Financial Statements
31st December 2015

Company Number: 1698498

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

Strategic Report

The Strategic report is prepared in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Principal activities

Mitsubishi UFJ Securities International plc ("MUSI" or "the Company") is the international capital markets subsidiary of Mitsubishi UFJ Securities Holdings Co., Ltd. ("MUSHD"). MUSHD's parent, and MUSI's ultimate holding company, is Mitsubishi UFJ Financial Group, Inc. ("MUFG").

MUSI 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 principle activities of the Company remain largely consistent with those disclosed in previous years.

Results

The results for the year are set out on page 17 and the profit for the year, after tax, amounted to £8,136,000 (2014: Loss £57,375,000). The financial position of the Company is prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Company has adopted IFRS for the first time in this reporting period (refer to Accounting Policies on pages 21 to 25).

Business review and future development

The profit reported for the year reflects improved revenues and risk management as well as a focus on controlling the cost base. The market environment remains challenging for fixed income businesses. Despite this, the Company has seen improved results across most trading desks including the addition of new clients, a growing pipeline of client deals and continued emphasis on strategic MUFG partnership opportunities.

Record revenues in the Japanese structured business, innovative new client solutions in the European structured business and a growing stream of revenues in equity solutions evidence the breadth of the business, complementing the traditional Rates and Credit focus by the firm. The Rates trading desks successfully diversified product offerings across derivative swaps, cash bond trading and repurchase agreements ("repo") in order to meet evolving client requirements in turbulent markets. The Rates sales teams continued to develop relationships in Asia, Europe and the United States including good collaboration across global MUFG sales groups to promote non-Japanese Yen derivative and repo products to Japanese clients. The Capital Markets team reported results ahead of the previous year and was the recipient of the "MUFG Global transaction of the year" award. The Credit desk continues to diversify capabilities and revenue streams with the offering of CDS product and strengthening of distribution partnerships.

Weekly trading results highlight improved positive weekly revenue trends and are coupled with reduced Value at Risk ("VaR") metrics (refer to page 10) versus the prior year. These metrics are indicative of a focus on risk management to reduce income volatility and a transformation of the business model. The transformation has seen a shift of the business mix to minimise dependency on risk taking activity. Key steps in the process of reducing risk and recycling resources, through the redeployment of capital, included the closure of our Portfolio Trading Group and Equity Convertibles business.

The business strategy centres on key areas seen as supporting long-term strength and development of the business franchise. Priority new business includes CLO and ABS securitisation, the development of a Capital Markets focussed financial institutions client group and increased related scope for partnering and integration with The Bank of Tokyo-Mitsubishi UFJ ("BTMU"), an MUFG subsidiary. The BTMU initiatives emphasise the Company's commitment to working as "one MUFG" allowing us to expand our service to both domestic and overseas clients, grow our business and leverage the MUFG brand.

A recent programme to drive down the cost base was a key factor supporting the improved net results in 2015, with the future cost run rate now set at this lower base. Changes to the Company's remuneration governance, performance management and compensation policy have helped to further embed the Company's strong culture of high performance and good conduct. Governance documentation includes policies on breach control, bonus adjustment, the application of malus and clawback for senior employees.

The Company manages and monitors its capital base to ensure that sufficient capital is available to support future business plans, the firm's 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.

The Board of Directors ("the Board") monitors the results of the Company by reference to various performance and risk based metrics including:

- Revenue metrics of £200.7m (2014: £156.0m) with a focus on quality of earnings and tracking against revenue plans
- Efficiency metrics of costs as a percentage of revenues currently at 94% (2014: 145%) with a focus on efficient cost deployment
- Profitability metrics with a focus on maximising return on equity currently at 1% (2014: -5% following losses in the year)
- Capital metrics based on Pillar 1 requirements with a focus on reducing requirements of £519m (2014: £661m)
- Risk metrics with a focus on tracking VaR of £1.5m (2014: £4.1m)

Management retain a positive outlook as the Company continues to make progress against its strategic objectives and infrastructure change programme, as outlined in the mid-term business plans. Management continue to identify opportunities to leverage MUFG's global franchise strength whilst efficiently utilising our capital, infrastructure and staff resources within defined risk appetite parameters. Deepening relationships with our core clients and a focus on expanding the client coverage in partnership with BTMU set firm foundations for ongoing growth of the business.

Challenges and uncertainties

The Company faces a number of challenges and uncertainties in the normal course of 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 7 to 15. Other uncertainties faced by the Company in the course of its business include: liquidity, funding and market risks; the valuation of financial assets and liabilities in volatile markets; exposure to macro-economic and geopolitical uncertainty; and changes to regulatory rules regarding market practices and regulatory capital.

The Company is exposed to the Japanese market through its debt issuance programme and its investment in high quality Japanese Government securities. The business activities of the ultimate parent company MUFG, whilst carried out on a global level, are focused in the Japanese market. The recent 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 have plans in place to limit the impact to the Company.

The political landscape in the United Kingdom faces uncertainty due to a pending referendum on a British exit from the European Union ("Brexit"). The potential consequences of a Brexit are currently difficult to quantify, however there is likely to be volatility in the value of the British Pound relative to other major currencies and a potential impact to the British economy and GDP. Management are not aware of any specific issues faced by the Company, that are not faced by the financial services sector within the United Kingdom, and are maintaining communication with market peers and regulators on the issue.

Refer to pages 7 to 15 for a comprehensive summary of the Business and Risk Management Policies.

By order of the Board

Richard House
Company Secretary
6 April 2016
25 Ropemaker Street
London EC2Y 9AJ

Directors' Report

The Directors present their annual report and financial statements for the year ended 31st December 2015.

Directors

The Directors during the year were as follows:

William Fall	Chairman	(appointed as Chairman 1st October 2015)
David King	Chief Executive Officer	
Nobuyuki Uchida	Non-Executive Director	
Diane Moore	Independent Non-Executive Director	
Arthur Maycock	Chief Risk Officer	
Takami Onodera	Non-Executive Director	
Masamichi Yasuda	Non-Executive Director	
Masato Miyachi	Non-Executive Director	
Chris Kyle	Chief Financial Officer	(appointed 10th March 2015)
Stephen Jack	Independent Non-Executive Director	(appointed 9th September 2015)

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 2014 definition of independence the Non-Executive Directors are deemed independent.

Independent Chairman

William Fall was appointed as a Senior Independent Non-Executive Director on 12th February 2015 and subsequently as the Company's first Independent Chairman on 1st October 2015. Mr. Fall will play 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 maintains insurance against liabilities for all Directors and officers of the Company during the financial year and at the date of this report.

Dividend

The Directors recommend that no dividend be paid for the year ended 31st December 2015 (2014: £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 7 to 15.

Compensation

Certain employees' discretionary remuneration is deferred where the reward exceeds thresholds set by the Remuneration Committee, based on guidelines set out by the Prudential Regulation Authority ("PRA"). Some of these deferrals take the form of Notional Stock Units ("NSU"), which track the performance of MUFG shares (refer to Note 6).

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 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

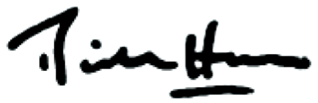
The Company coordinates and manages practices to maximise its positive social contribution and impact on the surrounding environment. The Company's volunteer programme enables employees to use their skills for the benefit of the local community and to inspire future generations. The Company also supports a number of charities through donations and continue to leverage employees' charitable activities through our well-established matched funding and "Give As You Earn" schemes. The Company's focus for 2016 will be to continue to promote a culture of integrity and social responsibility by further embedding 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 he ought to have taken as a director to make himself 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
6 April 2016
25 Ropemaker Street
London EC2Y 9AJ

Statement of Directors' Responsibilities

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 they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ("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 for that period. In preparing the Company's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Richard House
Company Secretary
6 April 2016
25 Ropemaker Street
London EC2Y 9AJ

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 key 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 2015, the Committee comprised of three Independent Non-Executive Directors, including the Chairman of the Board (the Board Chairman was acting BRC Chairman during the final quarter of the year). The Committee is supported by the regular attendance of the Chief Risk Officer ("CRO") and Chief Financial Officer ("CFO"). Regulatory change and reviewing the Company's preparation to comply with new rules continue to be a key area for the Committee. The Committee focussed on a number of topics during the year including: the overall risk appetite of the Company and the risk profile of each of MUSI's business lines; the Internal Capital Adequacy Assessment Process; the framework for the management of and the ongoing reporting of activities that could give rise to reputational risk; and the risks arising from MUSI's defined benefit pension scheme and how those risks are managed.

3. Risk structure and other committees

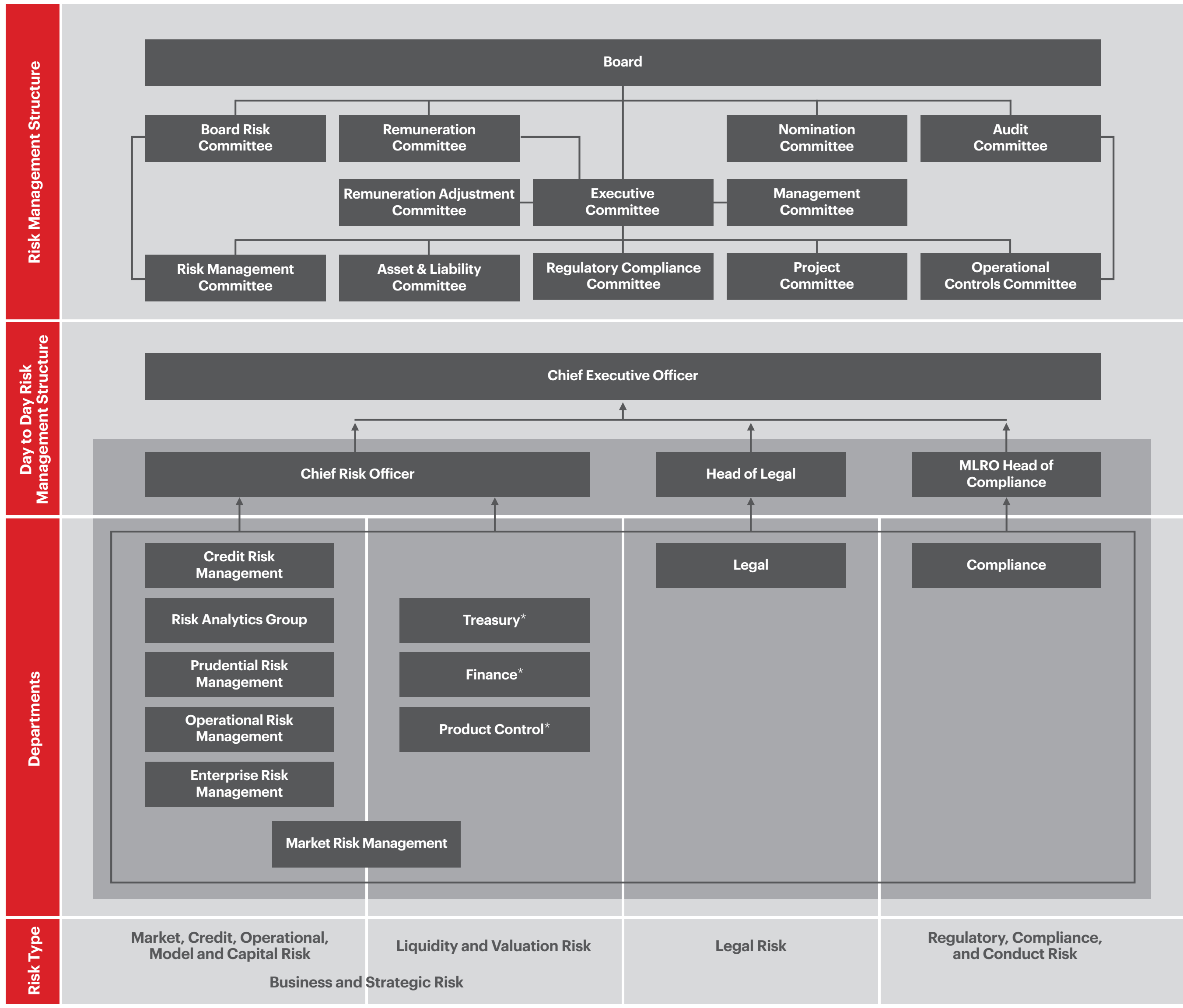
Day-to-day risk management of all risks, with the exception of compliance, conduct, legal and reputational risk, resides with the CRO, who reports directly to the Chief Executive Officer ("CEO") and the BRC. Market, credit, operational and model risk are overseen by the Risk Management Committee ("RMC") supported by its underlying working groups.

Valuation risk is overseen by the Valuations Working Group which reports to the Finance Working Group, which in turn reports to the RMC. Liquidity and capital risk is overseen by the Asset and Liability Committee ("ALCO"). Compliance, conduct and legal risk are overseen by the Regulatory Compliance Committee. Day-to-day risk management of compliance risk and conduct risk resides with the Head of Compliance, who reports directly to the CEO. Legal risk management resides with the Head of Legal, 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 RMC reports to the BRC.

Business and Risk Management (continued)

The Company's risk committee and corporate structure as at 31st December 2015 is illustrated below:



*Operationally, Treasury, Finance and Product Control report to the CFO but their risk is reported to the CRO.

Three Lines of Defence

The Company's governance of risk is based on the "Three Lines of Defence" approach:

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

2. **Challenge and Risk Control – Risk Departments and other control support departments**
- Independent of Front Office, led by the CRO and CFO
- Enable the Company to maintain a system of checks and balances
- Escalate risk issues to the RMC, ALCO, OCC and where appropriate to the Executive Committee; and
- The Risk function and the RMC have a reporting line to the BRC, independent of the CEO.

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

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 and credit risk. It is reviewed at regular meetings of the Board and reset 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 both front office 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 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 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 Products which support the identification of any additional risk to the Company, and ensures 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 submission 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 stress 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 resource 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 market prices. A range of stress tests is run, covering exposures to relevant market factors and scenarios in various market conditions
- Stop loss limits monitor actual losses at department or individual trader level. These are designed to ensure that appropriate action is taken on a timely basis.

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 a stressed VaR measure 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 one day change of the portfolio's value on the day the profit and loss figures are produced. In 2015 the number of occasions on which actual trading book outcomes exceeded the previous day's VaR was within the acceptable tolerances of the model.

Stressed VaR
The Company calculates stressed VaR based on inputs calibrated to historical data from a continuous twelve-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 also calculates IRC which captures risk from the default and rating migration of securities positions in the trading book. The IRC is calculated weekly 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.

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, position limits and risk factor sensitivity 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 and
- 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 2015 and 2014. The breakdown in terms of different risk factors is as described below. The "Close" column shows the VaR at the year end date, whereas the Average, Maximum and Minimum measures are calculated from the VaR measurements for each trading day. "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 2015	Close £m	Average £m	Maximum £m	Minimum £m
Interest Rate Curve Risk	0.6	1.3	3.7	0.4
Interest Rate Vega Risk	0.7	1.2	2.2	0.4
Asset Spread Risk	0.9	1.2	2.6	0.7
Currency Risk	0.6	1.1	2.2	0.4
Equity Price Risk	0.6	1.0	3.0	0.3
Equity Vega Risk	0.5	0.8	1.7	0.3
Inflation Risk	0.2	0.3	0.7	0.2
Basis Risk	1.1	0.9	1.3	0.6
Diversification benefit	-3.7	-5.2	n/a	n/a
Total VaR	**1.5**	**2.6**	**4.9**	**1.3**

As at 31 December 2014	Close £m	Average £m	Maximum £m	Minimum £m
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
Diversification benefit	-6.0	-5.5	n/a	n/a
Total VaR	**4.1**	**3.5**	**4.6**	**2.0**

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 changes in the market price of interest rate options (i.e. implied 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, as well as the market prices of FX options (i.e. 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 changes in the market price of equity options (i.e. 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 risks in accordance with policies originated and approved within the Company and finally endorsed by its parent company. Counterparty exposure is managed through a process of credit risk assessment, limit setting 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 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 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 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 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 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 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 22.

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, 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 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

Oversight (continued)

- 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 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 the 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 the following elements:

Internal Stress Testing

The Company's primary liquidity stress testing tool is the Maximum Cumulative Outflow, 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 stressed 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.

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 Fund Transfer Pricing ("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. 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 is approved by ALCO with risk limits imposed and monitored by Market Risk Management.

Contingency Funding Plan

The Contingency Funding Plan ("CFP") 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.

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 guidelines. 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, 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.

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 that it submits to the Company's regulator. The Company's compliance with prevailing regulatory liquidity requirements including the liquidity coverage ratio are complementary to the internal stress testing framework. The Company manages its liquidity prudently, holding buffer assets 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 that the Company engages in
- 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 RMC 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 RMC.

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 RMC. 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.

Model Risk

Model risk is the potential for loss arising from model-based output that has invalid assumptions or that has been incorrectly implemented.

The firm manages model risk by having a segregation of duties between model development and validation of the model. There are governance working groups that oversee the models used by the Company. In the case of risk models, the Model Oversight Working Group ("MOWG") is responsible for reviewing the output of ongoing validation and for model performance. In the case of pricing models, the Valuations Working Group ("VWG") oversees the use of pricing models. Both of these working groups report to the RMC. 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 MOWG 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 aims to manage and control its exposure to Operational Risk, and through its policies and procedures, the Company targets 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 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, 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.

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

- **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

Operational Risk Management Framework (continued)

- **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:** These metrics are used by the Company 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 also details of incidents, even if they have not led to losses (or gains)
- **Remedial actions:** Progress in completing remedial actions is tracked and reported
- **Reporting:** Reports are used by the operational risk function and management to understand, monitor, manage and control operational risks
- **Insurance policies:** As part of its risk management approach, the Company also 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 function supported by representatives from the key control and support functions who attend monthly Operational Risk Working Group meetings. Issues of significance are escalated at the Operational Controls Committee, which also meets on a monthly basis and is attended by members of Senior Management and heads of the control functions.

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 there is large rise in the value of the liabilities without an offsetting rise in 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 reduced 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 7.

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.

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.

Compliance Risk

Compliance risk is the risk of damage to the Company by failing to comply with financial services regulations, rules, guidelines, industry codes of conduct, organisation standards, professional ethics, Board and Senior Management standards or guidelines and other codes of conduct applicable to its business activities.

The Company's businesses are managed to achieve alignment between compliance risk profile and compliance risk appetite. Risk appetite is clearly defined and reflects the Company's strategy and values. Decision making is based on a thorough understanding of compliance risks, supported by robust analytics and measurement capabilities.

The Company maintains a governance structure that ensures appropriate management, oversight and assurance of significant risks and associated mitigation strategies, including, a compliance function with sufficient authority, stature, independence, resources and access to the Board. Accountability for compliance is shared by groups across the Company with front office and back office departments who own their respective compliance risks. The Compliance function is accountable for oversight of compliance controls; and the Internal Audit function 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.

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 our business activities through failure to comply with laws and regulations, breach of a social norm, improper business or market practice or lack of client'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 framework as follows:

- Compliance policies, front office desk procedures and a conduct risk operating framework and strategy
- A conduct risk appetite 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
- 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 resulting from damage to the Company's reputation which can result in lost revenue, increased operating costs, capital or regulatory burden; leading to destruction of shareholder value. 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 and retained earnings, and Tier 2 – subordinated debt which is fixed term and denominated in Japanese Yen.

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.

The Company's capital resources for 2015 and 2014 are shown in the table below:

	At 31 Dec 2015	At 31 Dec 2014
	£m	£m
Total Tier 1 Capital after Deductions	980	1,016
Total Tier 2 Capital after Deductions	658	642
Total Capital Resources	**1,638**	**1,658**

The Company's Pillar 1 capital requirements for 2015 and 2014 are shown in the table below:

	At 31 Dec 2015	At 31 Dec 2014
	£m	£m
Market Risk	172	258
Credit Risk (including Concentration Risk)	312	364
Operational Risk	35	39
Total Capital Requirements	**519**	**661**

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.

Independent Auditor's Report to the members of Mitsubishi UFJ Securities International Plc

We have audited the financial statements of Mitsubishi UFJ Securities International plc for the year ended 31 December 2015, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 31. 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.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

Caroline Britton ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, England
6 April 2016

Financial Statements

Company income statement

For the year ended 31st December	Notes	2015 £'000	2014 £'000
Interest income	2	24,656	28,378
Interest expense	3	(11,718)	(27,523)
Net interest income		**12,938**	**855**
Fees and commissions income		42,546	42,383
Fees and commissions expense		(9,016)	(7,449)
Net fees and commissions income		**33,530**	**34,934**
Trading income		**143,134**	**116,329**
Net Investment income		**11,060**	**3,885**
Total operating income		**200,662**	**156,003**
Administrative expenses	4	(173,947)	(213,538)
Amortisation of intangible assets	12	(11,173)	(9,214)
Depreciation of property, plant and equipment	13	(2,839)	(3,973)
Total operating expenses		**(187,959)**	**(226,725)**
Profit / (loss) on ordinary activities before taxation		**12,703**	**(70,722)**
Taxation	8	(4,567)	13,347
Profit / (loss) attributable to owners of the company		**8,136**	**(57,375)**

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

Company statement of comprehensive income

	2015 £'000	2014 £'000
Profit / (loss) after tax	8,136	(57,375)
Other comprehensive income / (loss) from continuing operations:		
Available for sale reserve		
Net gains from changes in fair value	7,604	9,970
Net (gains) transferred to net profit	(11,060)	(3,885)
Taxation	650	(1,318)
Cash flow hedging reserve		
Net gains / (losses) from changes in fair value	(99)	201
Net (gains) / losses transferred to net profit	299	(401)
Taxation	(40)	38
Total comprehensive income / (loss) that may be recycled to profit or loss	5,490	(52,770)
Other comprehensive income / (loss) not recycled to profit or loss		
Actuarial gains / (losses) in retirement benefit schemes	11,195	(27,375)
Taxation	(2,510)	5,444
Total other comprehensive income / (loss)	8,685	(21,931)
Total comprehensive income / (loss) for the year attributable to owners of the company	**14,175**	**(74,701)**

Financial Statements

Company balance sheet

As at 31st December	Notes	2015 £'000	2014 £'000	2013 £'000
Assets				
Cash and balances at central banks		185,382	260,599	124,067
Trading portfolio financial assets	10	4,175,091	5,514,662	3,539,959
Derivative financial instruments	20	13,695,239	14,857,732	12,352,135
Reverse repurchase agreements		28,412,219	20,572,826	27,476,559
Securities sold not delivered		1,627,013	603,020	939,761
Equity finance assets		408,229	350,456	291,988
Cash collateral on securities borrowed		5,134,715	2,414,746	1,595,574
Cash collateral paid to derivative counterparties		1,452,585	1,958,731	2,040,492
Loans and advances to banks		136,482	2,514,216	1,574,478
Financial instruments available for sale	11	2,116,190	1,616,938	1,925,314
Financial instruments held to maturity		-	-	679,539
Financial assets designated at fair value		-	5,385	11,511
Deferred tax asset		29,340	34,956	16,407
Intangible assets	12	46,100	41,647	35,605
Property, plant and equipment	13	16,710	17,640	19,319
Other assets	14	166,571	118,378	250,371
Total assets		**57,601,866**	**50,881,932**	**52,873,080**
Liabilities				
Deposits by banks		92,149	43,089	11,984
Trading portfolio financial liabilities	15	2,012,527	2,291,044	2,138,177
Derivative financial instruments	20	12,463,178	13,423,567	11,412,540
Repurchase agreements		30,222,438	21,748,453	27,020,449
Securities bought not delivered		934,877	797,477	629,150
Cash collateral on securities lent		103,661	4,620	35,030
Cash collateral received from derivative counterparties		5,595,127	5,887,069	4,966,693
Repurchase agreements at amortised cost		294,762	426,853	306,607
Financial liabilities designated at fair value	16	3,632,236	4,078,276	4,230,838
Other liabilities	17	491,988	461,068	261,963
Subordinated liabilities	18	666,111	641,778	956,309
Total liabilities		**56,509,054**	**49,803,294**	**51,969,740**
Equity				
Called up share capital	19	1,010,611	1,010,611	760,611
Other reserves		(2,860)	(213)	(4,818)
Retained earnings		85,061	68,240	147,547
Total equity		**1,092,812**	**1,078,638**	**903, 340**
Total liabilities and equity		**57,601,866**	**50,881,932**	**52,873,080**

Company Number: 1698498

The financial statements on pages 17 to 49 and business and risk management policies on pages 7 to 15 were approved by the Board of Directors on 6 April 2016 and signed on its behalf by:

David King
Chief Executive Officer
6 April 2016

Company statement of changes in equity

	Share capital £'000	Available for sale reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total equity £'000
2014					
Balance 1 January 2014 (UK GAAP)	760,611	(4,599)	(219)	151,009	906,802
IFRS transition adjustment (Refer Note 1)	-	-	-	(3,462)	(3,462)
Balance 1 January 2014 (IFRS)	**760,611**	**(4,599)**	**(219)**	**147,547**	**903,340**
Loss after tax	-	-	-	(57,375)	(57,375)
Available for sale investments	-	4,766	-	-	4,766
Cash flow hedges	-	-	(162)	-	(162)
Actuarial gain and loss	-	-	-	(21,931)	(21,931)
Issue of new ordinary shares	250,000	-	-	-	250,000
Balance 31 December 2014 (IFRS)	**1,010,611**	**167**	**(381)**	**68,241**	**1,078,638**
2015					
Balance 1 January 2015	1,010,611	167	(381)	68,241	1,078,638
Profit after tax	-	-	-	8,136	8,136
Available for sale investments	-	(2,806)	-	-	(2,806)
Cash flow hedges	-	-	160	-	160
Actuarial gain and loss	-	-	-	8,685	8,685
Balance 31 December 2015	**1,010,611**	**(2,639)**	**(221)**	**85,062**	**1,092,813**

Company cash flow statement

For the year ended 31st December	2015 £'000	2014 £'000
Reconciliation of profit before tax to net cash flows from operating activities		
Profit before tax	12,703	(70,722)
Adjustment for non-cash items:		
Depreciation and impairment of property, plant and equipment	2,839	3,973
Amortisation and impairment of intangible assets	11,173	9,214
Net loss on disposal of property, plant and equipment and intangible assets	259	320
Actuarial gain/(loss) on pension	8,685	(21,931)
Corporation tax (income)/expense	(4,567)	13,347
Changes in operating assets and liabilities:		
Net decrease/(increase) in trading portfolio financial assets / liabilities	1,061,054	(1,821,836)
Net decrease/(increase) in derivative financial instruments	202,105	(494,570)
Net (increase)/decrease in securities bought / sold not delivered	(886,592)	505,067
Net (increase)/decrease in reverse repurchase agreements	(7,971,484)	7,023,979
Net increase/(decrease) in repurchase agreements	8,473,985	(5,271,996)
Net decrease/(increase) in loans and advances to banks	2,377,734	(939,738)
Net (increase)/decrease in cash collateral for securities and derivatives	(2,406,725)	152,556
Net (increase)/decrease other assets	(94,965)	61,103
Net increase/(decrease) in other liabilities	30,920	199,105
Net cash from operating activities	**817,124**	**(652,130)**
Purchase of property, plant and equipment	(1,974)	(2,295)
Purchase of intangible assets	(15,819)	(15,575)
Maturity of financial instruments held to maturity	-	679,539
Purchase of available for sale investments	(3,609,071)	(5,690,141)
Proceeds from sale or redemption of available for sale investments	3,109,819	5,998,517
Other cash (outflows)/inflows associated with investing activities	(2,647)	4,605
Net cash from investing activities	**(519,693)**	**974,650**
Issue of ordinary share capital	-	250,000
Proceeds from financial liabilities designated at fair value	4,412,861	2,963,917
Repayments of financial liabilities designated at fair value	(4,858,902)	(3,116,481)
Repayments and redemption of subordinated debt	24,333	(314,531)
Net cash from financing activities	**(421,708)**	**(217,095)**
Net (decrease)/increase in cash and cash equivalents	**(124,276)**	**105,426**
Opening cash and cash equivalents	217,509	112,083
Net cash from financing activities	(112,198)	107,211
Foreign exchange	(12,078)	(1,785)
Closing cash and cash equivalents	**93,232**	**217,509**
Cash and balances at central banks	185,382	260,599
Deposits by banks repayable on demand	(92,149)	(43,089)
Total cash and cash equivalents	**93,233**	**217,510**

Basis of preparation of company accounts

The financial information includes the financial statements of the Company for the year ended 31st December 2015. 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 Company has adopted IFRS for the first time in this reporting period, disclosures which describe the effect of the adoption are presented in Note 1. In accordance with IFRS1, the entity's first IFRS financial statements are required to include 3 statements of financial position, this additional disclosure is supported through corresponding notes disclosures.

The financial statements have been prepared on a going concern basis due to expected future profitability and continuing support from 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 2 to 3. The financial position of the Company, its liquidity position and borrowing facilities are described through the financial statements beginning on page 17. In addition, the Business and Risk Management Policies on pages 7 to 15 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 together with long term support from MUSHD, 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.

Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. The Company believes that the critical accounting policies where judgement is necessarily applied are those which relate to the valuation of financial instruments, assumptions included in the actuarial valuation of the defined benefit pension scheme and recognition of deferred tax assets. See below for futher comments on fair value measurement of financial assets and liabilities.

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.

Trading assets and trading liabilities

Long and short positions in debt and equity securities, which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term or 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 assets or 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 assets and liabilities together with related interest income, interest expense and dividends, are recognised in the income statement within trading income as they arise. Financial assets and financial liabilities are recognised using trade date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate method, less any impairment.

Held to maturity

Held to maturity ("HTM") investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group positively intends, and is able, to hold until maturity. HTM investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment. The HTM position matured in 2014.

Available for sale

Available for sale ("AFS") investments are non-derivative investments that are not designated as another category of financial asset and are carried at fair value.

Interest income is recognised in the income statement using the effective interest method. Dividend income is recognised in the income statement when the Company becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt security investments are recognised in net trading income. Other fair value changes are recognised directly in shareholder's equity within the AFS reserve until the investment is sold or impaired, at which time the balance in equity is recognised in the income statement.

Financial instruments designated at fair value

Financial instruments, 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. The Company may designate financial instruments 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 of these instruments has been matched with derivatives. An accounting mismatch would arise if the debt securities and

Financial instruments designated at fair value (continued)

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.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised on trade date, when the Company enters into contractual arrangements with counterparties. Measurement is initially at fair value with transaction costs taken directly to the income statement. Subsequently, the fair values are re-measured, and gains and losses from changes therein are recognised in the income statement.

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) or liabilities at amortised cost (repurchase agreements). As such, the balances recorded in assets and liabilities are subsequently remeasured only to reflect the accrual of interest or impairment.

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.

Financial liabilities

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.

Identification and measurement of impairment

At each balance sheet date the Company assesses whether there is objective evidence that financial assets not carried at fair value through the income statement are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the expected future cash flows of the asset that can be estimated reliably. Examples of such events would include significant credit deterioration of the issuer such as a significant credit rating downgrade; default, delinquency or bankruptcy of the issuer; or another specific event which would lead to a decrease in expected future cash flows.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows, discounted at the assets' original effective interest rate. Losses are recognised in the income statement and reflected in an allowance against the carrying value of the assets. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event, for example, reversal of one of the conditions outlined above, causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

Impairment losses on AFS investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the income statement. When a subsequent event causes the amount of impairment loss on an AFS debt security to decrease, the decrease in impairment loss is reversed through the income statement. Impairment losses on AFS equity securities are not reversed through the income statement.

Derivatives

Derivatives 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, 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.

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 included within the application of FVA. The Company is the beneficiary of an intercompany guarantee from BTMU which provides protection over a portfolio of corporate derivatives. This guarantee does not meet the criteria in IAS 39 for presentation as 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.

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 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.

Equity finance assets

Equity finance assets are recognised initially, and are subsequently remeasured, at fair value. All changes in fair value, 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. Equity financing assets are recognised using trade date accounting.

Hedge accounting

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') or hedges of the variability of cash flows attributable to a recognised asset or liability or a forecast transaction ('cash flow hedges').

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 forecast transaction is recognised in the income statement. When a 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.

De-recognition 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 expires.

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 have a significant impact on the valuation of financial instruments and the model valuations indicate initial profits on the transaction, the entire initial gain is not recognised immediately in the income statement. The initial gain is measured as the difference in fair value indicated by the valuation model price and the transaction price. These gains are deferred and recognised over

Accounting Policies

Fair value measurement of financial assets and liabilities (continued)
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 22 for further detail on the fair value of financial instruments.

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 HTM or AFS investments and certain reverse repurchase agreements treated as loans and receivables. 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, 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 Dealing profits.

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 and Equipment
Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Expenditure to bring purchased software into operational use and internally developed software is recognised as an intangible asset 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.

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 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 are 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 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.

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. The 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 30th June and 31st December each year, in consultation with the scheme's actuaries. The assumptions underlying the calculations are used to determine the expected income statement charge for the year going forward.

Adoption of new and revised 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:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – clarifies requirements relating to the classification of employee contributions between periods of service
- Annual improvements to IFRSs 2010-2012 Cycle – predominantly clarification of existing standards rather than substantive changes to the requirements, with important items relating to IFRS 8 Operating segments
- Annual improvements to IFRSs 2011-2013 Cycle – predominantly clarification of existing standards rather than substantive changes to the requirements

It is noted that none of these updates had a material impact on the financial statements.

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are either not yet effective or have not been endorsed by the EU:

- IFRS 11 (amendments) - Accounting for acquisitions of interests in joint operations
- IAS 1 (amendments) – Disclosure initiative
- IAS 16 and IAS 38 (amendments) – Clarification of acceptable methods of depreciation and amortisation
- IAS 27 (amendments) – Equity method in separate financial statements
- IFRS 10 and IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture
- IFRS 10, IFRS 12 and IAS 28 (amendments) – Investment entities: Applying the consolidation exemption
- Annual improvements to IFRSs: 2012-2014 cycle – Amendments to: IFRS 5 Non-current assets held for sale and discontinued operations; IFRS 7 Financial Instruments: Disclosures; IAS 19 Employee benefits; and IAS 34 Interim financial reporting

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods. The following standards are likely to have an impact and will be assessed in detail over the coming periods:

- IFRS 9 – Financial instruments - will impact both the measurement and disclosures of financial instruments
- IFRS 15 – Revenues from contracts with customers – it is expected that the impact of this standard will be minor, but it may affect the timing of revenue recognition for contracts where services are provided to clients over extended periods of time
- IFRS 16 – Leases – will result in a gross up of the balance sheet as operating leases are recorded as a right of use asset and a liability for minimum lease payments

It is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 1 until a detailed review has been completed.

Notes on Financial Statements

1 Transition to IFRS

The Company has adopted IFRS for the first time in this reporting period due to the withdrawal of UK GAAP. The Company had previously adopted full UK GAAP, which incorporates many provisions which are consistent with those in IFRS. As such, adoption affects only those accounts which are included in the reconciliations below.

Reconciliation of Equity	Previously reported under UK GAAP £'000	Lease accounting £'000	Fair value adjustments £'000	Pension £'000	Total effect on transition £'000	Restated under IFRS £'000
As at 1st January 2014						
Assets						
Derivatives	12,365,844	-	(13,709)	-	(13,709)	12,352,135
Deferred tax asset	15,458	2,250	1,138	(2,439)	949	16,407
Other Assets	239,026	-	-	11,345	11,345	250,371
Liabilities						
Derivatives	11,420,957	-	(8,417)	-	(8,417)	11,412,540
Other Liabilities	251,499	10,464	-	-	10,464	261,963
Retained Earnings	151,009	(8,214)	(4,154)	8,906	(3,462)	147,547
Net assets not affected	**796,863**	**-**	**-**	**-**	**-**	**796,863**
As at 31st December 2014						
Assets						
Derivatives	14,877,200	-	(19,468)	-	(19,468)	14,857,732
Deferred tax asset	30,272	2,504	2,180	-	4,684	34,956
Liabilities						
Derivatives	13,432,137	-	(8,570)	-	(8,570)	13,423,567
Other Liabilities	448,544	12,524	-	-	12,524	461,068
Retained Earnings	86,978	(10,020)	(8,718)	-	(18,738)	68,240
Net assets not affected	**939,813**	**-**	**-**	**-**	**-**	**939,813**

	Previously reported under UK GAAP £'000	Lease accounting £'000	Fair value adjustments £'000	Pension £'000	Total effect on transition £'000	Restated under IFRS £'000
Year ended 31st December 2014						
Operating Income	161,610	-	(5,607)	-	(5,607)	156,003
Operating Expenses	(225,357)	(2,060)	-	692	(1,368)	(226,725)
Taxation	12,188	255	1,042	(138)	1,159	13,347
(Loss) / Profit for the year	**(51,559)**	**(1,805)**	**(4,565)**	**554**	**(5,816)**	**(57,375)**
Other comprehensive income	(7,867)	-	-	(9,459)	(9,459)	(17,326)
Total comprehensive income	**(59,426)**	**(1,805)**	**(4,565)**	**(8,905)**	**(15,275)**	**(74,701)**

2 Interest income and similar income

	2015 £'000	2014 £'000
Interest on non-trading assets	22,915	26,491
Interest on loans and advances to banks	1,741	1,887
	24,656	**28,378**

3 Interest expense

	2015 £'000	2014 £'000
Interest on financing non-trading assets	4,307	13,736
Interest on loans and payables to banks	924	4,498
Interest on subordinated liabilities	6,487	9,289
	11,718	**27,523**

4 Administrative expenses

	2015 £'000	2014 £'000
Wages and salaries	104,444	105,032
Retirement benefits	5,765	5,246
Social security costs	13,153	13,818
Personnel expenses	**123,362**	**124,096**
The average number of employees was 569 (2014: 576)		
Auditor's remuneration (Note 5)	710	1,140
Operating lease rentals: property	3,977	3,796
Other administrative expense	45,899	84,506
General and administrative expenses	**50,585**	**89,442**
Tot al administrative expenses	**173,947**	**213,538**

Other admininstrative expenses includes cost reimbursements across the MUSHD International securities businesses. A number of the contracts were renegotiated in 2014.

5 Auditor's remuneration

	2015			2014		
	Deloitte £'000	KPMG £'000	Total £'000	Deloitte £'000	KPMG £'000	Total £'000
Fees payable to the Company's auditor for audit and other services:						
Statutory audit fees	405	-	405	359	-	359
Audit related assurance services	40	-	40	80	101	181
Other taxation advisory services	-	-	-	3	36	39
Other services	59	-	59	-	-	-
Other assurance services	65	-	65	26	473	499
Services relating to corporate finance	123	-	123	30	14	44
	692	-	692	498	624	1,122
Fees payable to the Company's auditor in respect of associated pension schemes:	18	-	18	18	-	18
Total auditor's remuneration	**710**	**-**	**710**	**516**	**624**	**1,140**

On 21st May 2014, KMPG LLP was retired and Deloitte LLP appointed as the Company auditor. Deloitte Touche Tohmatsu LLC serves as the group auditor for MUFG.

6 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 years and track the performance of MUFG shares (see accounting policies).

	2015		2014	
	No. Units ('000)	**Value (£'000)**	**No. Units ('000)**	**Value (£'000)**
No. of NSUs outstanding as at 1st January	**4,041**		**3,553**	
Granted during the year:	2,044		1,974	
No. of NSUs granted				
Value in GBP '000 equivalent at grant date		6,592		7,429
Less:				
No. of NSUs vested during the year	(1,624)		(1,486)	
Average share price at vesting / payment (JPY)		822		592
No. of NSUs forfeited / cancelled (unvested)	(16)		-	
No. of NSUs as at 31st December	**4,445**		**4,041**	
Fair value of outstanding NSUs at 31st December		**19,815**		**17,335**

7 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 £5.8 million (2014: £5.9 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 an 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 last actuarial valuation was performed as at 31st December 2015 and the principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2015	2014
Discount rate	4.0%	3.8%
RPI inflation assumption	3.4%	3.3%
CPI inflation assumption	2.4%	2.3%
LPI pension increase assumption	3.4%	3.3%

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_2015 future improvement factors with a long term annual rate of future improvement of 1¼% p.a. (2014: S1PXA_L on a year of birth usage with CMI_2011 future improvement factors and a long term improvement rate of 1% p.a.). This results in the following life expectancies:

- Male age 65 now has a life expectancy of 23 years (previously 24 years)
- Female age 65 now has a life expectancy of 24 years (previously 25 years)

The amounts recognised in the balance sheet as at the year end are as follows:

	2015 £'000	2014 £'000	2013 £'000
Present value of scheme liabilities	(144,950)	(153,994)	(125,924)
Market value of scheme assets	154,450	145,437	137,269
Recognisable surplus / (deficit) in the scheme	**9,500**	**(8,557)**	**11,345**
Related deferred tax (liability) / asset	(1,900)	1,711	(2,269)
Net pension asset / (liability)	**7,600**	**(6,846)**	**9,076**

The amounts recognised in the income statement within administrative expenses total £191k (2014 : £692k income). The projected income for the calender year 2016 is £527k 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:

	2015 £'000	2014 £'000
Present value of liabilities at opening	153,994	125,924
Interest cost	5,834	5,898
Actuarial gain / (loss)	(10,393)	26,387
Benefits paid	(4,485)	(4,215)
Present value of liabilities at closing	**144,950**	**153,994**

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

	2015 £'000	2014 £'000
Fair value of Scheme assets at opening	145,437	137,269
Expected return	5,643	6,590
Actuarial gain / (loss)	803	(988)
Benefits paid	(4,485)	(4,215)
Contributions paid by the Company	7,052	6,781
Fair value of Scheme assets at closing	**154,450**	**145,437**

The agreed contribution to be paid by the Company for the forthcoming year (year ending 31st December 2016) is £7.3 million.

7 Retirement benefits (continued)

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

	2015 £'000	2014 £'000
UK Equities	33,231	54,911
Overseas Equities	89,316	59,589
Absolute Return	31,047	-
Property	-	1,677
Fixed Interest Gilts	-	1,677
Index Linked Gilts	-	176
UK Corporate Bonds	-	4,412
Overseas Bonds	-	1,588
Cash	856	21,407
Total	**154,450**	**145,437**

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 asset allocation was revised during the year following a review of the investment objectives and risks of the scheme. The current allocation retains ~80% equity exposure, now diversified to effect broader geographic and institutional concentrations. The remaining assets were largely consolidated into absolute return funds targeting growth with reduced volatility.

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

	2015 £'000	2014 £'000
Actual return less expected return on scheme assets	803	(988)
Experience gains and losses arising on scheme liabilities	1,134	1,398
Changes in assumptions underlying the present value of scheme liabilities	9,258	(27,785)
Actuarial gain / (loss) recognised in OCI	**11,195**	**(27,375)**

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

	2015 £'000	2014 £'000
(Deficit) / surplus at start of year	(8,557)	11,345
(Expenses) / income recognised in income statement	(191)	692
Contributions paid by the company	7,053	6,781
Recognised actuarial gains / (losses)	11,195	(27,375)
Surplus / (deficit) at end of year	**9,500**	**(8,557)**

Analysis of present value of scheme liabilities:

	2015 %	2014 %
Deferred Members	78	81
Current Pensioners	22	19
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 28). These sensitivities have been determined by a full recalculation of the present value using the different assumptions and are therefore fully accurate (2014: same approach).

	2015 %	2014 %
Discount rate +/- 0.5%	-11 / 13	-12 / 14
RPI and CPI +/- 0.5%	+4 / -4	+4 / -4
Life expectency +/- 1 year	+3 / -3	+3 / -3

The weighted average duration of the scheme liabilities is approximately 25 years (2014: 27 years).

8 Applicable taxes

	2015 £'000	2014 £'000
UK corporation tax		
Current year	939	-
Adjustments in respect of prior years	138	-
	1,077	-
Foreign tax		
Current year	(1,496)	(934)
Adjustments in respect of prior years	-	-
Total current tax	**(419)**	**(934)**
Deferred tax		
Origination and reversal of timing differences	(2,603)	15,041
Effect of decreased tax rate	(703)	(1,603)
Adjustments in respect of prior years	(842)	843
Total deferred tax	**(4,148)**	**14,281**
Total tax expense	**(4,567)**	**13,347**

Corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated taxable profit for the year.

The charge for the year can be reconciled to the profit in the income statement as follows:

	2015 £'000	2014 £'000
Profit / (loss) on ordinary activities before taxation	12,703	(70,722)
Tax at the average UK corporation tax rate of 20.25% (2014: 21.5%)	(2,572)	15,205
Tax effect of expenses that are not deductible in determining taxable profits	(357)	(381)
Foreign tax suffered	(1,193)	(733)
Deferred tax prior year adjustrrent	(842)	842
Effect of change in tax rate on deferred tax assets	(679)	(1,586)
Group relief surrender in relation to prior years	939	-
Current tax prior year adjustment	138	-
Tax expense for the year	**(4,567)**	**13,347**

8 Applicable taxes (continued)

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

	2015 £'000	2014 £'000
Current tax	-	-
Deferred tax	-	-
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of net defined benefit liability	(2,510)	5,444
Items that may be reclassified subsequently to profit or loss		
Available for sale financial assets (gains) / losses in period	650	(1,318)
Cash flow hedges (gains) / losses in period	(40)	38
Total income tax recognised in other comprehensive income	**(1,900)**	**4,164**

Deferred Tax Assets

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period.

	Balance as at 1 January 2015 £'000	Charge to profit or loss £'000	Charge to OCI £'000	Transferred from other receivables £'000	Balance as at 31 December 2015 £'000
Accelerated tax depreciation	1,906	1,563	-	-	3,469
Unused tax credits	103	-	-	431	534
Deferred compensation	7,592	(1,656)	-	-	5,936
Spreading of FRS 26 transitional adjustment	715	(715)	-	-	-
Spreading of IFRS 13 transitional adjustment	2,180	(218)	-	-	1,962
Cash flow hedge reserve	95	-	(40)	-	55
Available for sale financial assets	131	-	650	-	782
Retirement benefit obligations	1,713	-	(3,611)	-	(1,898)
Tax losses	20,522	(3,123)	1,101	-	18,501
Total Balance	**34,956**	**(4,147)**	**(1,900)**	**431**	**29,340**

	Balance as at 1 January 2014 £'000	Charge to profit or loss £'000	Charge to OCI £'000	Transferred from other receivables £'000	Balance as at 31 December 2014 £'000
Accelerated tax depreciation	1,792	114	-	-	1,906
Unused tax credits	-	-	-	103	103
Deferred compensation	7,795	(203)	-	-	7,592
Spreading of FRS 26 transitional adjustment	1,475	(760)	-	-	715
Spreading of IFRS 13 transitional adjustment	1,138	1,042	-	-	2,180
Cash flow hedge reserve	56	-	38	-	95
Available for sale financial assets	1,449	-	(1,318)	-	131
Retirement benefit obligations	(2,439)	-	4,152	-	1,713
Tax losses	5,140	14,089	1,293	-	20,522
Total Balance	**16,407**	**14,283**	**4,165**	**103**	**34,956**

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 Finance Act 2015 limits the offset of pre April 2015 losses carried forward by UK banks and brokers to 50% of profits. The main rate of UK Corporation Tax will reduce from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Under the Finance (No 2) Act 2015, tax losses carried forward at 31 December 2015 are given credit in future periods at the main rate of UK corporation tax rate, excluding the Banking Surcharge rate (8%) introduced by the Act. Whilst the restrictions 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 accordingly.

In his budget on 16 March 2016, the Chancellor announced a further restriction on the use of pre April 2015 losses to 25% of profits with effect from April 2016. The Chancellor also announced that the corporation tax rate would reduce to 17% with effect from 1 April 2020 rather than the 18% previously enacted.

9 Distributions on equity shares

No interim or final dividend has been recongnised as a distribution to the equity holder during the year (2014: nil).

10 Trading portfolio financial assets

	2015 £'000	2014 £'000	2013 £'000
Government bonds	2,236,164	2,684,614	962,349
Corporation bonds	638,880	1,704,715	1,905,119
Other public sector securities	449,717	501,027	258,314
Total debt securities	**3,324,761**	**4,890,356**	**3,125,782**
Equity instruments	850,330	624,306	414,177
Total trading portfolio financial assets	**4,175,091**	**5,514,662**	**3,539,959**
Of which are listed:			
Debt securities	3,090,275	4,655,325	2,840,821
Equity instruments	56,022	302,878	253,507
Of which are unlisted:			
Debt securities	234,486	235,031	284,961
Equity instruments	794,308	321,428	160,670
	4,175,091	**5,514,662**	**3,539,959**

11 Financial instruments available for sale

The following table gives the carrying value (fair value) of available for sale securities by major classifications.

	2015 £'000	2014 £'000	2013 £'000
Government bonds	1,476,008	1,294,731	1,622,951
Other public sector securities	640,074	322,207	302,363
Total debt securities	**2,116,082**	**1,616,938**	**1,925,314**
Equity instruments	108	-	-
Total available for sale securities	**2,116,190**	**1,616,938**	**1,925,314**

Available for sale financial investments with unrealised losses of more than twelve months have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.

12 Intangible assets

	Software £'000	Capital lease asset £'000	Total £'000
Cost			
At 1 January 2014	78,411	-	78,411
Additions	15,575	-	15,575
Impairment	(206)	-	(206)
Disposals	(384)	-	(384)
At 31 December 2014	**93,396**	**-**	**93,396**
Additions	15,320	499	15,819
Impairment	(122)	-	(122)
Disposals	(112)	-	(112)
At 31 December 2015	**108,482**	**499**	**108,981**
Amortisation			
At 1 January 2014	42,806	-	42,806
Charge for the Year	9,214	-	9,214
Disposals	(270)	-	(270)
At 31 December 2014	**51,749**	-	**51,750**
Charge for the Year	11,135	38	11,173
Disposals	(41)	-	(41)
At 31 December 2015	**62,843**	**38**	**62,882**
Carrying amount:			
At 1 January 2014	**35,605**	**-**	**35,605**
At 31 December 2014	**41,647**	**-**	**41,647**
At 31 December 2015	**45,639**	**461**	**46,100**

13 Property, plant and equipment

	Leasehold improvements £'000	Office furniture & fittings £'000	Office machinery & equipment £'000	Capital lease asset £'000	Total £'000
Cost					
At 1 January 2014	16,863	1,439	16,441	-	34,743
Additions	227	32	2,035	-	2,294
Disposals	-	-	-	-	-
At 31 December 2014	**17,090**	**1,471**	**18,476**	**-**	**37,037**
Additions	102	12	569	1,290	1,973
Disposals	(127)	-	(197)	-	(324)
At 31 December 2015	**17,065**	**1,483**	**18,848**	**1,290**	**38,686**
Depreciation					
At 1 January 2014	2,849	856	11,719	-	15,424
Charge for the year	978	287	2,708	-	3,973
Disposals	-	-	-	-	-
At 31 December 2014	**3,827**	**1,143**	**14,427**	**-**	**19,397**
Charge for the year	998	275	1,468	98	2,839
Disposals	(68)	-	(192)	-	(260)
At 31 December 2015	**4,757**	**1,418**	**15,703**	**98**	**21,976**
Carrying amount:					
At 1 January 2014	**14,014**	**583**	**4,722**	**-**	**19,319**
At 31 December 2014	**13,263**	**328**	**4,049**	**-**	**17,640**
At 31 December 2015	**12,308**	**65**	**3,145**	**1,192**	**16,710**

14 Other assets

	2015 £'000	2014 £'000	2013 £'000
Prepayments and accrued income	8,653	8,811	6,154
Current taxation (Note 8)	3,122	2,361	1,053
Pension asset (Note 7)	9,500	-	11,345
Other debtors - amortised cost	145,296	107,206	231,819
	166,571	**118,378**	**250,371**

15 Trading portfolio financial liabilities

	2015 £'000	2014 £'000	2013 £'000
Government bonds	1,173,593	1,769,260	1,816,732
Corporation bonds	157,345	189,130	138,797
Other public sector securities	1,663	23,417	16,098
Total debt securities	**1,332,601**	**1,981,807**	**1,971,627**
Equity instruments	679,926	309,237	166,550
Total trading portfolio financial liabilities	**2,012,527**	**2,291,044**	**2,138,177**
Of which listed:			
Debt securities	1,126,670	1,975,387	1,651,356
Equity instruments	679,926	309,237	165,809
Of which unlisted:			
Debt securities	205,931	6,420	320,271
Equity instruments	-	-	741
	2,012,527	**2,291,044**	**2,138,177**

16 Financial liabilities designated at fair value

	2015 £'000	2014 £'000	2013 £'000
Own issued notes	2,400,259	2,977,860	3,846,814
Commercial paper	550,534	451,968	-
Other financial liabilities	480,252	648,448	384,024
MUSHD loan facility	201,191	-	-
	3,632,236	**4,078,276**	**4,230,838**

Own issued notes includes 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 three 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 MUSI to borrow funds from MUSHD.

17 Other liabilities

	2015 £'000	2014 £'000	2013 £'000
Tax and social security	8,025	8,601	14,707
Pension liability (Note 7)	-	8,557	-
Other creditors	483,963	443,910	247,256
	491,988	**461,068**	**261,963**

Other creditors are driven by cash collateral received related to an equity financing trade. The cash collateral was called by MUSI to limit exposures under credit terms of the trade.

18 Subordinated liabilities

	2015 £'000	2014 £'000	2013 £'000
JPY 12.675 billion (2013: JPY 59.5 billion) Floating Rate Loan due June 2020 at 6 month JPY-LIBOR plus 90bps	70,845	68,257	342,776
JPY 106.5 billion Floating Rate Loan due December 2020 at 6 month JPY-LIBOR plus 80bps	595,266	573,521	613,533
	666,111	**641,778**	**956,309**

Subordinated loans are agreed between the Company and its immediate parent, MUSHD. In 2014, the Company issued new share capital to MUSHD totalling £250 million, with the concurrent early repayment of subordinated loans totalling JPY46.8 billion (~£250 million equivalent). The JPY cash was settled in January 2015 and was reflected in 'Other creditors' as at 31 December 2014.

19 Share capital

	2015		2014		2103	
	No.'000	£'000	No.'000	£'000	No.'000	£'000
Ordinary shares of £1 each:						
Authorised	1,250,000	1,250,000	1,250,000	1,250,000	1,000,000	1,000,000
Share capital as at 1st January	1,010,611	1,010,611	760,611	760,611	760,611	760,611
Share capital issued in the year	-	-	250,000	250,000	-	-
Allotted, called up and fully paid at 31st December	**1,010,611**	**1,010,611**	**1,010,611**	**1,010,611**	**760,611**	**760,611**

The Company has one class of ordinary shares which carry no right to fixed income.

20 Derivative financial instruments

	2015		
	Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Derivatives held for trading			
Foreign exchange contracts	176,394,931	4,732,021	4,169,629
Interest rate contracts	2,357,457,796	8,239,884	7,863,563
Credit derivative contracts	13,514,217	533,394	95,093
Equity contracts	4,930,006	100,146	232,281
Commodities contracts	766,676	78,489	78,387
Total trading contracts	**2,553,063,626**	**13,683,934**	**12,438,953**
Derivatives designated as fair value hedges			
Interest rate swaps contracts	848,033	-	10,579
Derivatives designated as cash flow hedges			
Forward foreign exchange contracts	657,005	11,305	13,646
Total hedging contracts	**1,505,038**	**11,305**	**24,225**
Total derivatives financial instruments	**2,554,568,664**	**13,695,239**	**12,463,178**

	2014		
	Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Derivatives held for trading			
Foreign exchange contracts	152,547,918	5,085,313	4,389,957
Interest rate contracts	2,229,919,680	9,032,502	8,688,622
Credit derivative contracts	13,707,457	530,804	122,903
Equity contracts	3,398,234	86,394	100,836
Commodities contracts	1,110,374	114,934	113,197
Total trading contracts	**2,400,683,663**	**14,849,947**	**13,415,515**
Derivatives designated as fair value hedges			
Interest rate swaps (OTC)	549,816	(6,961)	5,777
Derivatives designated as cash flow hedges			
Forward foreign exchange (OTC)	519,169	14,746	2,275
Total hedging contracts	**1,068,985**	**7,785**	**8,052**
Total derivatives financial instruments	**2,401,752,648**	**14,857,732**	**13,423,567**

	2013		
	Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Derivatives held for trading			
Foreign exchange contracts	117,838,338	3,865,424	3,802,082
Interest rate contracts	2,073,943,232	7,407,668	7,237,193
Credit derivative contracts	13,059,623	813,234	86,166
Equity contracts	2,030,204	12,950	39,400
Commodities contracts	10,910,688	233,819	172,201
Total trading contracts	**2,217,782,085**	**12,333,095**	**11,337,042**
Derivatives designated as fair value hedges			
Interest rate swaps (OTC)	1,550,778	15,089	54,525
Derivatives designated as cash flow hedges			
Forward foreign exchange (OTC)	928,606	3,952	20,973
Total hedging contracts	**2,479,384**	**19,041**	**75,498**
Total derivatives financial instruments	**2,220,261,469**	**12,352,135**	**11,412,540**

OTC credit derivatives include a credit derivative asset, which relates to a financial guarantee provided by a group company, BTMU, for the uncollateralised derivatives exposures within a portfolio of corporate counterparties. This amount is offset by a credit valuation adjustment ("CVA") in respect of the exposure to the underlying corporate counterparties. This largely pertains to Interest rate and Foreign exchange contracts.

Gains and losses arising from fair value hedges:	2015 £'000	2014 £'000
On hedging instruments	(7,100)	(21,634)
On the hedged items attributable to the hedged risk	7,218	23,973
Net gains / (losses)	**118**	**2,339**

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 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 (2014: not significant).

21 Report on Directors' remuneration and interests

	2015 £'000	2014 £'000
Short term employment benefits	2,572	2,213
Post employment benefits	60	41
Other long term benefits	387	471
Notional share based payments	852	595
Remuneration of key management personnel	**3,871**	**3,320**

The number of directors who were members of the Group defined contribution personal pension plan during the period was 3 (2014: 2).

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:

	2015 £'000	2014 £'000
Short term employment benefits	790	787
Post employment benefits	20	19
Other long term benefits	377	393
Notional share based payments	703	430
	1,890	**1,629**

22 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 cases 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.

	2015		2014		2013	
	Carrying value £'000	**Fair value £'000**	**Carrying value £'000**	**Fair value £'000**	**Carrying value £'000**	**Fair value £'000**
Assets						
Held to maturity securities	-	-	-	-	679,539	673,292
Loans and receivables						
Reverse repurchase agreements	136,482	136,453	2,514,216	2,514,256	1,574,478	1,574,468
Cash collateral paid to derivative counterparties	1,452,585	1,452,585	1,958,731	1,958,731	2,040,492	2,040,492
Other assets	166,571	166,571	118,378	118,378	250,371	250,371
Liabilities						
At amortised cost						
Repurchase agreements	294,762	294,761	426,853	426,829	306,607	306,607
Cash collateral received from dervative counterparties	5,595,127	5,595,127	5,887,069	5,887,069	4,966,693	4,966,693
Other liabilities	491,988	491,988	461,068	461,068	261,963	261,963
Subordinated liabilities	666,111	668,985	641,778	646,428	956,309	956,094

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 (2014: not significant).

The fair value of certain financial instruments is measured using valuation techniques that are determined in full or part 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 £4.3 million (2014: £6.8 million) lower to £45.0 million (2014: £19.5 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. It should be noted that for financial instruments whose valuations are not supported by observable market prices, profits are reserved at inception and these have not been adjusted in making this calculation.

There were no re-categorisations of financial instruments between levels 1 and 2 of the fair value hierarchy during the period. The movements in balances of level 3 items are detailed on page 41.

	2015 £'000			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Trading portfolio financial assets	2,471,670	1,703,421	-	4,175,091
Reverse repurchase agreements - fair value	-	28,412,219	-	28,412,219
Cash collateral on securities borrowed	-	5,134,715	-	5,134,715
Financial instruments available for sale	1,476,008	640,073	109	2,116,190
Derivative financial instruments	21,084	13,449,959	224,196	13,695,239
Financial assets designated at fair value	-	-	-	-
Equity finance assets	-	408,229	-	408,229
	3,968,762	**49,748,616**	**224,305**	**53,941,683**
Liabilities				
Trading portfolio financial liabilities	1,854,043	158,484	-	2,012,527
Repurchase agreements - fair value	-	30,222,438	-	30,222,438
Cash collateral on securities lent	-	103,661	-	103,661
Derivative financial instruments	85,766	12,166,346	211,066	12,463,178
Financial liabilities designated at fair value	-	3,476,477	155,759	3,632,236
	1,939,809	**46,127,406**	**366,825**	**48,434,040**

22 Fair value of financial instruments (continued)

2014 £'000	Level 1	Level 2	Level 3	Total
Assets				
Trading portfolio financial assets	3,040,468	2,474,194	-	5,514,662
Reverse repurchase agreements - fair value	-	20,572,826	-	20,572,826
Cash collateral on securities borrowed	-	2,414,746	-	2,414,746
Financial instruments available for sale	1,294,731	322,207	-	1,616,938
Derivative financial instruments	1,954	14,630,281	225,497	14,857,732
Financial assets designated at fair value	-	5,385	-	5,385
Equity finance assets	-	350,456	-	350,456
	4,337,153	**40,770,095**	**225,497**	**45,332,745**
Liabilities				
Trading portfolio financial liabilities	2,088,024	203,020	-	2,291,044
Repurchase agreements - fair value	-	21,748,453	-	21,748,453
Cash collateral on securities lent	-	4,620	-	4,620
Derivative financial instruments	25	13,248,488	175,054	13,423,567
Financial liabilities designated at fair value	-	3,939,721	138,555	4,078,276
	2,088,049	**39,144,302**	**313,609**	**41,545,960**

2013 £'000	Level 1	Level 2	Level 3	Total
Assets				
Trading portfolio financial assets	1,541,790	1,998,169	-	3,539,959
Reverse repurchase agreements - fair value	-	27,417,001	59,558	27,476,559
Cash collateral on securities borrowed	-	1,595,574	-	1,595,574
Financial instruments available for sale	1,622,951	302,363	-	1,925,314
Derivative financial instruments	3,903	12,245,395	102,837	12,352,135
Financial assets designated at fair value	-	11,511	-	11,511
Equity finance assets	-	291,988	-	291,988
	3,168,644	**43,862,001**	**162,395**	**47,193,040**
Liabilities				
Trading portfolio financial liabilities	1,985,118	153,059	-	2,138,177
Repurchase agreements - fair value	-	27,020,449	-	27,020,449
Cash collateral on securities lent	-	35,030	-	35,030
Derivative financial instruments	35,851	11,189,748	186,941	11,412,540
Financial liabilities designated at fair value	-	3,593,374	637,464	4,230,838
	2,020,969	**41,991,660**	**824,405**	**44,837,034**

The table below shows a reconciliation from the beginning balances to the ending 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.

	Derivative assets £'000	Available for sale securities £'000	Derivative liabilities £'000	Financial liabilities designated at fair value £'000
Opening balance 1 January 2015	225,497	-	(175,054)	(138,555)
Total gains/(losses) in profit and loss	123,766	-	(142,853)	8,898
Purchases	-	109	-	-
Issues	-	-	-	(66,128)
Settlements	(124,146)	-	106.536	43,242
Transfers into level 3	-	-	-	(40,814)
Transfers from level 3	(921)	-	305	37,598
Closing balance 31 December 2015	**224,196**	**109**	**(211,066)**	**(155,759)**

Unrealised gains or losses for the year, included in the income statement for assets and liabilities held at the end of the financial year:

- Net trading income	143,265	-	(136,896)	5,283

Transfers into / from level 3 represent selected structured notes which have been reclassified from / into level 2 of the hierarchy. These structures contain exotic embedded derivatives, primarily linked to foreign exchange rates which drive the returns and valuation of the notes. During the period, there has been an increase in the observability of the key inputs to the valuation models and a corresponding decrease 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:

	2015 £'000	2014 £'000	2013 £'000
Unamortised balance at 1st January	7,595	4,833	3,755
Deferral on new transactions	8,503	11,253	4,281
Amortised to the profit and loss account during the financial year	(8,810)	(8,491)	(3,203)
Unamortised balance at 31st December	**7,288**	**7,595**	**4,833**

Financial assets designated at fair value

As at 31 December 2014 the maximum exposure to credit risk on financial assets designated at fair value through profit and loss for the Company was £5.4 million. The Company manages its credit risks in accordance with credit policies which are endorsed by MUSHD. Counterparty exposure is managed through a process of limit setting and exception reporting with credit policy determining the maximum exposure on a company basis (refer to Business and Risk Management Policies). The company did not have any financial assets designated at fair value at 31 December 2015.

22 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 £156m (2014: £139m) contain embedded derivatives with inputs represented by the Interest rate, Foreign exchange and Equity derivatives described in the table below:

	Total assets £'000	Total liabilities £'000	Valuation technique(s)	Significant unobservable inputs	Range Min	Range Max	Units
Interest rate derivatives	42,639	(25,493)	Option model	IR - IR Correlation	5.33	99.79	%
				Prepayment probability	100.00	100.00	%
Foreign exchange derivatives	12,760	(4,405)	Option model	IR - IR Correlation	50.12	73.95	%
				FX - IR Correlation	46.40	46.40	%
				Correlation - underlying assets	85.00	85.00	%
Equity derivatives	91,864	(104,444)	Option model	Equity - IR Correlation	33.33	33.33	%
				Equity - FX Correlation	6.00	6.00	%
				Option volatility	0.00	106.59	%
			Discounted cash flows	Term of Litigation swap	0.50	0.50	Year
Credit derivatives	106	-	Basket correlation model	Correlation - underlying assets	33.30	97.96	%
			Discounted cash flows	Funding spread	0.00	0.00	bps
Commodities	76,827	(76,724)	Option model	Correlation - underlying assets	-15.39	43.59	%
				Commodity - IR Correlation	25.00	75.00	%
	224,196	**(211,066)**					

The following provides a summary description of significant unobservable inputs included in the table above:

- 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.

23 Obligations under finance leases

	2015 £'000	2014 £'000	2013 £'000
Minimum lease payments:			
Within 1 year	258	-	-
Between 1 and 5 years	1,206	-	-
After 5 years	-	-	-
Amounts payable under finance leases	**1,464**	**-**	**-**
Add: future financing income	54	-	-
Present value of lease obligations	**1,518**	**-**	**-**
Amounts payable under finance leases:			
Within 1 year	279	-	-
Between 1 and 5 years	1,239	-	-
After 5 years	-	-	-
Present value of lease obligations	**1,518**	**-**	**-**

It is the company's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 5 years. For the year ended 31 December 2015, the average effective borrowing rate was (1.44)% (2014 and 2013: n/a). 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 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 12 and 13.

24 Post-balance sheet events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31st December 2015 Financial Statements.

25 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:

Assets pledged as collateral

	2015 £'000	2014 £'000	2013 £'000
Trading securities	2,390,125	3,503,904	1,631,251
Investment securities	1,414,747	732,808	1,303,464
	3,804,872	**4,236,712**	**2,934,715**

25 Collateral (continued)

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:

	2015 £'000		2014 £'000		2013 £'000	
	Fair Value	Sold or repledged	Fair Value	Sold or repledged	Fair Value	Sold or repledged
Accepted collateral	43,628,256	39,478,869	37,202,586	33,503,608	42,112,746	39,004,975

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:

	2015 £'000	2014 £'000	2013 £'000
Securities transferred to special purpose entities	113,417	204,776	164,737

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.

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 carrying amount of any on-balance sheet assets net of any recourse liabilities, where applicable.

As at 31 December 2015	Investment funds £'000	SPVs for structured financing £'000	Repackaged instruments £'000	Other £'000	Total £'000
Trading portfolio financial assets	123,234	-	59,243	-	182,477
Derivative financial instruments	1,346	1,440,004	289,501	155,907	1,886,758
Reverse repurchase agreements	-	304,683	-	-	304,683
Total Assets	**124,580**	**1,744,687**	**348,744**	**155,907**	**2,373,918**
Derivative financial instruments	-	98,629	30,120	-	128,749
Repurchase agreements	-	24,398	-	-	24,398
Financial liabilities designated at fair value	-	-	480,236	-	480,236
Other liabilities	-	150,321	-	-	150,321
Total Liabilities	**-**	**273,348**	**510,356**	**-**	**783,704**
Maximum Exposure	**124,346**	**1,569,968**	**348,744**	**155,907**	**2,198,965**

As at 31 December 2014	Investment funds £'000	SPVs for structured financing £'000	Repackaged instruments £'000	Other £'000	Total £'000
Trading portfolio financial assets	320,530	-	-	-	320,530
Derivative financial instruments	-	1,651,890	353,010	4,692	2,009,592
Total Assets	**320,530**	**1,651,890**	**353,010**	**4,692**	**2,330,122**
Derivative financial instruments	-	121,967	31,689	-	153,656
Financial liabilities designated at fair value	-	-	641,774	-	641,774
Total Liabilities	**-**	**121,967**	**673,463**	**-**	**795,430**
Maximum Exposure	**320,530**	**1,651,890**	**353,010**	**4,692**	**2,330,122**

As at 31 December 2013	Investment funds £'000	SPVs for structured financing £'000	Repackaged instruments £'000	Other £'000	Total £'000
Trading portfolio financial assets	306,245	-	-	-	306,245
Derivative financial instruments	-	836,229	314,794	3,176	1,154,199
Total Assets	**306,245**	**836,229**	**314,794**	**3,176**	**1,460,444**
Derivative financial instruments	-	29,545	38,129	754	68,428
Financial liabilities designated at fair value	-	-	206,562	-	206,562
Total Liabilities	**-**	**29,545**	**244,691**	**754**	**274,990**
Maximum Exposure	**306,245**	**836,229**	**314,794**	**3,176**	**1,460,444**

26 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 £168.4 million (2014: £583.6 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. The facilities will expire during the 2016 financial year.

27 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 as liquidity risk on these items is not managed on a contractual maturity basis. The subordinated liabilities bear interest at variable rates which are not known until specified fixing dates have occurred.

2015 £'000

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Over 5 years	Total
Deposits by banks	92,149	-	-	-	-	92,149
Trading portfolio financial liabilities	2,012,527	-	-	-	-	2,012,527
Repurchase agreements	1,254,438	36,212,084	1,052,849	373,138		38,892,510
Cash collateral on securities lent	17,934	85,727	-	-	-	103,661
Cash collateral received from derivatives counterparties	5,595,127	-	-	-	-	5,595,127
Derivatives	12,463,178	-	-	-	-	12,463,178
Financial liabilities designated at fair value	-	583,039	765,812	1,194,561	1,191,221	3,734,633
Other liabilities	424,752	29,570	8,938	28,728	-	491,988
Subordinated liabilities	-	-	6,233	692,317	-	698,550
	21,860,105	**36,910,420**	**1,833,832**	**2,288,744**	**1,191,221**	**64,084,322**

2014 £'000

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Over 5 years	Total
Deposits by banks	43,089	-	-	-	-	43,089
Trading portfolio financial liabilities	2,291,044	-	-	-	-	2,291,044
Repurchase agreements	1,582,021	26,428,982	2,116,867	-	-	30,127,870
Cash collateral on securities lent	5,392	-	-	-	-	5,392
Cash collateral received from derivatives counterparties	5,887,069	-	-	-	-	5,887,069
Derivatives	13,423,567	-	-	-	-	13,423,567
Financial liabilities designated at fair value	-	567,984	221,832	946,390	2,410,954	4,147,159
Other liabilities	389,806	31,403	8,363	31,496	-	461,068
Subordinated liabilities	-	-	6,146	26,822	649,954	682,922
	23,621,988	**27,028,369**	**2,353,208**	**1,004,708**	**3,060,908**	**57,069,181**

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.

28 Operating lease arrangements

The company as lessee

	2015 £'000	2014 £'000
Lease payments under operating leases recognised as an expense in the year	3,977	3,796

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:

	2015 £'000		2014 £'000	
	Other operating leases	Buildings	Other operating leases	Buildings
Within 1 year	-	3,951	202	5,226
Between 1 - 2 years	-	5,268	-	5,226
Between 2 - 5 years	-	15,804	-	15,678
After 5 years	-	47,411	-	50,953
	-	**72,434**	**202**	**77,083**

Operating lease payments represent rentals payable by the company for certain of its office properties and data centres. Building leases are negotiated for an average term of 20 years.

29 Offsetting financial assets and financial liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the group 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 Group's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

29 Offsetting financial assets and financial liabilities (continued)

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting on balance sheet			Related amounts not offset					
	Gross amounts £'000	Amounts offset £'000	Net amounts on balance sheet £'000	Financial instruments £'000	Cash collateral £'000	Financial collateral £'000	Net amount £'000	Not subject to enforceable netting £'000	Balance sheet total £'000
As at 31 December 2015									
Derivative financial assets	27,567,517	14,981,751	12,585,767	8,479,223	662,500	4,021	3,440,023	1,109,472	13,695,239
Reverse repurchase agreements	36,235,185	8,375,755	27,859,431	2,239,566	-	25,478,094	141,771	689,270	28,548,701
Secured lending	4,887,644	-	4,887,644	14,680	-	4,800,098	72,866	247,071	5,134,715
Total Assets	**68,690,346**	**23,357,506**	**45,332,841**	**10,733,469**	**662,500**	**30,282,213**	**3,654,660**	**2,045,814**	**47,378,654**
Derivative financial liabilities	26,500,795	15,211,286	11,289,509	8,479,223	1,110,547	533,116	1,166,622	1,173,669	12,463,178
Repurchase agreements	38,882,394	8,375,755	30,506,639	2,239,566	-	28,206,428	60,645	10,561	30,517,200
Secured borrowing	103,661	-	103,661	14,680	-	88,872	109		103,661
Total Liabilities	**65,486,849**	**23,587,041**	**41,899,808**	**10,733,469**	**1,110,547**	**28,828,417**	**1,227,377**	**1,184,230**	**43,084,038**
As at 31 December 2014									
Derivative financial assets	28,902,688	14,508,232	14,394,455	9,958,004	843,831	-	3,592,621	463,277	14,857,732
Reverse repurchase agreements	31,849,990	9,833,170	22,016,820	4,680,520	-	17,272,816	63,484	1,070,222	23,087,042
Secured lending	2,240,803	-	2,240,803	4,346	-	2,173,106	63,351	173,944	2,414,746
Total Assets	**62,993,481**	**24,341,402**	**38,652,079**	**14,642,870**	**843,831**	**19,445,922**	**3,719,456**	**1,707,443**	**40,359,520**
Derivative financial liabilities	28,110,610	14,786,827	13,323,782	9,958,004	1,811,182	365,071	1,189,526	99,784	13,423,567
Repurchase agreements	31,867,412	9,833,170	22,034,242	4,680,520	13,378	17,325,827	14,516	141,065	22,175,306
Secured borrowing	4,620	-	4,620	4,346	-	275	-	-	4,620
Total Liabilities	**59,982,642**	**24,619,997**	**35,362,644**	**14,642,870**	**1,824,560**	**17,691,173**	**1,204,042**	**240,849**	**35,603,493**
As at 31 December 2013									
Derivative financial assets	26,225,723	14,215,611	12,010,112	8,328,592	661,888	-	3,019,632	342,023	12,352,135
Reverse repurchase agreements	39,642,563	10,592,946	29,049,616	6,706,884	-	22,235,273	107,459	1,421	29,051,037
Secured lending	1,595,473	-	1,595,473	33,263	-	1,517,050	45,160	101	1,595,574
Total Assets	**67,463,759**	**24,808,557**	**42,655,201**	**15,068,739**	**661,888**	**23,752,323**	**3,172,251**	**343,545**	**42,998,746**
Derivative financial liabilities	25,753,937	14,409,478	11,344,459	8,328,592	1,961,302	162,356	892,209	68,082	11,412,540
Repurchase agreements	37,555,436	10,592,946	26,962,489	6,706,884	-	20,177,249	78,357	364,566	27,327,056
Secured borrowing	35,030	-	35,030	33,263	-	1,733	34	-	35,030
Total Liabilities	**63,344,403**	**25,002,424**	**38,341,978**	**15,068,739**	**1,961,302**	**20,341,338**	**970,600**	**432,648**	**38,774,626**

30 Related party transactions

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

	2015 £'000	2014 £'000	2013 £'000
Income	55,942	52,063	50,244
Expenses	19,841	58,772	66,165
Total assets	15,857,585	9,753,183	11,961,608
Total liabilities	9,351,728	9,254,929	9,029,089

All related parties are wholly owned subsidiaries of MUFG, with the exception of Morgan Stanley Group companies, which are included due to their affiliates 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 Equity and Structuring businesses. Expenses includes interest for subordinated loans and management fees paid to our parent company as well as fees paid for a keepwell and guarantees in place between MUSI, BTMU and MUFG. Total assets include the credit derivative, which is a BTMU guarantee, referred to in Note 20.

There are no material related party transactions with key management, and persons connected with them, other than remuneration disclosed in Note 21.

31 Group information

Mitsubishi UFJ Securities International plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The principle activities of the company and the nature of the company's operations are set out in the Strategic Report on page 2 to 3.

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.
5-2, Marunouchi 2-chome
Chiyoda-ku
Tokyo 100-0005
Japan

The below MUSI subsidiary was dissolved during the year (effective: 25 August 2015). The Company owned the whole of the issued ordinary share capital and the subsidiary was previously listed as a dormant entity. The £1 investment has historically been consolidated in the Company's immediate parent for financial reporting.

	Country of incorporation	Main activity	Issued ordinary share capital
TMI Nominees Limited	United Kingdom	Nominee for Mitsubishi UFJ Securities International plc.	£1