# Pillar III Annual disclosure 2022

# MFEX Luxembourg S.A.

## Introduction

The purpose of this document is to assemble all information that MFEX Luxembourg S.A., org.nr. B233039 ("MFEX") is required to disclose annually under Article 46 of Regulation (EU) No. 2019/2033 ("IFR"). The new regulation, IFR, entered into force on June 26, 2021, with the purpose of strengthening the link between risk-taking and capital requirements, which includes requirements on risk management and disclosure of information. The MFEX investment firm group was dissolved from a prudential perspective in Q4 2021, and MFEX is now part of the Euroclear banking group.

After the information has been authorized by the company's board of directors, this report is published in its entirety on www.mfex.com.

## Board members

MFEX's board of directors is composed of four members. The members have substantial knowledge and experience of the financial market. Different cultures, as well as experience from other financial operations are promoted in the composition of the board.

*René-Pierre Azria, Chairman*
3 other assignments

*Oliver Lagerström*
9 other assignments

Geert Desmedt
1 other assignment

Manuel Feito Gonzalez
1 other assignment

## Risk Committee

MFEX's Board of Directors has established a Risk and Compliance Committee comprised of a subset of board members with Risk and Compliance functions attending. The committee drafts questions and reviews reports on Risk and Compliance that must be approved or reported to the Board. This Committee met four times in 2022.

## Remuneration policy

The Board of the holding company MFEX Mutual Funds Exchange AB has established a group remuneration policy for all its subsidiaries including MFEX Luxembourg S.A. that include all personnel and management in the company.

In addition, MFEX Mutual Funds Exchange AB´s Board of Directors has set up a Remuneration Committee covering all its subsidiaries including MFEX Luxembourg S.A., consisting of a subset of board members with Human Resources function attending, to prepare the Board’s work in this respect. The group meets at least two times a year.

The group remuneration policy describe how remuneration is determined, paid out, verified and methods used to identify personnel who may have a significant impact on the companies' risk profile. The group policy ensures a neutral approach with regard to all protected characteristics such as gender, religion and ethnicity. The full group remuneration policy is disclosed on MFEX website www.mfex.com/legal/publication-of-information.

## Remuneration

The table below shows aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of MFEX (MRTs).

*Aggregate information on remuneration during the financial year 2022*

| **Category** | **Senior management** | | **MRT (incl Sen. Mgmt)** | |
|---|---|---|---|---|
| | **Amount (KEUR)** | **No. of recipients** | **Amount (KEUR)** | **No. of recipients** |
| Fixed Remuneration | 312 | 2 | 877 | 7 |
| Variable Remuneration | 35 | 2 | 61 | 6 |
| Deferred remuneration awarded for previous performance periods, split into: | | | | |
| i) the amount due to vest in the financial year | n/a | n/a | n/a | n/a |
| ii) the amount due to vest in subsequent years | n/a | n/a | n/a | n/a |
| Deferred remuneration due to vest in the financial year that is paid out during the financial year | n/a | n/a | n/a | n/a |
| Guaranteed variable remuneration awards during the financial year | n/a | n/a | n/a | n/a |
| Severance payments awarded in previous periods, that have been paid out during the financial year | n/a | n/a | n/a | n/a |
| Severance payments awarded during the financial year, split into: | | | | |
| i) the amount paid upfront | n/a | n/a | n/a | n/a |
| ii) the amount deferred | n/a | n/a | n/a | n/a |
| iii) the highest payment that has been awarded to a single person | n/a | n/a | n/a | n/a |

Information on the distribution of variable remuneration is given in the table below.

*Distribution of variable remuneration during the financial year 2021*

| **Remuneration form** | **Paid out amount (KEUR)** | **Deferred amount (KEUR)** |
|---|---|---|
| Cash | 61 | n/a |
| Shares | n/a | n/a |
| Share-linked instruments | n/a | n/a |
| Other | n/a | n/a |

## Investment policy

MFEX does not directly or indirectly own any shares that are admitted to trading on a regulated market and in which MFEX holds more than 5% of the voting rights.

## Risk management objectives and policies

Risk is inherent in the business operations of MFEX. The risk management framework for MFEX and the Group allows the organization to continuously evaluate and assess the risk exposure. The risk management framework is an integrated part of the decision-making process of the company and thus contribute to the fulfilment of the objectives of the organization. Furthermore, the risk management framework incorporates strategies, processes and reporting lines that are necessary to continuously identify, assess, manage, control and report the risks associated with the business. As such the risk management framework is key for a true and fair internal capital and liquidity adequacy assessment.

Risk shall be kept at the lowest level possible while considering business strategy, market sentiment, regulatory requirements and capacity to absorb losses through earnings and capital. Risks that are not supported by established business plans shall not be taken. Risk management shall be conducted according to sound practice so that the relationship between risk and expected return is optimized.

<u>Overview of MFEX risks and risk exposures</u>
According to IFR, risks are to be categorized into Risk-to-Firm ("RtF"), Risk-to-Client ("RtC"), Risk-to-Market ("RtM") and Liquidity risk. MFEX has categorized its risks according to the table below.

| **Assessed risks** | **Risk type** | **Risk area** |
|---|---|---|
| Credit risk | RtF | Bank deposits and claims against counterparties |
| Market risk | RtF | Activities that could result in a material maturity mismatch of asset and liabilities |
| Operational risk | RtC, RtF | Identified largest operational risks |
| Business risk | RtF | Risk that the company is not achieving its aimed, predicted financial results or the risk to its solvency or ability to meet capital requirements, for instance due to unexpected decrease in profitability; improper business decisions; lack of responsiveness towards changes impacting our business objectives |
| Strategic risk | RtF | Strategic Risk to the company's existence and ability to deliver its strategy arising from, for instance:<br>- drastic changes in MFEX's competitive environment, impacting its strategy and business model, or lack of appropriate adaptation of its business model;<br>- inappropriate strategic decisions or lack of decisions taken;<br>- inappropriate implementation of strategy;<br>- lack of a fit for purpose technology, IT infrastructure and software;<br>- inappropriate talent management. |
| Reputational risk | RtF | Damage to the MFEX brand |

| | | |
|---|---|---|
| Concentration risk | RtF | Risk associated with exposures highly concentrated on limited number of clients, counterparties, countries, business segments |
| Liquidity risk | RtF | Risk that MFEX does not have liquid assets available to meet its short-term obligations. |

Credit risk

Credit risk is the risk of financial loss due to a counterparty´s failure to meet its obligations. MFEX is exposed to credit risk in the form of deposits in bank and claims against counterparties. The credit risk that arises from bank deposits and claims against counterparties are risks that targets the firm directly and is thus recognized as a risk to firm and shall be assigned to RtF.

To limit the credit risk that arises from bank and trading accounts, MFEX deposits funds only with institutions/banks with a minimum rating requirement equivalent to a long-term S&P rating of A or short-term minimum rating of A-1. MFEX further continuously monitors the development of the deposit bank rating, and the risk control function provides quarterly reports to the board.

Market risk

Market risks comprise risk due to movements in market prices due to e.g., changes in foreign exchange (FX) rates, interest rates, commodity prices and the stock markets. MFEX Luxembourg is routing cash payments relating to its Trading & custody activity through client money accounts held in the name of MFEX Mutual Funds Exchange AB. Consequently, no FX positions exists at the level of the Firm out of this activity. MFEX does not engage in business activities that could result in a material maturity mismatch of asset and liabilities and ultimately in a relevant exposure to the change of interest rates.

Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. It is inherent in every business organisation and covers a wide spectrum of issues.

The operational risks affect both the firm directly and the clients, depending on the individual risk. The operational risks that affect the firm are those that affect the support functions such as Finance or Human Resources and the control functions and are assigned to RtF. The operational risks that affect the clients are mainly linked to the Operations and IT functions and are assigned to RtC.

To identify and assess operational risks, risk and controls self-assessments are performed. Relevant operational risks are identified and their materiality assessed by defining inherent and residual risk in terms of impact and probability and taking into account the control environment in the analysis.

Business risk

Business risk is the risk of decreasing revenues due to business climate changes, political decisions, economic recession, and similar macro-factors inherent to an organization’s operations and the environment it operates in that may impair its ability to provide returns on investment. The primary business risk for MFEX is the loss of key clients (distributors) through changes in market demand. Business risk have an effect on the firm directly and is therefore assigned to RtF.

MFEX Luxembourg decided in 2022 to sell its clients to Euroclear. Therefore, although the Business risk is currently materialising, its financial impact is expected to be negligible since the proceeds of the sale would cover the expected revenues from these clients until the company cease its regulated activity end 2023.

Interest rate risk

Interest rate risk is the potential for investment losses that can be triggered by a move upward in the prevailing rates for new debt instruments. If interest rates rise, for instance, the value of a bond or other fixed-income investment in the secondary market will decline.

MFEX has cash placements for treasury management purposes in form of treasury funds' units and term deposits. Sufficient cash is left at bank accounts to ensure operational activities. An investment policy has been established to govern this process.

As of end May 2023, the fund shares held by the Company are 0.5% above acquisition cost. Furthermore, the duration of the participation in the fund has been 0.9 year at the end May 2023, cannot exceed 1.5 years and the fund implemented a strict VAR limit at 30 days of 1% therefore limiting the exposure for the firm. The maximum theoretical loss observed over 2022 (12 months) at the time of the sharp increase of interest rate risk represented 2.65% of value of the fund (in light of the sharp interest rate increase observed).
Euroclear group also does not forecast any sharp increase of interest rates in the next 2-3 years. The exposure in the fund will be reduced from EUR 10M to 7M in June 2023 and further reduced to less than EUR 1.5M early 2024 at the latest.

The Company assessed that the interest rate risk is not material in light of the limited and reducing exposure planned in all scenarios and has thus decided not to allocate additional capital to cover the interest rate risk.

Reputational risk

Reputational Risk is the risk that revenues and own equity is affected negatively due to a decline of the value of the brand name. MFEX is engaging in an industry where client expectations on transparency, control and stability are very high. The probability of a reputational risk materializing is considered to be low, but the consequences of such occurrence would be high. Reputational risks affect the firm directly and is therefore allocated to RtF.

To mitigate the reputational risk MFEX applies strict due-diligence and select the companies it enters into relations with. Any potential negative trends in relation to the reputation is monitored through an annual client survey. The results of the survey are presented to the management team and any identified issues are actively addressed.

Strategic risk

Strategic risk is the risk of decreased earnings and capital resulting from either a strategic decision that turns out to be defective or inappropriate, or lack of a strategic decision. This includes the Board's and the management's ability to plan, organize, govern the business and/or fail to adapt the business model to trends in new technology, increased competition and/or generally react to changes in the business conditions and environment. Strategic risks affect the firm directly and is therefore assigned to RtF.

To mitigate strategic risks MFEX has defined a target operating model supporting the integration within Euroclear group.

Concentration risk
Concentration Risk refers to the vulnerability inherent in the concentration of credit risk exposure to a limited number of customers, a particular sector or geographic area.

MFEX is exposed to concentration risk arising from its' exposure towards entities primarily located in France and Luxembourg. Although it has client concentration toward a group of connected companies, they do not represent a material share of MFEX's revenues. Concentration risk will disappear following the planned halt of regulated activities and the sale of its client portfolio.

Liquidity risk
Liquidity risk is the risk that MFEX does not have liquid assets available, or available without incurring significant cost, to meet its short-term obligations.

MFEX is exposed to liquidity risk through its operational expenses and in the limited occurrences when advances are paid to fund distributors before receiving payments from the fund companies and or transfer agents.

MFEX has a cash account dedicated to its operational cash flows, fully segregated from the client money accounts. Liquidity is continuously monitored and procedures for the management of potential or current liquidity deficit have been established which describes the minimum level of liquidity that MFEX shall hold.

The Board has decided that the liquidity risk shall be limited and no speculative elements shall occur in the day-to-day operations. The liquidity reserve shall consist of holdings in a bank that goes further than the regulatory requirements of Article 43 of the IFR, with liquid assets equivalent to at least twenty percent of the risk waited assets. The MFEX Finance function manages the on-balance sheet liquidity flows and must immediately inform Risk Control and the CEO if the total liquidity is less than or may be less than the liquidity reserve based on, for example, forecasts.

## Capital adequacy analysis

Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP)

MFEX shall make an assessment of the internal Pillar II capital requirement (ICLAAP). This assessment is forward-looking and is based on the company's strategic plans. In the assessment, all significant risks must be taken into account. The assessment is conducted by comparing the regulatory capital requirement with the company's internally assessed capital requirements. If any of the internally assessed requirements exceeds the regulatory requirement, the difference is allocated as a supplement.

The ICLAAP report is prepared by MFEX at least once per year, or more frequently if significant changes have occurred in the firm. The risk function is responsible for the implementation of the report. The ICLAAP is the basis for current and future operations, and includes a financial buffer for unforeseen events based on stress tests. The process also includes assessing whether management and control is effective in managing and controlling MFEX risks. The ICLAAP is used as a basis for decisions regarding the capital structure in, for example, decisions on dividends.

## Capital requirement – Pillar I

According to IFR, the new Pillar I requirement is based on the highest of the Permanent minimum capital requirement, the K-factor requirement and Fixed overheads requirement. MFEX has chosen to apply the transitional provisions according to Article 57 of IFR, which limits the capital requirement to a maximum of twice the capital requirement according to CRR.

Permanent minimum capital requirement
In accordance with Article 14 of IFR, MFEX has a minimum capital requirement corresponding to KEUR 150.

K-factor requirement
The K-factor requirement is calculated for RtC, RtF and RtM in accordance with Article 15 of IFR. A summary of the company's risks related to the above categories is shown in the table below.

| | |
|---|---|
| **Risk-to-Client (RtC)** | The company calculates a capital requirement based on the K-factors K-ASA and K-COH in the category RtC. |
| **Risk-to-Market (RtM)** | The company has no exposures in the category RtM. |
| **Risk-to-Firm (RtF)** | The company has no exposures in the category RtF. |

An evaluation of MFEX K-factor requirements is given in the table below.

*K-factor requirement, KEUR*

| **TRisk category** | **Amount** | **K-factor requirement** |
|---|---:|---:|
| RtC | | 22 548 |
| – *Of which: K-ASA* | *55 910 659* | *22 364* |
| – *Of which: K-COH* | *184 094* | *184* |
| RtF | | 0 |
| RtM | | 0 |
| **Total** | | **22 548** |

Fixed overheads requirement
The capital requirement based on fixed overheads is calculated as 25% of the previous year's fixed overheads in accordance with Article 13 of IFR. A summary is given in the table below.

*Fixed overheads requirement, KEUR*

| **Entry** | **Amount** |
|---|---:|
| Total expenses of the previous year after distribution of profits | 12 136 |
| Total deductions | -371 |
| Total fixed overheads of the previous year | 11 765 |
| **Fixed overheads requirement** | **2 941** |

Transitional provisions

The capital requirement under the transitional provisions under Article 57 of the IFR is calculated as two times 8% of the total risk exposure amount in accordance with CRR.

Total Pillar I requirement

The total capital requirement (Pillar I) is shown in the table below.

*Total capital requirement, KEUR*

| **Entry** | **Amount** |
|---|---:|
| Permanent minimum capital requirement | 150 |
| Fixed overheads requirement | 2 941 |
| K-factor requirement | 22 548 |
| Capital requirement based on transitional provisions | 5 920 |
| **Total capital requirement (transitional provisions)** | **5 920** |

## Information on own funds, KEUR

**Template EU IF CC1.01 - Composition of regulatory own funds (Investment firms other than small and non-interconnected )**

| | | a) | b) |
|---|---|---|---|
| | | **Amounts** | **Source based on reference numbers/letters of the balance sheet in the audited financial statements** |
| **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | | |
| **1** | OWN FUNDS | 18 229 | |
| **2** | TIER 1 CAPITAL | 18 229 | |
| **3** | COMMON EQUITY TIER 1 CAPITAL | 18 229 | |
| **4** | Fully paid up capital instruments | 3 625 | FPCI |
| **5** | Share premium | 20 500 | SP |
| **6** | Retained earnings | -5 909 | RE |
| **7** | Accumulated other comprehensive income | | |
| **8** | Other reserves | 13 | RES |
| **9** | Minority interest given recognition in CET1 capital | | |
| **10** | Adjustments to CET1 due to prudential filters | | |
| **11** | Other funds | | |
| **12** | (-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1 | | |
| **13** | (-) Own CET1 instruments | | |
| **14** | (-) Direct holdings of CET1 instruments | | |
| **15** | (-) Indirect holdings of CET1 instruments | | |
| **16** | (-) Synthetic holdings of CET1 instruments | | |
| **17** | (-) Losses for the current financial year | | |
| **18** | (-) Goodwill | | |
| **19** | (-) Other intangible assets | | |
| **20** | (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | | |
| **21** | (-) Qualifying holding outside the financial sector which exceeds 15% of own funds | | |
| **22** | (-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds | | |

| | | | |
|---|---|---|---|
| **23** | (-) CET1 instruments of financial sector entites where the institution does not have a significant investment | | |
| **24** | (-) CET1 instruments of financial sector entities where the institution has a significant investment | | |
| **25** | (-)Defined benefit pension fund assets | | |
| **26** | (-) Other deductions | | |
| **27** | CET1: Other capital elements, deductions and adjustments | | |
| **28** | ADDITIONAL TIER 1 CAPITAL | | |
| **29** | Fully paid up, directly issued capital instruments | | |
| **30** | Share premium | | |
| **31** | (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1 | | |
| **32** | (-) Own AT1 instruments | | |
| **33** | (-) Direct holdings of AT1 instruments | | |
| **34** | (-) Indirect holdings of AT1 instruments | | |
| **35** | (-) Synthetic holdings of AT1 instruments | | |
| **36** | (-) AT1 instruments of financial sector entities where the institution does not have a significant investment | | |
| **37** | (-) AT1 instruments of financial sector entities where the institution has a significant investment | | |
| **38** | (-) Other deductions | | |
| **39** | Additional Tier 1: Other capital elements, deductions and adjustments | | |
| **40** | TIER 2 CAPITAL | | |
| **41** | Fully paid up, directly issued capital instruments | | |
| **42** | Share premium | | |
| **43** | (-) TOTAL DEDUCTIONS FROM TIER 2 | | |
| **44** | (-) Own T2 instruments | | |
| **45** | (-) Direct holdings of T2 instruments | | |
| **46** | (-) Indirect holdings of T2 instruments | | |
| **47** | (-) Synthetic holdings of T2 instruments | | |
| **48** | (-) T2 instruments of financial sector entities where the institution does not have a significant investment | | |

| | | | |
|---|---|---|---|
| **49** | (-) T2 instruments of financial sector entities where the institution has a significant investment | | |
| **50** | Tier 2: Other capital elements, deductions and adjustments | | |

**Template EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements, KEUR**

| | | a | b | c |
|---|---|---|---|---|
| | | **Balance sheet as in published/ audited financial statements** | **Under regulatory scope of consolidation** | **Cross reference to EU IF CC1** |
| | | **As at period end** | **As at period end** | |
| **Assets** – *Breakdown by asset classes according to the balance sheet in the published/audited financial statements* | | | | |
| 1 | Intangible assets | - | | |
| 2 | Tangible assets | 230 | | |
| 3 | Financial assets | 10 190 | | |
| 4 | Debtors | 8 769 | | |
| 5 | Cash at bank and in hand | 7 319 | | |
| 7 | Prepayments | 17 | | |
| 8 | **Total Assets** | **26 525** | | |
| **Capital and Reserves** | | | | |
| 1 | Subscribed capital | 3 625 | | FPCI |
| 2 | Share premium account | 20 500 | | SP |
| 3 | Reserves | 13 | | RES |
| 4 | Profit or loss brought forward | -6 568 | | RE |
| 5 | Profit or loss for the financial year | 659 | | RE |
| 6 | **Total Capital and Reserves** | **18 229** | | |
| **Liabilities and Provisions -** *Breakdown by liability classes according to the balance sheet in the published/auditied financial statements* | | | | |
| 1 | Other provisions | 5 797 | | |
| 2 | Amounts owed to credit institutions | 0 | | |
| 3 | Trade creditors | 328 | | |
| 4 | Amounts owed to affiliated undertakings | 1 359 | | |
| 5 | Other creditors | 812 | | |
| 7 | **Total Liabilities and Provisions** | **8 296** | | |

**Template EU IF CCA: Own funds: main features of own instruments issued by the firm**

| | | a |
|---|---|---|
| 1 | Issuer | MFEX Luxembourg S.A. |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| 3 | Public or private placement | Private |
| 4 | Governing law(s) of the instrument | Luxembourg law |
| 5 | Instrument type (types to be specified by each jurisdiction) | Share capital |
| 6 | Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | 3.6 MEUR |
| 7 | Nominal amount of instrument | 3 625 000.00 EUR |
| 8 | Issue price | 3 625 000.00 EUR |
| 9 | Redemption price | N/A |
| 10 | Accounting classification | Equity |
| 11 | Original date of issuance | 2019-03-27 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity date |
| 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 | N/A |
| 20 | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| 21 | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |
| 22 | Existence of step up or other incentive to redeem | N/A |
| 23 | Noncumulative or cumulative | N/A |
| 24 | Convertible or non-convertible | N/A |
| 25 | If convertible, conversion trigger(s) | N/A |
| 26 | If convertible, fully or partially | N/A |
| 27 | If convertible, conversion rate | N/A |
| 28 | If convertible, mandatory or optional conversion | N/A |
| 29 | If convertible, specify instrument type convertible into | N/A |
| 30 | If convertible, specify issuer of instrument it converts into | N/A |

| | | |
|---|---|---|
| 31 | Write-down features | N/A |
| 32 | If write-down, write-down trigger(s) | N/A |
| 33 | If write-down, full or partial | N/A |
| 34 | If write-down, permanent or temporary | N/A |
| 35 | If temporary write-down, description of write-up mechanism | N/A |
| 36 | Non-compliant transitioned features | N/A |
| 37 | If yes, specify non-compliant features | N/A |
| 38 | Link to the full term and conditions of the instrument (signposting) | See Articles of Association www.mfex.com/legal/publication-of-information |
| (1) Insert 'N/A' if the question is not applicable | | |

Luxembourg, 30th of June