Pillar 3 Disclosures

As at 31st December 2016

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Abu Dhabi Branch
A member of MUFG, a global financial group

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MUFG

Glossary

BTMU	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
CBUAE	Central Bank of United Arab Emirates
CMC	Compliance Management Committee
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
ECoD	Compliance Division for the EMEA
EHQ	Head Quarters for the EMEA
EIACE	EMEA Internal Audit and Credit Examination
EMEA	Europe Middle East and Africa
EPD	Planning Division of the EMEA
ERMD	Risk Management Department for EMEA
GHRO	Global Human Resources Office
G-SIB	Global Systematically Important Bank
HCC	Human Capital Committee
HRM	Human Resources Management
IACED	Internal Audit and Credit Examination Division
IAO	Internal Audit Office at Tokyo Head Office
MALCO	Management Asset Liability Committee
MENA	Middle East and North Africa
MERC	Middle East Remuneration Committee
MUFG	Mitsubishi UFJ Financial Group
ORCC	Operational Risk and Control Committee
RCO	Head of Compliance – Middle East
RHME	Regional Head for the Middle East
RMD	Risk Management Department

1. **Establishment and Operations**

The Bank of Tokyo-Mitsubishi UFJ, Ltd. - Abu Dhabi Branch (the “Branch”) is registered as a Branch of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (the “Head Office”) in Abu Dhabi, United Arab Emirates (UAE). The Head Office is an international public shareholding entity incorporated in Japan. The registered address of the Branch is at 1st Floor, IPIC Square, Muroor Street, P.O Box 2174, Abu Dhabi, U.A.E.

The Branch operates under a ‘wholesale banking licence’ granted by the Central Bank of United Arab Emirates. BTMU was granted the wholesale banking license by the Central Bank of United Arab Emirates on 17th Jan. 2011. Subsequently, the Branch commenced operations from 1st March 2012. The Branch is involved in all the Abu Dhabi based customer deals apart from being the booking office for AED denominated transactions for Japanese customers.

2. Regulatory Requirements and Capital Structure

With respect to capital, the Bank's objectives are:

- to maintain a capital base so as to maintain shareholder and market confidence; and
- comply with regulatory requirements and to sustain future development of its business.

The Bank has to comply with CBUAE's Capital Adequacy Requirements (CAR) guideline including the definition of capital and the capital requirements set out therein. The Abu Dhabi Branch's total capital consists of tier 1 and tier 2 capital. Tier 1 capital consists of share capital, legal reserves, retained earnings and profits. Tier 2 capital comprises of General Provisions required to be maintained at 1.25% of the Credit Risk Weighted Assets as per CBUAE guidelines. There are no regulatory deductions from Tier 1 or Tier 2 capital.

The capital structure of the Bank as at 31st December 2016 is as follows:

	2016	2015
	AED '000	AED '000
Tier 1 Capital		
Share Capital	40,000	40,000
Legal Reserves	117	117
Retained Earnings	383	0
Audited Current Year Profit	698	383
Tier 1 Capital	**41,198**	**40,500**
Tier 2 Capital		
General Provisions (1.25% of CRWA)	162	182
Tier 2 Capital	**162**	**182**
Capital Base	**41,360**	**40,682**

3. Capital Adequacy

The Bank takes an active approach to capital management with the goal of maintaining a strong capital base to support the development of business and stay ahead of regulatory capital requirements at all times. Internally the Bank calculates and monitors the Capital Adequacy Ratio on a regular basis. Financial Planning reports the Capital Adequacy Ratio to the CBUAE through the web portal provided for this purpose on a quarterly basis.

Banks operating in the UAE are required to comply with the capital adequacy ratio requirement of the CBUAE by maintaining a minimum capital adequacy of 12% as at 31st December 2016. The Bank’s capital adequacy ratio stood at 159.56%.

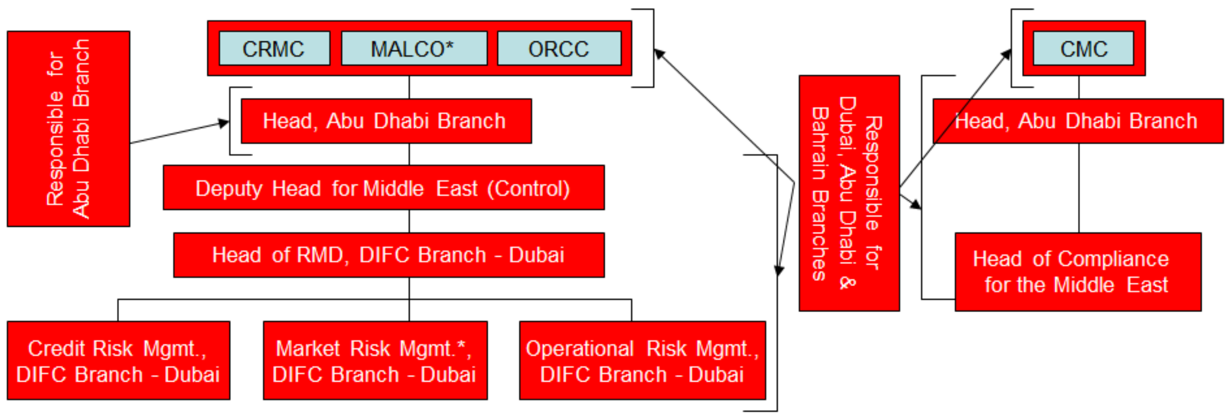
The following table shows the Bank's risk-weighted assets and capital adequacy ratios as at 31st December 2016:

	2016 AED ‘000	2015 AED ‘000
Capital Base	**41,360**	**40,682**
Risk Weighted Assets - Pillar I		
Credit Risk Weighted Assets	12,921	14,535
Market Risk Weighted Assets	0	0
Operational Risk Weighted Assets	13,000	11,786
Risk Weighted Assets - Pillar I	**25,921**	**26,321**
Capital Adequacy Ratio - Pillar I	**159.56%**	**154.56%**
Tier 1 Ratio	**158.93%**	**153.87%**

The Bank has also reviewed the new capital adequacy guidelines issued by the CBUAE vide circular No. 52/2017 dated 23rd February 2017. The Bank does not foresee any difficulties in meeting the new guidelines in the manner as required by the CBUAE.

4. Governance and Risk Management Framework

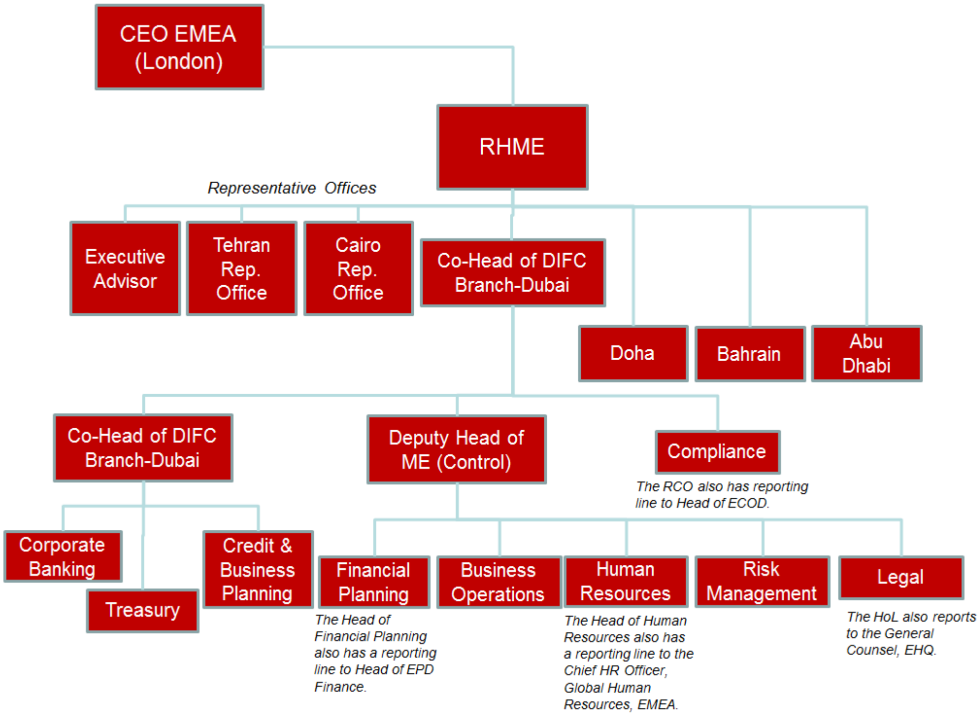
The RMD at Dubai is responsible for the identification, assessment, measurement, control and reporting of Pillar 1 & 2 risks at Abu Dhabi Branch. The overall risk governance structure for Abu Dhabi Branch is depicted below.



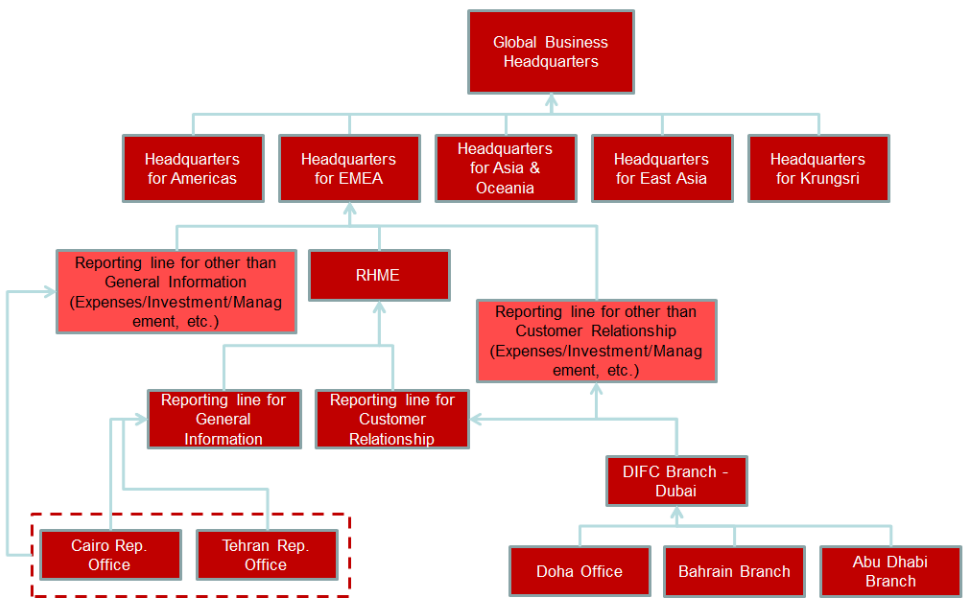
* Responsible for market and other risks

The apex committees responsible for overall risk management at the Middle East level including Abu Dhabi Branch are the Credit Risk Management Committee (CRMC), Market and Asset & Liability Committee (MALCO), Operational Risk and Control Committee (ORCC) headed by the Head of RMD and the Compliance Management Committee (CMC) is headed by the RCO. The four committees operate under the aegis of the DIFC Branch - Dubai and are responsible for credit, market, operational, legal and compliance risks, respectively. The CRMC also oversees the concentration risk whereas the MALCO oversees liquidity and interest rate risks as a part of the Pillar II risk overview. The Head of Abu Dhabi Branch is a member of these committees and is actively involved in the oversight of risks pertaining to the Branch. The Deputy Head for Middle East (Control) is also a member of these committees. The other committee members include Departmental Heads and other invitees, as appropriate.

The four committees mentioned above operate within the ambit of the overall governance and risk framework for the Middle East covered by the Governance & Management Oversight Policy. This policy covers the DIFC Branch - Dubai, Abu Dhabi & Bahrain branches apart from the Doha office. The overall governance structure as per this policy is split in to two levels namely, ME organization reporting in to the CEO of the EMEA as below:



and the Middle East Organizational Structure as a part of the global setup is as follows:



The ultimate responsibility for the bank-wide management of risks is with the Board of Directors.

Internal Audit services for BTMU in the EMEA region are provided by EMEA Internal Audit and Credit Examination (EIACE).

EIACE has the following principal functions and responsibilities:

- Provision of an independent opinion to management and BTMU's Audit Committee by an objective appraisal of the adequacy and effectiveness of the internal control systems designed and installed by management across the whole range of BTMU's activities;
- Internal Audit is responsible for evaluating all processes of BTMU including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit;
- Reporting to management and BTMU's Audit Committee on whether the control systems are fulfilling, or are likely to fulfil, the control objectives of BTMU;
- Provision of guidance (for example, systems projects, organization of new business, industry best practice developments) to management to ensure BTMU accomplishes its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes;
- Conducting special investigations of actual or suspected misconduct within BTMU; and
- Any other matters relevant to the above.

EIACE consists of the following departments:

a. Internal Audit Office for EMEA (EIAO)
b. Credit Examination Office for EMEA (ECEO)
c. Internal Audit & Credit Examination Division (IACED), Planning Department (EMEA).

EIACE is part of BTMU Internal Audit and Credit Examination Division (IACED), located in Tokyo Head Office. IACED is part of the Corporate Centre function, organizationally separate from the business line. EIACE is headed by the Chief Auditor for EMEA ('CA') who reports to the GM of IACED.

EIACE undertakes periodic (not necessarily annual), on-site reviews of BTMU ME activities, and any findings are reported to the RHME and Heads of branches in BTMU ME, as well as IACED, the CEO for EMEA, the GM of Planning Division for EMEA (EPD), the GM of Compliance Division for EMEA (ECOD), and the GM of Risk Management Division for EMEA (ERMD). EIACE also conduct continuous monitoring activities in relation to the ME units to ensure that the internal audit work to be conducted takes into account any material change in the risk profile of the BTMU ME business.

EIACE undertakes internal audit work across all BTMU EMEA units (EIACE's audit universe). Work is conducted periodically based upon risk assessments undertaken at least annually. EIACE adopts a four year cycle with higher risk areas being subject to more frequent audit visits within that cycle.

EIACE prepares an annual plan for all work to be performed. The plan includes the timing and frequency of planned work, as determined on a risk basis. The annual plan for EIACE is approved by IACED and any material changes are similarly approved.

The CEO for EMEA, the Co-Heads of the Regional Head Office and Heads of BTMU branches in the Middle East may request EIACE to perform specific audit work in the region.

EIACE's reports are rated (where appropriate), and are issued by the CA. Co-Heads of the Regional Head Office and Heads of BTMU branches in the Middle East, as necessary, are required to provide a remedial action plan and target dates to address issues raised. The actions are tracked by EIACE and reported on a monthly basis.

The BTMU EMEA Audit Committee (that has an independent, Non-Executive Chair), also oversees EIACE's risk assessment and annual planning results, providing assurance that planned and executed coverage addresses relevant areas to an appropriate extent.

5. Integration with the wider Group Risk Management Framework

The Bank leverages on the Group Risk Management Framework implemented at the DIFC Branch – Dubai by extending it to manage the risks at Abu Dhabi Branch.

The significant risk arising at the Abu Dhabi Branch is credit risk on account of the non-fund based facilities booked at the Branch. The Credit team at the DIFC Branch – Dubai is responsible for the identification, assessment, measurement and control of credit risk on account of the customers and facilities booked at Abu Dhabi Branch. Risk Management Department is responsible for the ongoing monitoring of the customers / facilities and internal as well as external reporting of the credit risk.

All the processes pertaining to transactions booked at Abu Dhabi Branch and the financial accounting for the Branch is conducted by the Operations team and Financial Planning Department at the DIFC Branch – Dubai. System Risk of the Abu Dhabi Branch is managed by the Systems Team within the Corporate Services Department at Dubai. People Risk pertaining to the Branch is managed by the Human Resources Department based in Dubai. Thus the Operational Risk Management Framework implemented at the DIFC Branch – Dubai covers operational risk at Abu Dhabi Branch.

Regulatory Compliance Risk, another major risk at Abu Dhabi Branch, being an Onshore Branch is managed by the Compliance Department at Dubai supported by other control and support functions.

The Deputy Head for Middle East (Control) is delegated powers to sign off various reports pertaining to the Abu Dhabi Branch, by the Head of Abu Dhabi Branch for operational convenience.

6. Divergences from Group Framework and Local Controls

The Abu Dhabi Branch uses the group-wide framework for managing risks. However, one exception to this is the calculation of regulatory capital requirement under the Pillar I of the Basel II requirements.

Globally, the Bank is using a combination of approaches, namely, Advanced Internal Rating Based (AIRB) Approach for Credit Risk with Standardized Approach for some of the subsidiaries with small balance sheet; Internal Models Approach to calculate General Market Risk (in some cases the Standardized Approach is adopted) and the Standardized Approach is adopted to calculate Specific Risk; and, Operational Risk using the Advanced Measurement Approach and Basic Indicator Approach.

The Abu Dhabi Branch however uses the basic approaches namely, Standardized Approach for Credit Risk and Basic Indicator Approach for Operational Risk. This is as per the local regulations of the CBUAE and the approaches are considered commensurate considering the scale and complexities of the respective risks at the Branch. Additionally, there are local controls to ensure that the capital adequacy meets the regulatory requirements.

7. Risk Disclosures

The Pillar 1 Risks comprise credit, market and operational risk. The Branch's exposure to these risks is as follows:

Credit Risk: Abu Dhabi Branch has limited credit risk. This arises due to the on-balance sheet exposures by way of bank balances and other assets and the off-balance sheet exposures on account of guarantees issued on behalf of the Japanese customers.

The branch considers Standardized Approach for regulatory as well as internal purpose to calculate the credit risk capital charge. The exposure amount, credit risk weighted assets and credit risk capital charge by asset classes for the Branch as at 31st December 2016 is tabulated below:

(Amounts in AED '000)

Asset Class	Exposure	Risk Weighted Assets	Capital Charge
Claims on sovereigns	509	0	0
Claims on banks	39,424	7,885	946
Claims on Corporate	7,175[1]	4,087	490
Other Assets	958	949	114
Total	**48,066**	**12,921**	**1,551**

The Bank holds guarantees from the parent entities for some of the exposures. However, these are not being considered for capital charge reduction.

Market Risk: The Branch does not have any exposure to (a) equity, interest rate, foreign exchange or commodity exposure in the trading book (b) foreign exchange or commodity exposure in the banking book and (c) derivative positions.

Abu Dhabi Branch uses Standard Measurement Method for calculation of market risk capital charge. The Branch did not have any market risk exposure as at 31st December 2016 and consequently the market risk capital charge is zero.

Operational Risk: The operations for Abu Dhabi Branch are largely conducted from the Dubai and London branches. These branches have the setup for the requisite operational controls and therefore we rely on their controls to ensure that the operational risk is within the risk appetite at EHQ level. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, and regular internal audits.

[1] Fully comprises off-balance sheet items amounting to AED 6,176 K and AED 999 K attracting Credit Conversion Factors (CCFs) of 50% and 100% respectively.

The Bank uses Basic Indicator Approach to calculate the Operational Risk Capital Charge using the gross profit as a proxy of the scale of operations.

Liquidity Risk: The liquidity profile of the Branch is extremely robust in view of (a) about 85% of the capital invested in short-term deposits with reputed and highly creditworthy banks in UAE with an additional 11% in call accounts and in the account with the CBUAE (b) these deposits can be liquidated at a short notice (c) the branch does not have any retail or wholesale customer deposits and (d) the branch does not have any funded exposures or committed lines.

The branch will actively monitor the liquidity position and no separate capital charge methodology will be used to calculate the capital charge.

In summary, the branch is not exposed to either funding liquidity risk or market liquidity risk currently and there are no plans underway which would change this position in the foreseeable future. As such, the Branch continues to follow the ELAR / ASRR regulatory framework instead of migrating to the Basel III liquidity framework in line with the flexibility provided by the Regulator.

Concentration Risk: Abu Dhabi Branch has a very small portfolio with exposure to a limited number of counterparties. At the branch level, the portfolio exhibits significant name, sector and geographic concentration due to the inherent strategy of supporting the local operations of Japanese companies. However the Branch portfolio comprises a very small fraction of the overall Bank portfolio and hence the asset-side concentration is not considered material for managing.

Nevertheless, the Risk Management Department at Dubai monitors the portfolio to ensure that it is within the stipulated limits and there is no breach of the Large Exposure Limit guidelines stipulated by the Central Bank of UAE.

The Branch does not accept deposits and hence funding concentration risk does not arise.

There is no capital charge calculated for concentration risk.

Interest Rate Risk in Banking Book: The funded assets totaling AED 40.0m as of 31st Dec. 2016 are of very short tenor. These include term deposits of AED 35.0m with the maximum original tenor of 3 months. All the assets are funded by capital. Based on the residual tenor of rate sensitive assets and liabilities as at 31st Dec. 2016, a 100 and 200 basis point parallel shift in the yields across various maturities would result in an impact of AED 48,611.11 and AED 97,222.22 respectively which are 0.12% and 0.24% of the total eligible capital and not considered significant.

There is no capital charge calculated for interest rate risk in the banking book.

8. Governance around the Remuneration of Executives and Risk Takers

The governance framework for Human Resources Management (HRM) primarily comprises the Human Resources Department at DIFC Branch – Dubai which is responsible for HRM across the Middle East and the senior management at the DIFC Branch – Dubai, Abu Dhabi and Bahrain branches and the Doha Office. All policy matters pertaining to human resources including remuneration are managed through two committees namely MERC and HCC.

The MERC has ultimate responsibility for the operation of remuneration policies and processes across BTMU Middle East region. It is responsible for making initial assessments and recommendations for any decisions and awards made by the Bank's management for employees within BTMU MENA as also severance packages and performance related adjustments to unvested bonus awards for Material Risk Taker staff. It is also responsible for reviewing the effectiveness of the Reward Policy and recommending adjustments where and when appropriate, in order to increase its effectiveness and/or adherence to regulatory requirements.

The MERC also consults the RCO in Dubai, the Chief Human Resources Officer, GHRO for EMEA and Head Office from time to time on various remuneration and compensation related matters. The Deputy Head for Middle East (Control) also holds the position of Senior Manager, Risk and acts in an advisory capacity on risk related aspects of remuneration governance.

The GHRO EMEA through the Chief Human Resources Officer, GHRO for EMEA oversees the proceedings of the MERC as a part of the governance framework. The Head of Reward, EMEA is a permanent member of the MERC.

In addition to the MERC, the Bank also has a HCC for better management of issues pertaining to human resources. The HCC meets periodically and oversees the annual performance review of individual staff. The committee comprises Heads of branches and offices, Deputy Heads and Head of HR and others as invitees, as appropriate. The committee oversees final evaluation, promotions , duties and functions performed by the relevant employees and their seniority within BTMU, assessment criteria against which performance based components of remuneration are to be awarded, integrity and objectivity of the process of performance assessment against the set criteria and review and recommend candidates for promotion.