality and items which because of their complexity require estimation or judgement by management; approved an Internal Audit plan and the resources of this function; considered reports and recommendations from Internal Audit and management's responses to these; reviewed Compliance's financial crime monitoring programme, whistleblowing procedures and other relevant regulatory reporting requirements; received reports from the Operational Risk function; reviewed the External Auditor's management letter and approved non-audit work carried out by the External Auditor. The Committee also reviews reports from the Joint Compliance Committee.

The Internal and External Auditors attend all meetings of the Committee. In addition, members of senior management are regularly invited to committee meetings in order to discuss reports, recommendations and action plans. The Chair is responsible for reporting on the work, findings and recommendations of the Committee to the Board.

The Audit Committee carries out an annual assessment of its own performance drawing upon the views of members and regular attendees. Steps are taken to address any significant points for improvement. The Committee also reviews the performance of the Internal and External Auditors on an annual basis.

MUFG Securities EMEA plc is responsible for the appointment of the external auditor. Deloitte LLP were appointed in 2014. The Committee considers the fees of the External Auditor and recommends these to the Board.

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:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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 of MUFG Securities EMEA plc (the 'company') 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 report¹, 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

¹ The term used to describe the annual report should be the same as that used by the directors.

Report on the audit of the financial statements (continued)

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.

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.



Alan Chaudhuri ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
1 March 2019

Company income statement

For the year ended 31 December	Notes	2018 £'000	2017 £'000
Interest income	3	19,670	20,926
Interest expense	4	(13,826)	(4,433)
Net interest income		5,844	16,493
Fees and commissions income		92,116	74,021
Fees and commissions expense		(22,936)	(18,506)
Net fees and commissions income		69,180	55,515
Trading income		207,167	250,896
Net investment (expense) / income		(8,890)	2,050
Total operating income		273,301	324,954
Administrative expenses	5	(190,296)	(198,874)
Amortisation of intangible assets	14	(18,388)	(14,914)
Depreciation of property, plant and equipment	15	(3,358)	(3,067)
Total operating expenses		(212,042)	(216,855)
Share of loss in subsidiary	16	(2,557)	-
Profit on ordinary activities before taxation		58,702	108,099
Taxation	9	(15,927)	(28,276)
Profit attributable to owners of the company		42,775	79,823

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

Company statement of comprehensive income

For the year ended 31 December	2018 £'000	2017 £'000
Profit after tax	42,775	79,823
Other comprehensive income / (loss) from continuing operations:		
Revaluation of securities at fair value through other comprehensive income (FVTOCI)		
Net (losses) / gains from changes in fair value	(5,889)	2,562
Net losses / (gains) transferred to net profit	4,539	(2,544)
Taxation	412	17
Cash flow hedging reserve		
Net (losses) / gains from changes in fair value	(113)	765
Net (gains) transferred to net profit	(579)	(416)
Taxation	184	(87)
Net investment hedge reserve		
Change in value of the hedged item due to changes in spot rate	254	-
Changes in value of the hedging instrument due to changes in spot rate	(254)	-
Taxation	-	-
Total comprehensive income that may be recycled to profit or loss	41,329	80,120
Other comprehensive income / (loss) not recycled to profit or loss		
Actuarial gains in retirement benefit schemes	1,688	16,047
Taxation	(447)	(4,253)
Total other comprehensive income	1,241	11,794
Total comprehensive income for the year attributable to owners of the company	42,570	91,914

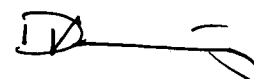
Company balance sheet

As at 31 December

	Notes	2018 £'000	2017 £'000
ASSETS			
Cash and balances at central banks		412,491	976,430
Trading portfolio financial assets	11	10,062,348	8,458,660
Derivative financial instruments	12	14,901,546	13,445,575
Reverse repurchase agreements		26,304,004	22,459,995
Securities sold not delivered		478,902	985,285
Equity finance assets		410,655	488,261
Cash collateral on securities borrowed		4,147,087	6,468,603
Cash collateral paid to derivative counterparties		2,887,619	2,528,987
Loans and advances to banks	2	-	130,494
Financial instruments available for sale	2, 13	-	818,739
Securities at FVTOCI	2, 13	688,422	-
Deferred tax asset	9	13,053	18,396
Intangible assets	14	73,188	65,793
Property, plant and equipment	15	15,385	17,353
Investment in subsidiary	16	15,516	-
Other assets	17	349,053	255,804
Total assets		60,759,269	57,118,375
LIABILITIES			
Deposits by banks		226,525	88,311
Trading portfolio financial liabilities	18	9,187,529	5,767,847
Derivative financial instruments	12	13,215,854	11,763,396
Repurchase agreements		19,711,331	21,990,927
Securities bought not delivered		404,862	916,459
Cash collateral on securities lent		659,568	1,772,714
Cash collateral received from derivative counterparties		7,979,572	7,606,270
Financial liabilities designated at fair value	19	5,996,562	4,665,013
Other liabilities	20	882,767	725,408
Senior unsecured loan	21	594,892	-
Subordinated liabilities	22	313,965	290,038
Total liabilities		59,173,427	55,586,383
EQUITY			
Equity instruments	23	1,335,380	1,317,590
Other reserves		603	2,049
Retained earnings		249,859	212,353
Total equity		1,585,842	1,531,992
Total liabilities and equity		60,759,269	57,118,375

Company Number: 1698498

The financial statements on pages 19 to 54 and business and risk management policies on pages 6 to 16 were approved by the Board of Directors and authorised for issue on 28 February 2019 and signed on its behalf by:



David King
Chief Executive Officer
28 February 2019

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
2017							
As at 1 January 2017	1,317,590	-	1,450	302	-	124,479	1,443,821
Profit after tax	-	-	-	-	-	79,823	79,823
AT1 coupon	-	-	-	-	-	(3,743)	(3,743)
Available for sale investments	-	-	35	-	-	-	35
Cash flow hedges	-	-	-	262	-	-	262
Actuarial loss	-	-	-	-	-	11,794	11,794
As at 31 December 2017	1,317,590	-	1,485	564	-	212,353	1,531,992
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	-	-	-	-	-	42,775	42,775
Issue of equity instruments	17,790	-	-	-	-	-	17,790
AT1 coupon	-	-	-	-	-	(6,406)	(6,406)
Securities held at FVTOCI	-	(938)	-	-	-	-	(938)
Cash flow hedges	-	-	-	(508)	-	-	(508)
Revaluation on equity method investment	-	-	-	-	254	-	254
Net investment hedge reclassified from P&L	-	-	-	-	(254)	-	(254)
Actuarial gain	-	-	-	-	-	1,241	1,241
As at 31 December 2018	1,335,380	547	-	56	-	249,859	1,585,842

Company cash flow statement

For the year ended 31 December	Note	2018 £'000	2017 £'000
Reconciliation of profit before tax to net cash flows from operating activities			
Profit before tax		58,702	108,099
Adjustment for non-cash items:			
Depreciation and impairment of property, plant and equipment		3,358	3,067
Amortisation and impairment of intangible assets		18,388	15,527
Net loss on disposal of property, plant and equipment and intangible assets		1,443	180
Loss on investment in subsidiary		2,483	-
Impact of IFRS 9 adoption on opening balance sheet		(104)	-
Actuarial gain on pension		1,241	11,794
Changes in operating assets and liabilities:			
Net decrease/(increase) in trading portfolio financial assets / liabilities		1,815,994	(2,878,506)
Net (increase) in derivative financial instruments		(3,513)	(782,374)
Net (increase) in securities bought / sold not delivered		(5,214)	(262,373)
Net (increase)/decrease in reverse repurchase agreements		(3,844,009)	19,924,376
Net (decrease) in repurchase agreements		(2,279,596)	(19,945,103)
Net decrease in loans and advances to banks		-	69,572
Net decrease in assets at amortised cost		130,494	-
Net decrease in cash collateral for securities and derivatives		1,223,040	2,382,939
Net (increase)/decrease other assets		(10,300)	128,378
Net increase in other liabilities		147,626	251,881
Corporation tax paid		(6,194)	(21,509)
Net cash used in operating activities		(2,746,161)	(994,052)
(Purchase) of property, plant and equipment		(1,390)	(7,159)
(Purchase) of intangible assets		(27,226)	(31,293)
(Purchase) of available for sale investments		-	(1,349,107)
(Purchase) of securities at FVTOCI		(1,196,746)	-
Investment in subsidiary		(17,999)	-
Proceeds from sale or redemption of available for sale investments		-	2,287,749
Proceeds from sale or redemption of securities at FVTOCI		1,327,063	-
Other cash (outflows)/inflows associated with investing activities		(1,446)	297
Net cash from investing activities		82,256	900,487
Proceeds from issuance of ordinary share capital		17,790	-
Proceeds from issuance of senior unsecured loan		594,892	-
Proceeds from financial liabilities designated at fair value		10,838,582	8,712,851
Repayments of financial liabilities designated at fair value		(9,507,033)	(8,611,375)
Issuances and (redemption) of subordinated debt		23,927	(19,113)
Distributions paid to holders of AT1 capital (net of tax)		(6,406)	(3,744)
Net cash from financing activities	10	1,961,752	78,619
Net (decrease) / increase in cash and cash equivalents		(702,153)	(14,946)
Opening cash and cash equivalents		888,119	903,065
Net cash (decrease) / increase		(650,016)	39,977
Foreign exchange		(52,137)	(54,923)
Closing cash and cash equivalents	10	185,966	888,119
Cash and balances at central banks		412,491	976,430
Deposits by banks		(226,525)	(88,311)
Total cash and cash equivalents	10	185,966	888,119

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 2018. 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 1 to 2. The financial position of the Company, its liquidity position and borrowing facilities are described through the financial statements beginning on page 19. In addition, the Business and Risk Management Policies on pages 6 to 16 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 as well as the Company continuing to be of strategic importance to MUSHD; as evidenced by additional capital raised during the comparative period, and 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.

Changes in company structure

During the period, the Company created a new subsidiary entity in the Netherlands, contributing EUR 20,045,000 in return for 100% of the ordinary share capital. The new subsidiary forms an integral part of the Company's strategy to address the UK's exit from the European Union. The new subsidiary received appropriate licenses during December 2018, but did not have any material activity during the period beyond business set up costs. Please refer to the Business and Financial Review on page 2 for further information.

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.

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 financial instruments (refer to Note 26),
- future cash flows of assets which drive the impairment assessment of those assets not carried at fair value through profit and loss, and
- 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:

- the economic utility of assets which drive the impairment assessment of those assets not carried at fair value through profit and loss,
- 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

The Company adopted IFRS 9 *Financial Instruments* with effect from 1 January, 2018. Refer to Note 2 below for an assessment of the impact of adoption. Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument (trade date accounting), and are initially measured at fair value.

Financial Assets

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.

MUFG Securities EMEA plc

1 Accounting policies (continued)

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.

This category is used for certain reverse repurchase transactions within the Company's treasury business which are used to source securities for the liquidity buffer, and as such, are intended to be held for the duration of their contractual term.

Assets held at fair value through other comprehensive income

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 amount outstanding.

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.

Assets held at fair value through profit or loss

Financial assets are measured at fair value through profit or loss ("FVTPL") where they do not meet the criteria to be carried under a different classification. Such assets are included in the trading book where they are acquired or incurred principally for the purpose of selling or repurchasing in the near term, 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, or are derivatives.

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 Company recognises expected credit losses within PL for financial assets not carried at FVTPL (excepting equity securities carried at FVTOCI). Expected credit losses are estimated 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 Company records 12 month expected losses for those assets which have not experienced a significant increase in credit risk since initial recognition, and lifetime expected losses for those assets which have been subject to significant increases in credit risk since initial recognition or which are recognised as credit impaired. Significant increases in credit risk are 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.

MUFG Securities EMEA plc

1 Accounting policies (continued)

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.

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 as 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.

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.

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.

MUFG Securities EMEA plc

1 Accounting policies (continued)

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 recorded as loans and receivables (reverse repurchase agreements). As such, the balances recorded in assets are subsequently remeasured only to reflect the accrual of interest or expected credit losses.

All other sale and repurchase and reverse repurchase agreements are treated as trading instruments. 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 trade date accounting - see above.

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 has elected to maintain the hedge accounting requirements of IAS 39, and has not adopted the revised hedge accounting guidance under IFRS 9 for this period. At the inception of a hedging relationship, the Company documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis (both prospective and retrospective effectiveness), of whether or not the hedging instruments are highly effective in offsetting the changes in the fair values of the hedged items attributable to the hedged risks. Hedges are designated by the Company as either: 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.

MUFG Securities EMEA plc

1 Accounting policies (continued)

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 Other comprehensive income. 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 26 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.

MUFG Securities EMEA plc

1 Accounting policies (continued)

Management fees and commission

Management fees and commission are recognised in the period during which the management service has been provided.

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.

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:

Leasehold improvements	10 – 25 years or over the remaining term of the lease
Office furniture and fittings	5 years
Office machinery and equipment	3 – 5 years
Intangible software	4 – 7 years
Finance lease assets	Lease term

Leases

A lease is classified at the date that the Company enters the agreement as either a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised as assets at the lower of the fair value of the property which is being leased or the present value of the minimum lease payments. The income statement is affected by both depreciation of the capitalised asset and interest on the minimum lease payment liability.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

MUFG Securities EMEA plc

1 Accounting policies (continued)

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.

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1 Accounting policies (continued)

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 schemes.

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):

IFRS 16 Leases

IFRS 16 requires lessees to record operating leases on the Balance Sheet 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 which the Company intends to utilise. The income statement is affected by these changes; operating lease expenses are replaced by depreciation of the right of use asset and interest accretion representing the reversal of discounting against the future lease payments liability. Operating lease payments are currently included within operating cash flows under current accounting standards, under IFRS 16, cash payments against operating leases will be 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 standard is required to be applied to annual periods beginning on or after 1 January 2019.

The Company has identified non-cancellable operating leases relating to its primary office space and certain data centres which will require to be recorded on balance sheet under the new standard. The estimated impact of adoption at 1st January, 2019 will be an increase in assets of £35.8 million, an increase in liabilities of £39.8 million, and a decrease in retained earnings brought forward of £4.0 million. The Company plans to use the modified retrospective method of adoption, and will not adjust comparative balances for the 2018 period.

After adoption, corresponding annual cash out flows of approximately £5.4 million will be reported as financing cash flows rather than operating cash flows.

It is expected that the subsidiary balance sheet will also be affected due to non-cancellable leases on premises in both the Netherlands and France. Due to the presentation of this entity under the equity method of accounting, and the relative recency of the start of these leases, the impact on the Company is expected to be immaterial.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments clarify the guidance within IFRS 9 relating the assessment of whether cash flows within a contract represent solely payments of principal or interest. Specifically, where a contract includes a prepayment feature and the party exercising the option may either pay or receive reasonable compensation for the prepayment, any negative compensation does not automatically preclude the contract from passing the assessment.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. The Company does not anticipate that the application of the amendments will have an impact on the financial statements.

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1 Accounting policies (continued)

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

The Company anticipated that the application of the amendments will not have an impact on the financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Annual Improvements include amendments to four Standards:

- IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

This change may affect the line item in which certain tax impacts relating to coupon payments on additional capital instruments are reported.

- IAS 23 Borrowing Costs, IFRS 3 Business Combinations, IFRS 11 Joint Arrangements

These amendments are not expected to have an impact on the financial statements of the Company.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

2 First time adoption of accounting standards

In the current year, the following new and revised Standards and Interpretations have been adopted when preparing the amounts reported in these Financial Statements. Only those Standards which are pertinent to the Company are summarised:

IFRS 9 – Financial instruments

The Company has adopted IFRS 9 on a retrospective basis from 1 January 2018 with the cumulative impact of initial application recorded in opening retained earnings. Comparative data has not been restated.

IFRS 9, replaced IAS 39 Financial Instruments: Recognition and Measurement, effective for periods beginning on or after 1 January 2018. The standard is separated into three component parts, the impact of each is detailed below:

Classification and measurement

IFRS 9 introduces new requirements for the categorisation of financial assets which are based on the business model under which those assets are managed and their contractual cash flow characteristics. Financial assets are measured either at:

- amortised cost ("AC"), where the business model is to originate or buy and hold the asset in order to collect contractual cash flows, and those cash flows represent only repayments of principal and interest,
- fair value through profit or loss ("FVTPL"), where the business model is short term profit taking (trading book) or fair value option elections are made, or
- fair value through other comprehensive income ("FVTOCI"), where assets are held in a business model whose objective is achieved either by sale or collection of contractual cash flows; and the contractual cash flows represent only repayments of principal and interest.

The Company may also elect to carry assets at fair value where doing so significantly reduces measurement or recognition inconsistencies (i.e. where measuring assets and liabilities on different bases would create an accounting mismatch).

Consistent with the prior treatment under IAS 39, the vast majority of the Company's assets are recognised at fair value through profit or loss within the trading book under IFRS 9 reflecting the Company's business model. Positions are typically maintained to service client requests, are traded directly or risk exposures of those positions are traded through mitigating transactions to protect profits. Certain businesses hold assets for longer periods in order to provide funding to clients, these exposures typically contain exotic risks (e.g. equity or structured credit) and would not meet the solely payments of principal or interest requirements of the standard. As such, these assets are also carried at fair value through profit or loss.

2 First time adoption of accounting standards (continued)

Certain positions within the Company's Treasury business do not meet these criteria. The Company's liquidity buffer asset portfolio consists of high credit quality liquid debt securities which are held to satisfy regulatory requirements; asset sales from this portfolio may be required to support cash needs of the business. The liquidity buffer is predominantly held in the form of securities rather than cash in order to enhance yield. As such, this portfolio is carried at fair value through other comprehensive income. The Treasury business also source liquid assets through securities borrowing transactions which are typically held to term and which are comprised of contractual cash flows representing only principal and interest – these trades are carried at amortised cost.

The accounting for financial liabilities is largely unchanged by IFRS 9, and the Company expects to continue with the prior classification of these positions. IFRS 9 requires entities to record changes in the fair value of liabilities, for which the fair value option has been elected, due to movements in the credit risk of the entity through other comprehensive income. The Company maintains a portfolio of issued structured notes and intercompany loans under the fair value option. These liabilities are not actively traded in the market, with notes typically issued via private placement to Japanese investors via an affiliate. The valuation of these positions currently includes consideration of the Company's cost of funds, which includes the impact of own credit risk. The Company has assessed the change in value of these securities due to changes in own credit with reference to published credit assessments and a proxy cost of funds curve where this can be sourced without undue cost or effort. In light of the observed stability of the proxy spread for own credit, the Company has assessed this change in value to be immaterial.

Impairment of financial instruments

Under IFRS 9, expected credit losses are required to be recognised for all assets which are not carried at fair value through profit or loss. Twelve months expected losses must now be recognised directly in the Income Statement upon initial recognition of assets, which increases to lifetime expected losses where assets are subject to significant credit deterioration after initial recognition.

As noted above, the Company has two portfolios which are not carried at fair value through profit or loss; high credit quality liquid assets and certain securities borrowing transactions on the Treasury desk. Due to the high credit quality of the securities held within these portfolios and the collateralisation available for securities borrowing transactions, the size of expected credit losses at transition and at the end of the year is not significant.

Hedge accounting

New rules are provided for hedge accounting, more closely aligned with risk management practices, reducing the necessity for quantitative effectiveness testing, and removing rules for voluntary designation and de-designation outside of documented risk management activity. IFRS 9 includes an option for reporting entities to defer adoption of the hedge accounting guidance and to retain the hedge accounting guidance within IAS 39. The Company has elected to make this accounting policy choice, and will continue to use the IAS 39 model. This accounting policy choice will be reviewed in future periods to determine the benefits of transitioning to the new IFRS 9 model. It is expected that this policy choice will be removed when the standard governing macro hedge accounting is issued.

Impact of IFRS 9

IFRS 9 has been adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules were therefore not reflected in the restated balance sheet as at 31 December 2017, but were recognised in the opening balance sheet on 1 January 2018.

The table shows the adjustments recognised for each balance sheet line item affected by the changes (refer page 20). Note, the impact of own credit risk on the valuation of financial liabilities designated at fair value is immaterial:

	IFRS 9 Adoption			Restated at 01/01/2018 £'000
	as at 31/12/2017 £'000	Reclassifi- cation of assets £'000	Application of ECL reserve £'000	
Balance sheet extracts				
Assets				
Loans and advances to banks	130,494	-	(14)	130,480
Financial assets available for sale	818,739	(818,739)	-	-
Securities at FVTOCI	-	818,739	-	818,739
Deferred tax asset	18,396		35	18,431
Liabilities				
Financial liabilities designated at fair value	4,665,013	-	-	4,665,013
Equity				
Retained earnings	212,353	-	(104)	212,249

2 First time adoption of accounting standards (continued)

IFRS 15 – Revenues from contracts with customers

The Company has adopted IFRS 15 on a retrospective basis with the cumulative effect of initial application recorded in retained earnings.

IFRS 15 is effective for periods beginning on or after 1 January 2018. It replaces IAS 18 Revenue and IAS 11 Construction Contracts, and applies to all contracts with customers except leases, financial instruments and insurance contracts. It establishes a stepwise model for revenue recognition which requires identification of contracts, separating those contracts into discrete performance obligations, allocating consideration to each obligation, and recognising revenue only once each obligation is satisfied. Due to the nature of the Company's business as a client service focused financial institution, much of the Company's revenue arises from financial instrument transactions and is not within the scope of this standard.

As such, the implementation focused on business areas where services are provided to clients or affiliates, particularly within the Capital Markets and Structured businesses. Due to the short term nature of many of the Company's contracts and the nature of services specified within those contracts, the Company has identified no changes to the timing of revenue recognition across the contracts reviewed, and as such, the adjustment to opening retained earnings upon adoption is nil. The amount of revenue recognised from contracts with customers for the year ended 31 December 2018 was £92,116k.

IFRIC 22 – Foreign Currency Translations and Advance Consideration

This interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use to record the transaction is the date that the advance consideration is paid or received. The impact on the Company upon adoption was nil.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

These amendments contain three main clarifications: that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments; how to account for a modification of a share-based payment that changes the transaction from cash-settled to equity-settled; and how to classify share-based payment transactions with net settlement features for withholding tax obligations. The impact on the Company upon adoption was nil.

3 Interest income and similar income

	2018	2017
	£'000	£'000
Interest on non-trading assets	19,564	18,325
Interest on loans and receivables from banks	106	2,601
	19,670	20,926

'Interest on loans and receivables from banks' includes reverse repos reported at amortised cost, which were impacted by negative EUR and JPY rates during 2017 and 2018.

4 Interest expense

	2018	2017
	£'000	£'000
Interest on non-trading liabilities	2,302	1,460
Interest on loans and payables to banks	-	595
Interest on senior unsecured loan	8,926	-
Interest on subordinated liabilities	2,598	2,378
	13,826	4,433

'Interest on senior unsecured loan' refers to the intercompany unsubordinated debt issued to the Company's immediate parent, MUSHD in July 2018 (refer Note 21).

'Interest on subordinated liabilities' refers to intercompany subordinated debt issued to the Company's immediate parent, MUSHD (refer Note 22).

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5 Administrative expenses

	2018	2017
	£'000	£'000
Personnel expenses		
Wages and salaries	109,348	121,019
Retirement benefits	5,467	5,645
Social security costs	15,800	17,014
	130,615	143,678
General and administrative expenses		
Auditor's remuneration (Note 6)	762	699
Operating lease rentals: property	3,749	3,521
Other administrative expense	55,170	50,976
	59,681	55,196
Total administrative expenses	190,296	198,874

The average number of employees of the Company was 646 (2017: 629), split 181:465 (2017: 164:465) between front office and support staff respectively.

During the year, the Company changed the performance review cycle to align with that of its Parent. In future, discretionary compensation will be awarded for the period 1 April through 31 March; with vesting and payment dates amended accordingly. These changes do not impact awards from previous periods.

6 Auditor's remuneration

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

	2018	2017
	£'000	£'000
Fees payable to the Company's auditor for audit and other services		
Statutory audit fees	523	465
Audit related assurance services	63	61
Other assurance services	124	121
Services relating to corporate finance	34	34
	744	681
Fees payable to the Company's auditor in respect of associated pension schemes	18	18
Total auditor's remuneration	762	699

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).

	2018		2017	
	No. Units '000	Value	No. Units '000	Value
No. of NSUs outstanding as at 1 January	4,470		4,740	
Granted during the year:				
No. of NSUs granted	388		1,995	
Value in £'000 equivalent at grant date		1,837		10,276
Less:				
No. of NSUs vested during the year	(2,436)		(2,265)	
No. of NSUs forfeited / cancelled (unvested)	-		-	
No. of NSUs as at 31 December	2,422		4,470	
Fair value of outstanding NSUs at 31 December £'000		8,973		22,810
Average share price at vesting / payment (JPY)		675		691

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 £5.5 million (2017: £5.6 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 2018 and the principal actuarial assumptions at the balance sheet date were as follows:

	2018	2017
	%	%
Discount rate	2.90	2.60
RPI inflation assumption	3.40	3.45
CPI inflation assumption	2.40	2.45
LPI pension increase assumption	3.25	3.45

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 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. (2017: S2PXA_L on a year of birth usage with CMI_2016 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:

	2018	2017
	£'000	£'000
Present value of funded obligations	(159,135)	(185,795)
Fair value of plan assets	183,822	201,644
Recognisable surplus / (deficit) in the scheme	24,687	15,849
Related deferred tax asset / (liability)	(6,539)	(4,200)
Net pension asset / (liability)	18,148	11,649

The amounts recognised in the income statement within administrative expenses total £540k credit (2017: £114k debit). The projected income for the calendar year 2019 is £716k 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:

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

	2018	2017
	£'000	£'000
Fair value of plan assets at opening	201,644	181,780
Expected return on plan assets	5,329	5,364
Actuarial remeasurement	(15,548)	19,639
Benefits paid by fund	(14,213)	(12,766)
Contributions paid by the Company	6,610	7,627
Fair value of scheme assets at closing	183,822	201,644

The expected contribution to be paid by the Company for the forthcoming year (year ending 31 December 2019) is Nil.

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8 Retirement benefits (continued)

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

	2018	2017
	£'000	£'000
UK equities	46,000	46,165
Overseas equities	99,150	121,351
Absolute return	32,367	29,926
Property funds	2,054	1,990
UK corporate bonds	357	-
Cash	3,894	2,212
Total	183,822	201,644

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.

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

	2018	2017
	£'000	£'000
Actual return less expected return on scheme assets	(15,548)	19,639
Experienced gains and losses arising on scheme liabilities	(37)	3,395
Changes in assumptions underlying the present value of scheme liabilities	17,273	(6,987)
Actuarial gain recognised in OCI	1,688	16,047

Movement in recognisable surplus / (deficit) during the year are as follows:

	2018	2017
	£'000	£'000
Surplus / (deficit) at start of year	15,849	(7,711)
Income / (expense) recognised in income statement	540	(114)
Contributions paid by the company	6,610	7,627
Recognised actuarial gain	1,688	16,047
Surplus at end of year	24,687	15,849

Analysis of present value of scheme liabilities:

	2018	2017
	%	%
Deferred members	74	77
Current pensioners	26	23
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 35). These sensitivities have been determined by a full recalculation of the present value using the different assumptions and are therefore fully accurate (2017: same approach).

	2018	2017
	%	%
Discount rate +/- 0.5%	-10 / +11	-11 / +13
RPI and CPI +/- 0.5%	+3 / -3	+4 / -3
Life expectancy +/- 1 year	+4 / -4	+4 / -4
Pension increase (in payment and deferment) +/- 0.5%	+3 / -3	+4 / -3

The weighted average duration of the scheme liabilities is approximately 22 years (2017: 25 years).

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9 Applicable taxes

	2018	2017
	£'000	£'000
UK corporation tax		
Current year	(7,822)	(20,767)
Adjustments in respect of prior years	<u>(1,277)</u>	<u>2,352</u>
	(9,099)	(18,415)
Foreign tax		
Current year	(1,301)	(1,348)
Adjustments in respect of prior years	-	-
Total current tax	<u>(10,400)</u>	<u>(19,763)</u>
Deferred tax		
Origination and reversal of timing differences	(6,503)	(6,910)
Effect of reduction in rate used to recognise deferred tax assets	-	(339)
Adjustments in respect of prior years	<u>976</u>	<u>(1,264)</u>
Total deferred tax	<u>(5,527)</u>	<u>(8,513)</u>
Total tax expense	<u>(15,927)</u>	<u>(28,276)</u>

Corporation tax is calculated at 27% (2017: 27.25%) of the estimated taxable profit for the year. The decrease in tax rate reflects a reduction in the standard rate of corporation tax from 20% to 19% effective 1 April 2017. 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:

	2018	2017
	£'000	£'000
Profit on ordinary activities before taxation	58,702	108,099
Tax at the UK corporation tax rate of 27% (2017: 27.25%)	(15,850)	(29,457)
Tax effect of expenses that are not deductible in determining taxable profits	(52)	(402)
Foreign tax suffered	(949)	(982)
Deferred tax prior year adjustment	976	(1,264)
Effect of reduction in rate used to recognise deferred tax assets	-	(339)
Realisation of deferred tax assets previously valued below current year statutory rate	163	216
Current tax prior year adjustment	(1,277)	2,352
Share of group bank surcharge allowance	1,752	1,600
Tax impact of loss in subsidiary	(690)	-
Tax expense for the year	<u>(15,927)</u>	<u>(28,276)</u>

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

	2018	2017
	£'000	£'000
Current tax		
AT1 coupon	<u>2,369</u>	<u>1,402</u>
Deferred tax		
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of net defined benefit liability	(447)	(4,253)
Items that may be reclassified subsequently to profit or loss		
Securities held at FVTOCI losses / (gains) in period	412	17
Cash flow hedges losses/(gains) in period	184	(87)
Total income tax recognised in other comprehensive income	<u>2,518</u>	<u>(2,921)</u>

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9 Applicable taxes (continued)

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 2018 £'000	Adjustment to opening reserves	Charge to profit or loss £'000	Charge to OCI £'000	Balance as at 31 December 2018 £'000
Accelerated tax depreciation	4,724	-	(717)	-	4,007
Deferred compensation	9,523	-	(733)	-	8,790
Spreading of IFRS9 transitional adjustment	-	35	(4)	-	31
Spreading of IFRS13 transitional adjustment	1,944	-	(277)	-	1,667
Cash flow hedge reserve	(203)	-	-	184	(19)
Securities at FVTOCI	(914)	-	131	412	(371)
Retirement benefit obligations	(4,200)	-	(1,892)	(447)	(6,539)
Tax losses	7,522	-	(2,035)	-	5,487
Total	18,396	35	(5,527)	149	13,053

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 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.

	2018 £'000	2017 £'000
Cash and balances at central banks	412,491	976,430
Deposits by banks repayable on demand	(226,525)	(88,311)
Total cash and cash equivalents	185,966	888,119

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 2018 £'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 2018 £'000
Own issued notes	1,657,863	74,841	(185,122)	140,176	1,687,758
Commercial paper	1,300,603	(316,822)	(606)	3,765	986,940
Other financial liabilities	992,076	639,186	(1,999)	88,712	1,717,975
MUSHD loan facility	714,471	778,585	(199)	111,032	1,603,889
Senior unsecured loan	-	574,508	-	20,384	594,892
Subordinated liabilities	290,038	12	-	23,915	313,965
Total liabilities from financing activities	4,955,051	1,750,310	(187,926)	387,984	6,905,419

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11 Trading portfolio financial assets

	2018 £'000	2017 £'000
Government bonds	2,527,064	3,092,975
Corporation bonds	1,054,613	954,644
Other public sector securities	344,974	104,057
Total debt securities	3,926,651	4,151,676
Equity instruments	6,135,697	4,306,984
Total trading portfolio financial assets	10,062,348	8,458,660
Of which listed:		
Debt securities	3,680,227	3,682,197
Equity instruments	3,796,715	2,363,457
Of which unlisted:		
Debt securities	246,424	469,479
Equity instruments	2,338,982	1,943,527
	10,062,348	8,458,660

12 Derivative financial instruments

	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
	2017		
	Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Derivatives held for trading			
Foreign exchange contracts	236,951,624	4,406,534	3,675,016
Interest rate contracts	2,383,234,225	8,148,835	7,407,319
Credit derivative contracts	24,312,496	538,001	279,104
Equity contracts	18,594,994	159,280	205,052
Commodities contracts	808,260	189,350	189,822
Total trading contracts	2,663,901,599	13,442,000	11,756,313
Derivatives designated as fair value hedges			
Interest rate swaps contracts	488,573	-	68
Derivatives designated as cash flow hedges			
Forward foreign exchange contracts	401,532	3,575	7,015
Total hedging contracts	890,105	3,575	7,083
Total derivatives financial instruments	2,664,791,704	13,445,575	11,763,396

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 £329m (2017: £249m), 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.

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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.

	2018	2017
	£'000	£'000
Gains and losses arising from fair value hedges:		
On hedging instruments	15,664	11,642
On the hedged items attributable to the hedged risk	<u>(15,540)</u>	<u>(10,473)</u>
Net gains	<u>124</u>	<u>1,169</u>
Gains and losses arising from net investment hedges:		
On hedging instruments	(256)	-
On the hedged items attributable to the hedged risk	<u>254</u>	<u>-</u>
Net losses	<u>(2)</u>	<u>-</u>

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 (2017: 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 (2018) and Securities available for sale (2017) by major classifications.

	2018	2017
	£'000	£'000
Government bonds	192,236	459,902
Other public sector securities	485,289	358,706
Corporate bonds	<u>10,764</u>	<u>-</u>
Total debt securities	<u>688,289</u>	<u>818,608</u>
Equity instruments	<u>133</u>	<u>131</u>
Total securities at FVTOCI	<u>688,422</u>	<u>818,739</u>

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 2018 were £4k.

During 2017, investments with unrealised losses of more than 12 months were assessed for impairment. Based on the credit risk profile of the counterparties involved, it was determined that impairment has not arisen at the reporting date.

14 Intangible assets

	Software £'000	Capital lease asset £'000	Total £'000
Cost			
As at 1 January 2017	125,349	499	125,848
Additions	30,700	593	31,293
Impairment	(613)	-	(613)
Disposals	(181)	-	(181)
As at 31 December 2017	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
Amortisation			
As at 1 January 2017	75,534	142	75,676
Charge for the Year	14,645	269	14,914
Disposals	(36)	-	(36)
As at 31 December 2017	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
Carrying amount:			
As at 31 December 2017	65,112	681	65,793
As at 31 December 2018	72,776	412	73,188

15 Property, plant and equipment

	Leasehold improve- ments £'000	Office furniture & fittings £'000	Office machinery & equipment £'000	Capital lease asset £'000	Total £'000
Cost					
As at 1 January 2017	13,320	1,483	20,050	1,290	36,143
Additions	722	78	3,945	2,414	7,159
Disposals	(43)	-	(9)	-	(52)
As at 31 December 2017	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
Depreciation					
As at 1 January 2017	4,080	1,435	16,965	366	22,846
Charge for the year	884	18	1,217	948	3,067
Disposals	(10)	-	(6)	-	(16)
As at 31 December 2017	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
Carrying amount					
As at 31 December 2017	9,045	108	5,810	2,390	17,353
As at 31 December 2018	8,155	78	5,710	1,442	15,385

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16 Investment in subsidiary

	2018	2017
	£'000	£'000
As at 1 January	-	-
Initial investment	39	-
Purchase of equity	17,960	-
Share of net loss	(2,557)	-
Impact of foreign currency revaluation	74	-
As at 31 December	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. As at the date of signing this report, the entity had not yet commenced trading.

17 Other assets

	2018	2017
	£'000	£'000
Prepayments and accrued income	11,356	11,025
Current taxation	1,148	3,435
Pension asset (Note 8)	24,687	15,849
Other debtors	311,862	225,495
	349,053	255,804

'Other debtors' is driven by margin deposits at brokers and central clearers £213m (2017: £168m), the remaining balance is driven by intercompany receivables as well as default fund deposits.

18 Trading portfolio financial liabilities

	2018	2017
	£'000	£'000
Government bonds	5,414,043	3,883,649
Corporation bonds	493,725	93,815
Other public sector securities	42,912	15,153
Total debt securities	5,950,680	3,992,617
Equity instruments	3,236,849	1,775,230
Total trading portfolio financial liabilities	9,187,529	5,767,847
Of which listed:		
Debt securities	5,588,799	3,977,467
Equity instruments	3,236,849	1,707,292
Of which unlisted:		
Debt securities	361,881	15,150
Equity instruments	-	67,938
	9,187,529	5,767,847

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19 Financial liabilities designated at fair value

	2018	2017
	£'000	£'000
Own issued notes	1,687,758	1,657,863
Commercial paper	986,940	1,300,603
Other financial liabilities	1,717,975	992,076
MUSHD loan facility	1,603,889	714,471
	<u>5,996,562</u>	<u>4,665,013</u>

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.

20 Other liabilities

	2018	2017
	£'000	£'000
Payables to structured entities	477,728	406,342
Tax and social security	10,490	12,645
Other creditors	394,549	306,421
	<u>882,767</u>	<u>725,408</u>

'Other creditors' is driven by margin and collateral related balances £263m (2017: £161m), the remaining balance is driven by compensation related accruals, intercompany payables and brokerage fees.

21 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.

The securities are carried at amortised cost of £594.9 million with an equivalent fair value of £595.0 million as at 31 December 2018 (refer to Note 26).

22 Subordinated liabilities

	2018	2017
	£'000	£'000
JPY 24.0 billion floating rate loan due December 2026 at 6-month JPY LIBOR +80bps	171,253	158,203
JPY 20.0 billion floating rate loan due December 2026 at 6-month JPY LIBOR +80bps	142,712	131,835
	<u>313,965</u>	<u>290,038</u>

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

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23 Equity instruments

	2018	2017
	£'000	£'000
Ordinary shares of £1 each:		
Share capital as at 1 January	1,010,611	1,010,611
Issued during the year	17,790	-
Allotted, called up and fully paid as at 31 December	1,028,401	1,010,611
Additional Tier 1 capital	306,979	306,979
Total equity instruments	1,335,380	1,317,590

At 31 December 2018, the Company has in issue, £1,028 million (2017: £1,011 million) £1 ordinary shares which carry no right to fixed income. The company has authorised share capital of £2,000 million (2017: £2,000 million) with a nominal value of £1 per share.

During the year, the Company issued an additional £18 million ordinary share capital to MUSHD (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 are issued to MUSHD. 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.

24 Distributions on equity instruments

In 2018, the Directors approved total coupon payments on Additional Tier 1 ("AT1") capital instruments of £8.8 million (2017: £5.1 million). Refer to Note 23 for terms of issuance.

On 15 January 2019, the Directors approved a coupon payment on the AT1 capital instruments of £4.9 million. The amount has not been accrued in the results for the year ended 31 December 2018 as it was not due at that date.

No ordinary dividends were approved or paid during the year (2017: Nil).

25 Report on Directors' remuneration and interests

	2018	2017
	£'000	£'000
Remuneration of key management personnel		
Short term employment benefits	2,597	2,715
Post employment benefits	18	31
Other long term benefits	660	1,158
Notional share based payments	396	695
	3,671	4,599
Realised MTM / interest on NSUs & other long term benefits	265	130
Total remuneration of key management personnel	3,936	4,729

The number of Directors who were members of the Group defined contribution personal pension plan during the period was reduced to 2 (2017: 3).

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:

	2018	2017
	£'000	£'000
Remuneration award		
Short term employment benefits	913	1,012
Post employment benefits	9	9
Other long term benefits	371	620
Notional share based payments	223	372
	1,516	2,013
Realised MTM / interest on NSUs & other long term benefits	157	87
Total remuneration	1,673	2,100

26 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.

	2018		2017	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Assets				
Reverse repurchase agreements	-	-	130,494	130,415
Cash collateral paid to derivative counterparties	2,887,619	2,887,619	2,528,987	2,528,987
Other assets	349,053	349,053	255,804	255,804
Liabilities				
Cash collateral received from derivative counterparties	7,979,572	7,979,572	7,606,270	7,606,270
Other liabilities	882,767	882,767	725,408	725,408
Senior unsecured loan	594,892	594,965	-	-
Subordinated liabilities	313,965	315,925	290,038	292,882

FX losses of £476m (2017: gain of £337m) 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 (2017: 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 £35.5 million (2017: £32.5 million) lower to £27.4 million (2017: £22.6 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 47.

26 Fair value of financial instruments (continued)

	2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Trading portfolio financial assets	6,463,518	3,407,863	190,967	10,062,348
Reverse repurchase agreements - fair value	-	26,304,004	-	26,304,004
Securities sold not delivered	-	478,902	-	478,902
Cash collateral on securities borrowed	-	4,147,087	-	4,147,087
Securities at FVTOCI	300,048	388,241	133	688,422
Derivative financial instruments	5,698	14,298,870	596,978	14,901,546
Equity finance assets	-	410,655	-	410,655
	6,769,264	49,435,622	788,078	56,992,964
Liabilities				
Trading portfolio financial liabilities	8,678,912	508,617	-	9,187,529
Repurchase agreements - fair value	-	19,711,331	-	19,711,331
Securities bought not delivered	-	404,862	-	404,862
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 fair value	-	5,424,799	571,763	5,996,562
	8,685,336	39,431,876	1,058,494	49,175,706
	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Trading portfolio financial assets	5,537,102	2,921,558	-	8,458,660
Reverse repurchase agreements - fair value	-	22,459,995	-	22,459,995
Securities sold not delivered	-	985,285	-	985,285
Cash collateral on securities borrowed	-	6,468,603	-	6,468,603
Financial instruments available for sale	577,800	240,808	131	818,739
Derivative financial instruments	132	13,032,826	412,617	13,445,575
Equity finance assets	-	488,261	-	488,261
	6,115,034	46,597,336	412,748	53,125,118
Liabilities				
Trading portfolio financial liabilities	5,595,539	172,308	-	5,767,847
Repurchase agreements - fair value	-	21,990,927	-	21,990,927
Securities bought not delivered	-	916,459	-	916,459
Cash collateral on securities lent	-	1,772,714	-	1,772,714
Derivative financial instruments	3,900	11,336,494	423,002	11,763,396
Financial liabilities designated at fair value	-	4,395,885	269,128	4,665,013
	5,599,439	40,584,787	692,130	46,876,356

During the year, the Company made a levelling reassessment for a portfolio of listed futures and options. The illiquid nature of the positions resulted in wide bid-offer spreads with a skewed mid-point, meaning the unadjusted exchange price does not accurately reflect traded prices. As a result £160.5m liabilities are disclosed as Level 2 instruments.

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26 Fair value of financial instruments (continued)

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
2017						
Opening balance 1 January	-	300,866	-	125	(401,672)	(480,533)
Total gains/(losses) in profit or loss	-	146,834	-	-	7,923	(9,913)
Total gains in reserves	-	-	-	6	-	-
Purchases	-	-	-	-	-	-
Issues	-	-	-	-	-	(38,002)
Settlements	-	(117,883)	-	-	19,015	42,764
Transfers into level 3	-	82,800	-	-	(52,485)	(7,384)
Transfers from level 3	-	-	-	-	4,217	223,940
Closing balance 31 December	-	412,617	-	131	(423,002)	(269,128)
Net unrealised gains/(losses) in PL	-	158,463	-	-	(36,267)	(5,887)
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

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 48).

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 the period, there has 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.

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 as follows:

	2018 £'000	2017 £'000
Unamortised balance at 1 January	-	104
Deferral on new transactions	-	-
Amortised to the profit and loss account during the financial year	-	(104)
Unamortised balance at 31 December	-	-

Financial assets designated at fair value

The Company did not have any financial assets designated at fair value at 31 December 2018 (2017: Nil).

26 Fair value of financial instruments (continued)

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 £572m (2017: £269m) contain embedded derivatives with inputs represented by the Interest rate, Foreign exchange and Equity derivatives described in the table below.

2018	Total assets £'000	Total liabilities £'000	Valuation technique(s)	Significant unobservable inputs	Range		Units
					Min	Max	
Trading portfolio financial assets							
Trading portfolio financial assets	190,967	-	Discounted cash flow model	Loan price	90.50	100.25	%
	190,967	-					
Derivatives							
Interest rate derivatives	317,535	(129,719)	Option model	IR - IR Correlation FX - IR Correlation Option volatility Barrier Shift	35.00 60.00 10.97 10.00	43.16 60.00 100.00 23.00	% % % bps
Foreign exchange derivatives	55,089	(162,132)	Option model	IR - IR Correlation FX - IR Correlation Correlation - underlying assets Option volatility	35.00 45.00 65.00 9.69	70.00 60.00 65.00 18.22	% % % %
Equity derivatives	51,646	(23,571)	Option model Basket Correlations	Equity - FX Correlation Correlation - underlying assets Term of Litigation swap	7.00 51.70 1.00	7.00 82.00 1.00	% % Year
Commodities	170,759	(171,291)	Option model	Commodity - IR Correlation Commodity - gas swap rate	25.00 2.59	75.00 5.39	% %
Credit derivatives	1,949	(18)	Discounted cashflows model	Loan price	90.50	100.25	%
	596,978	(486,731)					
2017							
Derivatives							
Interest rate derivatives	116,648	(68,769)	Option model	IR - IR Correlation FX - IR Correlation Option volatility Prepayment probability	43.16 46.40 13.44 100.00	50.12 46.40 100.00 100.00	% % % %
Foreign exchange derivatives	61,605	(130,864)	Option model	IR - IR Correlation FX - IR Correlation Correlation - underlying assets Option volatility	40.26 46.40 85.00 10.33	73.95 50.65 85.00 16.22	% % % %
Equity derivatives	45,015	(33,549)	Option model Discounted cash flows	Equity - IR Correlation Equity - FX Correlation Correlation - underlying assets Term of Litigation swap	37.13 7.00 76.00 2.00	37.13 7.00 76.00 2.00	% % % Year
Commodities	189,349	(189,820)	Option model	Commodity - IR Correlation Commodity - gas swap rate	25.00 2.73	75.00 4.24	% %
	412,617	(423,002)					

26 Fair value of financial instruments (continued)

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.
- 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 opinion. 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 3rd 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.

27 Obligations under finance leases

	2018	2017
	£'000	£'000
Minimum lease payments:		
Within 1 year	936	936
Between 1 and 5 years	468	1,316
After 5 years	-	-
Amounts payable under finance leases	1,404	2,252
Add: future financing income	171	472
Present value of lease obligations	1,575	2,724
Amounts payable under finance leases:		
Within 1 year	1,084	1,240
Between 1 and 5 years	491	1,484
After 5 years	-	-
Present value of lease obligations	1,575	2,724

The Company leases certain of its fixtures and equipment under finance leases. The average lease term is 5 years. For the year ended 31 December 2018, the average effective borrowing rate was (12.0)% (2017: (12.6)%). Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in pounds sterling.

The fair value of the Company's lease obligations is approximately equal to their carrying value. The Company's obligations under finance leases are secured by the lessor's rights over the leased assets disclosed in Notes 14 and 15.

28 Post-balance sheet events

On 8 February 2019, the Company issued an additional £88 million capital to MUSHD (matched by an equivalent EUR issuance by MUS(EU) to the Company).

Brexit planning and related implementation continues to develop. At the date of signing there has been no further clarity on the likely outcome of political negotiations which would require revision of our core plan.

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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:

	2018	2017
	£'000	£'000
Trading securities	3,249,483	4,501,193
Investment securities	193,655	386,562
Total assets pledged as collateral	3,443,138	4,887,755

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:

	2018		2017	
	Fair Value	Sold or	Fair Value	Sold or
	£'000	repledged	£'000	repledged
		£'000		£'000
Accepted collateral	54,922,849	48,055,638	50,869,392	46,259,575

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 conducted under the terms that are usual and customary to the business stated.

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 are summarised below:

	2018	2017
	£'000	£'000
Securities transferred to special purpose entities	-	41,795

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.

29 Collateral (continued)

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.

	SPVs for structured financing £'000	Repackaged instruments £'000	Other £'000	Total £'000
As at 31 December 2018				
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 instruments	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
As at 31 December 2017				
Trading portfolio financial assets	-	409,170	-	409,170
Derivative financial instruments	1,727,992	129,965	202,276	2,060,233
Reverse repurchase agreements	-	455,534	671,558	1,127,092
Other assets	15,322	-	1,785	17,107
Total Assets	1,743,314	994,669	875,619	3,613,602
Derivative financial instruments	43,027	10,284	21,911	75,222
Financial liabilities designated at fair value	-	688,002	-	688,002
Other liabilities	-	239,270	221,469	460,739
Derivative cash collateral received	-	26,474	33,773	60,247
Total Liabilities	43,027	964,030	277,153	1,284,210
Maximum Exposure	1,728,755	821,301	641,479	3,191,535

30 Guarantees, commitments and contingent liabilities

At the year end, the Company was committed to provide collateralised financing facilities in favour of two investment grade financial counterparties. The facilities are provided in major currencies and total £197.0 million (2017: £186.0 million) equivalent; none had been drawn against at year end. The facilities are required to be fully collateralised from a range of pre-defined debt securities limited to US Treasuries and highly rated government or supra-national bonds.

At the date of signing this report, the above two agreements were extended until 31 January 2020.

31 Contractual maturity analysis

The breakdown of financial liabilities by contractual maturity, which is based on the contractual terms, is shown in the table below. 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.

	2018					Total £'000
	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	
Deposits by banks	226,525	-	-	-	-	226,525
Trading portfolio financial liabilities	9,187,529	-	-	-	-	9,187,529
Repurchase agreements	1,189,653	29,383,878	487,747	451,334	-	31,512,612
Cash collateral on securities lent	662,526	-	-	-	-	662,526
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	-	2,292,011	2,363,306	827,575	742,155	6,225,047
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
	33,288,436	31,686,684	2,892,701	2,168,865	1,071,035	71,107,721

	2017					Total £'000
	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	
Deposits by banks	88,311	-	-	-	-	88,311
Trading portfolio financial liabilities	5,767,847	-	-	-	-	5,767,847
Repurchase agreements	700,499	31,969,119	1,408,147	668,136	-	34,745,901
Cash collateral on securities lent	392,671	1,415,773	-	-	-	1,808,444
Cash collateral received from derivatives counterparties	7,606,270	-	-	-	-	7,606,270
Derivatives	11,763,396	-	-	-	-	11,763,396
Financial liabilities designated at fair value	-	1,497,658	1,582,657	939,793	734,476	4,754,584
Other liabilities	648,336	29,308	6,324	41,440	-	725,408
Senior unsecured loan	-	-	-	-	-	-
Subordinated liabilities	-	-	2,444	10,779	303,799	317,022
	26,967,330	34,911,858	2,999,572	1,660,148	1,038,275	67,577,183

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.

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32 Operating lease arrangements

The Company as lessee

	2018 £'000	2017 £'000
Lease payments under operating leases recognised as an expense in the year	3,749	3,521

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Buildings		
Within 1 year	4,170	4,170
Between 1 - 2 years	4,170	4,170
Between 2 - 5 years	12,510	12,510
After 5 years	25,020	29,190
	45,870	50,040

Operating lease payments represent rentals payable by the Company for certain office properties. Building leases are negotiated for an average term of 20 years.

33 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 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	Not subject to enforceable netting	Balance sheet total
	Gross amounts £'000	Amounts offset £'000	Net amounts on balance sheet £'000	Financial instruments £'000	Cash collateral £'000	Financial collateral £'000	Net amount £'000		
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
As at 31 December 2017									
Derivative financial assets	12,582,060	157,787	12,424,273	7,611,830	1,757,407	3,065	3,051,971	1,021,302	13,445,575
Reverse repurchase agreements	35,385,164	13,183,953	22,201,211	2,585,193	109,389	19,461,670	44,959	389,278	22,590,489
Secured lending	6,423,451	-	6,423,451	223,352	-	6,166,497	33,602	45,152	6,468,603
Total Assets	54,390,675	13,341,740	41,048,935	10,420,375	1,866,796	25,631,232	3,130,532	1,455,732	42,504,667
Derivative financial liabilities	11,353,752	149,899	11,203,853	7,611,830	2,341,586	36,279	1,214,158	559,543	11,763,396
Repurchase agreements	34,733,269	12,758,403	21,974,866	2,585,193	29,338	19,335,784	24,551	16,061	21,990,927
Secured borrowing	1,772,714	-	1,772,714	223,352	-	1,538,795	10,567	-	1,772,714
Total Liabilities	47,859,735	12,908,302	34,951,433	10,420,375	2,370,924	20,910,858	1,249,276	575,605	35,527,038

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34 Related party transactions

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

	2018				
	Parent	Subsidiary	MUFG	Other	Total
	Company			Related	
£'000	£'000	£'000	Parties	£'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

	2017				
	Parent	Subsidiary	MUFG	Other	Total
	Company			Related	
£'000	£'000	£'000	Parties	£'000	
Income	-	-	89,155	2,966	92,121
Expenses	12,200	-	11,732	2,502	26,434
Total assets	4,010	-	10,274,158	251,762	10,529,930
Total liabilities	1,210,581	-	8,612,924	261,320	10,084,825

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. 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. 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. 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 25.

35 Group information

MUFG Securities EMEA plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 1 to 2.

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.
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Chiyoda-ku
Tokyo 100-0005
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