Mitsubishi UFJ Trust International Limited

Pillar 3 Disclosure Statement

Year ended 31 December 2020

1 Overview

1.1 Background

The Capital Requirements Regulation ('CRR') and Capital Requirements Directive (together referred to as CRD IV) came into force on 1 January 2014. The CRR was then "onshored" in the UK from 1 January 2021 after the end of the Brexit transition period. The rules include disclosure requirements known as "Pillar 3" under the Basel III Capital Accord, which apply to investment firms. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

1.2 Basis and frequency of disclosures

This document sets out the Pillar 3 disclosures for Mitsubishi UFJ Trust International Limited ('MUTI') as at 31 December 2020. Unless otherwise stated, all figures are as at 31 December 2020, MUTI's financial year-end, with comparative figures for 31 December 2019 where relevant. The disclosures may differ from similar information in the Annual Report and Accounts 2020 prepared in accordance with UK GAAP ('UK GAAP'); and therefore may not be directly comparable with that information.

MUTI's Pillar 3 disclosures are published annually concurrently with the Annual Report and Accounts in accordance with regulatory guidelines.

MUTI has adopted an internal disclosure policy to ensure compliance with the CRR disclosure requirements, which includes processes for assessing the appropriateness of the firm's disclosures, and for verifying the content; assessing whether the disclosures adequately convey MUTI's risk profile and the frequency of publication.

1.3 Location and verification

These disclosures have been reviewed and approved by MUTI's Board of Directors and will be published on MUTI's parent company's corporate website. All figures disclosed within this document have been subject to internal verification. These disclosures have not been externally audited and do not constitute any part of MUTI's financial statements.

1.4 Scope

MUTI is wholly owned by Mitsubishi UFJ Trust and Banking Corporation ('MUTB') and as such MUTI takes its status within the overall Mitsubishi UFJ Financial Group ('MUFG') into consideration when applying the capital adequacy rules and in setting its strategy. However MUTI applies the capital adequacy rules on a stand-alone, solo basis for MUTI and its Singapore Branch. All disclosures required by CRD IV have been included, except where the firm is permitted to exercise judgement in terms of proportionality, or where the disclosure would not be applicable to MUTI's business.

1.5 About MUTI

MUTI is a securities firm with its Head Office in London and a Branch in Singapore. Incorporated in 1986, MUTI is a wholly owned UK subsidiary of MUTB (wholly owned by MUFG). MUTI's core business is Sales and Trading and Securities Financing. MUTI is authorised and regulated by the Financial Conduct Authority ('FCA') and by the Monetary Authority of Singapore ('MAS') in Singapore.

Under the UK FCA implementation of CRD IV MUTI is a full scope IFPRU 730k investment firm.

2 Risk Management

2.1 Risk Management Objectives and Policies

MUTI's Risk Management objective is to proactively manage all risks inherent in its business (in particular MUTI's major risks, operational and credit risk) in line with the firm's Risk Appetite Statement.

As risk can never be completely eliminated, MUTI has implemented Risk Management policies outlining the rules and framework it has in place to manage risks (minimising or optimising) and to comply with FCA and MAS requirements including those for capital adequacy. MUTI has specific policies in place for the individual risk types the firm has identified as being inherent in its business model, this includes policies for Credit Risk, Market Risk, Operational Risk and Liquidity Risk Management. These are supported by a number of other policies including the New Product and Business Policy, Stress and Scenario Testing Policy, and Business Continuity Planning Policy.

2.2 Risk Management Framework

MUTI has implemented and embedded a firm-wide risk management framework to ensure the management of risks is effective and consistent in the long term and undertaken in line with applicable regulatory requirements and the risk appetite set by the firm's Board of Directors. MUTI's system of internal control is outlined in its Risk Management Policy as well as in its sub-policies and procedure manuals which are maintained by the relevant departments and administered by Risk Management.

The policies set out the Board's expectations and code of business conduct to help maintain the firm's control environment through an on-going process for identifying, evaluating and managing the significant risks the firm faces. Policies are reviewed at least annually, or as and when it is deemed necessary, and the procedure manuals which put the policies into effect are reviewed at least on a semi-annual basis. This is supplemented by Internal Audit reviews of the effectiveness of the Risk Management Framework.

Risks in MUTI are identified, analysed and managed on an on-going basis and reviewed formally annually and set out in a Risk Register. This is used for a number of purposes such as mapping controls and mitigants to risks, stress and scenario testing, reverse stress tests, and is the basis for the Risk Control Monitoring Programme, Key Risk Indicator ('KRI') monitoring and input into the firms Individual Capital Adequacy Assessment Process ('ICAAP'). The stress testing and scenario analysis performed within the overall Risk Management framework are used to calculate MUTI's ICAAP Pillar 2 figure.

The control environment is managed through an organisational structure aligned to support the safe conduct of business operations through the "three lines of defence" Risk Management model, whereby the traders and other generators/processors of business are seen as the first line of defence for control purposes. This is supported by a number of oversight functions in the second line of defence such as Risk Management, Finance, Compliance, Human Resources and Information Technology, with a fully independent UK Audit Office ('UKAO') function, a division of MUTB, providing the third line of defence. This ensures the adequacy and effectiveness of the firm's risk management arrangements, in line with the size and nature of the firm's business.

2.3 Risk Management Function

MUTI has a Risk Management department which is independent of the business and reports via the Risk Management Committee to the Board of Directors. The Risk Management department manages all aspects of risk within MUTI and is overseen by the Head of Risk Management. The Risk Management function implements the risk management policies set by the Board Directors, in line with the company's risk appetite. The department functions as the second line of defence within the firm's "three lines of defence" model, through its risk management framework - risk identification processes, monitoring, and reporting.

2.4 Risk Appetite

The Board is ultimately responsible for setting the risk appetite of MUTI and establishing an appropriate system of internal controls to ensure business is undertaken in line with the risk appetite. The Risk Appetite Statement is reviewed by the Board at least on an annual basis and MUTI's Risk appetite is reflected by the Board agreeing definitions applied to impact and likelihood scores. MUTI manages its risks in line with the Risk Appetite Statement through the setting and monitoring of limits, both hard limits such as those for credit and market risk and soft limits such as policy statements and procedural requirements.

The Board and Senior Management of MUTI acknowledge that the link between risk tolerance, risk appetite, limit setting, ICAAP, ILAA and the strategic decision-making process is a key tool that is embedded throughout the business in order to continue to foster effective risk management.

2.5 Governance Arrangements

a) Board of Directors

MUTI considers that the firm's management body is its Board of Directors.

b) Number of directorships held by members of the management body

As of 31 December 2020, MUTI has seven statutory directors, of whom two are executive directors and five non-executive directors, including one independent non-executive director. One of MUTI's two executive directors holds two non-executive directorships with other group companies and the other executive director holds no other directorships. Of the five non-executive directors, three hold group directorships, with two of these individuals also holding one external directorship each. The remaining two non-executive directors, including the independent non-executive director, hold no other directorships.

c) Board Recruitment Policy

As a wholly owned subsidiary, the parent company plays a key role in the shortlisting of candidates for the non-executive directors who are employees of the parent company. Suitable candidates are identified and put forward for Board approval.

Board member selection is based on the individual's personal merits, knowledge and experience, taking into consideration their overall suitability for the role, including length of time with the firm (for directors who are employees of the parent company), track record and international experience.

d) Board Diversity Policy

MUTI strongly supports the principle of diversity within its business and recognises the benefits of a diverse Board of Directors, in particular the benefits of a balance of gender, background and experience. The Board's aim is to ensure there is an adequate balance in terms of approach, background, skills, knowledge and gender to reflect the overall profile of the company and the desirability of working towards a more diverse demographic going forward.

e) Risk Committee Structure

The Risk Committee, which is a sub-committee of the Executive Committee, is held on a monthly basis to formally discuss, evaluate and resolve potential risks in all areas of MUTI; it is attended by Senior Management, including the two statutory executive directors. The Operational Risk Committee is a sub-committee of the Risk Committee, focused solely on Operational Risk and meets on a monthly basis.

2.6 Management Information and Reporting to the Board

The provision of accurate and timely information to the Board and Senior Management is a key tool in the effective management of risk, and for enabling the Board and Senior Management to effectively oversee the Risk Management Framework in MUTI. The Risk Committee provides regular reports to Senior Management on risk matters, including credit, market, operational and liquidity risks.

In addition to the regular reports made by the Committees to the Board, the Risk Management Department provides the Board of Directors with an Annual Risk Management Report. There is also a monthly Finance Committee to formally discuss financial reporting, budget proposals, capital requirements, performance and other related management information, this committee reports to the Executive Committee and provides management Information to the Board of Directors.

3 Own Funds

The CRD IV regulatory framework is supplemented by a number of technical standards, initially issued by the European Banking Authority, with the Directive implemented in the UK through FCA rules. Tables 1 and 2 in this section show the full CRD IV disclosure templates as published by the EBA in Implementing Technical Standard (ITS) 2013/01 and adopted by the FCA.

MUTI's entire capital qualifies as Common Equity Tier 1 ('CET1') capital. No regulatory adjustments have been made to CET1 capital. MUTI has no Additional Tier 1 ('AT1') capital instruments and no Tier 2 ('T2') capital instruments or provisions.

3.1 Reconciliation of Own Funds to the balance sheet in the audited financial statements

EBA ITS 2013/01 prescribes the Standard Balance Sheet Reconciliation Methodology to be followed by firms. MUTI's accounting (UK GAAP) balance sheet is prepared on the same basis as the firm's 'regulatory balance sheet'. There are no entities that are de-recognised from the accounting balance sheet for regulatory purposes, as such there are no differences between the two and therefore MUTI have not set out a detailed reconciliation between balance sheet items as per the Balance Sheet and the regulatory funds disclosures.

The CET1, £55,385k capital, disclosed in this document is equal to shareholders' funds of £67,637k as reported in the 2020 Financial Statements, less proposed dividend of £12,251k for the year (please refer to note 14 in the Financial Statements). The Financial Statements for 2020 have been prepared on a non-consolidated basis.

MUTI has not used any provisions in calculating its own funds requirements and as such has not included the Transitional Own Funds disclosure template set out in EBA ITS 2013/01.

3.2 Description of main features - Common Equity Tier 1 Capital

Table 1: Capital instruments main features template

1	Issuer	Mitsubishi UFJ Trust International Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	English Law
	Regulatory treatment	
4	Transitional CRR rules	N/A
5	Post-transitional CRR rules	Common Equity Tier 1 Capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (£ in million, as of most recent reporting date)	40
9	Nominal amount of instrument	40,000,000
9a	Issue price	£1
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	05/12/2005
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A

32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Instrument
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

3.3 Own Funds disclosure

Table 2: Own Funds disclosure template as at 31 December 2020

	Common Equity Tier 1 (CET1) capital: instruments and reserves	**£'000**
1	Capital instruments and related share premium accounts	40,000
	of which: Instrument type 1	
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	15,385
3	Accumulated other comprehensive income (and 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	
5	Minority interests (amount allowed in consolidated CET1)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	55,385
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	-
9	Empty set in the EU	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-
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)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-
17	Direct, indirect and synthetic holdings of the CET 1 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 by the institution 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 by the institution 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 differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) 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 differences	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-
29	Common Equity Tier 1 (CET1) capital	55,385
	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 interests 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	Direct, indirect and synthetic 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 by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
41	Empty set in the EU	-
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)	55,385

	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	-
51	Tier 2 (T2) capital before regulatory adjustments	-
	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 institution designed to inflate artificially the own funds of the institution (negative amount)	
54	Direct and indirect 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)	
55	Direct and indirect holdings by the institution 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 amount)	
56	Empty set in the EU	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	**Tier 2 (T2) capital**	-
59	**Total capital (TC=T1+T2)**	55,385
60	**Total risk weighted assets**	83,914
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	66.00%
62	Tier 1 (as a percentage of total risk exposure amount)	66.00%
63	Total capital (as a percentage of total risk exposure amount)	66.00%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	-
65	of which: capital conservation buffer requirement	-
66	of which: countercyclical buffer requirement	-
67	of which: systemic risk buffer requirement	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	
69	[non relevant in EU regulation]	-
70	[non relevant in EU regulation]	-
71	[non relevant in EU regulation]	-

	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)	7
73	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 (amount below 10% threshold and net of eligible short positions)	-
74	Empty set in the EU	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	215
	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 ratings-based approach (prior to the application of the cap)	-
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)	-

4 Capital Requirements

4.1 Capital management

MUTI calculates the minimum Capital Resource Requirement as required under CRD IV. The Capital Resource Requirement covers all risks (credit, market, operational, and settlement risk) under Pillar 1.

CRD IV Key Metrics for Year End 2020

Common equity tier 1 ratio	**Tier 1 ratio**	**Total capital ratio**
66.00%	66.00%	66.00%

4.2 Total minimum Pillar 1 Capital Requirement

Table 3: Total minimum Pillar 1 Capital Requirements

	31.12.20	31.12.19
	£'000	£'000
In respect of trading book activities:	-	-
In respect of all business activities:		
Credit Risk (Standardised)	1,022	811
Market Risk (FX)	222	244
Operational Risk (BIA)	5,469	5,607
Settlement Risk	-	-
Capital Resources Requirement under Pillar I	6,713	6,662
Capital Resource (Table 1)	55,385	55,385
Capital Resource surplus over requirement	48,672	48,723

In all tables "Capital required", refers to the Pillar 1 capital charge at 8% of RWAs.

5 Capital Adequacy

5.1 Capital Management

MUTI has adopted the following approaches under Pillar 1:

- Operational Risk Basic Indicator Approach
- Credit Risk Standardised Approach
- Market Risk Standardised Approach

5.2 Internal Capital Adequacy Assessment Process 'ICAAP'

MUTI manages its capital resources through its Risk Management Framework and documents the outcomes of this process in its ICAAP. The objective of the ICAAP is to ensure that the firm has in place adequate capital to cover its exposure to its major sources of risk. Stress testing, scenario analysis and business assessments are the various techniques (quantitative and qualitative) used by MUTI to gauge its vulnerability to severe exceptional, but plausible events and the potential capital required to cover such eventualities. Stress testing and scenario analysis are conducted in accordance with the firm's Stress and Scenario Testing Policy. The ICAAP concludes that the amount, type and distribution of the firm's capital are adequate to cover the nature and level of risks to which the firm may be exposed.

The Board has consensus that MUTI is adequately capitalised, and the Board has discussed and approved the ICAAP.

6 Credit Risk

Credit risk is defined as the risk that a borrower or counterparty will fail to meet its obligations when they fall due in accordance with agreed terms. MUTI is exposed to credit risk arising from its sales and trading business, and in respect of its securities financing business, in particular counterparty credit risk. MUTI uses active counterparty credit limits and other limits/rules in order to manage/mitigate credit risks arising from its business. Credit risks are managed within MUTI's overall risk management framework, under the firm's Credit Risk Management Policy.

Table 4: Capital Requirements. Standardised approach by Exposure classes (Article 112 of CRR)

	31.12.20	31.12.19
	£'000	£'000
Institutions	599	399
Central Governments	-	-
Multilateral Development Banks	-	-
Equities	1	1
Other items	422	411
Total	**1,022**	**811**

Note*: Exposures to central governments of EEA States and multilateral development banks listed in Article 117 of CRR are risk weighted at 0% using the standardised approach, providing they would be eligible under a 0% risk weighted approach.*

6.1 Exposure to Counterparty Credit Risk

Counterparty Risk in the context of MUTI's business refers to a client or counterparty being unable or unwilling to fulfil an obligation. This could be in the form of a transaction in the Sales and Trading business that has been agreed but where the client or market counterparty fails to buy the securities from or sell to MUTI as agreed, resulting in a potential loss to MUTI. It also applies in the securities financing context if a counterparty were to fail to return securities that MUTI has delivered as a loan or collateral for a loan or fails to return cash pledged with them as collateral.

6.2 Use of External Credit Assessment Institutions ('ECAIs')

MUTI has nominated two ECAIs for the purpose of calculating its Pillar 1 Credit Risk – Moody's Investors Service and S&P. As stated within MUTI's Securities Financing Policy, for business which incurs credit risk, MUTI principally transacts with counterparties rated at A3 (Moody's) or A- (S&P) or above. Exposure classes are assigned risk weights as prescribed by EBA, and adopted by the UK, under the standardised approach to credit risk:

Credit Quality step	Moody's assessment	S&P's assessment
1	Aaa to Aa3	AAA to AA-
2	A1 to A3	A+ to A-
3	Baa1 to Baa3	BBB+ to BBB-
4	Ba1 to Ba3	BB+ to BB-
5	B1 to B3	B+ to B-
6	Caa1 and below	CCC+ and below

6.3 Use of Credit Risk Mitigation Techniques

MUTI uses credit risk mitigation techniques, including taking collateral with daily margin calls and the use of standardised documentation in respect of its Securities Financing business. Collateral taken is primarily investment grade government securities, in line with collateral management procedures.

Table 5: Total amount of credit risk exposures without taking into account the effect of credit risk mitigation (including off-balance sheet exposures)

	31.12.20
Exposure classes	**£'000**
Institutions	609,825
Central Governments	-
Multilateral Development Banks	51,198
Equities	7
Other items	4,956
Total	**665,986**

Table 6: Geographical distribution of credit risk exposures without taking into account the effect of credit risk mitigation (including off-balance sheet exposures)

	UK	Europe	Asia	North America	Total
Exposure classes	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Institutions	586,998	10,395	12,432	-	609,825
Central Governments	-	-	-	-	-
Multilateral Development Banks	-	51,198	-	-	51,198
Equities	-	-	7	-	7
Other items	4,956	-	-	-	4,956
Total	**591,954**	**61,593**	**12,439**	**-**	**665,986**

Note: The exposure to institutions relates to securities lending transactions which are fully collateralised. As a result the credit risk is reduced significantly as in Table 7.

Table 7: Total amount of credit risk exposures after taking into account the effect of credit risk mitigation

	31.12.20
Exposure classes	**£'000**
Institutions	37,425
Central Governments	-
Multilateral Development Banks	51,198
Equities	7
Other items	4,956
Total	**93,586**

7 Other Risks

7.1 Market Risk

Market risk (in relation to a firm) is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. Market Risk is managed through MUTI's Market Risk Management Policy. MUTI's primary method of managing market risk is through the use of mitigating measurers such as setting and monitoring appropriate limits.

In MUTI market risk generally arises from foreign exchange risk on income generated in non-sterling securities trading. MUTI does not undertake hedging, given the low levels of market risk that arise, rather it is MUTI's policy to manage foreign exchange risk through active and regular conversion of income into the firm's base currency GBP.

The Own funds requirements in respect of market risk are set out in Table 3 of this document.

7.2 Interest Rate Risk

Interest rate risk is a risk for MUTI predominantly arising from the firm's non-trading book. This is assessed within the ICAAP, whereby the impact on the capital investment bonds of a 200bp change of interest rates is calculated. Please refer to MUTI's Financial Statements for an analysis of interest rate risk in the non-trading book.

7.3 Concentration Risk

Concentration risk is the risk posed by a large exposure to a single counterparty or exposures to several counterparties within the same group of companies. It can also arise from exposure to geographic or product concentrations which can increase MUTI's exposure to credit risk. The processes for managing MUTI's Concentration Risk are set out in the Credit Risk Management Policy. MUTI manages its concentration risk through the setting of exposure limits and the regular monitoring of these limits.

7.4 Residual Risk

Residual Risk is defined as the partial performance or failure of credit risk mitigation techniques for reasons that are unconnected with their intrinsic value. Residual risks are considered within the firm's ICAAP processes.

7.5 Liquidity Risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. Although MUTI faces limited liquidity risk on a business-as-usual basis, under stressed circumstances, such as the failure of a counterparty, additional funding requirements may arise, exposing MUTI to a contingent liquidity risk.

MUTI has policies and processes for the identification, measurement and management of its liquidity risk, including managing the firm's net funding position and requirements on an ongoing and forward-looking basis. MUTI also undertakes stress testing and scenario analysis under stressed market conditions. MUTI's cash position is monitored by Risk Management and Finance in conjunction with MUTI's Transaction Processing Department who are responsible for cash management on a daily basis.

7.6 Business Risk

Business risk can be described as the risk of loss due to fluctuations in business cycles and economic conditions, also referred to as pro-cyclicality. As Business risk arises from matters outside MUTI's control, Business risk is taken into account in MUTI's Business Plan and Business Strategy and in MUTI's Risk Management framework. It is MUTI's policy to proactively manage the risks posed by macro-economic changes, market trends and issues that affect MUTI's business model through the use of Key Risk Indicators ('KRIs'), limit maintenance and monitoring and the ICAAP process.

8 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk is inherent in MUTI's operations and is mitigated through departmental procedural manuals as well as the Operational Risk Management Policy which sets out the operational risk management structure, operational risk management methodology and framework and sub-policies for identification, analysis and measuring, control and mitigation and monitoring and reporting operational risk. MUTI acknowledges that certain operational risks cannot be avoided when undertaking financial services and these must instead be effectively and proactively managed. MUTI ensures that it holds sufficient capital to cover those risks that cannot be removed completely and has also taken out appropriate insurance policies as a further mitigating measure.

MUTI also makes use of KRIs, as a proactive method of managing its Operational Risk. KRIs are identified as part of the Risk Management Framework process. KRIs are reviewed and discussed at the monthly Operational Risk Committee.

9 Leverage Ratio

The following is the disclosure of the firm's leverage ratio based on the requirement in Part Seven of the Capital Requirements Regulation and in the related Guideline issued by the European Banking Authority and adopted by the FCA.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
		£'000
1	Total assets as per published financial statements	80,813
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	-
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	13,287
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	-514
8	**Total leverage ratio exposure**	93,586

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
		£'000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	80,299
2	(Asset amounts deducted in determining Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	80,299
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	
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	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	-
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
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	13,287
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	13,287
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	

18	(Adjustments for conversion to credit equivalent amounts)	
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(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**	55,385
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	93,586
Leverage ratio		
22	**Leverage ratio**	59.18%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

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

		CRR leverage ratio exposures
		£'000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	80,299
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	80,299
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	51,198
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	24,138
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	-
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	4,963

10 Unencumbered Assets

The following is the disclosure of encumbered and unencumbered assets, as at 31 Dec 2020, based on the requirement in Part Eight of the Capital Requirements Regulation and in the related Guideline issued by the European Banking Authority on 27 June 2014 and adopted by the FCA.

Template A-Assets

		Carrying amount of encumbered assets		**Fair value of encumbered assets**		**Carrying amount of unencumbered assets**		**Fair value of unencumbered assets**	
			of which notionally eligible EHQLA and HQLA		**of which notionally eligible EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**
		010	030	040	050	060	080	090	100
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
010	**Assets of the reporting institution**								
030	Equity instruments					7			
040	Debt securities					51,203	51,203	51,179	51,179
050	of which: converted bonds								
060	of which: asset-backed bonds								
070	of which: issued by general governments								
080	of which: issued by financial corporations					51,203	51,203	51,179	51,179
090	of which: issued by non-financial corporations								
120	Other assets					147,386			

Template B-Collateral received

		Fair value of encumbered collateral received, or own debt securities issued		Unencumbered	
				Fair value of collateral received, or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		010	030	040	060
		£’000	£’000	£’000	£’000
130	Collateral received by the reporting institution				
140	Loans on demand				
150	Equity instruments				
160	Debt securities				
170	of which: covered bonds				
180	of which: asset-backed securities				
190	Non-convertible				
200	of which: issued by financial corporations				
210	of which: issued by financial corporations				
220	Loans and advances other than loans on demand				
230	Other collateral received				
240	Own debt securities issued other than own covered bonds or ABSs				
241	Own covered bonds and asset-backed securities issued and not yet pledged				
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED				

Template C-Encumbered assets/ collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
		£’000	£’000
010	Carrying amount of selected financial liabilities		
120	Other sources of encumbrance	0	0

D – Information on importance of encumbrance

The reported values above represent the median of the values reported to the regulator via supervisory returns for the four quarters in 2020. MUTI had no requirement for secured borrowing at year-end and no off-balance sheet collateral encumbrance resulting from the facilitation of collateralised securities financing services to clients. Therefore, there were no encumbered positions at the end of 2020.

11 Remuneration

11.1 Information concerning the decision-making process for determining Remuneration Policy

MUTI's Remuneration Policy is determined by the Board of Directors of MUTI and sets out amongst other matters the mandate and composition of the Remuneration Committee, and that remuneration must be in line with effective risk management and in line with the firm's risk appetite.

Remuneration Governance sits within MUTI's overall corporate governance arrangements as described in the Board, Audit, Executive and the Remuneration Committee ('RemCo') Terms of Reference. Where MUTI is a proportionality Level 3 Firm, MUTI's Board of Directors fulfils the role of RemCo. However, for practical purposes, an internal sub-committee operates under the name RemCo, reporting to the Board. Membership of the RemCo is comprised of 2 Executive Directors – the Head of Human Resources and Human Resources Advisor (retired HR Executive Director) and is chaired by the Independent Non-Executive Director. Senior Management are invited to attend to give presentations on their staff arrangements as appropriate, and the Head of Compliance advises on regulatory changes, Remuneration Code requirements and conduct issues. The RemCo typically meets once a year, but all remuneration matters for the entire year are discussed and ratified by the Board of Directors, including setting the Remuneration Policy.

11.2 The Role of relevant stakeholders

Compliance, Risk Management and Human Resources have provided input to the Remuneration Policy.

11.3 Information on the link between pay and performance

MUTI remuneration is primarily qualitative for all departments at all levels. Variable remuneration is made on a discretionary basis. For income generating staff variable remuneration is based on both qualitative and quantitative measures of performance, and for non-income generating staff bonuses are based on qualitative measures of performance. MUTI considers total remuneration as a balance of fixed and variable components, and the Remuneration Committee has flexibility to reduce or not pay the variable component based on quantitative or qualitative performance measures, including conduct issues.

11.4 Aggregate quantitative information on remuneration

The aggregate remuneration figure for the financial year to 31 December 2020 for the material business areas was Sales and Trading £20,043,711 and Securities Financing £420,264.

The aggregate remuneration figure for the year end 31st December 2020 for Senior Management was £2,534,165 and members of staff whose actions have a material impact on the risk profile of the firm was £17,981,137.