Pillar 3 Disclosure

31ST DECEMBER 2015

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

2015 Mitsubishi UFJ Financial Group

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1. Introduction

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

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

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

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

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

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

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

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

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2. About MUSI

MUSI is a wholly-owned investment banking subsidiary of Mitsubishi UFJ Securities Holdings Co. Ltd. (MUSHD), which is wholly owned by the Mitsubishi UFJ Financial Group Inc. (MUFG) and was established in 1983. MUSI's share capital at 31st December 2015 was £1,011 million and the average number of employees during the year was 569.

MUSI is active throughout the international capital markets, focusing on debt, equity, derivatives and structured products. It is engaged in market-making and dealing in the debt, equity-linked and derivatives financial markets; and the management and underwriting of issues of securities, and securities investment.

MUSI provides a wide range of services to governments, their monetary authorities and central banks, supra-national and sub-national organisations, private financial institutions and corporates. MUSI's return on assets during 2015 was 0.01%.

MUSI's Dubai branch opened in the third quarter of 2014 allows us to build on our current client base as well as further leverage the MUFG presence within the Emirates region.

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

MUFG was formed in October 2005 through the merger of Mitsubishi Tokyo Financial Group and UFJ Holdings and is one of the world's largest and most diversified financial groups, with total assets of ¥295.8 trillion (£1.7 trillion) at 31 December 2015. MUFG's services include commercial banking, trust banking, investment banking, credit cards, consumer finance, asset management, leasing and other financial service activities.

The scope of this document covers MUSI, including its Dubai branch, on a solo basis. As of 31 December 2015 MUSI does not have any subsidiaries.

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3. Regulatory Approach

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

Methodologies for MUSI's capital calculations

Pillar 1 Credit Risk
MUSI's credit risk requirement is measured under the Standardised Method in accordance with Title 2 of Part Three within the Capital Requirements Regulation (CRR).

Pillar 1 Market Risk
The calculation of MUSI's market risk capital requirements is primarily based on its internal Value at Risk ("VaR") model which has been approved by the PRA. Market risk capital requirements for a small number of positions are calculated using the Standardised Approach.

Pillar 1 Operational Risk
MUSI calculates its operational risk using the Standardised approach in accordance with Title 3 of Part Three within CRR.

Basis of consolidation

In this disclosure, MUSI is presented on a solo basis and there is no difference between the financial accounting consolidation and the regulatory consolidation.

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4. Risk Management Structure

Committee and Corporate Structure

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

Board

The responsibility for risk management resides with the Board, with support from the Board Risk Committee ("BRC"). As part of MUSI's business strategy, the Board considers the risks to which MUSI is exposed, and specifies an appetite and management strategy for each of these risks. The 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 MUSI which describes MUSI'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 MUSI's risk appetite. The Board is ultimately responsible for reviewing the adequacy of the enterprise-wide risk management framework. The Directors consider that the framework currently in place is adequate.

Board Risk Committee

The objective of the BRC is to exercise oversight on behalf of the Board over the key risks facing MUSI and to review and make recommendations to the Board on MUSI's risk appetite and risk strategy, risk management framework (incorporating principles, policies, methodologies, systems, processes, procedures and people), and risk culture to ensure that it supports MUSI's risk appetite.

As at 31 December 2015, the Committee was 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 MUSI'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 MUSI and the risk profile of each of MUSI's business lines; 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.

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, 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

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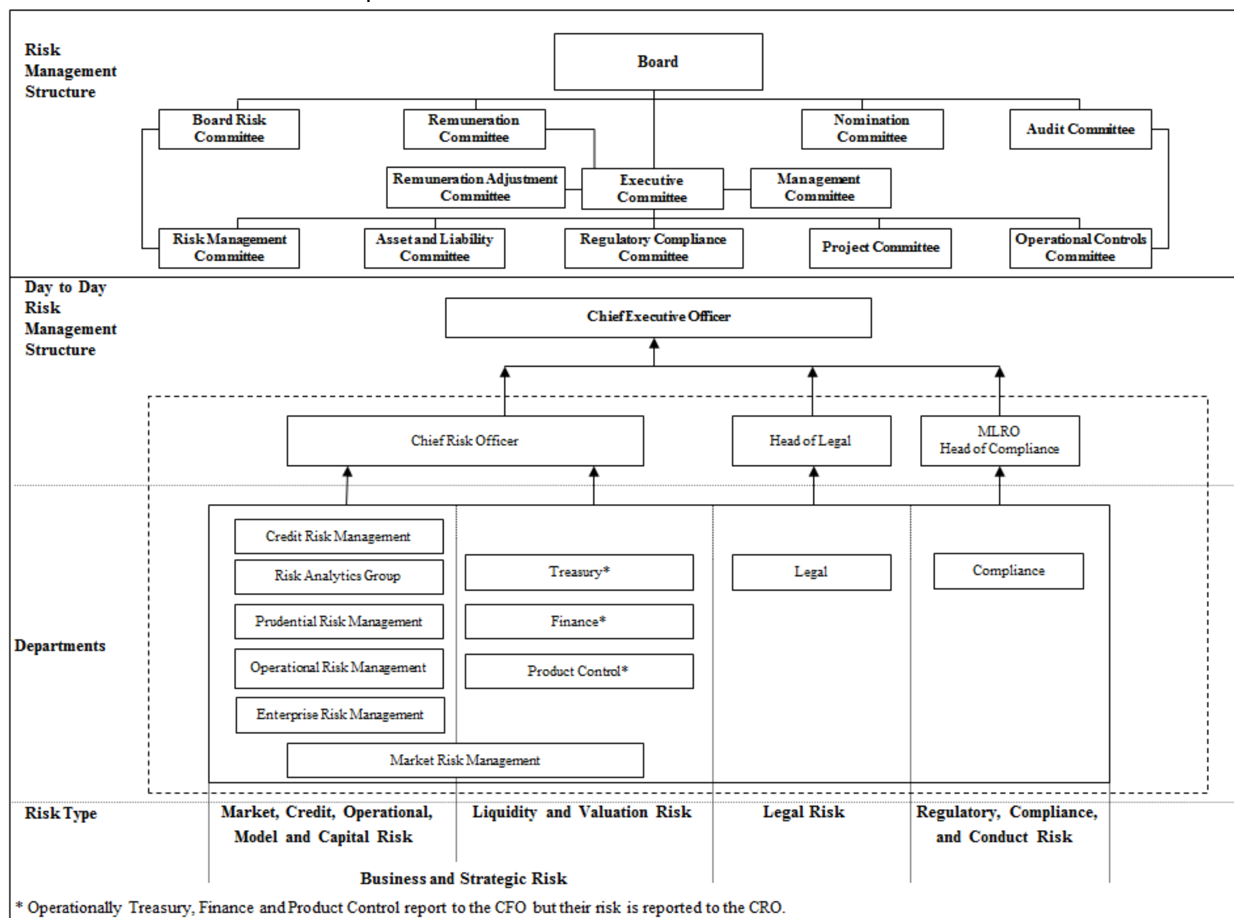
Compliance, who reports directly to the CEO. Legal risk management resides with the Head of Legal, who reports directly to the CEO. Reputational risk management resides with the CEO and the Executive Committee.

Each of these executive sub-committees reports to the Executive Committee, which reports directly to the Board. In addition, the RMC reports to the BRC.

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



Three Lines of Defence

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

1) Business Management – 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 MUSI to maintain a system of checks and balances;

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- 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 MUSI.

Senior Management

Board members as of 31 December 2015 are listed in the table below.

Table 1: Board Members

Position	Status	Current holder
Chairman	Independent Non-Executive Director	William Fall
Mr. Fall has been a director since February 2015, during which time he has been Chair of the Board Risk Committee and became the Chairman of the Board in October 2015. His most recent role was Co-Head of the Institutional Bank, at Royal Bank of Scotland. Prior to this, Mr Fall was the CEO, International, at Bank of America. He has also held senior positions at Kleinwort Benson, Westpac Banking Corporation and Straumur-Burdaras and also sits on several charitable Boards.		
Member	Group Non-Executive Director	Takami Onodera
Mr. Onodera has been a director since 2014. He is currently Deputy President of MUSHD, a position he assumed in 2013. He has held various senior roles at BTMU, including CEO for Asia and Oceania, and Group Head of the Corporate Investment Banking Group. He has more than 30 years of experience in the banking industry since he started his career at The Mitsubishi Bank Ltd in 1980, one of the banks that merged into BTMU.		
Member	Group Non-Executive Director	Masato Miyachi
Mr. Miyachi has been a director to MUSI since 2014. Mr. Miyachi commenced his banking career with Mitsubishi UFJ Financial Group (MUFG) at The Bank of Tokyo, Ltd. in 1984. He has held a number of positions in Tokyo, New York and London gaining extensive global banking experience in across Capital Markets, M&A Advisory, Structured Finance, Investment Banking and Corporate Banking. In October 2014 he assumed responsibility for the overall strategic leadership of BTMU's EMEA business as Chief Executive Officer for Europe, Middle East and Africa.		
Member	Group Non-Executive Director	Masamichi Yasuda
Mr. Yasuda has been a director since 2014. He is Managing Director, Chief Risk Officer for BTMU and Director, Managing Executive Officer, Group Chief Risk Officer for MUFG. In the global market business, he gained valuable experience in sales and trading, portfolio management, and asset and liability management. He also is skilled in corporate strategy and corporate finance management and operations.		
Member	Group Non-Executive Director	Nobuyuki Uchida
Mr. Uchida has been a director since 2012 and is currently Resident Executive Officer of Mitsubishi UFJ Securities Holdings. He was Deputy CEO and Interim CRO at MUSI. Prior to that, Mr Uchida was CRO and Chief Compliance Officer for MUSHD and held various management positions in Global Markets Business both at MUSHD and BTMU. He has more than 30 years of experience in the banking industry since he joined The Mitsubishi Bank in 1980, one of the predecessors of BTMU.		
Member	Independent Non-Executive Director	Diane Moore
Mrs. Moore has been a director since 2013 and is Chair of the Nomination and Remuneration Committees. She is a specialist in financial services regulation, banking supervision and strategic management, having worked in senior positions at the Bank of England and other central banks, as well as the FSA. She is also the Non-Executive Chair of the Audit Committee at the London branch of BTMU and holds additional non-executive positions in the public and charity sectors.		
Member	Independent Non-Executive Director	Stephen Jack
Mr. Jack has been a director since September 2015 and is Chair of the Audit Committee. He is a Chartered Accountant who has held senior management positions in a number of international investment banking and broking organisations including being Global CFO of ING Barings, Group Finance Director of Collins Stewart Tullett plc and Group CFO of Compagnie Financiere Tradition SA. As a Non-Executive director he has gained experience across other sectors. He is currently Vice Chair of Anchor Trust, England's largest not for profit provider of care and housing for older people, and a Non-executive Director of the Cambridge Building Society. In May 2014 he also became a trustee of the Royal Mencap Society and was awarded an OBE for services to disabled people.		
Member	Executive Director	David King

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Position	Status	Current holder
Mr. King has been a director since 2010. He joined MUSI as Chief Financial Officer in 2010 and was appointed as Chief Executive Officer in 2014. He has held several management roles in Finance and Product Control during his career at KPMG, RBS, HBOS and Lloyds. He is a qualified Chartered Accountant.		
Member	Executive Director	Chris Kyle
Mr. Kyle has been a director since 2014. He is currently Chief Financial Officer at MUSI, having experience in various senior roles such as CFO and Chief Operating Officer of the Global Banking & Markets Division at RBS, Barclays, and Dresdner Kleinwort Benson. He is a Qualified Chartered Accountant.		
Member	Executive Director	Arthur Maycock
Mr. Maycock has been a Director since 2013. Prior to joining MUSI as Chief Risk Officer in 2013, he was a senior risk specialist at the Federal Reserve Bank of New York. He has held various senior management positions in risk management at Merrill Lynch and Salomon Brothers.		

Nomination Committee

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

Diversity

Diversity and Inclusion continues to be a key area of focus for MUSI. Further progress has been made through the establishment of a Diversity & Inclusion working group who are actively leading MUSI's approach in this area. A number of items have been delivered including: a review of MUSI's employee demographic data resulting in a number of recommendations and proposed actions. A published Diversity & Inclusion policy that outlines the environment and culture MUSI seeks to create. Employee focus groups and an employee engagement survey have identified areas to further progress the diversity and inclusion strategy. MUSI has also seen an increase in the number of flexible working applications received and adopted. The promotion of Diversity and inclusion is fully embedded within all of MUSI's employee practices including: recruitment, onboarding, talent assessment, promotion and management and leadership development. MUSI delivers trainings on behaviours and cultural awareness at regular intervals to further embed.

MUSI has an International Recruitment Policy which details MUSI's approach to resourcing, including the appointment of Senior Management. The policy outlines MUSI's approach to sourcing, selection and the assessment of candidates to ensure a fair and robust selection process is followed. The policy also details MUSI's approach to employee referrals. The Nomination Committee follows a Board-approved recruitment protocol to help it deliver on these responsibilities and also agreed Board Diversity Policy.

Risk appetite

Central to MUSI's risk management is a clear risk appetite, consistent with its business profile and plans, as well as a strong and independent review and challenge structure. This facilitates optimisation of risk/return and assists Senior Management to effectively control and coordinate risk taking across the business. MUSI's risk appetite is specified by the Board through a number of metrics including capital, liquidity, earnings volatility, market and credit risk. It is reviewed at regular meetings of the Board and reset annually as part of MUSI's budget and planning process. The risk appetite is cascaded through MUSI via the allocation of limits to both 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 MUSI, business unit, department, and trader level and risk limits are monitored daily.

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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 MUSI's risk register.

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

MUSI has established formal processes governing New Business, Complex Transactions and New Products which support the identification of any additional risk to MUSI, and ensures that the risks related to the proposal are within the risk appetite of MUSI and has the support of MUSI's risk management functions

Risk monitoring

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

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

New products and complex transactions

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

Complex transactions are subject to a similar approval process as new products. The CRO is responsible for determining whether any complex transaction is within MUSI's risk appetite and the final approval of all complex transactions.

Hedging

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

Stress testing

MUSI has a stress testing framework that includes scenario stress testing (comprising macroeconomic and event stress testing based upon forward looking, historical and reverse stress testing), as well as 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 MUSI level and also by department and business line, and reported regularly to Senior Management.

MUSI undertakes stress testing across each of its businesses using stressed market moves across the market risk factors of relevance for each of those businesses.

Leverage ratio

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

In December 2015 the Bank of England Financial Policy Committee issued a Policy Statement regarding the implementation of the leverage ratio for UK Banks. Under this implementation MUSI is not required to meet the leverage ratio requirement until 1st January 2018. MUSI has plans to increase its leverage ratio through reduction in exposure to achieve the required leverage ratio by 1st January 2018.

Although the regulatory leverage ratio definition which MUSI is required to adhere to is subject to further development and at present no minimum requirement applies, MUSI performs regular analysis of the calculation to understand drivers and sensitivities. This allows MUSI to assess its plans to achieve the require leverage ratio by 1st January 2018.

Leverage ratio exposure measure is primarily driven by securities financing transactions, derivatives and inventory. In addition, Tier 1 capital resources and any applicable deductions impact on the leverage ratio. Leverage ratio is reported to the RMC, the ALCO and Board Risk Committee. The board has set a specific risk appetite level for the leverage ratio. ALCO monitors the leverage ratio level against the 1st January 2018 regulatory minimum and assesses the actions and timescales involved in meeting the regulatory minimum and the board risk appetite.

In addition balance sheet limits are in place for key exposure types which mitigate significant increase in leverage ratio exposure measure. Disclosures on the leverage ratio follow the EBA disclosure templates issued in Jun 2015. Please refer to the Appendix for details.

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5. Capital Resources

MUSI's regulatory capital resources are assessed under the Capital Requirements Regulation and the Capital Requirements Directive IV. MUSI's capital consists of Tier 1 – share capital and retained earnings, and Tier 2 – subordinated debt which is fixed term and denominated in Japanese Yen.

MUSI manages its risk profile and its capital resources with the objective of maintaining a capital ratio in excess of the Capital Resources Requirement for its risk profile at all times. The management of MUSI's capital is carried out under the principle that it should not unexpectedly need to raise new capital or significantly reduce its risk taking in order to meet its capital management objectives.

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

MUSI has met its objectives at all times during the year. The breakdown of year-end capital for 2014 and 2015 is shown below. The increase in Tier 2 capital is due to strengthened Japanese Yen against Sterling, partially offset by Tier 2 capital amortisation. Further detail on capital instruments, including the terms and conditions of capital instruments in EBA templates, is provided in the Appendix to this document.

Table 2: Capital Resources

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

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6. Capital Requirements

The Pillar 1 framework provides the basis for capital requirements arising from credit, market and operational risk. It covers the calculation of risk weighted assets (RWA) and the capital requirements. The Pillar 2 framework requires firms to hold capital for all risks not sufficiently covered in the Pillar 1 framework and ensures that firms have adequate capital to support the relevant risks in their business. .

The quantitative disclosure section represents the breakdown of risks and their mitigation. In the table below, MUSI's Pillar 1 capital requirements set out the minimum capital required under the CRD IV.

Table 3: Capital Requirements[1]

Capital Requirements	At 31 Dec 2015 £m	2015 Average £m	At 31 Dec 2014 £m	2014 Average £m
Market Risk	172	195	258	253
Credit Risk (Including Concentration Risk)	312	310	364	362
Operational Risk	35	38	39	43
Total	519	543	661	658

1 Capital requirements represent the Pillar 1 capital charges at 8% of risk weighted assets (RWA).

The capital requirements decreased from the end of 2014 to 2015 across market and credit risk types. (See Table 4 and Table 5 for details). Detailed description in respect of each risk type is provided in the following sections.

Internal Capital Adequacy Assessment Process (ICAAP)

MUSI monitors its capital adequacy on an ongoing basis and formally on at least an annual basis it conducts an Internal Capital Adequacy Assessment Process through which it assesses its risks, controls and capital. The Board is involved in all the key elements of 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 MUSI's strategy setting and business planning process as well as the process for identification, measurement and control of its risks.

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

Capital Buffers

A number of capital buffers were introduced under CRD IV. In the UK, CRD IV capital buffers are being phased in from 1 January 2016 with the exception of the countercyclical capital buffer (CCyB). In December 2015, the FPC maintained a 0% CCyB rate for UK exposures, and outside the UK, the only CCyB rates in force at 31 December 2015 were 1% set by Norway and Sweden. Relevant exposures for the calculation of the CCyB in Norway and Sweden were £41m and £5m, respectively. This resulted in an immaterial MUSI CCyB requirement at 31 December 2015.

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7. Market Risk

Market risk is the risk of losses from movements in market prices in the trading portfolio. MUSI 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 and drawdown limits monitor actual losses at department or individual trader level.

Day–to-day responsibility for the management of market risk resides with the Market Risk Management department, which is organisationally independent from the front office departments. The Risk Analytics Group is responsible for the design of new market risk management models. Daily market risk reports are prepared for senior management and trading departments using MUSI's in house and vendor systems.

The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standard rules. MUSI's internal market risk models comprise VaR, Stressed VaR, Incremental Risk Charge (IRC), and Risks Not In VaR (RNIV) which covers all major asset classes traded by MUSI.

The table below shows the market risk capital requirements.

Table 4: Market Risk Capital Requirements

Capital Requirements	At 31 Dec 2015 £m	At 31 Dec 2014 £m
VaR	21	42
Stressed VaR	56	90
Incremental Risk Charge (IRC)	53	97
Risks Not In VaR (RNIV)	37	26
Other Market Risk	5	3
Total Market Risk Capital Requirements	172	258

VaR Model at MUSI

The VaR of a trading book is an estimate of the potential loss on risk positions as a result of movements in market rates and prices over a specific time horizon and to a given confidence level.

MUSI uses VaR methodologies to monitor the price risks arising from different trading books across portfolios. This is measured based on a 99% confidence level and a 1-day holding period.

Actual profit and loss outcomes are also monitored to test the validity of the assumptions made in the calculation of VaR. The VaR outputs are based on a full revaluation historical simulation model and a 2-year data window.

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

VaR Backtesting

MUSI 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. In addition to the VaR backtesting at the aggregate Company level, MUSI conducts backtesting on a number of sub-portfolios across the different business units

Stressed VaR

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

Risks Not In VaR

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

Incremental Risk Charge

MUSI also calculates IRC which captures risk from the default and 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 constant levels throughout the year.

Liquidity horizon is calculated taking various factors into account, such as size of positions, type of issuer, concentration versus total issue, liquidity of pricing source etc. MUSI portfolio weighted average liquidity horizon is at 3.4 months.

Other Market Risk

Other market risk consists of positions not captured in the VaR model. Exclusion from the VaR model may be due to the VaR model not being able to adequately capture the risk or not having regulatory permission to include a position in the VaR model.

Inclusion in the Trading Book

Trading intent is a crucial element in deciding whether a position should be treated as a trading or banking book exposure. For regulatory purposes, the trading book covers all positions in CRD financial instruments which are held with trading intent. Positions in the trading book are subject to market risk capital, computed using models where MUSI has the regulatory approval mentioned above. Otherwise the market risk capital requirement is calculated using standard rules as defined in the CRR.

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Prudent Valuation Adjustment

Where there are a range of plausible alternative valuations, the Prudent Valuation Adjustment (PVA) is applied to accounting fair values. All trading book positions are subject to prudent valuation adjustment which is calculated in accordance with Article 105 of the CRR.

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8. 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. MUSI measures credit risk capital requirements using the Standardised Approach.

Methodology

MUSI takes counterparty and/or issuer credit risk through most of its business activities. Counterparty credit risk arises for derivatives and securities financing transactions (SFT). It is calculated in both the trading and non-trading books. Under CRD IV, four methods may be used to calculate exposure values for counterparty credit risk. These four methods are Mark-to-market, Original exposure, Standardised and IMM method. MUSI uses the mark-to-market method to determine the exposure value which is the sum of current replacement cost and potential future credit exposure.

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

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

Table 5: Credit Risk Capital Requirements[1]

Capital Requirements	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Counterparty credit risk	176	212
Non-Trading book credit risk[2]	10	17
Credit valuation adjustment	88	109
Total credit risk capital requirement	274	338

1 Derivatives, securities financing transactions (SFTs), and exposures to central counterparties are included.
2 Non-trading book credit risk includes both on and off balance sheet items including fixed assets and non-trading book issuer exposures.

Table 6: Concentration Risk Capital Requirements

Capital Requirements	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Total concentration risk capital requirement	38	26

MUSI has exposures to intragroup entities which exceed the large exposure limits defined in the CRR and MUSI holds capital against these exposures. There were no exposures to third parties which exceeded the large exposure limits during the year.

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Credit Risk Management

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

MUSI 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 MUSI's in house and vendor systems. Their objective is to:

- Identify, quantify, monitor and control credit risk exposure
- Provide sufficient, timely and relevant data of credit risk exposure by counterparty across all product classes and against each respective approved credit limit
- Maintain static data for all counterparties
- Produce timely credit risk reports as appropriate
- Mitigate credit risk by receiving collateral in accordance with MUSI's Collateral Policy
- Provide credit portfolio monitoring and analysis.

On a monthly basis, Credit Risk Management reports MUSI's total credit risk exposure to the RMC, including a review of large exposures, exposures to lower rated issuers and counterparties, and exposure to higher risk industry and country sectors. The RMC is also the forum where credit policies are reviewed and finally approved. In addition to the RMC, a summary of MUSI's credit risk exposure is also reported 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, MUSI has Credit Support Annexes in place with the majority of its counterparties and guarantee arrangements in place with members of MUFG.

Credit Limits for Counterparty Credit Exposures

Credit limits for counterparty credit exposures are assigned within the overall credit process. The credit limits are assigned taken into account various factors, such as credit worthiness of the counterparty, type of transactions undertaken with the counterparty and overall risk appetite within MUSI. The risk appetite is a key consideration and the credit limits are established to ensure that exposure remains within risk appetite. In addition, specific credit limits are assessed and allocated to third parties based on the estimated potential exposure measure.

MUSI expresses its aggregate appetite for credit risk, including counterparty risk, by allocating an amount of capital to credit risk, that is approved by the Board of Directors. Limits for individual counterparties and groups are allocated within this capital allocation taking into account the credit assessment of the counterparty and group as well as the nature of the business relationship with that counterparty.

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Residual Credit Risk

Residual credit risks are those that are not captured by standard credit risk models. MUSI residual credit risk is made up of Issuer Positions in the Banking Book and wrong way risk from Reverse Repo, bought CDS or certain Cross Currency swaps.

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

Credit Concentration Risk

Credit concentration risk is the risk arising from an uneven distribution of exposures, through single name, sector or geographical concentration. MUSI analyses the credit concentrations through its daily credit exposure reports. MUSI's exposures are concentrated on Government bonds, the financial sector and exposures to Japanese markets and counterparties. In addition, MUSI carries out stress testing and scenario analysis on its largest credit exposures.

Credit Risk Mitigation

Credit mitigation is encouraged to reduce credit risk and can be achieved through:

- Risk reducing trades – these do not need approval
- Collateral arrangements – which must be legally enforceable to be recognised as mitigation
- Guarantee arrangements – through which exposure may be transferred to the guarantor

Securities financing transactions involving the use of bonds/debt securities as collateral are considered on the basis of the rating of the counterparty and the rating and haircut of the collateral. The combination of these two factors determines the standard terms and level of pre-approval required. Securities financing transactions involving the use of equities as collateral are considered on the basis of the rating of the counterparty and the haircut. Credit Risk Management (CRM) may restrict the types of collateral available for trades with a specific counterparty. Collateral should be daily tradable assets having firm price available in the markets or trading platforms. Reference assets, which are not marked to market or not readily tradable in the market have to be preapproved by the CRO or their delegate and are considered structured securities. Asset Backed Securities are considered acceptable reference assets, not requiring specific pre-approval.

MUSI provides derivative products for BTMU clients as a core business. Most of these transactions are covered by a guarantee from BTMU that transfers credit risk to BTMU. Collateral is generally cash collateral for derivatives and high quality government bonds. Concentrations of collateral received through securities financing are reported to senior Management.

Collateral Management

Collateral & credit reserves

MUSI has Credit Support Annexes in place which cover the majority of its non-BTMU guaranteed derivative exposures. The majority of these have low or zero thresholds and are not dependent upon MUSI's or other MUFG members' credit rating. For derivative transactions, the collateral provided is predominantly cash

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denominated in JPY. For securities financing transactions (SFTs), the collateral is mainly securities issued by European and Japanese governments. For structured financing, the collateral is assessed on a case-by-case basis to ensure adequate collateral is provided for exposures taken by MUSI. MUSI applies regulatory volatility adjustments to collateral for the capital calculation in line with CRR.

Documentation requirements depend on the type of product and level of credit risk. Market standard Master Agreements are required for market traded instruments. Any agreement that is used should also have a clean legal opinion for enforceability, close out netting and collateral set off, as appropriate, or else the exposure measure should reflect the lack of such legal arrangements. For certain counterparties, trading is subject to a market standard Credit Support Annex with daily margining and zero threshold. Non-standard agreements need to be individually approved. MUSI makes adjustments to P&L in respect of expected losses by counterparty using a Credit Valuation Adjustment.

Collateral downgrade

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

In addition, MUSI monitors daily the idiosyncratic stress scenario which reflects a firm specific stress event triggered by market wide concerns about MUSI's capacity to meet liabilities as they fall due and this takes into account the impact of the amount of collateral MUSI would have to provide given a downgrade in its credit rating.

Wrong Way Risk Policy

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

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

- The Daily Credit Risk Tracker for identified transactions;
- A review at the monthly RMC; and
- Credit approval submissions.

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

Settlement and Delivery Risk

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

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

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

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9. Interest Rate Risk in Banking Book

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

10. Operational Risk

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

MUSI aims to manage and control its exposure to Operational Risk, and through its policies and procedures, MUSI 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.

MUSI employs The Standardised Approach ("TSA") for calculating its Pillar 1 Operational Risk Capital Requirement. MUSI is committed to adopting leading industry practices for managing and measuring Operational Risk, and has also developed a scenario based capital model to determine whether it should hold any additional capital for Operational Risk.

Operational Risk Management Framework

In order to facilitate the management of Operational Risk, MUSI sub-divides it into the 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 MUSI's policies and detailed standards, and comprises of the following key elements:

- Risk appetite: MUSI has defined its Operational Risk Appetite in both quantitative and qualitative terms, reflecting both the financial and non-financial impacts that can arise from operational risk

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- Self-assessments: Managers within MUSI assess the effectiveness of their controls at mitigating the key operational risks, relative to MUSI's appetite
- Key control attestations: Managers confirm regularly that their key controls have operated correctly
- Scenario analysis: MUSI uses scenario analysis to assess the risks of extreme but plausible events
- Key risk & control indicators: These metrics are used by MUSI to monitor its operational risk profile and to alert management when risk levels exceed acceptable ranges
- Incidents & losses: MUSI systematically collects details of both Operational Risk losses (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, MUSI 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.

MUSI 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.

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11. Liquidity Risk

Liquidity risk is the risk that MUSI 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 MUSI's Liquidity Risk Appetite, being the level of risk MUSI 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 MUSI's liquidity risk profile and review compliance with the Board approved liquidity risk appetite
- Oversee and review stress testing
- Measure, monitor and mitigate liquidity risk exposures for MUSI
- Ensure that appropriate business incentives are maintained that reflect the cost and availability of liquidity through MUSI's Fund Transfer Pricing process and unsecured funding limit allocation process
- Review critical liquidity risk factors and prioritise issues arising
- Determine MUSI's funding plans and funding diversification strategy in the light of business projections and objectives

MUSI uses a variety of quantitative and qualitative measures to monitor the adequacy of MUSI's liquidity resources, and to ensure an integrated approach to liquidity risk management. This framework incorporates the following elements:

Internal Stress Testing

MUSI'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

MUSI seeks to align its liquidity risk appetite with the strategic objectives of the business through regulating the demand for liquidity and allocating the cost of liquidity on the basis of unsecured funding usage and underlying liquidity requirements. The 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

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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 MUSI 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 MUSI's ability to source adequate liquidity in normal business conditions, and allows Treasury to plan and sustain appropriate levels of liquidity in anticipation of business line funding usage. As part of funding liquidity risk monitoring, Treasury looks at the short and long term currency mismatch horizons in accordance with the Board's guideline.

Liquid Asset Buffer

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

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.

MUSI 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 MUSI and other companies within the MUSHD Group.

The liquidity stage is determined by an evaluation of the availability of funding and is monitored through a combination of early warning indicators, MUSI's internal stress testing and compliance with regulatory liquidity guidelines. Elevation of the liquidity stage is specifically linked to activation of the 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 MUSI 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 MUSI too. The Funding Liquidity Risk Policy identifies general contingency actions to be taken by departments at each stage.

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Asset Encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. Due to the nature of its business MUSI funds a portion of debt securities via repurchase agreements and other similar secured borrowing. Additionally debt securities and cash are provided to meet initial and variation margin requirements from central clearing counterparts and margin requirements arising from derivative and repurchase agreements.

MUSI monitors the mix of secured and unsecured funding sources and seeks to efficiently utilise collateral to raise secured funding and meet other collateralised obligations.

Regulation

MUSI assesses liquidity adequacy as part of its Internal Liquidity Adequacy Assessment Process that it submits to MUSI's regulator. MUSI's compliance with prevailing regulatory liquidity requirements including the liquidity coverage ratio are complemented by the internal stress testing framework. MUSI manages its liquidity prudently, holding buffer assets well in excess of the regulatory requirement.

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12. Other Risks

Pension Risk

Pension risk is the risk that there is a shortfall in the value of the assets of the defined benefit pension scheme relative to its liabilities. The main risk is that the assets that the pension scheme holds decline significantly and there is no offsetting change in liabilities or that there is large rise in the value of the liabilities without an offsetting rise in assets.

MUSI's defined benefit pension scheme was closed to new members on 2 July 1999. The assets held are not an exact match to the liabilities. A mandatory actuarial valuation of the fund is carried out every three years for the pension trustees. The Statement of Funding Principles of the scheme requires a recovery plan to eliminate any funding deficit over the next 10 years or sooner. The recovery plan also involves MUSI making contributions to the pension scheme.

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. Actuarial gains and losses are recognised in the statement of total comprehensive income. Deficits in the scheme are recognised in MUSI's balance sheet. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future of through refunds from the schemes. MUSI calculates its pension risk on an annual basis as part of its ICAAP process and holds capital to mitigate against the possibility of a material deficit in its pension fund.

Further details on MUSI's pension scheme can be found in MUSI's financial statements.

Business Risk

Business risk is the sensitivity between expected revenues and expected costs. It is a measure of how easily the cost base can be managed in relation to lower than expected revenues. The risk of doing business is categorised as the volatility of the business planning forecast compared to the realised revenue which is dependent on the market environment.

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. MUSI'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. MUSI's programme of qualitative reverse stress testing is intended to focus on key strategic risks, identifying scenarios that could lead to their realisation as well as contingent actions that could be taken to address their emergence and mitigate the impact of the strategic risk being realised.

Compliance Risk

Compliance risk is the risk of damage to MUSI 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.

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

MUSI 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 MUSI 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. MUSI'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 MUSI'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 MUSI'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 MUSI has with its clients. MUSI 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 MUSI's strategic objectives and business plan
- An operational framework to support the continuous process of conduct risk identification and assessment
- A formal compliance monitoring programme to review the effectiveness of key controls to mitigate potential conduct risk exposure
- Production and analysis of conduct risk management information
- Company-wide conduct risk training and awareness programme

Legal Risk

Legal risk is the risk of loss or damage to MUSI 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 and regulatory actions.

MUSI 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 MUSI. MUSI has an established permanent Legal function that is independent of business activities and has sufficient resources to carry out its role including:

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- 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, the Risk Management function 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 MUSI'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. MUSI's business is dependent on its reputation and it will impact its performance should it deteriorate. MUSI 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 MUSI has no direct control. The Reputational Risk Management Policy sets out how the risk of reputational events is managed.

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13. Valuation and Accounting Policies

The financial statements of MUSI as prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union should be read in conjunction with this document. See footnotes to the financial statements for details of accounting and valuation principals applicable to these positions.

Trading portfolio financial assets, reverse repurchase agreements, derivative financial instruments and financial instruments available for sale are stated at fair value. The fair value of these financial instruments is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

The fair values of financial instruments are determined by reference to observable market prices where these are available and the market is active. Where market prices are not available or are unreliable because of poor liquidity, fair values are determined using valuation models, which where possible, use observable market parameters. The process of calculating the fair value using valuation techniques may necessitate the estimation of certain pricing parameters, assumptions or model characteristics.

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

14. Disclosures Made Available in the Financial Statements

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

15. Immaterial Disclosure Points

The following is a list of disclosure requirements that deem to be immaterial for MUSI to disclose:

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

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16. Appendix – Quantitative Disclosures

MARKET RISK

Table 7: Breakdown of VaR

	At 31 Dec 2015 Close £m	2015 Average £m	2015 Maximum £m	2015 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	-5.3	n/a	n/a
Total VaR	**1.5**	**2.6**	**4.9**	**1.3**

	At 31 Dec 2014 Close £m	2014 Average £m	2014 Maximum £m	2014 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
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**

The table above shows VaR figures for 2015 and 2014. 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 MUSI’s overall VaR, which is based on the simultaneous modelling of all risk factors.

Table 8: Stressed VaR (One-day Equivalent)

	2015 £m	2014 £m
At 31 December	4.1	7.1
Maximum	11.1	12.1
Minimum	3.7	2.7
Average	6.6	6.4

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Table 9: Incremental Risk Charge

	2015 £m	2014 £m
At 31 December	53.1	97.3
Maximum	95.9	103.6
Minimum	41.6	76.1
Average	62.4	90.4

Table 10: Market Risk Capital Requirement – Standardised Approach

Capital Requirements	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Equity position risk	2.1	1.4
Foreign exchange position risk	2.6	1.1
Interest rate position risk	0.1	-
Total	4.8	2.5

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COUNTERPARTY CREDIT RISK

Derivatives, securities financing transactions (SFTs), and exposures to central counterparties are included in Table 11 to Table 15.

Table 11: Counterparty Credit Risk Summary

	At 31 December 2015			At 31 December 2014		
	Exposure £m	RWA[1] £m	Capital Requirement £m	Exposure £m	RWA[1] £m	Capital Requirement £m
Central Government and Central Banks	354	-	-	134	1	-
Institutions (Excluding CCP)	2,528	770	62	2,803	931	74
Institutions (CCP)	6,660	485	39	4,922	780	62
Corporates	1,266	930	74	920	901	72
Multilateral Development Banks	55	-	-	69	-	-
Regional Government and Local Authority	84	17	1	89	18	1
International Organisations	45	-	-	-	-	-
Public Sector Entity	1	-	-	17	17	1
Total	10,993	2,202	176	8,954	2,648	211

1 Risk weighted asset

Table 12: Counterparty Exposure by Exposure Class and Geography

At 31 December 2015	UK £m	Europe ex. UK £m	Japan £m	Asia ex Japan £m	North America £m	Other £m	Total £m
Central government and central banks	101	223	-	-	-	30	354
Institutions (Excluding CCP)	651	916	207	7	654	93	2,528
Institutions (CCP)	5,026	258	157	-	1,219	-	6,660
Corporates	152	154	486	35	41	398	1,266
Multilateral development banks	-	3	-	-	52	-	55
Regional government and local authority	-	4	-	77	1	2	84
International Organisations	-	45	-	-	-	-	45
Public sector entities	-	1	-	-	-	-	1
Total	5,930	1,604	850	119	1,967	523	10,993

At 31 December 2014	UK £m	Europe ex. UK £m	Japan £m	Asia ex Japan £m	North America £m	Other £m	Total £m
Central government and central banks	-	108	-	-	-	26	134
Institutions (Excluding CCP)	749	930	431	5	659	29	2,803
Institutions (CCP)	3,852	117	30	-	924	-	4,922
Corporates	127	143	3	32	16	599	920
Multilateral development banks	-	39	-	3	17	9	69
Regional government and local authority	-	6	-	81	1	1	89
Public sector entities	-	17	-	-	-	-	17
Total	4,728	1,360	464	121	1,617	664	8,954

Table 13: Corporate Counterparty Exposure by Industry

	At 31 December 2015 £m	At 31 December 2014 £m
Financial and insurance activities[1]	1,052	690
Mining and quarrying	64	78
Manufacturing	40	62
Wholesale and retail trade	65	56
Transporting and storage	34	33
Other services activities	11	1
Total	1,266	920

1 'Financial and insurance activities' category contains Insurance, Other financial firms, and Special purpose entities among others

The table above presents an analysis of corporate counterparty credit risk exposures by industry sector. From 2015, NACE industry category replaces the former industry sector analysis and the comparatives for 2014 above were revised based on NACE industry category accordingly.

Table 14: Counterparty Exposure by Credit Quality Step

At 31 December 2015	CQS 1 £m	CQS 2 £m	CQS 3 £m	CQS 4 £m	Unrated £m	Total £m
Central government and central banks	27	-	-	1	326	354
Institutions (Excluding CCP)	498	1,330	110	1	589	2,528
Institutions (CCP)	-	-	-	-	6,660	6,660
Corporates	89	528	19	-	630	1,266
Multilateral development banks	54	-	-	-	1	55
Regional government and local authority	4	-	-	-	80	84
International Organisations	-	-	-	-	45	45
Public sector entities	1	-	-	-	-	1
Total	673	1,858	129	2	8,331	10,993

At 31 December 2014	CQS 1 £m	CQS 2 £m	CQS 3 £m	CQS 4 £m	Unrated £m	Total £m
Central government and central banks	14	-	-	10	110	134
Institutions (Excluding CCP)	369	1,595	187	4	648	2,803
Institutions (CCP)	-	-	-	-	4,922	4,922
Corporates	15	13	37	-	855	920
Multilateral development banks	58	-	-	-	11	69
Regional government and local authority	6	-	-	-	83	89
Public sector entities	17	-	-	-	-	17
Total	479	1,608	225	13	6,629	8,954

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Table 15: Counterparty Exposure by Residual Maturity

At 31 December 2015	Less than 1 year	1-5 years	More than 5 years	Total
	£m	£m	£m	£m
Central government and central banks	340	1	13	354
Institutions (Excluding CCP)	1,071	92	1,365	2,528
Institutions (CCP)	506	650	5,504	6,660
Corporates	717	226	323	1,266
Multilateral development banks	-	41	14	55
Regional government and local authority	79	-	5	84
International Organisations	45	-	-	45
Public sector entities	1	-	-	1
Total	2,759	1,010	7,224	10,993

At 31 December 2014	Less than 1 year £m	1-5 years £m	More than 5 years £m	Total £m
Central government and central banks	120	-	14	134
Institutions (Excluding CCP)	1,040	31	1,733	2,803
Institutions (CCP)	401	360	4,162	4,922
Corporates	419	374	127	920
Multilateral development banks	45	4	21	69
Regional government and local authority	81	-	7	89
Public sector entities	-	13	3	17
Total	2,106	782	6,066	8,954

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DERIVATIVE EXPOSURE

Table 16: Derivatives Exposure and Collateral Summary

At 31 December 2015	(Excluding CCP) £m	(CCP) £m	(Total) £m
Gross exposure of derivatives contracts	24,451	26,894	51,345
of which: positive fair value of derivative contracts	15,958	16,092	32,050
Less: netting benefits	15,306	21,716	37,022
Net exposure after netting benefits	9,145	5,178	14,323
Less: collateral held	5,424	183	5,607
Net exposure after credit mitigation	3,721	4,995	8,716

At 31 December 2014	(Excluding CCP) £m	(CCP) £m	(Total) £m
Gross exposure of derivatives contracts	23,352	25,534	48,886
of which: positive fair value of derivative contracts	17,251	19,393	32,644
Less: netting benefits	15,005	20,700	35,705
Net exposure after netting benefits	8,347	4,834	13,181
Less: collateral held	5,681	251	5,932
Net exposure after credit mitigation	2,666	4,583	7,249

Table 17: Credit Derivative Swap [1]

Notional Amount	At 31 December 2015 £m	At 31 December 2014 £m
Protection bought	3,859	4,108
Protection sold	4,228	4,594

1 Credit derivative products are principally used for intermediations only. This is to enable our clients to take a position (or positions) in the underlying securities.

NON COUNTERPARTY CREDIT RISK EXPOSURE

Table 18: Non Trading Book Issuer Exposure

	At 31 December 2015			At 31 December 2014		
	Exposure £m	RWA £m	Capital Requirement £m	Exposure £m	RWA £m	Capital Requirement £m
Central Government and Central Banks	1,476	22	2	1,311	56	4
Multilateral Development Banks	640	-	-	306	-	-
Grand Total	2,116	22	2	1,617	56	4

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Table 19: Main Features of Capital Instruments

#	Features	Common Equity	Subordinated Loan Due June 2020	Subordinated Loan Due December 2020
1	Issuer	Mitsubishi UFJ Securities International plc	Mitsubishi UFJ Securities International plc	Mitsubishi UFJ Securities International plc
2	Unique identifier (eg CUSIP, ISIN, or Bloomberg identifier for private placement)	BBG000D8HBY7	N/A	N/A
3	Governing law(s) of the instrument	English Law	English Law	English Law
	Regulatory treatment			
4	- Transitional Basel III rules	Common Equity Tier 1	Tier 2	Tier 2
5	- Post-transitional Basel III rules	Common Equity Tier 1	Tier 2	Tier 2
6	- Eligible at solo/group/group & solo	Solo	Solo	Solo
7	- Instrument type	Common shares	Other Tier 2 Instruments	Other Tier 2 Instruments
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	GBP 1,011 million	GBP 64 million	GBP 594 million
9	Par value of instrument	N/A	JPY 13 billion	JPY 107 billion
10	Accounting classification	Shareholders' equity	Liability	Liability
11	Original date of issuance	N/A	27/06/2013	27/12/2013
12	Perpetual or dated	Perpetual	27/06/2020	27/12/2020
13	- Original maturity date	N/A	N/A	N/A
14	Issuer call subject to prior supervisory approval	No	No	No
15	- Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A
16	- Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	- Fixed or floating dividend/coupon	N/A	Floating	Floating
18	- Coupon rate and any related index	N/A	6 month JPY LIBOR + 90bp	6 month JPY LIBOR + 80bp
19	- Existence of a dividend stopper(1)	No	No	No
20	- Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	- Existence of a step up or other incentive to redeem	No	No	No
22	- Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	- If convertible, conversion trigger (s)	N/A	N/A	N/A
25	- If convertible, fully or partially	N/A	N/A	N/A
26	- If convertible, conversion rate	N/A	N/A	N/A
27	- If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	- If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	- If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	No	No
31	- If write-down, write-down trigger (s)	N/A	N/A	N/A
32	- If write-down, full or partial	N/A	N/A	N/A

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

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Table 20: Transitional Template for Own Fund

Own Funds		At 31 December 2015 £m	At 31 December 2014 £m
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,011	1,011
	of which: Instrument type 1	-	-
	of which: Instrument type 2	-	-
	of which: Instrument type 3	-	-
2	Retained earnings	68	151
3	Accumulated other comprehensive income (and any other reserves)	-	-
3a	Funds for general banking risk	-	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,078	1,162
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-36	-31
8	Intangible assets (net of related tax liability) (negative amount)	-35	-32
9	Empty set in the EU	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-19	-18
11	Fair value reserves related to gains or losses on cash flow hedges	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	-
13	Any increase in equity that results from securitised assets (negative amount)	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
15	Defined-benefit pension fund assets (negative amount)	-7	-12
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
20	Empty set in the EU	-	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-
20c	of which: securitisation positions (negative amount)	-	-
20d	of which: free deliveries (negative amount)	-	-
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3)	-	-

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Own Funds		At 31 December 2015 £m	At 31 December 2014 £m
	are met) (negative amount)		
22	Amount exceeding the 15% threshold (negative amount)	-	-
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
24	Empty set in the EU	-	-
25	of which: deferred tax assets arising from temporary difference	-	-
25a	Losses for the current financial year (negative amount)	-	-51
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	-
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	-	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-98	-145
29	Common Equity Tier 1 (CET1) capital	980	1,016
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	-
35	of which: instruments issued by subsidiaries subject to phase-out	-	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	-	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article	-	-

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Own Funds		At 31 December 2015 £m	At 31 December 2014 £m
	475 of Regulation (EU) No 575/2013		
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
44	Additional Tier 1 (AT1) capital	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	980	1,016
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	658	642
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	-	-
49	of which: instruments issued by subsidiaries subject to phase-out	-	-
50	Credit risk adjustments	-	-
51	Tier 2 (T2) capital before regulatory adjustment	658	642
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	-
54a	Of which new holdings not subject to transitional arrangements	-	-
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-	-
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	-	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-
58	Tier 2 (T2) capital	658	642
59	Total capital (TC = T1 + T2)	1,638	1,658
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	-	-

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Own Funds		At 31 December 2015 £m	At 31 December 2014 £m
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	-
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	-
60	Total risk-weighted assets	6,482	8,258
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	15%	12%
62	Tier 1 (as a percentage of total risk exposure amount	15%	12%
63	Total capital (as a percentage of total risk exposure amount	25%	20%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	-	not yet implemented
65	of which: capital conservation buffer requirement	-	not yet implemented
66	of which: countercyclical buffer requirement	-	not yet implemented
67	of which: systemic risk buffer requirement	n/a	not yet implemented
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	n/a	not yet implemented
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	-	not yet implemented
69	[non-relevant in EU regulation]	N/A	N/A
70	[non-relevant in EU regulation]	N/A	N/A
71	[non-relevant in EU regulation]	N/A	N/A
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	77	84
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	-	-
74	Empty set in the EU	-	-
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	10	12
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	-	-

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Own Funds		At 31 December 2015 £m	At 31 December 2014 £m
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase-out arrangements	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase-out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

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LEVERAGE RATIO

Table 21: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

		At 31 December 2015 £m
1	Total assets as per published financial statements	57,602
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	-2,781
5	Adjustments for securities financing transactions "SFTs"	1,082
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	168
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-2,133
8	**Total leverage ratio exposure**	53,938

Table 22: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

CRR Leverage Ratio Exposures		At 31 December 2015 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	9,541
EU-2	Trading book exposures	7,189
EU-3	Banking book exposures, of which:	2,352
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	2,123
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	161
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	15
EU-11	Exposures in default	1
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	52

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Table 23: Leverage Ratio Common Disclosure

CRR Leverage Ratio Exposures		At 31 December 2015 £m
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	9,541
2	(Asset amounts deducted in determining Tier 1 capital)	-43
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	9,498
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	8,963
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	4,120
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	760
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-3,484
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	4,206
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-2,199
11	Total derivative exposures (sum of lines 4 to 10)	12,366
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	38,166
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-7,225
14	Counterparty credit risk exposure for SFT assets	965
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	31,906
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	168
18	(Adjustments for conversion to credit equivalent amounts)	-
19	Other off-balance sheet exposures (sum of lines 17 to 18)	168
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	Tier 1 capital	980
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	53,938
Leverage ratio		
22	Leverage ratio	1.82%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	-

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CRR Leverage Ratio Exposures		At 31 December 2015 £m
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

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LIQUIDITY COVER RATIO (LCR)

Table 24: LCR Common Disclosure

	Total unweighted value (average[1]) £m	Total weighted value (average[1]) £m
Liquidity Asset Buffer		
Level 1 assets	2,387	2,387
Level 2A assets	1,300	1,105
Level 2B assets	36	18
Cash Outflows		
Wholesale cash outflows (secured and unsecured)	28,322	3,563
Outflows related to deriv. exposures and other collateral requirements	384	384
Outflows related to unsecured debt maturities	243	243
Other contractual funding obligations	204	204
Total Cash Outflows	29,153	4,394
Cash Inflows		
Wholesale cash inflows (secured and unsecured)	26,860	3,443
Inflows related to deriv. exposures	244	244
Other cash inflows	347	347
Total Cash Inflows	27,451	4,034
Total Liquid Asset Buffer		3,510
Total Net Cash Outflows (post 75% inflow cap)		1,098
Liquidity Coverage Ratio		320%

1 Average figures: 1st October 2015 – 31st December 2015

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ASSET ENCUMBRANCE

Table 25: Encumbered and Unencumbered Assets

At 31 December 2015		Encumbered assets		Unencumbered assets	
Assets		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
		010	040	060	090
010	Assets of the reporting institution	6,736		2,464	
030	Equity instruments	2	2	817	817
040	Debt securities	4,782	4,782	1,490	1,490
120	Other assets	-		271	

At 31 December 2014		Encumbered assets		Unencumbered assets	
Assets		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
		010	040	060	090
010	Assets of the reporting institution	6,622		3,169	
030	Equity instruments	-	-	521	521
040	Debt securities	4,743	4,743	2,563	2,563
120	Other assets	-		-	

Table 26: Collateral Received

Per the PRA Supervisory Statement 11/14, MUSI is exempted from disclosing template B (Collateral received) as the fair value of collateral received by MUSI in the form of debt securities (including both encumbered and unencumbered amounts) has not exceeded £100 billion.

Table 27: Encumbered Assets/Collateral Received and Associated Liabilities

At 31 December 2015		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	Carrying amount of selected financial liabilities	54,008	44,219

At 31 December 2014		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	Carrying amount of selected financial liabilities	53,774	45,310

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Table 28: Information on Importance of Encumbrance

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

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