Pillar 3 Disclosure

YEAR ENDING 31 DECEMBER 2014

Mitsubishi UFJ Securities International plc
A member of MUFG, a global financial group

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1. Introduction

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

- Pillar One "minimum capital requirements";
- Pillar Two "supervisory review process"; and
- Pillar Three "market discipline".

The Basel Committee agreed updates to the Basel framework in July 2009, commonly referred to as Basel 2.5. These seek to better capture risk from securitisation and trading book exposures and were incorporated into European law via amendments to the CRD known as the "Third Capital Requirements Directive" or "CRD3".

Basel 3, released in December 2010, builds on Basel 2.5. It sets higher capital and liquidity requirements to be phased in over the coming years. The Fourth Capital Requirements Directive ("CRD4") to enact Basel 3 was implemented in January 2014. The UK Prudential Regulation Authority (PRA) published final rules for implementing CRD4 in its Policy Statement 7/13. Reporting and Disclosure requirements are covered in the Policy Statement.

This document sets out the Pillar 3 quantitative and qualitative disclosures and is published annually on the corporate website of Mitsubishi UFJ Securities International plc (MUSI) (www.int.sc.mufg.jp). Disclosures in respect of the Remuneration Code as required under Article 450 of the Capital Requirements Regulation ("CRR") will be separately published on the same website and should be deemed to be part of the Pillar 3 disclosure for MUSI.

This report was verified and approved internally, including a review by the Board of Directors to ensure that the external disclosures convey MUSI's risk profile comprehensively, subject to materiality and proprietary confidentiality. There is no requirement for external auditing of these disclosures.

2. About MUSI

MUSI is a wholly-owned investment banking subsidiary of Mitsubishi UFJ Securities Holdings Co. Ltd. (MUSHD), which is wholly owned by the Mitsubishi UFJ Financial Group Inc. (MUFG) and was established in 1983. MUSI's share capital at 31st December 2014 was £1,011 million and the average number of employees during the year was 576.

MUSI is active throughout the international capital markets, focusing on debt, equity, derivatives and structured products. It is engaged in market-making and dealing in the debt, equity-linked and derivatives financial markets; and the management and underwriting of issues of securities and securities investment. MUSI provides a wide range of services to governments, their monetary authorities and central banks, supra-national and sub-national organisations, private financial institutions and corporates. MUSI's return on assets during 2014 was -0.10%.

The opening of a new MUSI Dubai branch in the third quarter of 2014 is considered of strategic importance, to allow us to build on our current client base as well as further leverage the MUFG presence within the Emirates region.

As noted in the full year 2013 financial statements, the closure of the commodities business progressed as planned and MUSI was effective in working with employees, clients and other MUFG entities to wind down the business in an orderly manner, including the entering into of a portfolio transfer agreement and effective risk transfer on 1 July 2014 which had the result of eliminating any remaining market exposures.

MUSI works in close partnership with MUFG and its corporate bank, the Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU), to ensure its clients experience seamless product delivery that meets all of their objectives.

MUFG was formed in October 2005 through the merger of Mitsubishi Tokyo Financial Group and UFJ Holdings and is one of the world's largest and most diversified financial groups, with total assets of ¥279.2 trillion (£1.5 trillion) at 31 December 2014. MUFG's services include commercial banking, trust banking, investment banking, credit cards, consumer finance, asset management, leasing and other financial service activities.

The scope of this document covers MUSI (and its Dubai Branch which opened in 2014) on a solo basis. As of 31 December 2014 MUSI does not have any subsidiaries except for TMI Nominees Limited, which is a dormant subsidiary.

3. Regulatory Approach

MUSI is regulated by the UK Prudential Regulatory Authority ("PRA") and Financial Conduct Authority ("FCA") and is subject to minimum capital adequacy standards. MUSI calculates appropriate capital requirements for each of its material risks.

METHODOLOGIES FOR MUSI'S CAPITAL CALCULATIONS

PILLAR 1 CREDIT RISK

MUSI's credit risk requirement is measured under the Standardised Method in accordance with Title 2 of Part Three within the Capital Requirements Regulation.

PILLAR 1 MARKET RISK

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

PILLAR 1 OPERATIONAL RISK

MUSI calculates its operational risk using the Standardised approach in accordance with Title 3 of Part Three within CRR.

4. Risk Management Structure

COMMITTEE AND CORPORATE STRUCTURE

MUSI has a strong risk management culture with principles, processes and frameworks to identify, measure and manage its risks and capital effectively.

BOARD

The responsibility for risk management resides with the Board, with support from the Board Risk Committee. As part of MUSI's business strategy, the Board considers the risks to which MUSI is exposed, and specifies an appetite and management strategy for each of these risks. The major risks are market, credit, operational, liquidity, and concentration risk. Further risks arise from the management of capital. These risks are defined and discussed in further detail on the following pages. MUSI's activities also expose it to business, strategic and group risk, reputational risk, conduct, compliance and legal risk.

The Board has approved an enterprise-wide risk management framework for MUSI which describes MUSI's approach to risk strategy, appetite, governance, reporting and controls to ensure that risks taken are appropriately measured, monitored, reported and controlled and limited to the confines of MUSI'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.

BOARD RISK COMMITTEE

The objective of the Board Risk Committee is to exercise oversight on behalf of the Board of the key risks facing MUSI and to review and make recommendations to the Board on MUSI'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 MUSI's risk appetite.

As at 31 December 2014, the Committee comprised one independent Non-Executive Director and one Group Non-Executive Director. In March 2015, the Group Non-Executive Chair retired and was replaced by a newly appointed Independent Non-Executive Director. The Committee is supported by the regular attendance of the Chief Risk Officer and Chief Financial Officer. During 2014, the Committee's responsibilities were updated to reflect emerging practices, including providing advice on remuneration-related performance metrics. A significant focus for the Committee during 2014 has been on regulatory change, in particular reviewing MUSI's preparation to comply with the forthcoming changing regulatory landscape and its contingency plans for such changes. In addition, the execution of the plan to close down commodities business was a focus of the Committee. In 2014, the Board Risk Committee met on a monthly basis.

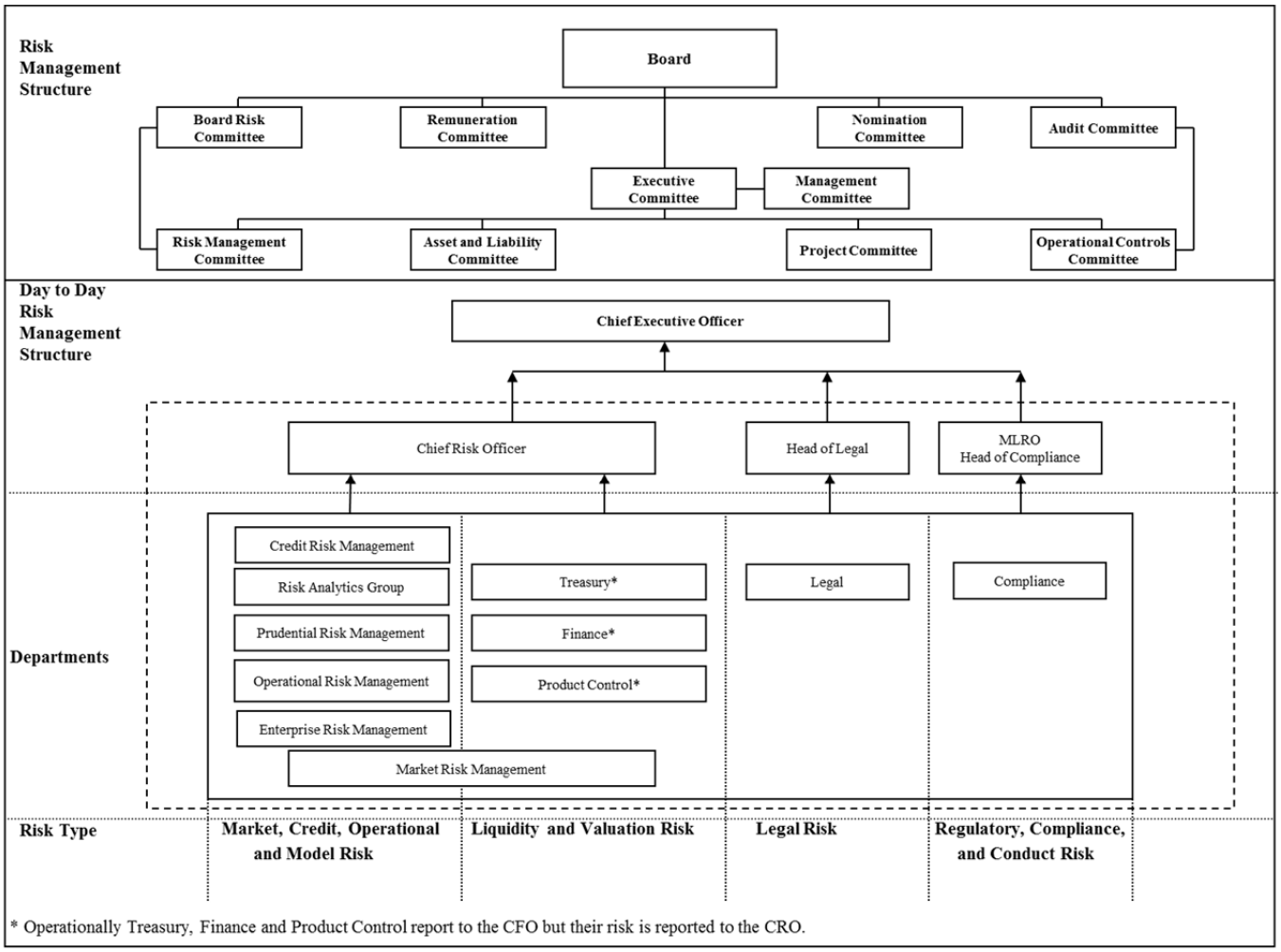
RISK STRUCTURE AND OTHER COMMITTEES

Day-to-day risk management of all risks, with the exception of compliance and legal risk, resides with the Chief Risk Officer, who reports directly to the Chief Executive Officer and the Board Risk Committee. Market, credit, operational and model risk are overseen by the Risk Management Committee supported by its underlying working groups.

Valuation risk is overseen by the Finance Working Group. Liquidity risk is overseen by the Asset and Liability Committee. Compliance risk and legal risk are overseen by the Operational Controls Committee. Compliance risk management resides with the Head of Compliance, who also reports directly to the Chief Executive Officer. Legal risk management resides with the Head of Legal, who also reports directly to the Chief Executive Officer.

Each of these Executive Sub-Committees and the Finance Working Group report to the Executive Committee, which reports directly to the Board. In addition, the Risk Management Committee reports to the Board Risk Committee.

MUSI's committee and corporate structure as at 31st December 2014 is illustrated below:



THREE LINES OF DEFENCE

Responsibility for risk management resides at all levels, from the Board and the Executive Committee down through the organisation to each department head, risk specialist and analyst. This is recognised through the Three Lines of Defence approach, on which MUSI's governance of risk is centred. These three lines are:

1. Business Management

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 and
- Escalating risk issues to the Executive Committee, Management Committee, Risk Management Committee, or the OCC.

2. Challenge and Risk Control

- Risk management is an independent function led by the Chief Risk Officer, Chief Financial Officer and Chief Compliance Officer
- These enable the Company to maintain a system of checks and balances
- Escalate risk issues to the Risk Management Committee, Asset and Liability Committee ("ALCO"), OCC and where appropriate to the Executive Committee and
- Risk Management and the Risk Management Committee have a reporting line to the Board Risk Committee, independent of the CEO.

3. Assurance

- 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
- Reports to management on whether the control systems are fulfilling, or are likely to fulfil, the control objectives of the Company.

SENIOR MANAGEMENT

Board members as of 31 December 2014 are listed in the table below.

TABLE 1: BOARD MEMBERS

Position	Status	Current holder
Acting Chairman	Group Non-Executive Director	Takami Onodera
Mr. Onodera has been a director since 2014. He is currently Deputy President of MUSHD, a position he assumed in 2013. He has held various senior roles at BTMU, including CEO for Asia and Oceania, and Group Head of the Corporate Investment Banking Group. He has more than 30 years of experience in the banking industry since he started his career at The Mitsubishi Bank Ltd in 1980, one of the banks that merged into BTMU.		
Member	Group Non-Executive Director	Masato Miyachi
Mr. Miyachi has been a director to MUSI since 2014. Mr. Miyachi commenced his banking career with Mitsubishi UFJ Financial Group (MUFG) at The Bank of Tokyo, Ltd. in 1984. He has held a number of positions in Tokyo, New York and London gaining extensive global banking experience in across Capital Markets, M&A Advisory, Structured Finance, Investment Banking and Corporate Banking. In October 2014 he assumed responsibility for the overall strategic leadership of BTMU's EMEA business as Chief Executive Officer for Europe, Middle East and Africa.		
Member	Group Non-Executive Director	Masamichi Yasuda
Mr. Yasuda has been a director since 2014. He is Managing Executive Officer and Deputy Chief Executive Officer of the Global Markets Unit of the BTMU Tokyo. For MUFG, he also serves as Executive Officer of Market Business in the Integrated Global Markets business group. His career with BTMU began in 1983 when he joined The Bank of Tokyo, Ltd., a predecessor of BTMU. In the global market business, he gained valuable experience in sales and trading, portfolio management, and asset and liability management. He also is skilled in corporate strategy and corporate finance management and operations.		
Member	Group Non-Executive Director	Nobuyuki Uchida
Mr. Uchida has been a director since 2012 and is Interim Chair of the Audit Committee. He is currently Resident Executive Officer of Mitsubishi UFJ Securities Holdings. He was Deputy CEO and Interim CRO at MUSI since 2012. Prior to that, Mr Uchida was CRO and Chief Compliance Officer for MUSHD and held various management positions in Global Markets Business both at MUSHD and BTMU. He has more than 30 years of experience in the banking industry since he joined The Mitsubishi Bank in 1980, one of the predecessors of BTMU.		
Member	Independent Non-Executive Director	William Fall
Mr. Fall has been a director since February 2015 and is the Senior Non-Executive Director of the Board and Chair of the Board Risk Committee. His most recent role was Co-Head of the Institutional Bank, at Royal Bank of Scotland, where he was part of the recovery team. Prior to this, Mr Fall was the CEO of the International at Bank of America. He has also held senior positions at Kleinwort Benson, Westpac Banking Corporation and Straumur-Burdura and also sits on charitable Boards.		
Member	Independent Non-Executive Director	Diane Moore
Mrs. Moore has been a director since 2013 and is Chair of the Nomination and Remuneration Committees. She is a specialist in financial services regulation, banking supervision and strategic management, having worked in senior positions at the Bank of England and other central banks, as well as the FSA. She is also the Non-Executive Chair of the Audit Committee at the London branch of BTMU and holds additional non-executive positions in the public and charity sectors.		
Member	Executive Director	David King
Mr. King has been a director since 2010. He joined MUSI as Chief Financial Officer in 2010 and was appointed as Chief Executive Officer in 2014. He has held several management roles in Finance and Product Control during his career at KPMG, RBS, HBOS and Lloyds. He is a qualified Chartered Accountant.		
Member	Executive Director	Chris Kyle
Mr. Kyle has been a director since 2014. He is currently Chief Financial Officer at MUSI, having experience in various senior roles such as CFO and Chief Operating Officer of the Global Banking & Markets Division at RBS, Barclays, and Dresdner Kleinwort Benson. He is a Qualified Chartered Account.		
Member	Executive Director	Arthur Maycock
Mr. Maycock has been a Director since 2013. Prior to joining MUSI as Chief Risk Officer in 2013, he was a senior risk specialist at the Federal Reserve Bank of New York. He has held various senior management positions in risk management at Merrill Lynch and Salomon Brothers.		

BOARD NOMINATION COMMITTEEE

The objective of the Nomination Committee is to review and recommend to the Board the appropriate structure, size and composition of the Board, having regard to the balance of skills, experience, independence, knowledge and leadership needs.

The Board Level Recruitment Protocol has recently been approved by the Board which the Nomination Committee will follow to achieve its responsibilities mentioned above.

DIVERSITY

Diversity has been a key focus for MUSI during the last two years, with Human Resources actively leading strategic management initiatives to address diversity gaps across the Company in certain functions. MUSI's Management Committee has also been enhanced from a diversity perspective with two additional female members being appointed. Human Resources also ensure that diversity is a consideration for all new hires, including the Company's graduate scheme, whereby 35% of the 2014 graduate programme was female (17% in 2013). Diversity is one of Human Resources' strategic objectives for 2015, with a diversity policy for MUSI being a key 2015 deliverable.

The Nomination Committee seeks to ensure that diverse candidates are proactively sought for Board level appointments. Some success in this area has been achieved with the appointment of a female INED in 2013. The Nomination Committee is currently discussing whether a Board gender diversity target should be implemented for MUSI. It has also recently agreed to implement a Board Diversity Policy, which will align with MUSI's staff Diversity Policy.

RISK APPETITE

Central to MUSI'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. MUSI's risk appetite is specified by the Board through a number of metrics including capital, liquidity, earnings volatility, market and credit risk. It is reviewed at regular meetings of the Board and reset annually as part of MUSI's budget and planning process. The risk appetite is cascaded through MUSI via the allocation of limits to both departments and individual traders.

Risk limits impose an upper constraint on the level of exposure to a particular factor or a combination of factors. Limits express the Board and Senior Management's appetite for certain risk types and facilitate prudent allocation of their risk appetite to individual risk-takers or group of risk takers, taking client needs and revenue targets into consideration.

The establishment of the risk appetite is largely a top down process and this is supplemented and reinforced by a bottom up approach to risk identification.

MUSI establishes and is subject to risk policies. These policies formalise the behaviours and standards expected in support of the risk culture. Policies are established across each material 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.

RISK MONITORING

The Chief Risk Officer has risk reporting lines from relevant support business functions to aid identification of risks. Risk issues are escalated to Risk Management Committee (RMC) and the Executive Committee. The Board Risk Committee has delegated responsibility from the Board for independent oversight, review and challenge of MUSI's risk profile and risk tendency against the agreed risk appetite under both normal and stressed conditions.

The risk profile is monitored and reported at the Management Committee, Executive Committee and RMC as well as to the Board and Board Risk Committee and is escalated outside the regular meeting framework if daily monitoring reveals any issues.

NEW PRODUCTS

MUSI subjects all new trading products to the scrutiny of the New Product Working Group, which reports to the Executive Committee and is comprised of representatives from all the relevant support functions. The New Product Working Group identifies the risks of the proposed product and considers the range of mitigation techniques, including hedging. Once all issues are resolved, the new products are approved by the CRO.

HEDGING

MUSI hedges its exposures using a variety of products. MUSI manages hedging through desk level mandates and limits which are monitored on a daily basis.

STRESS TESTING

MUSI 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 risk factor stress tests (which are designed to identify and quantify risk concentrations to particular risk factors). Results of stresses are calculated at MUSI level and also by department and business line, and reported regularly to senior management.

LEVERAGE RATIO

MUSI assesses Leverage Ratio results to mitigate the risk of excessive leverage. Until 2017 the definition of the Leverage Ratio, minimum requirements and disclosures are subject to further regulatory review.

In October 2014 the Bank of England Finance and Policy Committee review made a number of recommendations regarding the implementation of the Leverage Ratio for UK Banks. Under this implementation MUSI will not be subject to the Supplementary Leverage Ratio Buffer and is not required to meet the Leverage Ratio requirement until 1st January 2018.

From January 2017, onwards the regulatory methodology used to calculate the Leverage Ratio exposure measure for derivatives (the Standardised Approach) will be revised significantly. Although the specifics of implementation are still to be finalised, MUSI is assessing the impact of this change on the leverage ratio.

Although the regulatory leverage ratio definition which MUSI is required to adhere to is subject to further development and at present no minimum requirement applies, MUSI performs regular analysis of the calculation to understand drivers and sensitivities.

5. Capital Resources

Since January 2014 MUSI's regulatory capital resources are assessed under the Capital Requirements Regulation and the Capital Requirements Directive. MUSI's capital consists of Tier 1 – share capital and retained earnings, and Tier 2 – subordinated debt which is fixed term and denominated in Japanese Yen. MUSHD, as the 100% shareholder of MUSI, is the sole provider of MUSI Capital Resources.

MUSI 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 MUSI's capital is carried out under the principle that it should not unexpectedly need to raise new capital or significantly reduce its risk taking in order to meet its capital management objectives.

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

Under Basel 2.5, eligible Tier 2 was limited to 50% of Tier 1 and therefore any excess subordinated debt above this limit was classified as Tier 3. Under Basel 3 the restriction has been removed and the full amount of subordinated debt is therefore eligible as Tier 2 capital.

In line with capital trends in the banking industry, MUSI has strengthened its quality of capital during the year. MUSI repaid £250 million of subordinated debt in conjunction with the issuance of new common equity which increased Tier 1 capital. The reduction in total amount of capital is due to 2014 financial performance and weakened Japanese Yen against Sterling.

MUSI has met its objectives at all times during the year. The breakdown of year-end capital for 2013 and 2014 is shown below. Further detail, including the terms and conditions of capital instruments in EBA templates is provided in the appendix to this document.

TABLE 2: CAPITAL RESOURCES

Capital Resources (£ millions) 31st December	2014	2013
Total Tier One Capital after Deductions	1,016	879
Total Tier Two Capital after Deductions	642	440
Total Tier Three Capital	N/A	512
Total Capital after Deductions	1,658	1,830

6. Capital Requirements

Pillar 1 provides the basis for capital requirements arising from credit, market and operational risk. The calculation is defined in the Basel 3 rules. Pillar 2 capital is held for all risks not sufficiently covered by Pillar 1.

The quantitative disclosure section represents the breakdown of risks and their mitigation. In the table below, MUSI's Pillar 1 capital requirements, the "Capital Resources Requirement", sets out the minimum capital requirement.

TABLE 3: CAPITAL REQUIREMENTS

	2014		2013	
Capital Requirements (£ millions)	**31st Dec**	**Average**	**31st Dec**	**Average**
Total Market Risk Capital Requirement	258	253	275	270
Total Credit Risk Capital Requirement (Including Concentration Risk)	364	362	201	203
Total Operational Risk Capital Requirement	39	43	40	38
Total Capital Resources Requirement	661	658	516	511

Capital requirement increased from the end of 2013 to 2014 due to increases in credit risk partially offset by decreases in market risk. On 1 January 2014, MUSI implemented Basel 3, and the key impacts in credit risk capital requirement have been Credit Valuation Adjustment (CVA) and exposure to Central Counterparties. Detailed description in respect of each risk category is provided in the following sections.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

MUSI monitors its capital adequacy on an ongoing basis and formally on at least an annual basis it conducts an Internal Capital Adequacy Assessment Process through which it assesses its risks, controls and capital.

The Board is involved in all the key elements of ICAAP and approves the business and capital plans, Risk Appetite Statement, stress testing framework and submission of the ICAAP document. The ICAAP process is closely aligned with the MUSI's strategy setting and business planning process as well as the process for identification, measurement and control of its risks.

Stress testing is used to assess the impact of abnormal circumstances on either individual or multiple risk factors and to determine appropriate capital buffers. MUSI manages its risk and capital resources with the objective of maintaining a regulatory ratio comfortably in excess of the minimum capital resource required by the regulators.

7. Market Risk

Market risk is the risk of losses from movements in market prices in the trading portfolio. MUSI's principal risk system is QuiC+. Market risk reports are circulated to senior management and trading departments daily and are discussed at Board and Committee level. MUSI has Regulatory Value at Risk (VaR) model approval which covers all major asset classes traded by MUSI.

MUSI has Internal Model Approach (IMA) permission including VaR, Stressed VaR, Incremental Risk Charge (IRC), and Risks Not In VaR (RNIV) which covers all major asset classes traded by MUSI. The table below has information on the market risk capital requirements.

TABLE 4: MARKET RISK CAPITAL REQUIREMENTS

Capital Requirements (£ millions)	2014	2013
Capital Requirement for Total VaR	42	58
Capital Requirement for Stressed VaR	90	82
Capital Requirement for Incremental Risk Charge	97	90
Capital Requirement for Risks Not In VaR (RNIV)	26	31
Other Market Risk	3	14
Total Market Risk Capital Requirement	258	275

Market Risk Management (MRM) is responsible for the management of risk within appetite, and Risk Analytics Group (RAG) is responsible for the design of new market risk management approaches and model validation and development.

MUSI uses a variety of risk measures to quantify and control risk. VaR measures provide aggregate indicators of potential losses at different levels of the business (firm-wide, by risk factor, by business or desk), subject to stated confidence levels and holding periods. Risk factor sensitivities show exposure to moves in each risk factor. Loss cut limits track actual losses at department or individual trader level. Limits are set on these metrics at MUSI level, and at lower levels, with the overall aim of ensuring that risk remains within the appetite of MUSI. MUSI also uses other tools, such as stress testing, backtesting, and risk-return analysis. Stress limits are applied to control the exposures of key portfolios to large moves in underlying risk factors.

These measures are supplemented by detailed policies governing Trading Book Positions, New Product Approval, Model Validation, Valuation/Provisioning, and Treasury Management.

VAR MODEL AT MUSI

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.

MUSI 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 two year data window is used.

MUSI additionally calculates a stressed VaR measure using an appropriately stressful 1- year lookback period as required by the regulatory rules.

Assuming a 99% confidence level and a 1-day holding period, the internal VaR for MUSI's trading book as at 31st December 2014 was £4.1 million. This means that, on the basis of the risks as at 31st December 2014, MUSI expected not to incur a loss of more than £4.1 million in any 1-day period more than 1% of the time. In 2014 the number of occasions on which actual trading book outcomes exceeded the previous day's VaR was within the acceptable tolerances of the model.

VaR considered in isolation has limitations. MUSI also uses a wide range of other risk limits, for example stop-loss limits, position limits and risk factor sensitivity limits, to manage its exposures. MUSI's VaR has the following limitations:

- Calculations are based on historical data, which may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors, or be the best estimate of risk factor changes that 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.

Regulatory capital for market risk is calculated based on end-of-day VaR. MUSI's VaR is determined by combining the following components: Asset Spread VaR, Interest Rate Curve VaR, Interest rate Vega VaR, Currency VaR, Commodity VaR, Equity Price VaR, Equity Vega VaR, Inflation VaR and Basis VaR.

Table below shows the internal VaR range for the year ended 31st December 2014:

TABLE 5: BREAKDOWN OF VAR

VaR (1-day, 99%, £ millions)	31 Dec 2014	2014 Average	2014 Maximum	2014 Minimum
Interest Rate Curve Risk	2.0	1.7	3.8	0.7
Interest Rate Vega Risk	1.3	0.8	1.5	0.4
Asset Spread Risk	1.9	1.9	3.6	1.1
Currency Risk	1.3	1.0	2.1	0.3
Commodity Risk	-	0.2	0.6	-
Equity Price Risk	0.8	1.9	4.1	0.6
Equity Vega Risk	0.8	0.5	1.2	0.2
Inflation Risk	0.7	0.3	0.9	0.1
Basis Risk	1.3	0.7	1.7	0.4
Total VaR	4.1	3.5	4.6	2.0

- **Interest Rate Risk** — Interest rate VaR is the risk of loss arising from three different forms of interest rate movement:
  - pure interest rate (curve) risk;
  - interest rate volatility (vega) risk; and
  - asset spread risk.
- **Currency Risk** — MUSI trades in a multi-currency environment and this results in FX risk. FX VaR includes two different forms of FX risk:
  - FX rate risk; and
  - FX volatility risk
- **Commodity Risk** — The Commodity Derivatives Group traded financial derivatives based in energy, metals and soft commodities. Commodity VaR includes both price and volatility components.
  This business was closed in 2014 and so MUSI did not have any Commodity VaR at year end.
- **Equity Risk** — The equity business takes positions in products including equities, baskets, convertibles, repos, structured notes, options, swaps and forwards. Equity VaR is the loss due to equity price movements, with components based on general market risk including specific stock risk as well as equity volatility risk.
- **Inflation Risk** — Inflation products, including inflation linked bonds and swaps, expose MUSI to changes in the rate of inflation.
- **Basis Risk** — Basis VaR is an estimate of losses attributable to cross currency, OIS, tenor and other basis curve risks.

VAR BACKTESTING

MUSI carries out a daily comparison of end of day VaR measures to the one day change of the portfolio's value, by the end of the subsequent business day. There were four outliers at MUSI level identified during 2014.

STRESSED VAR

MUSI calculates stressed VaR based on inputs calibrated to historical data from a continuous twelve-month period of significant financial stress relevant to MUSI's portfolio.

RISKS NOT IN VAR (RNIV)

MUSI calculates additional capital under its Risks Not in VaR (RNIV) framework for certain risk factors that are not fully captured in VaR.

INCREMENTAL RISK CHARGE

MUSI also calculates IRC which captures risk from the default and migration of securities positions 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 one 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. IRC is calculated at the amount at which it is estimated that security default losses greater than this only occur 0.1% of the time.

8. Credit Risk

Credit risk is the risk of loss from client, issuer or counterparty default and arises on credit exposure in all forms, including settlement risk. MUSI implemented the Basel 3 framework to measure credit risk capital requirements since January 2014 using the Standardised Approach.

METHODOLOGY

MUSI takes counterparty and/or issuer credit risk through most of its business activities.

As per Article 113 of Capital Requirement Regulation (CRR), MUSI is required to use rating agencies' credit assessments for the determination of risk weights under the standardised approach to credit risk. The credit assessment should be produced by an eligible External Credit Assessment Institution (ECAI) and used in a continuously and consistently over time. For regulatory credit risk, MUSI has selected Moody's Rating Agency as its nominated ECAI. Ratings derived by Moody's are applied to MUSI's exposures for credit risk calculation.

Tables below provide details of MUSI's credit risk capital requirements:

TABLE 6: CREDIT RISK CAPITAL REQUIREMENT

Capital Requirements (£ millions)	Dec 2014	Dec 2013
Counterparty Risk Capital Component	212	171
Non-Trading Book Credit Risk (*)	17	7
Credit Valuation Adjustment	109	N/A
Total Credit Risk Capital Requirement	338	179

(*) Non-trading Book Credit Risk includes both on and off balance sheet items including fixed assets among others.

TABLE 7: CONCENTRATION RISK CAPITAL REQUIREMENT

Capital Requirements (£ millions)	Dec 2014	Dec 2013
Total Concentration Risk Capital Requirement	26	23

As described in the Capital Requirement section, exposure to Central Counterparty and Credit Valuation Adjustment have been added to credit risk component accordingly as above in 2014.

CREDIT RISK MANAGEMENT

MUSI manages its credit risk in accordance with policies originated and approved within MUSI and finally endorsed by its parent company. Counterparty exposure is managed through a process of limit setting and exception reporting, with credit policy determining the maximum exposure.

Day to day responsibility for credit risk rests with Credit Risk Management (CRM), which is organisationally independent from the front office departments, and RAG is responsible for the design of new credit risk management approaches and model validation and development. Management Information Group (MIG) produces daily credit risk reports for senior management and trading departments using MUSI's in house risk system. 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 MUSI's Collateral Policy; and
- provide credit portfolio monitoring and analysis.

On a monthly basis, CRM reports MUSI's total credit risk exposure to the RMC, including a review of large exposures, exposures to lower rated issuers and counterparties, and exposure to higher risk industry and country sectors. The RMC is also the forum where credit policies are reviewed and finally approved.

In addition to the RMC, a summary of MUSI's credit risk exposure is also reported to the fortnightly Management Committee.

MUSI assesses the default probabilities of individual counterparties by using a rating methodology incorporating external ratings, the market price of credit risk and an internal fundamental analysis.

Credit exposure is normally measured on a net basis i.e. by aggregating trades with both positive and negative values provided that a legally enforceable master agreement has been executed which permits close-out netting. Exposures arising from repos and reverse repos are considered net of collateral. To further mitigate credit risk, other types of arrangements apply to significant counterparties and MUSI has guarantee arrangements with members of the MUFG Group.

Economic Capital is allocated to counterparties using a portfolio model which builds upon MUSI's credit VaR approach.

RESIDUAL CREDIT RISK

Residual credit risks are those that occur when credit risk mitigation strategies might not work. MUSI is exposed to residual credit risk through collateralised trades such as Total Rate of Return Swap ("TROR") business and wrong way risk from bought CDS.

MUSI holds capital against these trades and uses a combination of pre-trade approval, large haircuts, Credit Support Annexes ("CSAs") and correlated credit provisions to mitigate residual credit risk.

CREDIT CONCENTRATION RISK

Credit concentration risk is the risk arising from an uneven distribution of exposures, through single name, sector or geographical concentration. MUSI analyses the credit concentrations through its daily credit exposure reports. MUSI holds capital against single name and sector concentrations and reports these daily as part of its Capital Adequacy reporting and monthly to RMC. Exposures are concentrated in Government bonds, the financial sector and exposures to Japanese markets and counterparties.

In addition, MUSI carries out stress testing and scenario analysis on its largest credit exposures.

COLLATERAL MANAGEMENT

COLLATERAL

MUSI has Credit Support Annexes in place which cover the majority of its non-BTMU guaranteed derivative exposures. The majority of these have low or zero thresholds and are in the main not dependent upon MUSI's or other MUFG members' credit rating. The collateral provided to cover derivatives exposures is predominantly cash. Additionally MUSI is active in the repo markets with high quality government bond collaterals, and for regulatory capital calculation MUSI uses volatility adjustments to collateral in line with CRR.

COLLATERAL DOWNGRADE

MUSI manages its exposure to collateral downgrades. Executive Committee approval is required for legal agreements with counterparties which contain clauses pertaining to MUSI's downgrade (i.e. require extra collateral in the event of a downgrade).

WRONG WAY RISK POLICY

Wrong way risk is the risk that counterparty exposures increase at the same time as the probability of counterparty failure to pay also increases. This can result in a correlation or legal dependence between: (i) the counterparty and collateral held, and (ii) the counterparty and the performance/ market exposure of derivative contracts. As part of the credit review process each counterparty is normally assessed for wrong-way risk. If material correlation is identified the collateral is deemed ineligible for regulatory risk calculations and risk is measured on an uncollateralised basis.

Additionally, those counterparties that have approved credit lines and have been identified as having high wrong way risk are monitored regularly, usually via a "Credit Watch list". MUSI undertakes daily and monthly monitoring of MUSI's wrong way risk positions. Wrong way risk is monitored by Credit Risk Management with the assistance of the Risk Analytics Group team via:

- the daily Credit Watch list for identified transactions;
- a review at the monthly RMC; and
- credit approval submissions.

MUSI produces a monthly summary for all those trades having significant wrong way risk.

SETTLEMENT AND DELIVERY RISK

Settlement risk is the risk of loss when a counterparty fails to meet its reciprocal obligation to exchange cash or securities on the due date. Failure to perform may result from the counterparty's default due to solvency or liquidity problems, operational problems, market liquidity constraints, or other factors. Non-reciprocal risk, i.e. pre-settlement credit risk is captured as part of the main credit risk measure.

On–the-day settlement risk arises when MUSI initiates payment or delivery to the counterparty and continues until the reciprocal payment or delivery is received. With DVP settlement, the risk of loss of the principal is effectively mitigated. Free of Payment (FOP) transactions represent a certain level of risk as MUSI will be exposed to the loss of the full principal amount as well as market risk during settlement until a replacement transaction is completed.

MUSI's key controls include:

- Delivery Risk limits reflecting MUSI's opinion of the counterparty's credit worthiness.
- Delivery Risk is monitored daily to ensure that settlements are performed within the approved settlement limits.
- Pre-approval requirement for free of payment transactions.

9. Interest Rate Risk in Banking Book

MUSI's interest rate risk in the Non Trading book remains relatively small. MUSI calculates VaR internally on these positions on a daily basis as part of its monitoring process. In addition, MUSI periodically carries out stress testing which includes these positions.

10. Operational Risk

THE APPROACHES FOR THE ASSESSMENT

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.

MUSI aims to manage and control its exposure to Operational Risk through its policies and procedures, MUSI targets to ensure that it:

1. Mitigates the risk of exposure to fraud;
2. Processes transactions correctly, accurately and on a timely basis;
3. Protects the integrity and availability of information processing facilities, infrastructure and data;
4. Maintains the confidentiality of its client information;
5. Employs appropriate numbers of skilled staff and complies with relevant employment laws and regulations;
6. Establishes workplace environments that are safe for both employees and visitors; and
7. Reduces both the likelihood of an incident occurring and the impact should an incident occur.

MUSI employs The Standardised Approach (TSA) for calculating its Pillar I Operational Risk Capital Requirement. MUSI is committed to adopting leading industry practices for managing and measuring Operational Risk, and has also developed a scenario based capital model to determine whether it should hold any additional capital for Operational Risk.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

In order to facilitate the management of Operational Risk, MUSI sub-divides it into the 7 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

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

- Risk appetite: MUSI 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 MUSI assess the effectiveness of their controls at mitigating the key operational risks, relative to MUSI's appetite
- Scenario Analysis: MUSI uses Scenario Analysis to assess the risks of extreme but plausible events
- Key Risk & Control Indicators: These metrics are used by MUSI to monitor its Operational Risk profile and to alert management when risk levels exceed acceptable ranges
- Incidents & losses: MUSI systematically collects details of both operational risk losses (and gains) above a certain threshold and also details of incidents, even if they have not led to loss
- Reporting: Reports are used by the operational risk function and management to understand, monitor, manage and control Operational Risk and losses
- Insurance: As part of its risk management approach, MUSI also uses insurance to mitigate the impact of some operational risks
- Training: Staff are required to undertake on-line operational risk awareness training

11. Liquidity Risk

Liquidity risk is the risk that MUSI is unable to meet its financial obligations as they fall due. This risk could arise from both institution specific and market wide events.

OVERSIGHT

At MUSI, the ultimate responsibility for liquidity risk management sits with the Board who sets the company's Liquidity Risk Appetite, being 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 Asset and Liability Committee which meets monthly or on an ad-hoc basis (as appropriate) to:

- Review and define the funding and liquidity risk policy;
- Monitor MUSI'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 MUSI;
- Ensure that appropriate business incentives are maintained that reflect the cost and availability of liquidity through MUSI's Fund Transfer Pricing process and unsecured funding limit allocation process;
- Review critical liquidity risk factors and prioritise issues arising; and
- Determine MUSI's funding plans and funding diversification strategy in the SI in the light of business projections and objectives.

The framework for liquidity management, as defined in MUSI's policy, procedures and contingency funding plans incorporates the following elements:

- Liquidity stage assessment and monitoring.
- Internal stress testing used to evaluate MUSI's ability to meet the Board approved Liquidity Risk Appetite. The internal stress testing incorporates the projection of cash flows out to the Board approved risk horizon (90 days), and overlays additional stressed outflows based on risk drivers approved by the Board and the Asset and Liability Committee.
- Contingency Funding Plan ("CFP") – this provides a template for timely and consistent decision making in the event of a liquidity stress event. As well a framework for assessing the severity of the stress. The CFP provides clearly defined operational plans and decision making responsibilities for stabilising and mitigating liquidity risk exposures.
- Unsecured Funding allocation and limit monitoring.

Also of critical importance is maintaining a portfolio of quality assets that are both highly liquid and diversified, referred to as Liquid Asset Buffer or "LAB" which can and does require obligations to be met by holding different currency assets.

MUSI utilises a number of tools to measure and monitor the liquidity position of MUSI, and combined with its governance and policy framework ensures an integrated approach to liquidity risk management.

INTERNAL STRESS TESTING

MUSI's primary liquidity stress testing tool is the Maximum Cumulative Outflow (MCO), and 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 stress market conditions, and 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 MUSI specific stress event). Stress testing is conducted on both a material and combined currency basis.

The cash flows required in the event of MUSI's rating downgrade are considered in the internal assessment of MUSI's liquidity requirements. The impact is assessed on a daily basis and is sufficiently covered by MUSI's liquidity resources.

FUNDS TRANSFER PRICING (FTP)

MUSI 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 Asset and Liability Committee 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 the cost of 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 and capacity for MUSI to raise debt in the market. The Asset and Liability Committee 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 MUSI'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 guidelines.

LIQUID ASSET BUFFER

The liquidity requirement is quantified through both the internal stress testing framework and regulatory requirement. MUSI holds its liquidity portfolio in a stock of high quality government bonds and bonds issued by multi-lateral development banks. The liquidity portfolio is held on an unencumbered basis without restrictions on rehypothecation and with full MUSI legal ownership. The investment criteria for the liquidity portfolio are approved by ALCO with risk limits imposed and monitored by Market Risk Management.

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, MUSI's internal stress testing and compliance with regulatory liquidity guidelines. Elevation of the liquidity stage is specifically linked to activation of the Contingency Funding Plan, 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, who 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.

CONTINGENCY FUNDING PLAN (CFP)

The Contingency Funding Plan allows senior management to identify triggers (internal and external) 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.

MUSI also maintains detailed Recovery Plans which consider actions to facilitate recovery or an orderly resolution from a severe stress.

ASSET ENCUMBRANCE

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

MUSI 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

MUSI assesses liquidity adequacy as part of its Internal Liquidity Adequacy Assessment that it submits to the PRA. The PRA issued its most recent Individual Liquidity Guidance (ILG) in 2014 that established a minimum level of buffer assets that MUSI is required to hold. MUSI's compliance to the ILG is complementary to the internal stress testing framework. MUSI manages its liquidity prudently, holding buffer assets well in excess of the PRA requirement.

MUSI fully expects to be compliant with the incoming Basel III liquidity regulatory framework once the final guidance and implementation date is confirmed by the PRA.

12. Other Risks

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.

MUSI'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 reduced the future growth of the estimated liabilities of the Defined Benefit Scheme. MUSI 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 MUSI's pension scheme can be found in MUSI's financial statements.

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. This assessment is included within the Pillar 2B calculation.

STRATEGIC RISK

Strategic risk is the risk of loss that may arise from the pursuit of an unsuccessful business plan. 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. MUSI's primary approach to the management of strategic risk is through its business planning processes which highlight the key dependencies of its strategy, this allows for the assessment of strategic risk at the point that the strategy is devised and agreed. MUSI'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.

CONDUCT RISK

Conduct risk is the risk of damage on the Company's corporate value as a result of negative impact on public benefit, effective competition, market integrity or customer protection due to the inappropriate execution of business activities through failure to comply with laws & regulations, breach of a social norm, improper business or market practice or lack of customer's viewpoints.

Effective identification and management of Conduct Risk is a key aspect of the Company's future success. Appropriate and demonstrable conduct risk management is not only an expectation of the regulators; it will additionally promote enhancement of the relationships the Company has with its clients. The Company has implemented a Conduct Risk Management Framework in response to regulatory demands for firms to efficiently identify, document and manage their conduct risks through an auditable process. Individual steps were previously in place but are now consolidated under the new framework as follows:

1. Compliance Policies, Front Office Desk Procedures and a conduct risk operating framework and strategy.
2. A conduct Risk Appetite Statement ("RAS") which defines the amount and type of conduct risk that the Board are willing to seek, accept or tolerate in order to achieve the firms' strategic objectives and business plan.
3. An operational framework to support the continuous process of conduct risk identification and assessment.
4. A Formal Compliance Monitoring Programme to review the effectiveness of key controls to mitigate potential conduct risk exposure.
5. Production and analysis of conduct risk management information.
6. Firm wide conduct risk training and awareness programme.

REPUTATIONAL RISK

Reputational risk is the risk of loss arising from events that damage the reputation of MUSI. It is usually a secondary risk which exacerbates the loss from another risk type. MUSI's business is dependent on its reputation and it will impact its performance should it deteriorate. MUSI has policies 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 MUSI has no direct control. The Reputational Risk Management Policy sets out how the risk of reputational events is managed. For example, the New Product Approval process requires consideration of reputational risks.

13. Valuation and Accounting Policies

The consolidated financial statements of MUSI undertakings as prepared in accordance with applicable UK generally accepted accounting principles should be read in conjunction with this document. See footnotes to the financial statements for details of accounting and valuation principals applicable to these positions.

Trading securities, derivatives and available-for-sale financial assets are stated at fair value. The fair value of these financial instruments is the amount for which an asset could be exchanged or a liability settled between willing parties in arm's length transactions. The fair values of financial instruments are determined by reference to observable market prices where these are available and the market is active. Where market prices are not available or are unreliable because of poor liquidity, fair values are determined using valuation models, which where possible, use observable market parameters. The process of calculating the fair value using valuation techniques may necessitate the estimation of certain pricing parameters, assumptions or model characteristics.

MUSI maintains systems and controls sufficient to provide reliable valuation estimates, including documented policies, clearly defined roles and responsibilities and departments accountable for verification that are independent of the front office. MUSI make use of various policies in the control framework for the valuation of financial instruments including but not limited to those in respect of model validation, independent price verification, provisions and valuation adjustments, P&L reporting, mark to market pricing and new products implementation.

14. Disclosures Made Available in the Financial Statements

- The definitions for accounting purposes of past due and impaired.
- The basis for consolidation for accounting purposes.
- Policy for hedge accounting.

15. Immaterial Disclosure Points

As required by the PRA rules, the following is a list of disclosure requirements that MUSI deems to be immaterial at present:

- Disclosures in relation to retail banking, commercial banking, securitisation, because MUSI does not conduct those businesses.
- Indicators of global systemic importance, because MUSI is not identified as Global Systemically Important Institution (G-SII).
- Non-trading book exposures in equities, because there is no equity exposure in non-trading book.

16. Appendix – Quantitative Disclosures

COUNTERPARTY RISK EXPOSURE

TABLE 8: COUNTERPARTY EXPOSURE AND CAPITAL REQUIREMENTS BY EXPOSURE CLASS

2014 (£ millions) – Except CCP	Exposure	Capital Requirement
Central Government and Central Banks	134	0
Corporates	920	72
Institutions	2,803	74
Multilateral Development Banks	69	0
Regional Government and Local Authority	89	1
Public Sector Entity	17	1
Grand Total	4,031	149

2014 (£ millions) – CCP	Exposure	Capital Requirement
Institutions	4,922	62

2013 (£ millions)	Exposure	Capital Requirement
Central Government and Central Banks	171	5
Corporates	835	62
Institutions	2,761	98
Multilateral Development Banks	104	0
Regional Government / Public Sector Entities	27	0
Grand Total	3,898	166

TABLE 9: COUNTERPARTY EXPOSURE BY EXPOSURE CLASS AND GEOGRAPHY

2014 (£ millions) – Except CCP	Central Government and Central Banks	Corporates	Institutions	Multilateral Development Banks	Regional Government and Local Authority	Public Sector Entity	Grand Total
United Kingdom	0	127	749				876
Europe ex UK	108	143	930	39	6	17	1,243
Japan		3	431				434
Asia ex Japan		32	5	3	81		122
North America		16	659	17	1		693
Other	26	599	29	9	1		664
Grand Total	134	920	2,803	69	89	17	4,031

2014 (£ millions) – CCP	Institutions
United Kingdom	3,852
Europe ex UK	117
Japan	30
Asia ex Japan	0
North America	924
Other	0
Grand Total	4,922

2013 (£ millions)	Central Government and Central Banks	Corporates	Institutions	Multilateral Development Banks	Regional Government / Public Sector Entities	Total
United Kingdom	36	29	466	34	0	566
Europe ex UK	78	127	1,069	38	16	1,327
Japan	0	124	674	0	0	798
Asia ex Japan	0	1	3	3	0	7
North America	28	8	519	29	11	596
Other	28	546	29	0	0	604
Grand Total	171	835	2,761	104	27	3,898

TABLE 10: CORPORATE COUNTERPARTY EXPOSURE BY INDUSTRY

(£ millions)	2014	2013
Basic Materials	1	11
Communications	0	10
Consumer Cyclical	81	115
Consumer Non-cyclical	7	23
Energy	76	21
Industrial	1	74
Technology	0	0
Utilities	0	30
Other (*)	754	552
Grand Total	920	835

(*) 'Other' category contains Insurance, Other financial firms, and Special purpose entities among others.

TABLE 11: COUNTERPARTY EXPOSURE BY CREDIT QUALITY STEP

2014 (£ millions) – Except CCP	Central Government and Central Banks	Corporates	Institutions	Multilateral Development Banks	Regional Government and Local Authority	Public Sector Entity	Grand Total
1	14	15	369	58	6	17	479
2		13	1,595				1,608
3		37	187	0			225
4	10	0	4				13
Not Rated	110	855	648	11	83		1,707
Grand Total	134	920	2,803	69	89	17	4,031

2014 (£ millions) – CCP	Institutions
Not Rated	4,922

2013 (£ millions)	Central Government and Central Banks	Corporates	Institutions	Multilateral Development Banks	Regional Government / Public Sector Entities	Total
1	36	22	474	102	10	645
2	1	68	1,610	0	0	1,679
3	2	28	108	0	0	138
4	21	3	8	0	5	37
Non Rated	112	714	560	1	11	1,399
Grand Total	171	835	2,761	104	27	3,898

TABLE 12: COUNTERPARTY EXPOSURE BY RESIDUAL MATURITY

2014 (£ millions) – Except CCP	Central Government and Central Banks	Corporates	Institutions	Multilateral Development Banks	Regional Government and Local Authority	Public Sector Entity	Grand Total
0-1 year	120	419	1,040	45	81	0	1,704
1-5 years	0	374	31	4	0	13	421
5+ years	14	127	1,733	21	7	3	1,906
Grand Total	134	920	2,803	69	89	17	4,031

2014 (£ millions) – CCP	Institutions
0-1 year	401
1-5 years	360
5+ years	4,162
Grand Total	4,922

2013 (£ millions)	Central Government and Central Banks	Corporates	Institutions	Multilateral Development Banks	Regional Government / Public Sector Entities	Total
0-1 years	154	305	2,735	101	27	3,322
1-5 years	15	426	26	0	0	468
5+ years	2	104	0	3	0	109
Grand Total	171	835	2,761	104	27	3,898

DERIVATIVE EXPOSURE

TABLE 13: DERIVATIVE EXPOSURE SUMMARY

£ millions	2014 (Total)	2014 (Of which, CCP)	2014 (Except CCP)	2013 (Total)
Gross Exposure of Derivatives Contracts	48,886	25,534	23,352	17,829
of which positive fair value of Derivative Contracts	32,644	15,393	17,251	12,570
Netting Benefits	35,705	20,700	15,005	11,332
Net Exposure after netting benefits	13,181	4,834	8,347	6,497
Collateral	5,932	251	5,681	3,648
Net Exposure after Credit Mitigation	7,249	4,583	2,666	2,849

TABLE 14: COLLATERAL SUMMARY

(£ millions)	2014	2013
Total	5,932	3,648

TABLE 15: CREDIT DERIVATIVE SWAP

Notional Amount (£ millions)	2014	2013
Long	4,108	3,030
Short	4,594	3,578

NON COUNTERPARTY RISK EXPOSURE

TABLE 16: NON TRADING BOOK ISSUER EXPOSURE

2014 (£ millions)	Exposure	Capital Requirement
Central Government and Central Banks	1,311	4
Multilateral Development Banks	306	0
Grand Total	1,617	4

2013 (£ millions)	Exposure	Capital Requirement
Central Government and Central Banks	2,451	0
Multilateral Development Banks	153	0
Grand Total	2,605	0

ENCUMBERED AND UNENCUMBERED ASSETS

TABLE 17: ENCUMBERED AND UNENCUMBERED ASSETS TEMPLATE A

Assets (£ millions)		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	6,622	Not required	3,169	Not required
030	Equity instruments	0	0	521	521
040	Debt securities	4,743	4,743	2,563	2,563
120	Other assets	0	Not required	0	Not required

TABLE 18: ENCUMBERED AND UNENCUMBERED ASSETS TEMPLATE B

MUSI is exempt from the disclosing template B given its balance sheet size is less than £100bn

Collateral received (£ millions)		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	NA	NA
150	Equity instruments	NA	NA
160	Debt securities	NA	NA
230	Other collateral received	NA	NA
240	Own debt securities issued other than own covered bonds or ABSs	NA	NA

TABLE 19: ENCUMBERED AND UNENCUMBERED ASSETS TEMPLATE C

Encumbered assets/collateral received and associated liabilities (£millions)		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	53,774	45,310

TABLE 20: ENCUMBERED AND UNENCUMBERED ASSETS TEMPLATE D

D - Information on importance of encumbrance
Due to the nature of its business MUSI's asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. MUSI funds a portion of trading portfolio assets and other securities via repurchase agreements and other secured borrowing. Collateral in asset form is pledged to counterparties to support their credit exposures to MUSI and to clearing brokers/houses to meet derivative initial margin requirements. Because of this levels of encumbrance are relatively high within MUSI. Within its funding plans MUSI is able to monitor the mix of secured and unsecured funding sources and seeks to utilise available collateral to raise funding to meet its needs. Similarly a portion of unencumbered assets may be monetised in a stress under the contingent funding plan to generate liquidity through use as collateral for secured funding or through outright sale.

OWN FUNDS DISCLOSURE TABLES

TABLE 21: MAIN FEATURES OF CAPITAL INSTRUMENTS

#	FEATURES	Common Equity	Subordinated Loan Due June 2020	Subordinated Loan Due December 2020
1	Issuer	Mitsubishi UFJ Securities International plc	Mitsubishi UFJ Securities International plc	Mitsubishi UFJ Securities International plc
2	Unique identifier (eg CUSIP, ISIN, or Bloomberg identifier for private placement)	BBG000D8HBY7	N/A	N/A
3	Governing law(s) of the instrument	English Law	English Law	English Law
	Regulatory treatment			
4	- Transitional Basel III rules	Common Equity Tier 1	Tier 2	Tier 2
5	- Post-transitional Basel III rules	Common Equity Tier 1	Tier 2	Tier 2
6	- Eligible at solo/group/group&solo	Solo	Solo	Solo
7	- Instrument type	Common shares	Other Tier 2 Instruments	Other Tier 2 Instruments
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	GBP 1,011 million	GBP 68 million	GBP 574 million
9	Par value of instrument	N/A	JPY 13 billion	JPY 107 billion
10	Accounting classification	Shareholders' equity	Liability	Liability
11	Original date of issuance	N/A	27/06/2013	27/12/2013
12	Perpetual or dated	Perpetual	27/06/2020	27/12/2020
13	- Original maturity date	N/A	N/A	N/A
14	Issuer call subject to prior supervisory approval	No	No	No
15	- Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A
16	- Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	- Fixed or floating dividend/coupon	N/A	Floating	Floating
18	- Coupon rate and any related index	N/A	6 month JPY LIBOR + 90bp	6 month JPY LIBOR + 80bp
19	- Existence of a dividend stopper(1)	No	No	No
20	- Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	- Existence of a step up or other incentive to redeem	No	No	No
22	- Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	- If convertible, conversion trigger (s)	N/A	N/A	N/A
25	- If convertible, fully or partially	N/A	N/A	N/A
26	- If convertible, conversion rate	N/A	N/A	N/A
27	- If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	- If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	- If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	No	No
31	- If write-down, write-down trigger (s)	N/A	N/A	N/A
32	- If write-down, full or partial	N/A	N/A	N/A
33	- If write-down, permanent or temporary	N/A	N/A	N/A
34	· If temporary write-down, description of write-	N/A	N/A	N/A

#	FEATURES	Common Equity	Subordinated Loan Due June 2020	Subordinated Loan Due December 2020
	down mechanism			
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The most subordinated claim	Subordinated to the claims of all senior creditors	Subordinated to the claims of all senior creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

TABLE 22: TRANSITIONAL TEMPLATE FOR OWN FUND

Transitional template for own funds		31 December 2014
Common Equity Tier 1 capital: instruments and reserves (1)		(£ millions)
1	Capital instruments and the related share premium accounts	1,011
	of which: Instrument type 1	0
	of which: Instrument type 2	0
	of which: Instrument type 3	0
2	Retained earnings	151
3	Accumulated other comprehensive income (and any other reserves)	0
3a	Funds for general banking risk	0
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0
	Public sector capital injections grandfathered until 1 January 2018	0
5	Minority interests (amount allowed in consolidated CET1)	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,162
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-31
8	Intangible assets (net of related tax liability) (negative amount)	-32
9	Empty set in the EU	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-18
11	Fair value reserves related to gains or losses on cash flow hedges	0
12	Negative amounts resulting from the calculation of expected loss amounts	0
13	Any increase in equity that results from securitised assets (negative amount)	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0
15	Defined-benefit pension fund assets (negative amount)	-12
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
20	Empty set in the EU	0
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0
20b	of which: qualifying holdings outside the financial sector (negative amount)	0
20c	of which: securitisation positions (negative amount)	0

Transitional template for own funds		31 December 2014
20d	of which: free deliveries (negative amount)	0
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0
22	Amount exceeding the 15% threshold (negative amount)	0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0
24	Empty set in the EU	0
25	of which: deferred tax assets arising from temporary difference	0
25a	Losses for the current financial year (negative amount)	-51
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	0
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-145
29	Common Equity Tier 1 (CET1) capital	1,016
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	0
31	of which: classified as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0
	Public sector capital injections grandfathered until 1 January 2018	0
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0
35	of which: instruments issued by subsidiaries subject to phase-out	0
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0
Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	0
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	0
45	Tier 1 capital (T1 = CET1 + AT1)	1,016

Transitional template for own funds		31 December 2014
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	642
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0
	Public sector capital injections grandfathered until 1 January 2018	0
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	0
49	of which: instruments issued by subsidiaries subject to phase-out	0
50	Credit risk adjustments	0
51	Tier 2 (T2) capital before regulatory adjustment	642
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	0
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	0
54a	Of which new holdings not subject to transitional arrangements	0
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	0
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	0
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	642
59	Total capital (TC = T1 + T2)	1,658
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	N/A
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	N/A
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	N/A
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	N/A
60	Total risk-weighted assets	8,258
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	12%
62	Tier 1 (as a percentage of total risk exposure amount	12%
63	Total capital (as a percentage of total risk exposure amount	20%

Transitional template for own funds		31 December 2014
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	not yet implemented
65	of which: capital conservation buffer requirement	not yet implemented
66	of which: countercyclical buffer requirement	not yet implemented
67	of which: systemic risk buffer requirement	not yet implemented
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	not yet implemented
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	not yet implemented
69	[non-relevant in EU regulation]	N/A
70	[non-relevant in EU regulation]	N/A
71	[non-relevant in EU regulation]	N/A
Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	84
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	0
74	Empty set in the EU	N/A
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	12
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	0
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	- Current cap on AT1 instruments subject to phase-out arrangements	0
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	- Current cap on T2 instruments subject to phase-out arrangements	0
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0