Pillar III Annual disclosure 2021

MFEX Mutual Funds Exchange AB

Introduction

The purpose of this document is to assemble all information that MFEX Mutual Funds Exchange AB, org.nr. 556559-0634 ("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 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. The information on risk management, own funds and own funds requirements is also published in MFEX annual report.

Board members

MFEX's board of directors is composed of six members. The members have substantial knowledge and experience of the financial market. In the composition of the board and management, different cultures and gender, as well as experience from other financial operations are promoted.

Oliver Lagerström , Chairman
Ten other assignments

René-Pierre Azria
Three other assignments

Olivier Huby
Seven other assignment

Philippe Laurensy
One other assignment

Paul Hurd
One other assignment

Brigitte Daurelle
Four other assignments

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. The group meets at least four times per year.

Remuneration policy

The Board of MFEX has established group remuneration policy that include all personnel and management in the company.

The MFEX Board of Directors has set up a Remuneration Committee, 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 ensure 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 2021

Category	**Senior management**		**MRT (incl Sen. Mgmt)**	
	Amount (TSEK)	**No. of recipients**	**Amount (TSEK)**	**No. of recipients**
Fixed Remuneration	3 817	3	8 251	7
Variable Remuneration	80	1	80	1
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	524	1
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	524	1

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 (TSEK)	Deferred amount (TSEK)
Cash	215	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 their risks according to the table below.

Assessed risks	Risk type	Risk area
Credit risk	RtF, RtC	Bank deposits and claims against fund companies
Market risk	RtF	FX positions held in trading process and FX positions held in rebates collection
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: - drastic changes in MFEX's competitive environment, impacting its strategy and business

		model, or lack of appropriate adaptation of its business model; - inappropriate strategic decisions or lack of decisions taken; - inappropriate implementation of strategy; - lack of a fit for purpose technology, IT infrastructure and software; - 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
Interest rate risk	RtF	Sensitivity to changes in interest rates due to mismatch between long/short term lending/borrowing
Liquidity risk	Liquidity	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 trading accounts as well as custody activity and rebates collection. The credit risk that arises from bank deposits is a risk that targets the firm directly and is thus recognized as a risk to firm and shall be assigned to RtF. On the other hand trading rebate and fee collections is considered a risk to client since disturbances in this process could cause delays in payments and ultimately costs for the clients. These risks will therefore be assigned to RtC.

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. To limit credit risk that arises from the rebates collection operations MFEX has a distributor agreement which allows for MFEX to retrieve any advance rebate payments to distributors if a fund company defaults in paying rebates to MFEX. Further, MFEX is also restrictive and will not enter into fund company agreements with a current or expected distressed financial situation.

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. Due to the business model, MFEX is exposed to market risk primarily in the form of FX risk and stock market risk. The FX risk is materialised in the Trading- and the Rebates process. Market risk is a risk that targets the firm directly and is thus recognized as a risk to firm and shall be assigned to RtF.

Market risks that arise from trading and custody accounts are limited by adding an additional spread to exchange rates to cover for the risk of potential losses due to movements in currencies. Open FX-positions in the trading flow are monitored on a daily basis. Market risks that arise from rebates collection is limited by performing a currency exchange to cover for remaining currency differences after netting assets and liabilities have been done.

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 are classified into the following categories:

- Legal Risk
- Compliance Risk
- HR Risk
- Personnel Risk
- Process and Product Risk
- IT Risk
- Third party Risk

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 risk for MFEX and branches self-assessments are performed. Relevant operational risks are identified and their materiality is assessed by determining 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 operate 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 are therefore assigned to RtF.

The client base has steadily been increasing during the last years and MFEX focuses on nurturing a close relationship with its largest clients and is continuously working to expand the client base.

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 amended to RtF.

To mitigate the reputational risk MFEX applies strict due-diligence and is selective which companies to enter 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. In its current phase MFEX is exposed to key strategic risks in the expansion of the business to new markets, merger integrations, changed or new products and systems. Strategic risks affect the firm directly and is therefore assigned to RtF.

To mitigate strategic risks MFEX has defined a target operating model for future operations as well as a clear integration plan with a project management organisation 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 credit concentration risk from its' credit exposure towards institutes and corporates primarily located in Sweden. It is also the case that certain concentration risks inherent to the line of business offering MFEX has. Concentration risks affect the firm directly and is therefore assigned to RtF.

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 primarily through its operational expenses and in the process of rebates collection where fund distributors are to an extent paid before MFEX receive payment from the fund companies, and when early payments of redemption orders are made towards Distributors. The liquidity risks taken shall be limited, and no speculative elements shall occur in the daily operations. MFEX has assessed its business to be less complex and the company does not have a role as liquidity guarantor in the market.

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. This includes liquidity reviews before payment of non-custody rebates to distributors and early payments of redemption orders, as well as recurring review of reallocation of liquidity between banks. Further details are found in the guideline for liquidity.

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 meet the requirements of Article 43 of the IFR, which corresponds to at least one third of the requirement based on fixed expenses in accordance with Article 13 (1) of the IFR. 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

For the determination of MFEX's statutory capital requirements, the Act (2014:968) on special supervision of credit institutions and investment firms and IFR apply.

MFEX Mutual Funds Exchange AB changed its reporting currency from SEK to EUR on 1 January 2020. In accordance with the SFSA's directives, however, statutory reporting is still done in SEK, thus information below is still presented in SEK. The conversion from EUR to SEK as of 31 December 2021 has taken place at the exchange rate of 10,227.

Internal capital and risk assessment (ICARA)

MFEX shall make an assessment of the internal Pillar II capital requirement (ICARA). 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 and the company calculates, according to IFR, an internally assessed K-factor requirement based on identified risks linked to RtC, RtM and RtF, respectively. The assessment is conducted by comparing the calculated K-factor requirement with the company's internally assessed K-factor requirement. If any of the internally assessed K-factor requirements exceeds the calculated K-factor requirement, the difference is allocated as a supplement.

The ICARA 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 ICARA 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 ICARA 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 TSEK 1 517.

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-CMH, 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 calculates a capital requirement based on the K-factor K-DTF in the category RtF.

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

K-factor requirement, TSEK

Risk category	Amount	K-factor requirement
RtC		408 453
– *Of which: K-CMH*	*903 242*	*3 613*
– *Of which: K-ASA*	*1 008 401 915*	*403 361*
– *Of which: K-COH*	*1 479 428*	*1 479*
RtF		2 914
– *Of which: K-DTF*	*2 913 689*	*2 914*
RtM		0
Total		**411 367**

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, TSEK

Entry	Amount
Total expenses of the previous year after distribution of profits	413 025
Total deductions	-35 228
Total fixed overheads of the previous year	377 796
Fixed overheads requirement	**94 449**

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, TSEK

Entry	**Amount**
Permanent minimum capital requirement	1 517
Fixed overheads requirement	94 449
K-factor requirement	411 367
Capital requirement based on transitional provisions	361 535
Total capital requirement (transitional provisions)	**361 535**

Information on own funds, TSEK

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	948 076	
2	TIER 1 CAPITAL	948 076	
3	COMMON EQUITY TIER 1 CAPITAL	948 076	
4	Fully paid up capital instruments	1 726	FPCI
5	Share premium	105 857	SP
6	Retained earnings	1 037 699	RE
7	Accumulated other comprehensive income		
8	Other reserves	107 667	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	-304 872	
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	-171 323	LY
18	(-) Goodwill	-40 326	GW
19	(-) Other intangible assets	-52 666	IA
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-26 449	DTA
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	-14 107	OD
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

		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	Lending to credit institutions	270 159		
2	Shares and participations in Group companies	991 067		
3	Intangible assets	148 512		IA, GW
4	Tangible assets	4 525		
5	Deferred tax assets	40 556		DTA, OD
6	Other assets	875 819		
7	Prepaid expenses and accrued income	84 527		
8	**Total Assets**	**2 415 165**		
Liabilities and Provisions - *Breakdown by liability classes according to the balance sheet in the published/auditied financial statements*				
1	Other liabilities	1 311 265		
2	Accrued expenses and deferred income	20 331		
3	Provisions	1 943		
4	**Total Liabilities and Provisions**	**1 333 539**		
Shareholders' Equity				
1	Share capital	1 726		FPCI
2	Statutory reserve	14 860		RES
3	Development expenditures fund	92 807		RES
4	Share premium reserve	105 857		SP
5	Retained earnings	1 037 699		RE
6	Profit/loss for the year	-171 323		LY
7	**Total Shareholders' equity**	**1 081 626**		

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

		a
1	Issuer	MFEX Mutual Funds Exchange AB
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	Swedish 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)	0,169 MEUR
7	Nominal amount of instrument	168 729,55 EUR
8	Issue price	168 729,55 EUR
9	Redemption price	N/A
10	Accounting classification	Equity
11	Original date of issuance	1998-09-03
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		

Stockholm, 29th of June 2022