Mizuho Trust & Banking (Luxembourg) S.A.

Pillar 3 Disclosures
for the year ending 31 December 2023

March 2024

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1 Introduction

This report presents the Pillar III disclosures of Mizuho Trust & Banking (Luxembourg) S.A. (herein referred to as “MHTBL” or “the Bank”) for the financial year ending December 31st, 2023, as required by the global regulatory framework for capital and liquidity established by the Basel Committee on Banking Supervision, also known as Basel 3. At the European level, these requirements are implemented in the disclosure requirements as laid down in Part Eight of the “Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013” (also referred to as the “Capital Requirements Regulation 2” or the “CRR 2”).

Further disclosure guidance has been provided by the European Banking Authority (also referred to as the “EBA”) in its “Final draft implementing technical standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013”).

MHTBL publishes its Pillar III report on an annual basis.

2 Overview

2.1 Background

The European Union Capital Requirements Directive, effectively starting on January 1st, 2007, introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules.
Three so-called pillars design the Basel regulation, which are expected to be mutually reinforcing:

- The capital requirements related to the credit, market and operational risks that banks run are defined under Pillar 1;
- The Pillar 2 focuses on banks producing their own assessment of capital adequacy, based on the risks that they face in their activities, including additional risk types such as market risk in the banking book. This Pillar also lays out the interaction between the banks' own assessments and the banking supervisors' response.
- The third Pillar, by enhancing the degree of transparency in banks' public reporting, leverages the ability of market discipline to motivate prudent management. It sets out the public disclosures that banks must make that lend greater insight into the adequacy of their capitalization. The purpose of Pillar 3 is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2).

The Basel Committee on Banking Supervision (BCBS) published standards for a revised Pillar III disclosures framework in January 2015. The BCBS trusts that, throughout the financial crisis, the existing Pillar III framework failed to promote the identification of bank's material risks and did not provide sufficient information to enable market participants to assess a bank's overall capital adequacy.

It is in this context that European Banking Authority (EBA) has issued guidelines to bridge the gap between the Part Eight of the Capital Requirements Regulation 2019/876 (CRR2) amending Regulation (EU) No 575/2013 (CRR) and the revised Pillar III framework. This enables to ensure the integration of all measures required by the full adoption of the Basel III capital reforms.

2.2 Basis and Frequency of Disclosures

Mizuho Trust & Banking (Luxembourg) S.A. (hereafter the "Bank" or "MHTBL") has prepared this document in accordance with the Pillar III requirements. Unless otherwise stated, all figures are as at December 31st, 2023.

The Bank publishes the required disclosures on an annual basis at a minimum.

2.3 Scope

The purpose of this Pillar III report is to provide updated information as of December 31st, 2023 on our implementation of the Basel capital framework and risk assessment processes in accordance with the Pillar III requirements.

Given that the Bank is a wholly owned subsidiary of Mizuho Trust & Banking Co. Ltd. in Tokyo, Japan (hereafter the “Parent Company”) within the Mizuho Financial Group, the elaboration of the document has been achieved in respect of the principle of proportionality of the Bank.

This report includes as well, a brief description of the Risk Management processes used at the fund management company, named “Japan Fund Management Luxembourg S.A.” (“JFML”) which is a 100% subsidiary of Mizuho Trust & Banking (Luxembourg) S.A. (“MHTBL”). JFML results are fully consolidated with MHTBL results.

2.4 Verification and Location

The Board of Directors of the Bank confirms, for the purpose of Article 435 of the CRR, that the Bank’s risk management systems are adequate with regard to its risk profile and strategy. The Board of Directors of the Bank have reviewed these disclosures and are published on the website: http://www.mizuho.lu

2.5 Structure

MHTBL is a wholly owned subsidiary of Mizuho Trust & Banking Co. Ltd. In Tokyo, Japan within the Mizuho Financial Group.

2.6 Activities

The Bank is providing to its customers with three types of business:

• Global Custody Services

The Global Custody Services is mainly offered to institutional investors who globally invest into securities markets. By covering approximately 50 markets worldwide, MHTBL provides answers to a variety of clients’ investment needs as well as to the ongoing market changes.

• Fund Administration

MHTBL offers a wide range of services for both publicly offered and privately placed investment vehicles, not only for Luxembourg domiciled ones but also for other off-shore jurisdictions, such as the Cayman Islands, Jersey, Isle of Man, etc.
MHTBL provides a full range of services regarding the Fund Administration, from the establishment to the maintenance of the fund to a variety of investors.

• Securities Agency

MHTBL offers a variety of Securities Agency services to support issues or arrangers in their international capital market activities.
Core Securities Agent services include the following activities: Fiscal Agent / Principal Paying Agent, Issuing and Paying Agent, Common Depositary / Common Safekeeper / Common Service Provider, Calculation Agent, Listing Agent, Registrar / Transfer Agent.

2.7 Governance

The risk management of Mizuho is composed of three main entities: the Board of Directors, the Authorized Management and the Risk Management Committee.

2.8 MHTBL Board of Directors

The Board of Directors has the overall responsibility for the institution and ensures the good execution of activities and preserve business continuity by way of sound central administration and internal governance arrangements.
The Authorized Management is entrusted by the Board of Directors with the implementation of the internal governance strategies and guiding principles stated in this document, and monitor the implementation by the Authorized Management of its internal governance strategies and guiding principles. The Board of Directors approves the policies and regularly reviews them to ensure that it is aligned with the Bank's business plan, economic and financial position or any other significant changes which affect the Bank.

2.9 MHTBL Authorized Management

The Authorized Management is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management. This management is exercised in compliance with the strategies and guiding principles laid down by the Board of Directors and the existing regulations, taking into account and safeguarding the institution's long-term financial interests, solvency and liquidity situation. The decisions taken by the Authorized Management in these areas are duly documented.

The Authorized Management takes into account the advice and opinions provided by the internal control functions in its day-to-day management. Where the decisions made by the Authorized Management have or could have a significant impact on the risk profile of the institution, the Authorized Management shall first obtain the opinion of the Risk Control function and, where appropriate, of the Compliance Function. The Authorized Management receives regular reports on the liquidity and funding situation of the Bank.

In order to identify and assess the risks that may arise there from the activities or organization of the Bank, the Authorized Management informs the internal control functions of any significant changes. The Authorized Management informs, on a regular basis and at least once a year, the Board of Directors of the implementation, adequacy, effectiveness and compliance with the internal governance arrangements. It includes the state of compliance and internal control as well as the ICAAP (Internal Capital Adequacy Assessment Process) / ILAAP (Internal Liquidity Adequacy Assessment Process) report on the situation and management of the risks and the internal and regulatory own funds and liquidity (reserves).

Where the Authorized Management becomes aware that the central administration and internal governance arrangements no longer enable sound and prudent business management, it informs the Board of Directors and the CSSF by providing them, without delay, any necessary information to assess the situation. The same procedure occurs when the risks incurred are or will no longer be properly borne by the institution's ability to manage these risks, by the regulatory or internal own funds or liquidity reserves.

The Authorized Management receives the reporting on the Bank's liquidity and funding situation, through the LCR and NSFR monitoring, on a daily basis. The Authorized Management and the various relevant people are monthly informed of the Bank's liquidity situation through the Risk Management Committee.

3 Risk Management objectives and policies

3.1 Strategy and processes of Risk Management

The Bank's strategy is to manage the commercial aspects while focusing on fee generating business. In this context, in accordance with the Risk Management, the Management's policy is to concentrate on the improvement and reinforcement of the control environment with a view of the potential global exposure of the business. The policy of firstly minimizing the limits granted within each area, and secondly operating a full cover principal for all transactions conducted with clients mitigates the market, foreign exchange and credit risk.

Internal controls are performed and completed on a daily basis. Reporting of risks control is made to the Management of the Bank on the basis of full and exception reporting. The risk reporting is carried out using MS office tools and the core banking system associated to a reporting tool – "Crystal Report" – (controls are in place to ensure accuracy, completeness and coherence of the different databases). On the required periodic basis, reports are produced by risk management for submission to the Parent Company in Tokyo.

At the level of JFML, the Risk Management function is considered as functionally and hierarchically separated from JFML operating units. It includes the portfolio management function, which is delegated by JFML to third party entities. The Risk Management function reports directly to the Conducting Officer of the Management Company in charge of Risk Management. The Risk Management function has three main responsibilities:

- identify, measure and monitor on an ongoing basis all material risks relevant to each Fund;
- determine the risk profile for each Fund and ensure compliance with regulatory, internal risk limits and Prospectus limits; and
- provide regular updates to the senior management with regard to the current level of risk incurred by each Fund and any actual or foreseeable breaches of any regulatory, internal risk limits and Prospectus limits.

3.2 Structure and organization of Risk Management

The Risk Management department (RMD) is undertaking the tasks normally associated with a separate middle office function. In this perspective, RMD is independent from the Financial Markets department (FMD), who performs the treasury function. RMD, as a second line of defense, is responsible for monitoring the activities of the FMD to ensure that they are in line with the guidelines and restrictions laid down by the local regulator (including international standards) and the Parent Company.

Validation should be made with the FMD if issues arise, but in each case, the information must be given to RMD. The Risk Management's strategy of the Bank is to develop and implement effective processes to identify, report, assess, measure and manage risks incurred by the business and to comply with applicable regulatory requirements and internal guidelines associated with risk management.

RMD assists, with the formulation of risk strategy and supports, the Management to fulfill the specialists' delegated responsibilities in respect of risk governance. In this context, RMD ensures the identification and the quantification of risks associated with the ICAAP and the ILAAP report.

From JFML point of view, the Risk Management Process is an integral part of the Risk Management Framework of the Management Company embedded in JFML's culture and practices and tailored to the nature, scale and complexity of JFML's business and to all range of activities it carries out.

JFML is an Alternative Investment Fund Manager ("AIFM") since July 2014. The company was holding the UCITS license since April 2016 which was removed in December 2023 because of the absence of business related to Luxembourg UCIs, non-Luxembourg AIFs or UCITS. The object of JFML is to act as AIFM in accordance with the AIFM Law for AIFs and to perform the activities listed in the Risk Management Policy for AIFs..

The risk management systems, processes, procedures and methods in place duly capture the specificities of each Alternative Investment Fund ("AIF") under management in order to identify, measure, manage and monitor appropriately all risks to which each managed AIF is or may be exposed.

3.3 MHTBL Risk Management Committee

3.3.1 Purpose

On a structural basis, the RMC reviews and revises all identified risks within the context of ICAAP/ILAAP. It holds the responsibility of reporting the results and other matters related to MHTBL's capital and liquidity operations. The main objective of the Risk Management Committee ("RMC") is to assist the Board of Directors in its mission to assess the adequacy between the risks incurred, the institution's ability to manage these risks related to the internal, regulatory, own funds, and liquidity reserves.

The committee is conducted by the Risk Management function and is composed of the Authorized Management and the relevant Department Heads.

3.3.2 Frequency of the meetings and content

The Bank has set up a Risk Management Committee in 2008. Meetings are held on monthly basis to disclose the current risk and control status of the Bank. The members of the committee provide with the appropriate level of oversight to the risk assessment process given their responsibilities and in-depth knowledge of the department and section they are responsible for.

The Risk Management Committee members approves the stress test program applied to the various scenarios illustrated within the ICAAP/ILAAP report at the meeting of December of each year. The details of the program are also submitted to the Parent Company and the BOD members. When soft limits or tolerances are breached or when a triggering event occurs, the Authorized Management is informed (escalation process) and the situation is analyzed, with the support of the Risk Management Committee, the Head of Financial Markets department. Source and severity of the breach is investigated and various scenarios are defined to correct the gap of liquidity.

4 Risk Management Framework

4.1 Risk Appetite

4.1.1 Risk appetite Statement (RAS)

The Risk Appetite Statement (hereafter "RAS") is to provide with the articulation in a written form of the aggregate level and types of risk that the Bank is willing to accept in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.
The RAS is approved by the Board of Directors on an annual basis as part of the strategic planning process and is outlined through both quantitative and qualitative measures.

Risk appetite is the total exposed amount that the Bank wishes to undertake on the basis of risk-return trade-offs for one or more desired and expected outcomes. The RAS helps the Bank to make better decisions by providing the risk boundaries within which decisions are to be made. It has a key role to play in supporting the Bank's strategy and the achievement of its core objectives. The Bank has set up a risk matrix listing all the risks potentially applicable to the Bank in order to ensure the exhaustiveness of the principle set up in the CSSF Circular 07/301 as amended is complied with.

The following indicators are taken into account in order to measure qualitatively and quantitatively the categories of risks having an impact on the bank's risk appetite:

- Own Funds indicators: monitoring of the capital in order to maintain capital ratios above both, the regulatory limits and the internal tolerance thresholds.
- Liquidity Risk indicators: manage liquidity and funding liquidity risk by maintaining sufficient funds to meet all regulatory obligations (liquidity ratios).
- Operational Risk indicators: monitoring of the operational errors in order to ensure a proper execution of the business processes of the Bank.
- Profitability indicators: results are monitored on a daily basis in order to ensure that the Bank respects the budget initially set at the beginning of the year.
- Credit Risk indicators: the Bank's counterparties are closely monitored on a daily basis in order to ensure the quality of the business network and to control the level of exposures that the Bank has towards them.
- Concentration risk indicators: allow the identification of possible concentration risks by monitoring the various counterparties' exposures. The Bank's asset portfolio is closely monitored as well, to ensure sufficient quality in the liquidity investments.
- Market Risk indicators: a close monitoring of the accumulative open foreign exchange positions (daily basis) and the interest rate risk sensitivity (quarterly basis) is made in order to mitigate the risk resulting from altering foreign exchange rates and interest rates.
- AML Risk indicator: within the AML/KYC framework, an assessment of the potential "high risk" clients is performed on a semi-annual basis.
- Safekeeping risk indicators: indicators used to assess the safekeeping portfolio assets with third parties, like broker or sub-custodian.
- Reputational risk indicator: indicator implemented to assess the customers' behavior, when facing potential problems resulting from incident detected on operational processes – potential complaint.

Risk Matrix				
Risk ID	Indicators	Risk Details	Impact	Probability
R1	Own Funds indicators	Common Equity Tier 1 ratio (including conservation buffer 2.5%)	Low	Rare/Non-existent
R2		Tier 1 ratio (including conservation buffer 2.5%)	Low	Rare/Non-existent
R3		Capital Adequacy Ratio (including conservation buffer 2.5%)	Low	Rare/Non-existent
R4		MREL	High	Rare/Non-existent
R5		Leverage ratio	Low	Rare/Non-existent
R6		% of the capital invested compared to the total Own Funds (LuxGAAP)	Medium	Rare/Non-existent
R7		Capital investment Amount	Medium	Rare/Non-existent
R8		Capital investment Term - Nbr of Capital investment Transaction with a term maturity > 6 months	Low	Rare/Non-existent
R9	Liquidity indicators	Liquidity Coverage ratio	Low	Rare/Non-existent
R10		Net Stable Funding ratio	Low	Rare/Non-existent
R11		Liquidity Coverage ratio	Low	Rare/Non-existent
R12		Net Stable Funding ratio	Low	Rare/Non-existent
R13	Operational Risk Indicator	Operational losses coming from Bank's mistakes - Loss amounts in USD equiv.	High	Rare/Non-existent
R14		Nbr of Incident Report caused by Bank's mistake (aggregated value)	High	Rare/Non-existent
R15		DRP/BCP annual test	Low	Rare/Non-existent
R16	Profitability indicator	Computed Gap in percentage Realized/Budget on a daily prorata basis	Low	Rare/Non-existent
R17		Major exposure by client in term of profitability	Low	Rare/Non-existent
R18	Credit Risk indicators	Credit Risk Monitoring (Exposures to counterparties with CDS > 200Bps) - Computed Ratio in % of the ASSETS (>200 Bps) / TOTAL ASSETS	Low	Rare/Non-existent
R19		Credit Risk Monitoring (Counterparties's Credit Rating below BBB+) - Computed Ratio in % of the ASSETS (<BBB+) / TOTAL ASSETS	Low	Rare/Non-existent
R20		Credit Risk Monitoring (Counterparties's Stock Prices with variation >20%) - Computed Ratio in % of the ASSETS (>20%) / TOTAL ASSETS	Low	Rare/Non-existent
R21		INTERBANK Credit Lines control (FX and MM aggregated) - Level of consumption according to the HO limits	Low	Rare/Non-existent
R22		CLIENT Credit Lines control (FX and MM aggregated) - Level of consumption according to the Internal Credit Lines Limits	Low	Rare/Non-existent
R23		Credit Lines control (OD Clients) - Comparison with the Own Funds of the Bank	Low	Rare/Non-existent
R24		INTERBANK Large Exposures monitoring - Nbr of counterparties (NOT EXEMPTED) where the Bank is exposed to (comparison against the T1 Capital)	Low	Rare/Non-existent
R25		CLIENT Large Exposures monitoring - Nbr of counterparties (NOT EXEMPTED) where the Bank is exposed to (comparison against the T1 Capital)	Low	Rare/Non-existent
R26	Asset Quality indicator	Nbr of HQLA assets with a Credit Quality Step >1	Low	Rare/Non-existent
R27		Major exposure to counterparty	Low	Very Likely
R28		Major exposure by client in term of assets	Low	Very Likely
R29		Major exposure by service provider	Low	Rare/Non-existent
R30	Market Risk Indicators	Daily Term Operations (Overall - Agregated Short Gap) after spot date	Low	Rare/Non-existent
R31		Daily Term Operations (Currency monitoring) after spot date USD	High	Rare/Non-existent
R32		Daily Term Operations (Currency monitoring) after spot date EUR	High	Rare/Non-existent
R33		Daily Term Operations (Currency monitoring) after spot date JPY	High	Rare/Non-existent
R34		Daily Term Operations (Currency monitoring) after spot date GBP	High	Rare/Non-existent
R35		Daily Term monitoring (within 6 months)	Low	Rare/Non-existent
R36		Forex position - Nbr of CCY with a FX position <= USD equ. 150K	0	0
R37		Forex position - Nbr of CCY with a FX position > USD equ. 150K and <= USD equ. 200K	Low	Rare/Non-existent
R38		Forex position - Nbr of CCY with a FX position > USD equ. 200K	Low	Rare/Non-existent
R39	AML Risk Indicator	AML/KYC framework-Assessment high risk clients	Low	Rare/Non-existent
R40	Sakekeeping risk indicator	Proportion of AIF assets compared to own funds held by counterparties with credit rating <= BBB +	Low	Rare/Non-existent
R41		Discrepencies in the Monthly securities Reconciliation with Sub-custodian older than 2 months	Low	Rare/Non-existent
R42	Reputational risk indicator	Number of client complaint	Low	Rare/Non-existent

Figure 1: Risk Indicators Dashboard (Aggregated Data on 2023)

The Bank is closely monitoring the risk indicators on a daily basis, in order to assess its risk appetite.
Based on the aggregated data collected on 2023, the Figure 1 describing the risk indicators does not show any significant alert.
The major impacts, illustrated as “High Impact” in the above matrix, have for most of them, very low probabilities of occurrence.

The few indicators with a higher probability of occurrence result from concentration risk, for which close monitoring is carried out on the portfolio of client assets. On top of this, the concentration of assets observed comes mainly from intragroup entities, which nevertheless reduces the risk.

On the same manner, RMD has also developed a KRI dashboard for the monitoring of the ICT and Security risks, as well as for the Outsourcing risks.
Given that the KRIs for ICT and Security risks were developed recently, RMD is not yet able to associate a real alert threshold with them.
It is only after a transition period (more or less 1 year), during which an analysis of the results and behavior of these KRIs will be carried out, that we will be able to determine these alert levels.
Currently only a trend on the evolution of these KRIs is reported (cf. Figure 2 below).

ICT & Security KRI Dashboard 2023

References		Risk Category	Internal Risk metric		
KRI ID	Risk ID	Type	KRI title	Quality	Frequency
KRI-2	R.4.1.2	Information Security Risk	% of high-risk vulnerabilities identified across ICT systems that have not been patched	↗	Quarterly
KRI-3	R.4.1.2		% of "High" network security vulnerabilities detected by vulnerability scans in the reported period	↑	Quarterly
KRI-4	R.4.1.2		% of critical internet-facing systems for which penetration tests have not been performed	→	Annually
KRI-5	R.4.5.2		% users that have failed email phishing exercise (i.e., clicked on the test link)	→	Bi-annually
KRI-10	R.4.3.1		# of information leakages reported in the last reporting period	↓	Quarterly
KRI-7	R.5.3.2	ICT Operations Risk	% of ICT systems not covered by patch management solution	→	Monthly
KRI-8	R.5.1.1		% of critical systems not enrolled to Security Information and Event Management (SIEM) solution	→	Quarterly
KRI-9	R.5.6.1		# of IT security incidents reported in the last reporting period	→	Quarterly
KRI-11	R.7.2.1	ICT development and change risk	% of incidents resulting from infrastructure change failures	→	Monthly
KRI-12	R.8.2.2	ICT resilience and continuity risk	# of outages or disruptions to critical systems in the last reporting period	↑	Quarterly
KRI-13	R.8.2.1		% of critical systems and applications that did not complete recovery tests during the year	→	Annually

Figure 2: ICT & Security KRI

For KRIs’ outsourcing, it is the same situation as for those of ICT & Security risks. The frequency of monitoring of these KRIs is set on an annual basis. Given the absence of history, the alert levels reported in the KRI outsourcing dashboard (cf. Figure 3) will be subject to adjustment after collecting several periods of data.

Outsourcing KRI Dashboard 2023													
Risk Category	KRI ID	Internal Risk metric			Level 1 BAU, well within risk NORMAL		Level 2 Medium risk, but within appetite ELEVATED				Level 3 Outside risk appetite STRESS		Assessment Type
Type	#	KRI title	Frequency	Dec-23	Range		Range				Range		
Outsourcing Risk	KRI-1	Number of incidents in the provision of services by service providers during the past 12 months	Annual	0	=	0	>	0	<=	3	>	3	Internal Tolerance
	KRI-2	Number of incidents due to the service provider on the total number of the Bank's incidents	Annual	0	=	0	>	0	<=	3	>	3	Internal Tolerance
	KRI-3	Ageing of open actions by service providers (in Months)	Annual	1	<=	1	>	1	<=	6	>	6	Internal Tolerance
	KRI-4	Number of outsourcing arrangements with incomplete and/or late due diligence	Annual	2	=	0	>	0	<=	3	>	3	Internal Tolerance
	KRI-5	Number of open recommendations issued by Internal Audit and supervisory authorities in relation to outsourcing	Annual	0	=	0	>	0	<=	3	>	3	Internal Tolerance
	KRI-6	Number of service providers providing less than 2 outsourcing arrangements to the Bank	Annual	14	<	0							Internal Tolerance
		Number of service providers providing more than 1 and less or equal to 3 outsourcing arrangements to the Bank		1			>	1	<=	3			Internal Tolerance
		Number of service providers providing more than 3 outsourcing arrangements to the Bank		0							>	3	Internal Tolerance

Figure 3: Outsourcing KRI

According to the historical data collected and considering the mitigating measures in place, the Bank can conclude that its risk appetite is aligned with its strategy.

4.1.2 Risk identification

As an outcome of the identification phase, the following risks are considered as applicable to the Bank's activities and as sufficiently material to request an in-depth specific analysis. All of them have been quantified after taking into account mitigation factors and they have been recorded in a Risk Matrix, and described in **Error! Reference source not found.**.

Through this exercise, some of the risks identified in the Risk Matrix have been considered as non-applicable for the Bank.

Financial Risk:

I.	Financial risk	Material residual risk exposure
1	**Credit risk**	Yes
1.1	Counterparty risk	Yes
1.2	Settlement risk	Yes
1.3	Country risk	No
1.4	Residual risk	N/A
2	**Market risk**	Yes
2.1	Equity's price risk	No
2.2	Interest rate risk	Yes
2.3	*Gap risk*	Yes
2.4	*Option Risk*	No
2.5	*Basis Risk*	No
2.6	*Credit spread Risk*	No
2.7	*Foreign exchange rate risk*	Yes
2.8	*Commodity risk*	-
3	**Concentration risk**	Yes
3.1	Instruments type concentration risk (investment portfolio)	Yes
3.2	Major transactions concentration risk	Yes
3.3	Economic sector concentration risk	Yes
3.4	Country concentration risk	Yes
3.5	Financial collateral concentration risk	-
3.6	Income concentration risk	Yes
3.7	Service provider concentration risk	No
4	**Liquidity risk**	Yes
4.1	Funding liquidity risk	Yes
4.2	Asset liquidity risk	Yes
5	**Securitization risk**	-
6	**Business risk**	Yes
6.1	Profitability risk	Yes
6.2	Macroeconomic risk	Yes

Non-Financial Risk:

II.	Non-Financial risk	Material residual risk exposure
7	**Operational risk**	Yes
7.1	Execution, Delivery & Process Management	Yes
7.2	Business disruption and system failures	No
7.3	Damage to Physical Assets	Yes
7.4	Clients, Products & Business Practices	No
7.5	Employment Practices and Workplace Safety	No
7.6	External fraud	No
7.7	Internal fraud	No
8	**ICT and Security Risk**	Yes
8.1	Strategic risk of IT	Yes
8.2	Supplier and Third Party risk	no
8.3	Risk of ineffective risk management	Yes
8.4	Information security risk	Yes
8.5	ICT operations risk	Yes
8.6	ICT project and program execution risk	no
8.7	ICT development and change risk	no
8.8	ICT resiliency and continuity risk	Yes
9	**Strategic risk (Business risk as Non - Financial Risk)**	No
10	**Reputation risk**	Yes
11	**Compliance risk**	Yes
11.1	Financial crime risk	Yes
11.2	MiFID risk	no
11.3	Date protection risk	no
12	Market Abuse risk	No
12.1	**Legal Risk**	No
12.1	Taxation risk	No
12.2	Contractual risk	No
13	**Insurance risk**	No
14	**Pension obligation risk**	-
15	**Project risk**	No
16	**Conduct Risk**	No
17	**Model Risk**	-
18	**Outsourcing Risk**	No
19	**Third Party Risk**	No
20	**Safekeeping Risk**	Yes

Figure 4: risk classification

The main risks of the Bank, requiring for some of them to calculate regulatory ratios, can be illustrated as follows:

Credit risk

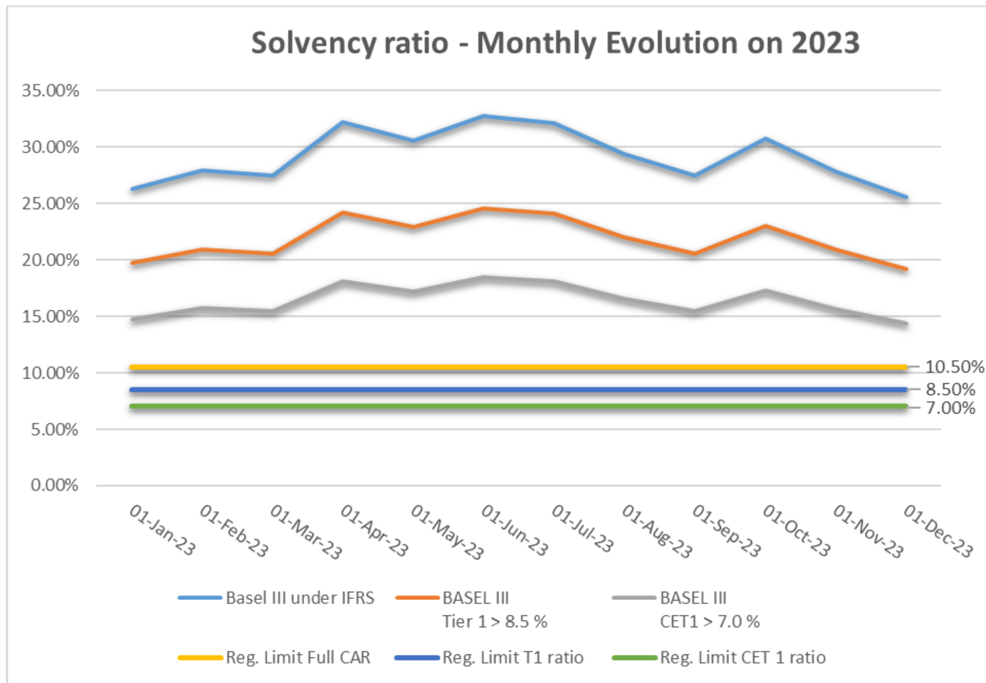


Figure 5: Solvency Ratio Evolution on 2023

Liquidity risk

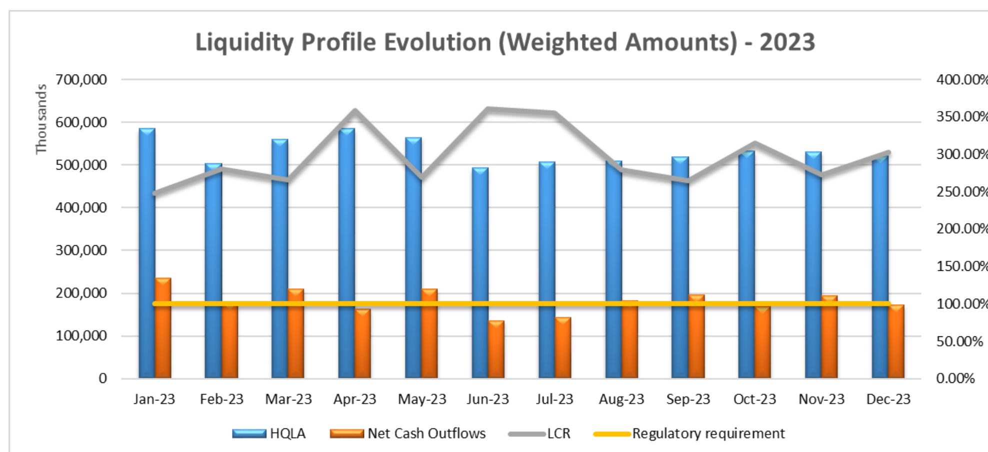


Figure 6: LCR Evolution on 2023

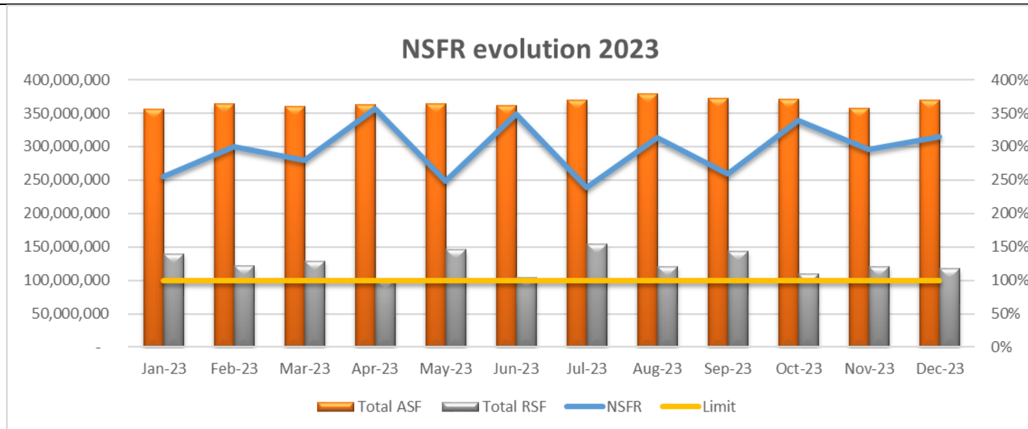


Figure 7: NSFR Evolution on 2023

Operational risk

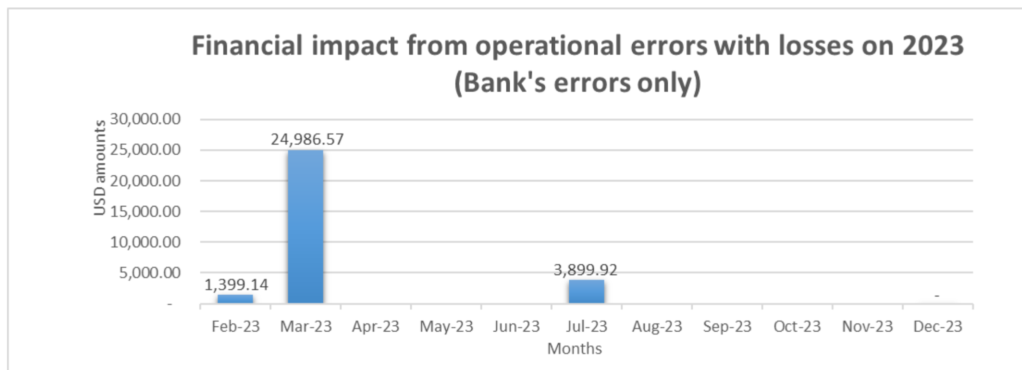


Figure 8: Financial impact from Bank's operational errors on 2023

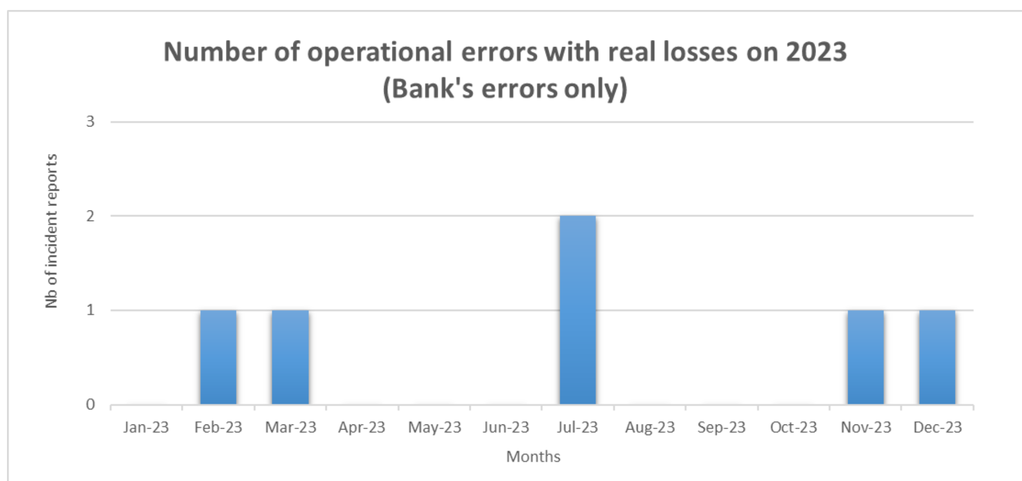


Figure 9: Number of Bank's operational errors with financial impact on 2023

4.1.3 Risk Materiality and quantification

In addition to the risk identification phase, specific potential severe yet plausible scenarios have been identified by the Bank, relevant to its business activities that would hurt its financial situation. This stress-test scenario approach provides with a top-down analysis of capital adequacy, by assessing the Bank's ability to absorb severe shocks and events affecting the whole business and to remain adequately capitalized over the projected period.

The following scenarios impacting the capital (ICAAP) ratios are considered as specific to its activity and being as potential own funds consumers:

Stress-tests scenario

- Operational Risk (Execution, Delivery & Process Management) / Reputation Risk
    - Part A – NAV calculation error damaging reputation;
    - Part B – Invoicing error generating financial loss.
- Concentration Risk (Major transactions; and Income) / Business Risk (Profitability): loss of a major client;
- Concentration Risk (Economic sector) / Business Risk (Macroeconomic): macroeconomic meltdown;
- Operational Risk: pandemic risk resulting in a major disruption in the Bank's operations;
- Credit Risk (Counterparty): credit rating downgrade of the counterparties where the bank is mainly exposed;
- Credit Risk (Counterparty): loss of Asset by a sub-custodian;
- ICT Risk: Swift disruption;
- ICT Risk (Cyberattack): malware infection;
- Market Risk: loss due to the Hedge position in EUR;
- Compliance Risk / Sanction risk: client transaction under the sanction regime not detected would expose the Bank to a fine from the regulator;
- Settlement risk: a failed trade for a contractual client would generate a massive overdraft on a Nostro account
- Reputational: Non-compliance with CSSF regulation

Reverse stress-tests scenario

- Market Risk (Foreign exchange rate) / Business Risk (Profitability): EUR devaluation;
- Credit Risk (Counterparty) / Liquidity Risk: concentration of funding sources: asset to cash transfer;
- Operational Risk (Execution, Delivery & Process Management): NAV error with/without insurance applied;
- Operational Risk (Execution, Delivery & Process Management): incorrect FX transaction.

5 Key Metrics

In order to comply with the fifth Capital Requirements Directive (CRD V) and the second Capital requirements Regulation (CRR 2), the Bank has adapted its Pillar III Disclosures document, by introducing series key figures, responding to a regulatory tabloid format.

CRR2 introduces changes to some of the CRR rules on the disclosure requirement for credit institutions. Some specific requirements are aimed towards large institutions, and other articles help small and non-complex institutions with lighter requirements.

By way of derogation from the Article 433c of CRR 2, non-listed institutions shall disclose the following information on an annual basis:

- points (a), (e) and (f) of Article 435(1);
- points (a), (b) and (c) of Article 435(2);
- point (a) of Article 437;
- points (c) and (d) of Article 438;
- the key metrics referred to in Article 447;
- points (a) to (d), (h) to (k) of Article 450(1).

According to the definition[1] of the CRR 2, Article 4(148), MHTBL is a considered as non-listed institution and can therefore benefit from the above derogation.

Template EU CC1 - Composition of regulatory own funds
Ref. points (a), (d), (e) and (f) of Art. 437

		(a)	(b)
		Amounts	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	105,000,000.00	(a)
	of which: Instrument type 1	0.00	
	of which: Instrument type 2	0.00	
	of which: Instrument type 3	0.00	
2	Retained earnings	4,379,825.14	(d) plus (e)

[1] *A non-listed institution is an institution that has not issued securities that are admitted to trading on a regulated market of any Member State, within the meaning of point (21) of Article 4(1) of Directive 2014/65/EU.*

3	Accumulated other comprehensive income (and other reserves)	11,324,236.06	
EU-3a	Funds for general banking risk		
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	0.00	
5	Minority interests (amount allowed in consolidated CET1)		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.00	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	120,704,061.20	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	0	
8	Intangible assets (net of related tax liability) (negative amount)	-9,069,900.46	(f)
9	Not applicable	0	
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) CRR are met) (negative amount)		(h)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value		
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, indirect and synthetic 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)	0	
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)	0	
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)	-4,769,758.98	(g)
20	Not applicable	0	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0.00	

EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	0.00	
EU-20c	of which: securitisation positions (negative amount)	0.00	
EU-20d	of which: free deliveries (negative amount)	0.00	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-62,913.69	(i)
22	Amount exceeding the 17,65% threshold (negative amount)	0	
23	of which: 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	0	
24	Not applicable	0	
25	of which: deferred tax assets arising from temporary differences	0	
EU-25a	Losses for the current financial year (negative amount)	0	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0	
26	Not applicable	0	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0	
27a	Other regulatory adjustments	0	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-13,902,573.13	
29	**Common Equity Tier 1 (CET1) capital**	106,801,488.07	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	0	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	0	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	0	
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	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	

Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	0	
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)	0	
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)	0	
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)	0	
41	Not applicable	0	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0	
42a	Other regulatory adjustments to AT1 capital	0	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**106,801,488.07**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	0	
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	0	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	0	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	0	
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	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Credit risk adjustments	0	
51	**Tier 2 (T2) capital before regulatory adjustments**	**0**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	

53	Direct, indirect and synthetic 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)	0	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
54a	Not applicable	0	
55	Direct, indirect and synthetic 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)	0	
56	Not applicable	0	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	**0**	
EU-56b	Other regulatory adjustments to T2 capital	**0**	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	
58	**Tier 2 (T2) capital**	**0**	
59	**Total capital (TC = T1 + T2)**	106,801,488.07	
60	**Total Risk exposure amount**	106,801,488.07	
	Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	32.54%	
62	Tier 1 capital	32.54%	
63	Total capital	32.54%	
64	Institution CET1 overall capital requirements	11.04%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical capital buffer requirement	0.54%	
67	of which: systemic risk buffer requirement	0.00%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.00%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.00%	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	27.50%	
	National minima (if different from Basel III)		
69	Not applicable		
70	Not applicable		
71	Not applicable		
	Amounts below the thresholds for deduction (before risk weighting)		

72	Direct and indirect holdings of own funds and eligible liabilities 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)		
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 17.65% thresholds and net of eligible short positions)		
74	Not applicable		
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)		
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)		

Table 1: Template EU CC1 - Composition of regulatory own funds

Template EU CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

Ref. points (a) of Art. 437

		a	c
		Balance sheet as in published financial statements (same as scope of supervision)	**Reference**
		As at period end	
Assets - *Breakdown by asset clases according to the balance sheet in the published financial statements*			
1	Cash, cash balances at central banks and other demand deposits	963,735,482.38	
2	Financial assets held for trading	5,834.48	
3	Financial assets designated at fair value through profit or loss	0.00	
4	Financial assets at fair value through other comprehensive income	4,769,758.98	(g)
5	Financial assets at amortised cost	209,255,458.80	
6	Derivatives – Hedge accounting	0.00	
7	Tangible assets	5,757,151.27	
8	Intangible assets	9,069,900.46	(f)
9	Tax assets	62,913.69	(h)+(i)
10	Other assets	16,922,411.28	(j)
xxx	**Total assets**	**1,209,578,911.34**	
Liabilities - *Breakdown by liability classes according to the balance sheet in the published financial statements*			
1	Financial liabilities held for trading	4,590.84	
2	Financial liabilities designated at fair value through profit or loss	0.00	
3	Financial liabilities measured at amortised cost	1,068,889,931.37	
4	Derivatives – Hedge accounting	0.00	
5	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.00	
6	Provisions	701,522.91	
7	Tax liabilities	500,829.92	
8	Share capital repayable on demand	0.00	
9	Other liabilities	19,477,975.10	
10	Liabilities included in disposal groups classified as held for sale	0.00	
xxx	**Total liabilities**	**1,089,574,850.14**	

Shareholders' Equity			
1	Capital	105,000,000.00	(a)
2	Accumulated other comprehensive income	1,507,304.06	(b)
3	Retained earnings	-7,037,182.07	(d)
4	Other reserves	9,116,932.00	(c)
5	Profit or loss attributable to owners of the parent	11,417,007.21	(e)
xxx	**Total equity**	120,004,061.20	

Table 2: Template EU CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

Template EU KM1 - Key metrics template

Fixed format template. Ref. Art. 447
Note: the column headings (T and T-4) correspond respectively to the year taken into account for the current reporting and to the previous year.

		a	e
		T	T-4
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	106,801,488.07	94,800,199.39
2	Tier 1 capital	106,801,488.07	94,800,199.39
3	Total capital	106,801,488.07	94,800,199.39
	Risk-weighted exposure amounts		
4	Total risk exposure amount	326,101,244.16	289,219,126.09
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	32.54	32.78
6	Tier 1 ratio (%)	32.54	32.78
7	Total capital ratio (%)	32.54	32.78
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	-	-
EU 7b	of which: to be made up of CET1 capital (percentage points)	-	-
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	-	-
EU 7d	Total SREP own funds requirements (%)	8.00	8.00
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50	2.50
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-
9	Institution specific countercyclical capital buffer (%)	0.54	0.31
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-

EU 10a	Other Systemically Important Institution buffer (%)	-	-
11	Combined buffer requirement (%)	3.04	-
EU 11a	Overall capital requirements (%)	11.04	10.81
12	CET1 available after meeting the total SREP own funds requirements (%)	80,013,388.54	71,662,669.30
	Leverage ratio		
13	Total exposure measure	1,195,769,692.81	1,092,259,702.06
14	Leverage ratio (%)	8.76	8.68
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.00	3.00
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	-	-
EU 14e	Overall leverage ratio requirement (%)	3.00	3.00
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	521,301,758.58	505,284,339.14
EU 16a	Cash outflows - Total weighted value	692,243,009.64	641,010,789.76
EU 16b	Cash inflows - Total weighted value	660,746,029.60	586,796,387.82
16	Total net cash outflows (adjusted value)	173,060,752.41	160,252,697.44
17	Liquidity coverage ratio (%)	301	315
	Net Stable Funding Ratio (Weighted values)		
18	Total available stable funding	391,026,561.21	357,738,944.66
19	Total required stable funding	120,182,372.58	236,182,024.27
20	NSFR ratio (%)	325	151

Table 3: Template EU KM1 - Key metrics template

Template EU OV1 – Overview of total risk exposure amounts

Ref. point (d) of Art. 438. Column (b) refers to figures of the last disclosure date (i.e. previous year).

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		T	T-1	T
1	Credit risk (excluding CCR)	228,228,822.41	203,657,389.34	18,258,305.79
2	Of which the standardised approach	228,228,822.41	203,657,389.34	18,258,305.79
3	Of which the Foundation IRB (F-IRB) approach			
4	Of which slotting approach			
EU 4a	Of which equities under the simple risk weighted approach			
5	Of which the Advanced IRB (A-IRB) approach			
6	Counterparty credit risk - CCR	-	-	
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA			
9	Of which other CCR			
10	Not applicable			
11	Not applicable			
12	Not applicable			
13	Not applicable			
14	Not applicable			
15	Settlement risk	-	-	
16	Securitisation exposures in the non-trading book (after the cap)	-	-	
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
EU 19a	Of which 1250% / deduction			
20	Position, foreign exchange and commodities risks (Market risk)	-	-	
21	Of which the standardised approach	-	-	
22	Of which IMA			
EU 22a	Large exposures	-	-	
23	Operational risk	97,872,421.75	85,561,736.75	7,829,793.74
EU 23a	Of which basic indicator approach			
EU 23b	Of which standardised approach	97,872,421.75	85,561,736.75	7,829,793.74

EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight)			
25	Not applicable			
26	Not applicable			
27	Not applicable			
28	Not applicable			
29	**Total**	**326,101,244.16**	**289,219,126.09**	**26,088,099.53**

Table 4: Template EU OV1 – Overview of total risk exposure amounts

6 Own fund resources

6.1 Own fund composition

According to the Regulation (EU) No 575/2013 ("CRR"), the Bank's regulatory capital consists of:

- Common Equity Tier 1 (CET1) capital: Capital instruments, share premiums, retained earnings not including current year profit, foreign currency translation adjustment less intangible assets, defined benefit pension fund, own shares and deferred tax assets that rely on future probability;
- Tier 1 capital: CET1 capital and Additional Tier 1 capital;
- Tier 2 capital: Eligible portion of subordinated long-term debt.

The Bank's own funds are mainly composed of the cash brought by the Parent Company. The Bank may distribute dividends depending on its financial situation. At this current financial situation, the Bank is not distributing any dividends. The internal reserves are the main source of funding for the Bank's own funds. The Bank's strategy is to ensure that an adequate level of own funds is maintained by the incomes from its business.

As disclosed in the Key Metrics chapterError! Reference source not found., the own funds of the Bank is only composed Tier 1 instruments, amounting to USD 105,474,790.

6.2 Total capital ratio

6.2.1 Overview

At the end of 2023, MHTBL has generated a positive income of USD 11,417,007.21 (under IFRS figures).

As of December 31st, 2023, the Bank possesses regulatory own funds amounting to USD 106,801,488.07, composed entirely of Common Equity Tier 1 Capital. The capital requirements of the Bank (including Pillar II exposures), using the standardized approach as defined in the CRR, amounts to USD 28,433,883. Henceforth, the regulatory total capital ratio (Pillar I and II) rises to 32.30%, well above the regulatory limit of 11.04% (including conservation and countercyclical buffers).

6.2.2 Overall Capital Requirement (OCR)

The OCR is now computed based on the updated Capital Requirements Regulation (CRR II or Regulation (EU) 2019/876), which came into effect on 28 June 2021. The new rules aim to reduce risks in the banking sector by enhancing the financial system's ability to withstand economic shocks and amends the CRR I (Regulation (EU) 575/2013) legal framework which governs the prudential regulation of credit institutions in the European Union (EU).

The detail of the OCR is disclosed in the Key Metrics template (Template EU KM1).

6.2.3 Counter Cyclical Buffer

As of December 31st, 2023, the Bank's specific countercyclical buffer rate amounts to 0.5404%, leading to related capital requirements of USD 1,762,190, coming from a total risk exposure amount of USD 326,101,244. The detail can be found in the Key Metrics template.

The Table 5 on the next page discloses the geographical distribution of credit exposures relevant for the calculation of the Bank's specific countercyclical buffer rate in the standard format as set out in Commission Delegated Regulation (EU) 2015/1555.

Countercyclical capital buffer rates are determined by Basel Committee member jurisdictions. The countercyclical capital buffer varies according to a percentage of risk weighted assets. The "General credit exposures" include only credit exposures to the private sector. Exposures to the public sector and to institutions are not in scope.

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short (trading book)	Value of trading book exposure (internal models)	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
GB	481,775	-	-	-	-	-	38,542	-	-	38,542	0.05480%	0.1096%
JP	455,345	-	-	-	-	-	36,428	-	-	36,428	0.05179%	0.0000%
LU	7,528,953						602,316			602,316	0.85634%	0.4282%
BE	252,044	-	-	-	-	-	20,164	-	-	20,164	0.02867%	0.0000%
US	68,482	-	-	-	-	-	5,479	-	-	5,479	0.00779%	0.0000%
NL	3,900	-	-	-	-	-	312	-	-	312	0.00044%	0.0004%
IE	1,529	-	-	-	-	-	122	-	-	122	0.00017%	0.0000%
Total	**8,792,028**	**-**	**-**	**-**	**-**	**-**	**703,362**	**-**	**-**	**703,362**		**0.5404%**

Table 5 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (in USD)

6.3 Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is an internal instrument which allows the Bank to evaluate the internal capital that is appropriate to cover all the risks to which the Bank could be exposed as a result of its business model and strategy. The Bank's capital must represent sufficient quantity and quality to absorb losses that may arise with certain probability and frequency. Therefore, the ICAAP do not only take into account the current situation of the Bank but is also forward-looking to ensure the internal capital adequacy on an ongoing basis.

Because MHTBL is committed to maintain a well-capitalised position for regulatory capital purposes and for its clients, the Bank holds to the following principles in managing its capital position:

- Maintaining adequate capital to support the economic risk faced by the Bank; and
- Maintaining adequate capital to meet regulatory requirements under business as usual and internally assessed stressful conditions.

A stress-test approach is conducted by the Bank to calculate the internal capital requirements, in order to identify risk sensitivities for which additional capital could be required.

The Bank has decided to modify its ICAAP/ILAAP in the beginning of 2024. The reviewed ICAAP has been validated by the Authorized Management in March 2024 and subsequently presented to the Board of Directors on March 25th, 2024 for final approval.

MHTBL is expected to calculate, under the Basel III regulatory framework, its minimum legal capital requirement of Pillar I using the rules specified under the Capital Requirement Directive's (CRD V). In addition to these calculations, the Bank must also identify and assess additional risks that are not covered under Pillar I, following the rules defined by the CSSF Circular 07/301, as amended. This process of principle based regulation, is covered under Pillar II of Basel III, where MHTBL must assess all of the risks, existing as well as potential, it is exposed to.

6.4 Risk Weighted Assets

With reference to article 438 of CRR 2 ("Disclosure of capital requirements and risk-weighted exposure amounts"), the details of risk exposures, as well as capital requirements, are now included under the Template EU OV1 ("Overview of total risk exposure amounts"), stated in the key metrics chapter.

The capital requirement amounts have been obtained by applying 8% to the corresponding weighted risks. The total Risk Weighted Assets amount to USD 326,101,244 at the end of December 2023.

7 Credit Risk

The Bank defines the credit risk as the risk to incur losses because of a decline in, or total loss of, the value of assets (including off-balance sheet assets) as a result of a counterparty failing to meet its obligations in accordance with agreed terms.

The Bank uses the Standardized Approach for credit risk. Each exposure is assigned to one of the exposure classes detailed in the CRR II - CRD IV. The application of risk weights is computed based on:

- The credit quality (if rated) of the counterparty where the Bank is exposed to.
- The residual maturity of the exposures (less, equal or more than three months).
- The currency of the exposures (exposures denominated and funded in the national or foreign currency of the borrower).

7.1 Credit Risk Management Policy

The Bank has defined four sub-categories of credit risk.

The counterparty risk is defined by the Bank as the risk that a counterparty defaults on a particular principal payment or set of payments due under the instrument or where an equity instrument collapses in price.

The settlement risk is defined as a risk that arises where the completion or settlement of a financial transaction fails to take place as expected. It includes elements of liquidity, market, and operational risk as well as credit risk.

Then, the country risk arises in case of inability or unwillingness of a country to provide foreign exchange for interest and principal payments.

Finally, the residual risk, considered as not applicable to the Bank, arises from an insufficient ability to realize the credit mitigation element (i.e. the collateral) covering a credit exposure. This can be due either because the legal mechanism by which the collateral was pledged or transferred does not guarantee that the Bank has the right to liquidate or seize the collateral or because the collateral will not turn out to be as valuable as expected.

7.1.1 Credit risk analysis

Credit risk analysis refers to the process of assessing the nature and determining the level of credit risk. It provides the basis for the risk evaluation and supports the decisions about risk mitigation. The main settlement risks to which the Bank is exposed relate to foreign exchange market transactions. Potential losses are mitigated via the main following means:

- Active follow-up of failed transactions;
- Reconciliation of nostro accounts;
- Development of an active approach towards cash management.

The Pillar 1 capital requirement sufficiently covers the credit risk profile of the Bank and no material exposure not covered under Pillar 1 has been identified.

7.1.2 Stress testing

MHTBL Risk Management Department performs stress testing in order to assess, control, monitor and report credit risk vulnerabilities towards MHTBL counterparties during adverse financial markets. MHTBL credit risk stress testing framework aims at determining the impact of severe potential losses and to challenge the capital adequacy of the Bank in periods of stress.

7.1.3 "Past due" and "impairment definition"

For fund exposures, MHTBL uses the days-past-due as a primary indicator of a significant increase in credit risk. On the contrary, for financial institutions (excluding funds) and governments, the days-past-due criteria is used as an additional indicator in order to detect a significant increase in credit risk.

In case the counterpart is at least 30 days-past-due the facility is allocated to stage 2. However, in accordance with the definition of given default, the facility will be allocated to stage 3 in case the counterpart is at least 90 days-past-due.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset has occurred. Evidences that a financial asset is credit-impaired include observable data about the following events:

- A significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

7.1.4 Mapping between external ratings and credit quality step

The Appendix 15.2 provides the mapping of external ratings with credit quality steps.

7.1.5 Standardized approach

The Bank uses the standardized approach in order to calculate its risk weighted assets related to credit risk. The standardized approach measures credit risk either pursuant to fixed risk weights, which are predefined by the regulator, or through the application of external ratings. As disclosed in the Table 6 and Figure 10, the total credit risk exposure amounts to USD 1,195,423,858.

Category	Net exposure value as of 31-Dec-2023
Central governments or central banks	417,391,264
Regional governments or local authorities	-
Public sector entities	-
Multilateral development banks	-
International organisations	-
Institutions	766,330,955
Corporates	5,891,134
Of which: SMEs	-
Retail	53,355
Of which: SMEs	-
Secured by mortgages on immovable property	-
Of which: SMEs	-
Exposures in default	-
Items associated with particularly high risk	-
Covered bonds	-
Claims on institutions and corporates with a short-term credit assessment	-
Collective investments undertakings	-
Equity exposures	-
Other exposures	5,757,151
Total Credit risk Standardized approach	**1,195,423,858**

Table 6 Credit risk exposure by exposure class (in USD)

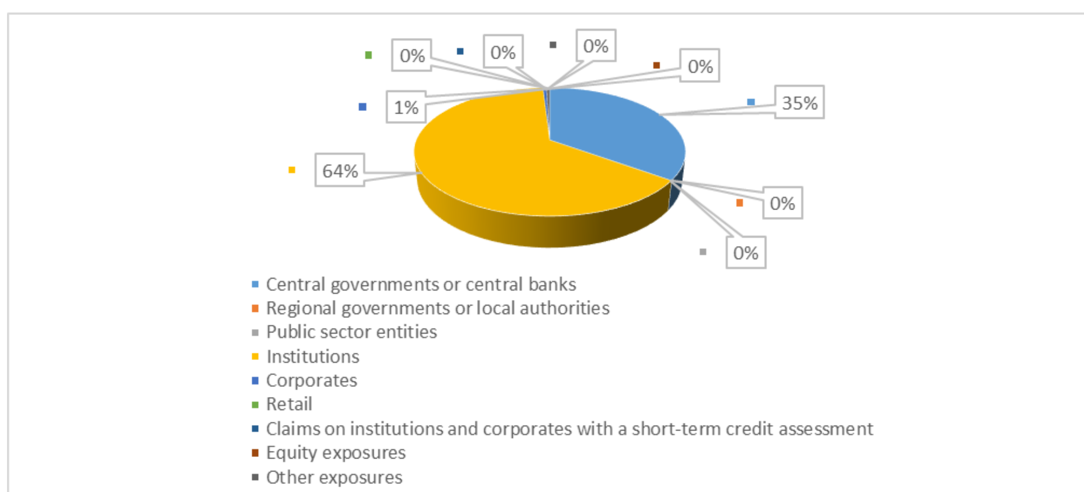


Figure 10 Credit risk exposure by exposure class

7.1.6 Geographical breakdown of credit exposure

The Bank has not set-up any specific policy for the management of such risk and has not defined any limits in this regard. Nevertheless, the Bank manages country risk as part of the overall counterparty credit lines policy administrated by the Parent Company.

The Authorized Management confirms that the Bank is not exposed to any country risk in the light of the nature and volume of the Bank's activities. The Bank is mainly exposed to Europe 47%, Asia 30% and North America 23% as shown in the Figure 11 and the Table 7 here below.

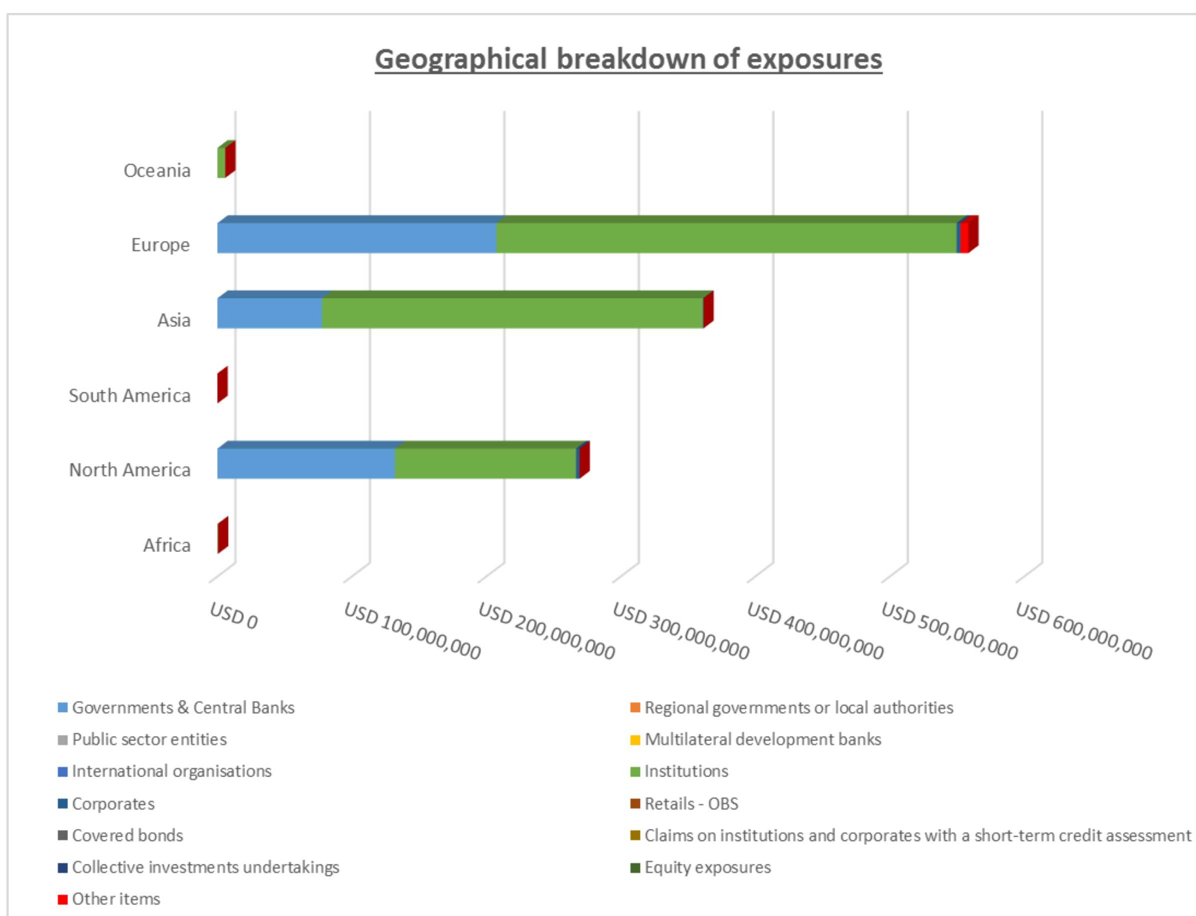


Figure 11 Geographical breakdown of exposure

Category	Significant Area 1	TOP 5 countries from the Most Significant Area (EUROPE)				
	Europe	*United-Kingdom*	*Luxembourg*	*Switzerland*	*Norway*	*Belgium*
Central governments or central banks	207,480,903	-	207,480,903	-	-	-
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	342,233,994	285,321,509	6,055,281	15,221,545	14,507,520	13,013,093
Corporates	2,857,696	481,775	2,118,447	-	-	252,044
Of which: SMEs	-	-	-	-	-	-
Retail	53,355	-	53,355	-	-	-
Of which: SMEs	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Of which: SMEs	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Other exposures	5,757,151	-	5,757,151	-	-	-
Total Credit risk Standardized approach	**558,383,098**	**285,803,284**	**221,465,136**	**15,221,545**	**14,507,520**	**13,265,137**

Table 7 Geographical breakdown of credit risk exposures (in USD)

7.1.7 Counterparty type breakdown of exposure

The Table 8 below details the distribution of the exposures counterparty type, between financial and non-financial exposures. The Bank is mainly exposed to financial counterparty exposures (82%).

Category	Financial	Non-financial
Central governments or central banks	206,529,814	210,861,450
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral development banks	-	-
International organizations	-	-
Institutions	766,330,955	-
Corporates	5,891,134	-
Retail	-	53,355
Secured by mortgages on immovable property	-	-
Exposures in default	-	-
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	-	-
Other exposures	-	5,757,151
Total Credit risk Standardized approach	**978,751,903**	**216,671,956**

Table 8 Counterparty type breakdown of exposures (in USD)

7.1.8 Maturity breakdown of exposures

The Bank has mainly exposures with maturities within to 3 months. The Table 9 and the Figure 12Figure 12 Figure 10 below detail respectively the distribution broken down by exposure class and by maturity.

Exposure class	Within 3 M	Between 3 and 6 M	Between 6 M and 1Y	Greater than 1 Y	Total
Central governments or central banks	353,925,879	63,465,385	-	-	417,391,264
Regional governments or local authorities	-	-	-	-	-
Public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
International organisations	-	-	-	-	-
Institutions	705,958,136	60,372,819	-	-	766,330,955
Corporates	5,891,134	-	-	-	5,891,134
Retail	53,355	-	-	-	53,355
Secured by mortgages on immovable property	-	-	-	-	-
Exposures in default	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-
Covered bonds	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-
Equity exposures	-	-	-	-	-
Other exposures	5,757,151	-	-	-	5,757,151
Total Credit risk Standardized approach	**1,071,585,655**	**123,838,204**	**-**	**-**	**1,195,423,858**

Table 9: Maturity breakdown of Credit Exposures (in USD)

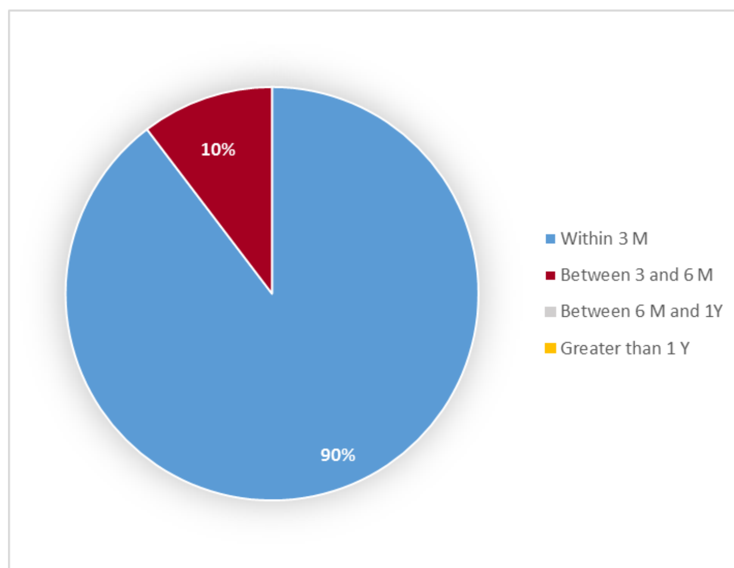


Figure 12 Maturity breakdown of exposures

7.1.9 Exposure in default and value adjustment

The Bank does not have exposures in default nor values adjustments on exposures.

7.1.10 Credit risk mitigation

Since the implementation of the Basel III requirements, according to the CRR-CRDIV regulation N° 575/2013 Art. 192, the Bank uses Credit Value Adjustment ("CVA") to mitigate its credit risk exposures regarding the OTC derivatives products. The CVA is the risk loss caused by changes in the credit spread of a counterparty on derivatives transactions due to changes in its credit quality. Basel III and the proposed CRD IV require credit institutions to calculate capital requirements for CVA for all OTC derivative instruments in respect of all of business activities, other than credit derivatives intended to mitigate the risk-weighted exposure amounts for credit risk.

The Bank has decided to stop dealing with OTC derivative products since the introduction of MiFID II and MiFIR regulations. As the situation with OTC derivatives at December 31st, 2023 is null, the CVA computation on OTC derivatives exposure is no longer required.

7.1.11 Counterparty credit risk

The counterparty credit risk measures the losses due to counterparties' default and, indirectly, their creditworthiness deterioration. The counterparty risk related to derivatives arises from all over-the-counter (OTC) transactions such as interest rate swaps, foreign exchange swaps, inflation or commodity swaps and credit default swaps.

Since the introduction of MiFID II and MiFIR regulations, the Bank has decided to stop dealing with OTC derivative products. Therefore, the CVA computation on OTC derivatives exposure is no longer required and the situation as at December 31st, 2023 is null.

7.1.12 Exposure on equities not included in the trading book

This section provides information related to equity instruments not included in the trading book. the Table 10 Breakdown of equity exposures by type (in USD) here below discloses the equities instruments broken down by accounting class as well as by IFRS 13 levels (from 1 to 3), according to the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
Equity instruments - shares	-	4,769,759	-	4,769,759
Total	**-**	**4,769,759**	**-**	**4,769,759**

Table 10 Breakdown of equity exposures by type (in USD)

7.1.13 Residual risk

As mentioned above, it is an internal commercial decision not to request financial collateral towards the loans granted to the clients. As such, the Bank has not set-up a monitoring system to closely follow-up the financial collateral mark-to-market evolution throughout the days.

This credit risk sub-category is therefore not applicable to the Bank's current situation.

8 Market risk

8.1 Introduction

The Bank defines the market risk as the risk of losses due to the decreased value of assets, or the increased value of liabilities, including off balance sheet items, resulting from fluctuations in market factors such as interest rates, foreign exchange rates and financial instruments prices.

The market risk capital requirement is considered in the sense of the revisions applied to the Basel II market risk framework - updated as of December 31st, 2010 by the Basel Committee on Banking Supervision.
Regarding its exposures, the Bank has only taken into account the foreign exchange risk, in the sense of CRR-CRDIV, regulation (EU) N° 575/2013 Art. 276, on the overall net global currency position, as it computes a simplified ratio given the fact that it does not carry out any significant trading activities.

Further to the Pillar I computation, the capital requirement for market risk is depending of the net currency exposure amount. When the net currency exposure is lower than 2% of the total prudential own funds, there is no FX risk capital requirement to be considered.

FX risk situation as at December 31st, 2023
Net currency exposure (USD 1,966,830) < 2% of prudential own funds (USD 2,095,496) => No capital requirement.

8.2 Market risk management policy

The Bank has defined three sub-categories of market risk, being

- Interest rate risk – arises as a result of changes in interest rates which may adversely affect the probability of the Bank when assets and liabilities (both on and off balance sheet) are mismatched such that the Bank is exposed to movements in interest rates; and
- Foreign exchange rate risk – corresponds to the risk of loss arising from a change in the market foreign exchange rate on the currency positions maintained by the Bank.
- Equity price risk (not applicable) – arises as a result of potential adverse changes in the value of the Bank's equity related holdings. This risk can be decomposed in a general (or non-diversifiable) risk component and a specific (or diversifiable) component;

As a result of Parent Company's guidelines, the Bank has limited exposure to market risks. In addition, the Bank does not hold any proprietary positions.

8.3 Market risk appetite

The Bank interest rate risk exposure arises from the normal course of its banking activities, such as accepting deposits, or placing funds with credit institutions. The objective of the Bank regarding interest rate risk is to minimize potential losses by avoiding fixed rate interest positions and by basing interest rates on the same index.

The maximum risk allowed is determined by the Parent Company and the Authorized Management. Interest rate risk is limited by the maximum amount of interest rate risk that the Bank may be exposed to. The Bank has adopted a full cover principle for all interest rate related contracts. Even though the Bank's exposure to that specific risk is supposed to be very limited, regular sensitivity analysis are performed on its maturity mismatch taking the similar severity as defined in the CSSF Circular 24/849.

8.4 Measurement and monitoring

Since it has neither trading activities nor securitization, the Bank has been granted the right to compute, within the standardized approach, a simplified ratio and hence is only exposed to the Foreign Exchange Risk. The capital charge is computed by applying 8% on the net long Foreign Exchange positions taken by the Bank.

8.5 Interest rate risk in the banking book (IRRBB)

Interest rate risk is inherent to the activity of banking. Interest Rate Risk in the Banking Book refers to the current or prospective risk to the Bank's capital and its earnings, arising from the impact of adverse movements in interest rates on its banking book.

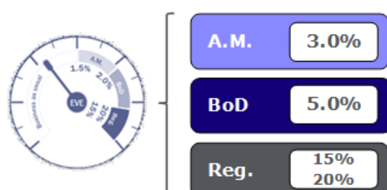
The Bank interest rate risk exposure arises from the normal course of its banking activities, such as accepting deposits, placing funds with credit institutions. The objective of the Bank regarding interest rate risk is to minimize potential losses by avoiding fixed rate interest positions and basing interest rates on the same index.

The scope of estimation and monitoring of IRRBB is by definition limited to the banking book, which includes all balance sheet and off-balance transactions that are not considered as trading book positions. In practice, all transactions are included in the IRRBB scope at the exclusion of other assets, other liabilities and elements of regulatory capital.

Risk Appetite

The Bank's appetite in terms of interest rate risk may be defined as null, in accordance with its strategic goals and activities limited to liquidity taking and placing activities. This appetite is translated in two RAS indicators, as presented in the below Figure 13.

Sensitivity of the Economic Value of Equity (Worst Case Scenario)



Sensitivity of the Net Interest Income (Conservative Scenario Case)

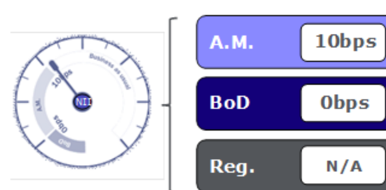


Figure 13: Key Risk Indicators for the IRRBB

The first indicator monitors the economic value sensitivity of the equity (EVE) as a percentage of regulatory capital under the internal worst case scenario. This scenario combines the greatest shocks applied of short-term sections of yield curves per currency, among regulatory outlier tests (the standard shock of +/- 200 bps, and the six scenarios). This indicator's trigger and limit are respectively set to 3.0% and 5.0% of the regulatory capital. This indicator is designed to ensure that the Bank maintains a low degree of exposure to IRRBB while ensuring the respect the regulatory limits to maintain the decline in economic value of capital below 15% of Tier 1 capital[2]. The calculation of interest rate sensitivities is made through a third party solution based on a methodology of full cash flow revaluation.

The second indicator monitors the Net Interest Income (NII) by simulating the Net Interest Margin (NIM) over a forward-looking one-year horizon taking account of forward interest rate curves for material currencies. The forward-looking NII is estimated on a constant balance sheet relying on forward rate curves over 1 year (see diagram below), the NIM is obtained by dividing the NII of a given scenario by the pool of interest rate bearing assets. The goal of this indicator is to ensure the Bank maintains a positive NIM under all circumstances.

According to the CSSF circular 24/849, amending CSSF circular 08/338, the Bank shall measure their exposure to interest rate risk inherent to non-trading activities in terms of changes of the economic value of equity (EVE) but also in terms of net interest income (NII).
The results for year end of 2023, coming from the various requested stress-test scenarios, are reported in the Table 11 and Table 12 below and do confirm the non-material exposure of the Bank to that particular risk as a result of the “full cover” policy applied by the Bank.

2 As defined under EBA Guidelines on the Management of Interest rate Risk arising from Non-Trading Activities (EBA/GL/2018/02).

Economic value of equity (EVE) as at			31-Dec-23				
			Shock arising from exposures in:				
Reporting unit: USD (equiv.)			JPY	USD	EUR	GBP	OTHER
Item	Description	Amount	Amount	Amount	Amount	Amount	Amount
1	**Outcome of the supervisory outlier test according to paragraph 113 of the EBA/GL/2018/02**	**(1,555,230.64)**					
2	Change in the economic value of equity under a Parallel Shock Down	754,948.60	(69,596.82)	1,541,225.24	17,891.42	79,054.39	5,459.89
3	Change in the economic value of equity under a Parallel Shock Up	(1,555,230.64)	94,010.79	(1,502,119.74)	(17,519.60)	(77,241.89)	(5,354.81)
4	**Outcome of the supervisory outlier test according to paragraph 114 EBA GL/2018/02**	**(2,187,116.81)**					
5	Parallel Shock Down	789,690.33	(47,653.72)	1,541,225.24	17,891.42	99,110.34	8,230.54
6	Parallel Shock Up	(1,600,301.86)	47,218.96	(1,502,119.74)	(17,519.60)	(96,277.96)	(7,994.05)
7	Shock Rates Shock Down	1,101,612.46	(50,241.95)	2,143,117.45	21,507.16	114,534.81	12,274.70
8	Shock Rates Shock Up	(2,187,116.81)	49,728.43	(2,068,482.73)	(20,972.10)	(110,770.23)	(11,755.97)
9	Steepener	234,900.09	12,479.84	422,504.48	6,180.84	22,598.43	3,018.29
10	Flattener	(1,112,274.19)	9,986.43	(1,043,285.60)	(11,808.66)	(55,841.53)	(6,331.62)

Table 11 IRRBB – Stress Test results on EVE (in USD)

Net interest income (NII) as at		31-Dec-23
Reporting unit: USD (equiv.)		
Item	Description	Amount
11	**Forecasted net interest income expected within 12 months under the current baseline interest rate scenario**	**18,587,630.36**
12	**Change in the forecasted net interest income expected within 12 months under a parallel shock down**	**(929,669.97)**
	Forecasted net interest income expected within 12 months after a parallel shock down	17,657,960.39
13	**Change in the forecasted net interest income expected within 12 months under a parallel shock up**	**929,036.17**
	Forecasted net interest income expected within 12 months after a parallel shock up	19,516,666.53

Table 12 IRRBB - Stress Test results on NII (in USD)

Further to the six scenarios applied in order to assess the sensitivity of the EVE and the simulation of the NIM as assessment of the sensitivity of the NII, the impact of the IRRBB on the Risk Appetite Indicators is illustrated in the below Figure 14. According to the risk appetite below, the Economic Value (EVE) and the Net interest Margin (NIM) computed under the worst scenario and conservative scenario are within the Bank's internal tolerance.

IRRBB Risk Appetite Indicators

Indicator	Status	BaU	A.M.	BoD
EVE Indicator 1,2%	✓	<3.0% ✓	3.00% !	5,00% X
NII Indicator 159,76	✓	>10bp ✓	10bp !	0bp X

Figure 14: Impact on Risk Appetite Indicators

8.6 Credit Spread Risk of the Banking Book (CSRBB)

Rising interest rates, high inflation, and the unstable situation on financial markets have made the issues related to IRRBB and CSRBB the focus of attention for the regulators.

Accordingly, the European Banking Authority (EBA) updated and complemented the existing Guidelines on IRRBB and CSRBB by publishing a set of new regulatory requirements on October 20th, 2022.

These new CSRRB Guidelines applied on December 31st, 2023 for all credit institutions.

Definition of credit spread risk:

The EBA defines CSRBB as the risk of changing the credit spread of an instrument assuming an unchanged level of creditworthiness or rating of the counterparty.

According to the new Guidelines, the individual approach to measure CSRBB developed by a financial institution should be proportionate to the nature, scale, and complexity of the risks inherent in the business model and the institution's activities.

Identification of positions subject to CSRBB:

As the CSRBB is defined in reference to market prices, each type of Banking Book item is analyzed for being potentially subject to CSRBB according to its more or less remote connection with an active recognized market. Hence, the process for the systematic identification of items in the scope of CSRBB follows a gradient approach:

- starting from instruments that are directly traded on an active recognized market, in the scope of CSRBB;
- to instruments which pricing may be evidenced as having a strong and reliable link with such active recognized markets through a reference market curve or a combination of market reference curves, in the scope of CSRBB;
- ending with instruments that have no connection to such reference market curves and, thus, are not included in the scope of CSRBB.

This is represented by a decision tree below:

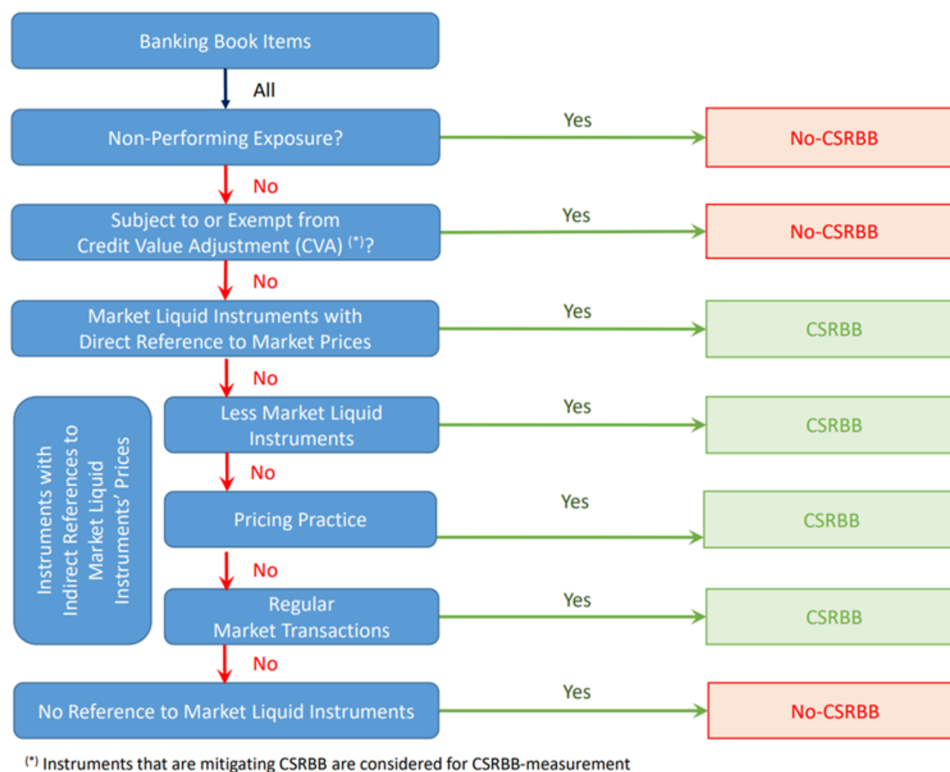


Figure 15: Decision tree for CSRBB identification

Based on the outcome of the identification process and the currently available granularity of the regulation, the Bank identifies that the sovereign bonds held in its portfolio as HQLA, are sensitive to credit spread risk and liquidity spread risk and therefore fall within the scope of the CSRBB.
However, nostri accounts, client current accounts, interbank transactions and client term deposits should be excluded from the CSRBB measurement as the sensitivity to credit spread risk have not been observed. Nostri accounts and client current accounts are managed either with a fixed rate account condition or with reference to the risk-free yield curve. Interbank transaction and client term deposits are priced on the basis of the risk-free yield curve plus a commercial margin (generally for a fixed term).

Methodology to assess CSRBB

The Bank has implemented a systematic approach to compute Credit Spread Risk on sovereign bonds denominated in USD and JPY. The analysis focuses on positions comprising zero-coupon bonds. To facilitate this computation, two distinct yield curves are essential for each currency: the risk-free yield curve and the yield curve of CCY Sovereign bonds.

- The risk-free yield curve is a critical component of the analysis. In order to measure the credit spread of government bonds, which are low risk compared to other corporate or financial institution bonds, the bid yield of the Overnight Index Swap ("OIS") curve is used as a proxy for the risk-free

yield curve. This approach typically takes into account the Effective Federal Funds Rate ("EFFR") for USD positions and the Tokyo Overnight Average Rates ("TONAR") for JPY positions.

- Concurrently, the Bank also utilizes the yield curve of sovereign bonds specific to each currency (JPY and USD). This curve provides insights into the yields of Sovereign bonds within the given currency. Ideally, the Bank should be able to calculate the yield curve for credit spread sensitive instruments with different residual maturities, using rates from the time buckets used in the IRRBB calculation.

Stress-test results

In line with best practice, two types of stress test shocks (7 scenarios in total) were designed for credit spread deviation:

Type 1: Standard parallel shift:

- 1 basis point parallel up (CS01)
- 1 basis point parallel down (CS01-)

Type 2: Historical scenarios observed from market references curves:

- Global Financial Crisis Positive shift
- Global Financial Crisis Negative shift
- Covid-19 Crisis Positive shift
- Covid-19 Crisis Negative shift

In addition to the baseline and six stress test scenarios, a worst case scenario is defined to capture the most adverse situation among all precedent scenarios.

The CSRBB stress test results were computed using six selected shock scenarios. In order to be comparable with the IRRBB measures, percentage of Tier 1 capital and net interest margin ("NIM") have been calculated. The results of EVE and NII for the CSRBB exposure as at December 31st, 2023 are shown below.

The current CSRBB exposure in EVE and NII under the worst case scenario is very limited (0.10% of T1 capital for EVE and -0.45% of T1 capital for NII).

The Bank's exposure to CSRBB is therefore considered to be immaterial. The Bank does not consider it necessary to allocate internal capital to cover this risk under Pillar II.

CSRBB Stress Test Result as at December 31st, 2023

31-Dec-23	EVE							
	CSR Impact	Scenario CS01	Scenario CS01-	Global Financial Crisis (Positive Shock)	Global Financial Crisis (Negative Shock)	Covid-19 Crisis (Positive Shock)	Covid-19 Crisis (Negative Shock)	Worst Case Scenario
Total USD	(55,394.24)	(3,289.81)	3,290.23	(18,901.30)	88,205.64	(18,901.30)	33,465.99	88,205.64
% of Tier 1 Capital	-0.06%	0.00%	0.00%	-0.02%	0.09%	-0.02%	0.04%	0.09%
Total JPY	733.04	(192.43)	192.45	(515.52)	5,642.06	(515.52)	385.88	5,642.06
% of Tier 1 Capital	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.01%
Total CCY	**(55,027.72)**	**(3,386.03)**	**3,386.45**	**(19,159.05)**	**91,026.67**	**(19,159.05)**	**33,851.86**	**91,026.67**
% of Tier 1 Capital	**-0.06%**	**0.00%**	**0.00%**	**-0.02%**	**0.10%**	**-0.02%**	**0.04%**	**0.10%**

31-Dec-23	NII							
	CSR Impact	Scenario CS01	Scenario CS01-	Global Financial Crisis (Positive Shock)	Global Financial Crisis (Negative Shock)	Covid-19 Crisis (Positive Shock)	Covid-19 Crisis (Negative Shock)	Worst Case Scenario
Total USD	152,335.70	9,885.89	(9,885.89)	980,711.29	(317,814.09)	57,297.28	(104,982.16)	(317,814.09)
% of Tier 1 Capital	0.16%	0.01%	-0.01%	1.04%	-0.34%	0.06%	-0.11%	-0.34%
NIM	0.03%	0.00%	0.00%	0.22%	-0.07%	0.01%	-0.02%	-0.07%
Total JPY	(29,060.46)	7,627.42	(7,627.42)	145,206.96	(223,292.65)	20,435.76	(15,292.97)	(223,292.65)
% of Tier 1 Capital	-0.03%	0.01%	-0.01%	0.15%	-0.24%	0.02%	-0.02%	-0.24%
NIM	-0.01%	0.00%	0.00%	0.05%	-0.07%	0.01%	0.00%	-0.07%
Total CCY	**137,805.47**	**13,699.60**	**(13,699.60)**	**1,053,314.77**	**(429,460.42)**	**67,515.16**	**(112,628.64)**	**(429,460.42)**
% of Tier 1 Capital	**0.15%**	**0.01%**	**-0.01%**	**1.11%**	**-0.45%**	**0.07%**	**-0.12%**	**-0.45%**
NIM	**0.01%**	**0.00%**	**0.00%**	**0.09%**	**-0.04%**	**0.01%**	**-0.01%**	**-0.04%**

Table 13: CSRBB Stress-Test results

8.7 FX risk

Foreign exchange risk is the risk to arising from changes in the market exchange rate on the currency positions maintained by the Bank. Foreign exchange positions only arise as a consequence of the execution of client transactions on spot and forward markets. The day-to-day currency risk is managed by the Bank's policy of closing spot and forward positions. The Bank has adopted a full cover principle for any transaction entered into with clients. This principal is controlled on a daily basis by Risk Management department with the preparation of a maturity gap report.

To avoid the Bank of suffering significant losses due to the evaluation of the EUR currency (expenses expressed in EUR), versus its accounting currency (USD), the Bank implemented a hedging policy for expenses as from 2005.

8.8 Equity price risk

The Bank defines the equity price risk as the potential adverse changes in the value of the Bank's equity related holdings. This risk can be decomposed in a general (or non-diversifiable) risk component and a specific (or diversifiable) component.

Considering that no speculative position is taken and that positions are held (on maximum of 6 months duration) exclusively in sovereign bonds, having a good credit rating, the Bank does not consider the equity price risk as applicable.

9 Operational risk

The Bank has defined the operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal process, people, and systems or from external events. The operational risk capital requirement has been considered in the sense of CRR-CRDIV, regulation (EU) N° 575/2013 Title III Chap. 1, 2 and 3.

9.1 Operational risk policy

A specific policy and procedure have been set up by the Bank to deal with this self-assessment methodology. The compliance function has resulted in the drafting of a compliance policy as well as a compliance charter, validated by the Authorized Management and the Board of Directors, and made available to all staff. The main objective of the compliance function is to develop a very low tolerance policy against the compliance risk.

9.2 Measurement and monitoring

The Bank considers operational risk as a major risk source it is exposed to. As such, it monitors the operational risk, based on common set of established rules and procedures which are followed closely when dealing which each type of operational activity. The Banks have elected the standardized approach for operational risk. The gross income indicator has been calculated based on accounting values for the last three years.

The minimization of operational errors and of fraudulent practices is tackled on two levels: prevention and detection. Preventive measures include the staff recruitment procedures and the measures taken to keep staff members aware of their responsibilities and obligations in this matter. An internal Working Rules handbook has been prepared and issued to all staff members. It is kept up to date, and a dealer handbook/manual is setting out which practices are not permitted.

To better monitor its operational risk, the Bank maintains a strong follow-up of operational errors and corrupt practices via the use of a third party solution dedicated to operational risk monitoring. This is used both to track the events through the evidence gathering and authorization process, and to provide the Authorized Management with statistical information on the nature and number of loss events. Information is provided to the Authorized Management on the number of loss events by their nature and the related area of the Bank. In addition, the number of loss events with estimated loss amount is also produced.

9.3 Reporting

9.3.1 Calculation of the regulatory capital requirement

The Bank applies the standardized approach (STA) in order to calculate the regulatory capital requirements for operational risk.

The total risk exposure related to the operational risk amounts to USD 97,872,422 and the capital requirements to USD 7,829,794 as stated in the Key Metrics figures, in the Template EU OV1 – Overview of total risk exposure amounts.

10 Liquidity risk

The liquidity risk can be defined as the risk that the Bank will not have sufficient liquid assets, or proper matching of asset/liability maturities, to meet its operational cash requirements including deposit withdrawals, commitments, and asset growth needed to sustain its competitive position and customer needs.

After the financial crisis, the supervisory authorities tightened regulatory requirements in the field of liquidity risk. The Liquidity Coverage Ratio (LCR) is one such measure and has the aim of securing institutions' short-term financial solvency in a hard 30 calendar day stress scenario at any time – also in times of crises. Another significant measure for strengthening banks' medium to long-term liquidity profiles is the Net Stable Funding Ratio (NSFR). It requires banks to ensure a sustainable maturity structure of assets and liabilities. By limiting maturity mismatches, NSFR reduces rollover risk and promotes funding stability.

While the minimum requirement for the LCR is already set at 100%, the NSFR the regulatory limit is set at 100% as well and is applicable since June 30th, 2021, with the introduction of the CRR II and the CRD V. The Bank is performing a daily monitoring for both ratios, and has already implemented measures to comply with the NSFR limit.

10.1 Liquidity risk management policy

The liquidity risk can be defined as the risk that the Bank will not have sufficient liquid assets, or proper matching of asset/liability maturities, to meet its operational cash requirements including deposit withdrawals, commitments, and asset growth needed to sustain its competitive position and customer needs.

The Bank has defined two sub-categories of liquidity risk; being:

- funding liquidity risk - arises when the Bank cannot meet its payment obligations as a result of a cash-flow gap (lending vs. borrowing) resulting from cash operations over a specified period of time; and
- asset liquidity risk - arises when transactions cannot be conducted at quoted market prices due to the size of the required trade relative to normal trading lots.

10.2 Liquidity risk appetite

The Bank has created a liquidity risk dashboard to get an overview on the Liquidity Risk appetite in term of funding. It assesses its capacity to absorb the outflows by holding an adequate level of inflows and High Liquid Assets. The purpose of the analysis is multiple:

- To measure the net funding requirement (or surplus) per maturity bucket;
- To measure the relative concentration of each funding source per maturity bucket;
- To measure the capacity of the Bank to absorb assets and to ensure that it holds sufficient liquidity to cope with any customer cash outflows.

Some Key Risk Indicators (KRI) have been set in the scope of the liquidity risk management.

The internal limits are monitored on a daily basis in order to anticipate a possible breach. These limits are assessed based on a short time horizon (1 month) for the Liquidity Coverage Ratio (LCR) and on a longer time horizon (1 year) for the Net Stable Funding Ratio (NSFR). The Bank's liquidity position are therefore strong enough to support the LCR and NSFR, as specified by the EBA ("European Banking Authorities") requirements.

On a monthly basis, the RMD is performing as well, some liquidity stress-testing which are challenging the Bank's ability to resist facing to a plausible liquidity crisis. The Bank uses stress testing to calculate the liquidity requirements corresponding to different survival horizons.

The daily monitoring of these parameters is to ensure that the Bank is able to maintain a liquidity buffer high enough, in order to fulfil its payment obligations and continue its business operations without disruption.

To secure the fulfilment of short-term payment obligations, such as client time deposits, client money market transactions, client FX or borrowing repayments, expected net cash outflows can be met with maturing inflows from the liquidity buffer at least within the next 30 forthcoming days.

10.3 Internal Liquidity Adequacy Assessment Process (ILAAP)

The multiple financial crises experienced in recent years have shown the fundamental importance of liquidity for credit institutions, as insufficient liquidity poses an immediate threat to their continuity. One of the main lessons learned is that their liquidity risk management has to ensure their ability to fulfil their payment obligations at all times, even under adverse conditions.

Accordingly, the internal liquidity adequacy assessment process (ILAAP) plays a key role in the risk management of credit institutions

The ILAAP report, which is combined to the ICAAP report, designates the exercise of self-assessment by the Bank of its financial risks in order to ensure that it has enough capital and liquidities to the conduct of its activities. The result is sent annually to the competent authorities (notably the CSSF) in the form of a report duly validated by the management bodies (Authorized Management and Board of Directors members).
Throughout the European Union, these reports are carefully reviewed by the authorities in charge of prudential supervision, who assess not only their results but also their objective and complete nature.
While the format and methods to be used are free, the content is governed by various regulatory requirements (Cf. CSSF circular 20/753).

10.4 Measuring and Monitoring Liquidity Risk

As already performed for ICAAP, series of stress tests are also carried out, to ensure that the Bank is able to resist to potential liquidity crises.

The Bank performs stress testing scenarios which attempt to identify and to assess its major vulnerabilities in term of liquidities, following the nature of its business model and its operating environment. In this way, the Bank has defined four types of scenario:

Stress-tests scenario

- Liquidity Risk (Funding): run-off of the cash deposits by clients;
- Liquidity Risk (Funding): massive overdraft usage by major fund managers;
- Liquidity Risk (Asset): internal liquidity stress limit on LCR further to inflows/outflows evolutions;
- Liquidity Risk (Funding): internal liquidity stress limit on NSFR further to ASF/RSF evolutions.

Additionally to the stress-tests, the Bank performs also reverse stress-tests (ILAAP) in order to complete its analyses on the potential impacts of a liquidity crisis. Two types of scenario are defined:

Reverse stress-tests scenario

- Liquidity Risk: internal liquidity stress limit on LCR further to inflows/outflows evolution;
- Liquidity Risk: internal liquidity stress limit on NSFR further to ASF/RSF evolution.

To mitigate the Funding Liquidity Risk, the Bank has established a high-quality Liquidity Buffer (HQLA – “High Quality Liquid Assets”) which can be used in case of liquidity crisis to meet payment obligations while continuing normal banking activities without obtaining new funding.

The Market Liquidity Risk is mitigated by having a Liquidity Buffer consisting of high-quality financial assets that under stressed market conditions maintain its market value. The Bank has at present no direct access to central bank repo facilities. The Liquidity Buffer consists mainly of a stock of securities (government bonds – level 1A) bought directly by the Bank for its own account and (government bonds – level 2A) coming from the establishment of a borrowing scheme made with its Parent Company.
The Liquidity Buffer can be also invested directly by the Bank, in fixed-income instruments such as government bonds, only in EUR, USD, JPY or GBP, with a maximum maturity of 6 months.

In the framework of the borrowing scheme, the Bank borrows securities from its Parent Company through a securities lending transaction. Within this securities lending transaction, MHTB Tokyo gives securities (eligible bonds for HQLA) and MHTB Luxembourg pays a fee to its Parent Company for the use of the loaned securities.

10.5 Reporting

10.5.1 Liquidity Coverage Ratio

The Liquidity Coverage Ratio is the main short-term liquidity reference indicator and requires the Bank to hold sufficient High Quality Liquid Assets (HQLA) in order to cover its total net cash outflows over 30 days.

In order to promote the short-term (30 days-period) resilience of the liquidity risk profile of the Bank, the Liquidity Coverage Ratio is monitored on a daily basis, and monthly reported to the competent authority. As a part of its LCR monitoring, the Bank is very keen to control the cash flows generated by customer

deposits. This potential outflows surplus, is reinvested (overnight placing or term deposits – avoiding maturity mismatch), with interbank counterparties of Mizuho (mainly Mizuho Group entities) but also with the Central Bank of Luxembourg.

In compliance with the Article 447 of the CCR II (Disclosure of key metrics), the Bank discloses the information in relation to its LCR, as calculated in accordance with the Delegated Act referred to in Article 460 (1), within the chapter 5 of the present document, in the Template EU KM1 – Key metrics template.

In order to reduce the liquidity gap between the HQLA and the Net Cash Outflows for each of the significant currencies identified, according to markets evolution, the Bank is investing in government bonds in major currencies like USD, GBP and JPY. The EUR being mainly placed for the moment at the Banque Centrale du Luxembourg (BCL), on an overnight basis.

At the end of December 2023, the LCR was 301%, well above the percentage recommended by the regulator (100%).

10.5.2 NSFR

The Net Stable Funding Ratio (NSFR) supplements the LCR and has a time horizon of one year. It is monthly monitored by the Bank in order to ensure a sustainable maturity structure of assets and liabilities and it is reported to the competent authority on a quarterly basis. On top of the liquidity ratios monitoring the Bank has implemented a monthly stress-test program in order to assess the potential impact of extreme but plausible stress scenarios on the liquidity profile, as well as the current or contemplated mitigating factors.

Further to the Article 428b of the Regulation (EU) 2019/876 (CRR II), amending the Regulation (EU) No 575/2013 (CRR), institutions shall calculate a Net Stable Funding Ratio in accordance with the following formula:

$$\frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}} = \text{Net Stable Funding Ratio (\%)}$$

Since the entry into force of the CRR II in June 2021, each institution is required to maintain its ratio of at least 100 %, calculated in the reporting currency for all their transactions, irrespective of their actual currency denomination.

The Bank started a borrowing to its parent company of JPY 20 Bio as corporate loan from December 2017, in order to improve the stability of its funding.
In order to reduce the interests payment on this cash borrowing and according to the increase of the own fund's level with profitable results, the risk management function has been appointed to reconsider the nominal borrowing amount over the last three years. In February 2020, the total borrowing amount was reduced from JPY 16.5Bio to JPY 14.0Bio and a further reduction to JPY 11Bio, was made in December 2020 (still the same amount), while keeping the NSFR above the target level of 100% with a certain buffer.

At the end of December 2023, the NSFR was 325%, well above the percentage recommended by the regulator (100%).

10.5.3 Unencumbered assets

An encumbered asset is an asset pledged or subject to any form of arrangement to secure, collateralize or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn. Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, are considered encumbered.

It is clearly agreed that MHTBL has the entire ownership rights over the securities lent by its Parent Company. This means that the Bank would be able, at any time, to convert the securities into cash. These securities cannot in any case be used as collateral, they must be unencumbered. The Bank may use other options to maintain a sufficient level of liquidity buffer at any times, such as borrowing cash from other Mizuho group entities, but also a funding plan at the Central Bank or obtain as well funding from non-financial clients. These various options are not only there to improve the liquidity buffer, but can also play an important role in improving the funding stability (NSFR).
The Table 14, Table 15 and Table 16 disclose the asset encumbrance of the Bank.

In USD	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Loans on demand	-		-	
Equity instruments	9,349,722	-	4,769,759	512,779,407
Debt securities	-	-	209,255,459	4,334,330
Loans and advances other than loans on demand	-		-	
Other assets	-		31,818,211	
Total Assets of the reporting institution	**9,349,722**		**245,843,429**	

Table 14: Asset encumbrance (in USD)

In USD	Fair value of encumbered collateral received or own debt securities issued	Non-encumbered	Nominal of collateral received or own debt securities issued non available for encumbrance
		Fair value of collateral received or own debt securities issued available for encumbrance	
Collateral received by the reporting institution	**-**	142,339,339	**-**
Loans on demand	-	-	-
Equity instruments	-	-	-
Debt securities	-	142,339,339	-
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	-	-

Own debt securities issued other than own covered bonds or ABSs	-	-	-
Total assets, collateral received and own debt securities issues	**10,226,822**	-	**-**

Table 15 Encumbered assets – Collateral received (in USD)

In USD	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	-	-
Derivatives	-	-
Deposits	-	-
Debt securities issued	-	-
Other sources of encumbrance	9,349,722	9,788,272
Nominal of loan commitments received	-	-
Nominal of financial guarantees received	-	-
Fair value of securities borrowed with non-cash collateral	-	-
Other	9,349,722	9,788,272
Total sources of encumbrance	**9,349,722**	**9,788,272**

Table 16 Sources of encumbrance (in USD)

11 Leverage Ratio

The CRR and CRD IV framework introduced a non-risk based leverage ratio in the aim to act as a supplementary measure to the risk based capital requirements. The leverage ratio indicates the level of capitalization of the Bank in comparison with its total exposure. The ratio is calculated as the consolidated Tier 1 capital to the total of on balance sheet and off balance exposures.

With the entry into force of the CRR II, all EU banks will be required to maintain a binding minimum ratio of 3%.
The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

$$\frac{\text{Capital measure}}{\text{Exposure measure}} \geq 3\%$$

According to CRR, the Bank's leverage ratio stands at 8.76% as of December 31st, 2023.
The tables here below disclose the reconciliation of accounting assets and leverage ratio exposures (Table 17), the split-up of on balance sheet exposures (Table 18) and the leverage ratio common disclosures (Table 19).

In USD	Applicable amount
Total assets as per published financial statements	1,209,578,911
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
Adjustments for derivative financial instruments	(6,829)
Adjustment for securities financing transactions (SFTs)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(53,355)
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
Other adjustments	(13,749,035)
Leverage ratio total exposure measure	**1,195,769,693**

Table 17 Summary reconciliation of accounting assets and leverage ratio exposures

In USD	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**1,209,578,911**
Trading book exposures	-
Banking book exposures, of which:	1,209,578,911
Covered bonds	-
Exposures treated as sovereigns	417,613,505
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
Institutions	766,808,714
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	5,554,048
Exposures in default	-
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	19,602,645

Table 18 Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

In USD	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,209,572,082
(Asset amounts deducted in determining Tier 1 capital)	(13,902,573)
(Other adjustments)	-
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**1,195,669,509**
Derivative exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	6,829
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	-
Exposure determined under Original Exposure Method	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
(Exempted CCP leg of client-cleared trade exposures)	-
Adjusted effective notional amount of written credit derivatives	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
Total derivatives exposures	**6,829**
SFT exposures	

Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
Counterparty credit risk exposure for SFT assets	-
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
Agent transaction exposures	-
(Exempted CCP leg of client-cleared SFT exposure)	-
Total securities financing transaction exposures	**-**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	453,355
(Adjustments for conversion to credit equivalent amounts)	(360,000)
Other off-balance sheet exposures	**93,355**
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposure mesure	
Tier 1 capital	**104,774,790**
Leverage ratio total exposure measure	**1,195,769,693**
Leverage ratio	
Leverage ratio	**8.76%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Fully Phased-In
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

Table 19 Leverage ratio common disclosure

12 Environmental, Social and Governance (ESG)

ESG stands for Environmental, Social and Governance. These are called pillars in ESG frameworks and represent the 3 main topic areas that companies are expected to report in. The goal of ESG is to capture all the non-financial risks and opportunities inherent to a company's day to day activities.

Environmental
Refers to whether the Bank is operating as a steward of the environment and covers environmental issues like climate change, greenhouse gas emissions (GHG), deforestation, biodiversity, carbon emissions, waste management and pollution.

Social
Refers to the impact the Bank has on people, culture and communities and looks at the social impact of diversity, inclusivity, human rights and supply chains.

Governance
Refers to how the Bank is directed and looks at corporate governance factors like executive compensation, succession planning, board management practices and shareholder rights.

Within the regulatory context of the CSSF circular 21/773 ("On the Management of Climate-related and Environmental Risks") and the European Union legislation the "Corporate Sustainability Reporting Directive (CSRD)", the Bank has started to address ESG risks by focusing first on Climate-Related and Environmental risks (CR&E) components.

12.1 Climate-Related and Environmental risks (CR&E)

Over the recent years, climate change and sustainability matters have climbed to the top of most political agendas, globally and in Europe in particular.

According to the EBA report on management and supervision on ESG risks, *Environmental risks should be understood as the financial risks as the financial risks posed by an institution's exposures to counterparties or invested assets that may potentially be affected or contribute to the negative impacts of environmental factors, such as climate change and other forms of environmental degradation (e.g. air pollution, water pollution, scarcity of fresh water, land contamination, biodiversity loss and deforestation*.

Climate-Related risks are only a subset of environmental risks and refer specifically to risks stemming from climate change such as extreme weather events or policy changes. In other words, climate risks have a potential impact on the environment but, on the contrary, not all environmental threats are climate-related (e.g. land contamination).

According to the CSSF circular 21/773, CRE risks have two main roots:

1. **Physical risk** refers to *the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental climate degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. Physical risk is categorized as "acute" when it arises from extreme events, such as droughts, floods and storms or "chronic" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss and resource scarcity. It may direct result in, for example, damage to property or reduce productivity, or indirectly lead to subsequent events, such as the disruption of supply chains.*
2. **Transition risk** refers to *an institution's financial loss that may result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. It could be triggered, for example, by a relatively abrupt adoption or stricter climate and environmental policies, technological progress or changes in market sentiment and preferences.*

In this context, as CR&E risks are seen as risk drivers of existing risk categories (e.g. credit, market, liquidity, operational, etc.) rather than stand-alone risks, transmission channels are defined as causal chains linking CR&E risk drivers to the financial and non-financial risks faced by the Bank.

12.2 MHTBL action plan

The Bank performed a self-assessment of its practices in accordance with the supervisory expectations outlined in Circular CSSF 21/773. The primary aim of the evaluation is to establish the Bank's stance at a point in time in regards to climate-related and environmental risks. The review encompasses a comprehensive array of points of attention, which are categorized in four blocks: "Identification of risk exposure and materiality assessment", "Business strategy and risk appetite", "Risk management framework", and "Internal governance".

In light of Bank's answers, a more granular gap analysis was conducted to determine the segments that require greater attention to meet CSSF's expectations and enhance the integration of climate and environmental risks across the entire organization. The outcome of the review entails the gap identification, which is defined according to the relation between CSSF expectations and the responses provided by the Bank; the suggested remedial actions, in general terms and with concrete specifications when deemed necessary; the principal stakeholders affected; the impact on the Bank, which regardless of the general importance of the matter, the Bank's exposures and structure ultimately determine the level of relevance (e.g., limited impact on the areas pertaining to credit risk or market risk due to the Bank's structure and operations); the implementation complexity; and the details concerning duration, status, and the due date.

The entire set of remedial actions were categorized into nine groups. As a first sight on it, the first two groups refer to the first block, "Identification of risk exposure and materiality assessment"; the third and fourth group is linked to the second block, "Business strategy and risk appetite"; the fifth and sixth groups make reference to the third block, "Risk management framework"; and the last three groups are linked to the fourth and last block, "Internal governance".

12.3 Identification and materiality assessment

The Bank has carried out a risk identification process based on the sub-risk categories of the risk taxonomy in order to detect where the climate-related and environmental risks could have an impact.
The Bank has followed the expectations highlighted in Circular 21/773 and the good practices identified in the “Outcomes of the self-assessment exercise 2022” by the CSSF and has assessed the materiality and relevance of climate-related and environmental risks in the short, medium and long term.

This analysis has been performed by taking into account its business specificities in terms of business model and risk appetite. In particular, the analysis has been built on the principles outlined by both the ECB in the “Guide on climate-related and environmental risks” (ref: Table 1, page 12) and the EBA in the report “on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms” (ref: Page 36-42) that illustrate how climate-related and environmental risk drivers can materialize given the existing transmission channels.

The Bank has performed a comprehensive review of its risk taxonomy in the light of CR&E risks and identified a series of relevant scenarios relating to both climate transition and physical risks across the full spectrum of traditional risk categories.
Following the identification process, the Bank has performed a materiality assessment. Such assessment has been conducted by blending a qualitative and quantitative approach, building up on available quantitative data as well as expert judgement of the Bank in terms of likelihood and expected impact of each identified relevant scenario. Where possible, materiality has been assessed by estimating the potential impact of a scenario vis-à-vis the internal materiality threshold, set at 0.5% of the Bank’s capital resources.
The results of the risk identification process and the preliminary materiality assessment (qualitative approach) are presented in Table 20. Further analysis of the potentially material scenarios is then presented to complete the materiality assessment.

Risk Category	Sub risk type	Physical Risk - Short Term	Physical Risk - Long Term	Transition Risk - Short term	Transition Risk - Long Term
Credit risk	Counterparty risk	Non Material	Non Material		Non Material
Credit risk	Settlement risk	Non Material			
Credit risk	Country risk				
Market risk	Interest rate risk				
Market risk	Gap risk				
Market risk	Option Risk				
Market risk	Basis Risk				
Market risk	Foreign exchange rate risk	Non Material			
Concentration risk	Instruments type concentration risk (investment portfolio)				
Concentration risk	Major transactions concentration risk				Non Material
Concentration risk	Economic sector concentration risk		Non Material		Potentially material
Concentration risk	Country concentration risk	Non Material	Potentially material		Non Material
Concentration risk	Income concentration risk				
Liquidity risk	Funding liquidity risk		Non Material		Non Material
Liquidity risk	Asset liquidity risk				Non Material
Business risk	Profitability risk	Non Material	Potentially material	Non Material	Potentially material
Business risk	Macroeconomic risk				
Operational risk	Execution, Delivery & Process Management	Non Material			
Operational risk	Business disruption and system failures				
Operational risk	Damage to Physical Assets	Non Material			
Operational risk	Clients, Products & Business Practices				
Operational risk	Employment Practices and Workplace Safety				
Operational risk	External fraud				
Operational risk	Internal fraud				
ICT risk	Infrastructure	Non Material	Non Material		
ICT risk	System				
ICT risk	Development				
ICT risk	Data corruption				
Strategic risk	Strategic risk	Non Material			Non Material
Reputation risk	Reputation risk	Non Material			Non Material
Compliance risk	Compliance risk	Non Material		Non Material	Non Material
Legal and regulatory environment risk	Taxation risk				
Legal and regulatory environment risk	Contractual risk				

Insurance risk	Insurance risk				
Cybersecurity risk	Cybersecurity risk				
Project risk	Project risk				
Conduct Risk	Conduct Risk				
Outsourcing Risk	Outsourcing Risk				
Third Party Risk	Third Party Risk				
Safekeeping risk	Safekeeping risk				

Table 20: Materiality assessment

The outcome of the materiality assessment has led the Bank to define three scenarios and related transmission channels, in which climate-related and environmental risks drivers could potentially impact traditional risk categories, as relevant:

Material Risk	*Transmission channel*
Operational Risk	Impact stemming from acute climate events leading to the unavailability of the Bank's facilities and systems that would prevent the normal course of business of the Bank.
Profitability Risk	Climate transition risks (e.g. policy change impacting the cost of carbon, a technological shift that makes current unsustainable technologies outdated, etc.) that could impact the value of assets under custody/management to different extents, depending on their sectorial distributions. Decrease in assets' values would result in a reduction in fees.
Concentration risk	Concentration of the assets under custody in economic sectors that are more exposed to transition risk such as Oil, Gas, and automobiles. Policy or investors preference changes could lead to the decrease of value of assets under custody, thus a reduction in fees.
	Concentration of the assets under custody in countries that are more vulnerable to physical risk according to ND-GAIN vulnerability Index[3]. Such events as floods and heatwaves could lead to a devaluation of assets under custody, thus a reduction in fees.

Table 21: Scenario from materiality assessment results

While the relevant factors/indicators to be considered for managing, mitigating and monitoring the scenario affecting operational risk are related to the physical location of the Bank's premises, the other two (profitability and concentration) are more dependent on the nature and composition of the assets under custody, in terms of sectoral distribution. Given the overlap in risk drivers between these two types of risk, a consolidated analysis is carried out to assess the materiality of these three potential transmission channels.

<u>Operational risk</u>
To analyze the first scenario in more detail, MHTBL has collected publicly available information[4] on the exposure of its premises in Munsbach against potential physical risks such as flood hazard and flashflood hazard.
Visual inspection of Figure 23 indicates that the likelihood of serious damages in case of flooding or flashflood is very limited for the Bank's premises (green dot) as it is located at reasonable distance from potentially impacted areas.

[3] https://gain.nd.edu/our-work/country-index/download-data/
[4] https://www.geoportail.lu/fr/

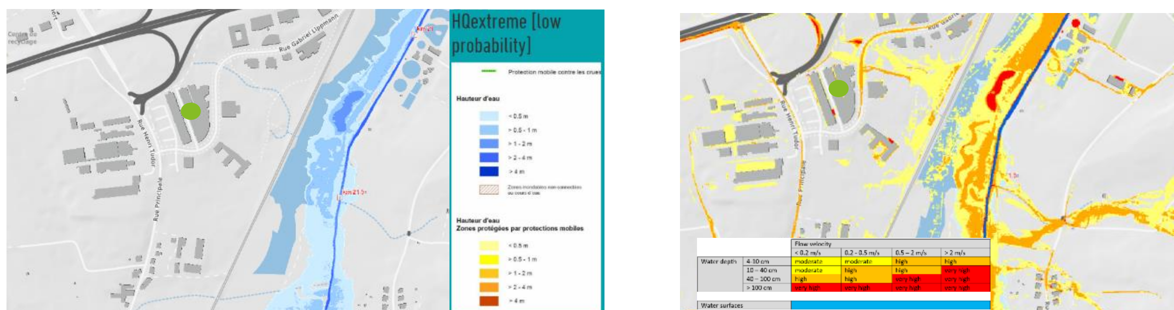


Figure 16: Exposure of MTHBL premises to flood hazard (left) and flashflood hazard (right)

<u>Profitability and concentration risk – Transition Risk</u>

In the context of the ongoing transition to a more sustainable economy, it is expected that client preferences and behaviors will change to place greater emphasis on ESG criteria. If the Bank's fund clients do not adapt their investment strategy to these changing preferences, they may suffer a decline in net asset value, which will have a negative impact on the Bank's revenues as assets under custody are reduced.

In order to assess the Bank's current exposure to this transition risk, an overview of assets under custody (AuC) by economic sector is analyzed. The identification of carbon emission intensive sector is based on the list provided by the ECB in the “2022 climate risk stress test”. For conservative purposes, assets under management that have not been allocated to a specific sector are labelled as brown assets. As a result, around 29% of the total AuC is exposed to carbon emission intensive sector (Cf. Figure 17).

Assets under custody related to non-green assets amount to approximately USD 60 billion. On a conservative basis, and applying an abrupt repricing of 3%, the potential impact in terms of fee income, with an average fee of 0.9 bps (average ratio of 2023) applied by the Bank, would determine a loss in fees of approximately USD 0.16 million (below the 0.5% materiality threshold).

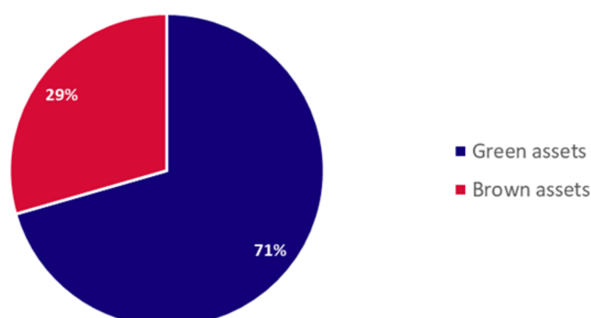


Figure 17: MHTBL portfolio exposure to brown and green assets

Profitability and concentration risk – Physical Risk

Countries that do not adapt to climate change may suffer economic consequences and ultimately a deterioration in their creditworthiness (rating downgrades, migration risk). The invested assets with exposures to these geographical areas may suffer losses in the value. Finally, the Bank will face a reduction in its income from custodian fees and commissions.

As the data currently available reflect the domicile of the assets under custody, which is not a true reflection of the country of risk, it is difficult to quantify the exact impact of this scenario. Further work could be undertaken in the future to improve the quality of the data.

However, it is estimated that the Bank is not directly exposed to this risk, but has an indirect exposure through fund clients under custody. In general, the funds are well diversified. Therefore the geographical concentration risk is considered to be limited.

The Bank will continue to implement the remedial actions as planned in the roadmap in order to be fully compliant with Circular CSSF 21/773 by the end of 2024.

13 Remuneration

This section aims at describing the main characteristics of the Remuneration Policy (hereafter “the Policy”) and practices of Mizuho Trust & Banking (Luxembourg) S.A. (hereafter “MHTBL” or “the Bank”).

MHTBL’s Policy, which was reviewed and approved in 2023, reflects the requirements on Remuneration Policies in the financial sector set in the regulatory texts, i.e.

- Law of 5 April 1993 on the financial sector, as amended;
- CSSF Circular 10/437 on guidelines concerning remuneration policies in the financial sector;
- CSSF Circular 14/594 on the transposition of the European Banking Authority guidelines on the applicable notional discount rate for variable remuneration;
- Article 19 of the Luxembourg Law of 23 July 2015 implementing CRD IV;
- EBA Guidelines on sound Remuneration Policies, dated 21 December 2015 (the “EBA guidelines”);
- CSSF Circular 10/496 amending Circular CSSF 06/273 defining capital ratios pursuant to article 56 of the amended law of 5 April 1993 on the financial sector, as amended and transposing CRD III;
- Regulation (EU) N° 575/2013 of The European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (“**CRR**”) as amended by Regulation (EU) 2019/876 /`(“**CRR2**”);
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“**CRD IV**”), as amended by Directive 2019/878/EU (“**CRD V**”);
- Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit’s risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution’s risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive;
- CSSF Circular 14/585 transposing the ESMA guidelines on remuneration policies and practices (MiFID) – Addition of Annex V to Circular CSSF 07/307 ;
- CSSF Circular 15/622 on higher maximum ratio notification procedure applicable to Article 94(1)(g)(ii) of Directive 2013/36/EU following its transposition into Luxembourg law via Article 19(7°)(g) of the law of 23 July 2015;
- CSSF Circular 12/552 (as amended by Circulars CSSF 13/563, 14/597, 16/642, 16/647, 17/655, 20/750 and 20/759) on central administration, internal governance and risk management;
- CSSF Circular 22/797 on the Application of the Guidelines of the European Banking Authority (EBA) on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04) and repeal of Circulars CSSF 17/658 and 11/505.

13.1 Objective of the Remuneration Policy

The Policy’s objective consists in avoiding excessive risk-taking behaviors and conflicts of interest. It defines sound remuneration practices and strengthens the Bank’s overall governance framework and processes.

13.2 Perimeter and Identified Staff

The Policy applies to all employees. In addition, as required by the regulation, the Bank has determined for 2023 a list of staff, based on qualitative and quantitative criteria set by CRD V and whose professional activities have a material impact on the risk profile of the Bank (hereafter the "Identified Staff") as follows:

- Executive and Non-Executive Directors, including independent Director(s)
- Senior Management (Chief Operating Officer and Department Heads, including those in control functions)
- Other employees having a material impact on the risk profile of the Bank (selected Section Heads).

In total, 35 positions have been considered as Identified Staff in 2023.

13.3 Governance

The Policy's principles have been adopted by the Board of Directors of MHTBL in March 2023 and adjusted throughout the year based on remuneration structure update. The Board remains the ultimate responsible body for the implementation and regular review of the Policy.
In 2023, the Policy was reviewed by the Human Resources, the Internal Audit, the Legal, the Compliance and the Risk Management Departments. Further ad-hoc reviews where conducted throughout the year to strengthen governance principles surrounding remuneration matters and updating the list of remuneration components of staff members.
Based on the principle of proportionality, and in the light of the Bank's structure, size, scope, nature and complexity of its activities, and as described by the regulatory framework, the Bank did not set up:

- a permanent Remuneration Committee;
- payments of variable remuneration in instruments;
- payments of variable remuneration with deferrals;
- Ex-post risk adjustment.

However, in order to avoid conflicts of interest, salary increases and allocation of variable remunerations are always made collegially either by the Bank's Management (for the local staff) or by the Head Office for the Management (Expatriates). For the local staff, initial proposals are made by the employee's hierarchical superior and final decisions on variable remuneration are made by the Management during dedicated Committees with the Human Resources Department of the Bank. In this context, no individual is entitled to make decision on their own remuneration.

13.4 Remuneration structure

Non-executive Directors do not receive remuneration for their position as Board Member, to the exception of the independent Director(s).

The remuneration structure for the Bank's employees is made of a fixed remuneration and, if criteria are met, variable remuneration. However, the remuneration structure is slightly different for local staff and expatriates.

13.4.1 Remuneration Structure for local staff

- Fixed Remuneration (including monthly salary, Collective Bargaining Agreement premiums, lunch vouchers, mortgage loan subsidies, seniority premium, company car scheme for non-CBA staff members and pension scheme). Under exceptional circumstances, and where justified by the role and responsibilities of the employee, the Bank may also grant on top of the fixed remuneration additional fringe benefits like housing and school allowances. However, it is important to note that such a situation remains exceptional.

- Variable Remuneration (a performance bonus is paid once a year where individual and collective performance criteria are met).

13.4.2 Remuneration Structure for expatriates

- Fixed Remuneration (including monthly salary, housing, medical checks and school allowances).

- Variable Remuneration (a semi-annual performance bonus is paid, up to a maximum of twice a year where individual and collective performance criteria are met).

It is to be highlighted that the fixed remuneration shall remain the main component of the total remuneration package.

13.5 Variable pay

When it comes down to the variable remuneration of the Bank’s employees, and more specifically of the Identified Staff, the following rules applies:

- variable remuneration is systematically linked to performance (“performance bonus”)
- performance bonus, even if paid repeatedly or regularly and whatever its amount, can never lead to a vested right
- the variable remuneration policy is a fully-flexible policy: in case of poor performance, the Bank can reduce variable remuneration to zero; the same rule applies in case of unethical, non-compliant or excessive risk taking behaviors (even in case of good performance)
- where performance bonuses have been paid based on data which was subsequently proven to be fraudulent, the Board of Directors has the right to require Staff Members to repay all or part of the concerned bonus payment
- the bank does not offer guaranteed bonuses (e.g. golden parachutes) and does not reward failure or poor performance in case of early employment termination; exceptional payments made in the context of recruitment can occur only during the first year of employment

Payments only consist of upfront payments in cash and are not subject to a deferral and a retention period.

13.6 Variable pay and performance

The variable component, which is systematically linked to good performance, is allocated at the sole discretion of the Management to employees according to the outcomes of the yearly "Evaluation Interview" assessing the level of completion of the objectives set for the year. For every employee, the evaluation takes into consideration a combination of criteria linked to:

- collective and individual performance
- short, mid and long term performance
- quantitative as well as qualitative performance

The maximum Variable Remuneration, grantable to a Staff Member, shall be around 30 % of the yearly gross base salary.
For Control Functions, the variable remuneration is determined in accordance with their own objectives and is not in relation to the performance of the activities they oversee.

13.7 High Earners

In 2023, the Bank had no staff member remunerated EUR 1 million or more.

13.8 Information on annual remuneration (2023)

	Beneficiaries	Fixed Rem. [2]	Variable Rem. [3]	Total Rem.	Variable / Fixed Remuneration
Management ("Direction élargie") [1]	21	3,535,067 €	583,220 €	4,118,287 €	16.50%
Non-Executive Directors with only a supervisory role	3	75,000 €	-	75,000 €	-
Other Identified Staff	7	883,563 €	89,450 €	973,013 €	10.12%
Other Staff Members	180	14,081,556 €	869,424 €	14,950,980 €	6.17%
Total	211	18,575,186 €	1,542,094 €	20,117,280 €	8.30%

Table 22: Gross amounts in € / Per Identified staff category

	Beneficiaries	Fixed Rem. [2]	Variable Rem. [3]	Total Rem.	Variable / Fixed Remuneration
Management ("Direction élargie") [1]	21	3,535,067 €	583,220 €	4,118,287 €	16.50%

Non-Executive Directors with only a supervisory role	3	75,000 €	-	75,000 €	-
Operations	92	7,035,260 €	425,525 €	7,460,785 €	6.05%
Support Functions	44	3,608,846 €	242,004 €	3,850,850 €	6.71%
Control Functions	14	944,277€	35,000 €	979,277 €	3.71%
Project Management & Client Services	37	3,376,235 €	256,346 €	3,633,081 €	7.59%
Total	211	18,575,186 €	1,542,094 €	20,117,280 €	8.30%

Table 23: Gross amounts in € / Per business area

[1] **Beneficiaries:**

- Management: MD & CEO, Executive Vice President, Chief Operating Officer and Department Heads.

[2] **Fixed remuneration:**

- Components of the remuneration package that are not a performance bonus and that are not linked to the performance.
- Fixed remuneration includes fringe benefit.

[3] **Variable remuneration:**

- Performance bonus

Template EU REM1 - Remuneration awarded for the financial year

Ref. points (h)(i)-(ii) of Art. 450

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	3	2 Executive Directors covered in "other Senior Management" section for confidentiality reasons	21	7
2		Total fixed remuneration	75,000.00		3,535,067.00	883,563.00
3		Of which: cash-based	75,000.00		3,535,067.00	883,563.00
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	0	0	0	0
5		Of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
EU-5x		Of which: other instruments	0	0	0	0
6		(Not applicable in the EU)				
7		Of which: other forms	0	0	0	0
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	0	2 Executive Directors covered in "other Senior Management" section for confidentiality reasons	20	6
10		Total variable remuneration	0		583,220.00	89,450.00
11		Of which: cash-based	0		583,220.00	89,450.00
12		Of which: deferred	0	0	0	0
EU-13a		Of which: shares or equivalent ownership interests	0	0	0	0
EU-14a		Of which: deferred	0	0	0	0
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
EU-14b		Of which: deferred	0	0	0	0
EU-14x		Of which: other instruments	0	0	0	0
EU-14y		Of which: deferred	0	0	0	0
15		Of which: other forms	0	0	0	0
16		Of which: deferred	0	0	0	0
17	Total remuneration (2 + 10)		75,000.00	-	4,118,287.00	973,013.00

Figure 18: Template EU REM1 - Remuneration awarded for the financial year

Template EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Ref. points (h)(v)-(vii) of Art. 450

Note: expected to be empty for Mizuho

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	0	0	0	0
2	Guaranteed variable remuneration awards -Total amount	0	0	0	0
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0	0	0	0
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0	0	0	0
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	0	0	0	0
7	Severance payments awarded during the financial year - Total amount	0	0	0	0
8	Of which paid during the financial year	0	0	0	0
9	Of which deferred	0	0	0	0
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
11	Of which highest payment that has been awarded to a single person	0	0	0	0

Figure 19: Template EU REM2 - Special payments to staff whose professional activities have a material impact on institution's risk profile

Template EU REM3 - Deferred remuneration
Ref. points (h)(iii)-(iv) of Art. 450

		a	b	c	d	e	f	EU - g	EU - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	0	0	0	0	0	0	0	0
2	Cash-based	0	0	0	0	0	0	0	0
3	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
4	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
5	Other instruments	0	0	0	0	0	0	0	0
6	Other forms	0	0	0	0	0	0	0	0
7	MB Management function	0	0	0	0	0	0	0	0
8	Cash-based	0	0	0	0	0	0	0	0
9	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
10	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
11	Other instruments	0	0	0	0	0	0	0	0
12	Other forms	0	0	0	0	0	0	0	0
13	Other senior management	0	0	0	0	0	0	0	0
14	Cash-based	0	0	0	0	0	0	0	0
15	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
16	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
17	Other instruments	0	0	0	0	0	0	0	0
18	Other forms	0	0	0	0	0	0	0	0
19	Other identified staff	0	0	0	0	0	0	0	0
20	Cash-based	0	0	0	0	0	0	0	0
21	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
22	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
23	Other instruments	0	0	0	0	0	0	0	0
24	Other forms	0	0	0	0	0	0	0	0
25	Total amount	0	0	0	0	0	0	0	0

Figure 20: Template EU REM3 - Deferred remuneration

Template EU REM4 - Remuneration of 1 million EUR or more per year

Ref. point (i) of Art. 450

	EUR	a Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	0
2	1 500 000 to below 2 000 000	0
3	2 000 000 to below 2 500 000	0
4	2 500 000 to below 3 000 000	0
5	3 000 000 to below 3 500 000	0
6	3 500 000 to below 4 000 000	0
7	4 000 000 to below 4 500 000	0
8	4 500 000 to below 5 000 000	0
9	5 000 000 to below 6 000 000	0
10	6 000 000 to below 7 000 000	0
11	7 000 000 to below 8 000 000	0
x	To be extended as appropriate, if further payment bands are needed.	

Figure 21: Template EU REM4 - Remuneration of 1 million EUR or more per year

14 Recruitment and Diversity for the selection of the Members of the Management Body

14.1 Board of Directors

14.1.1 Appointment, renewal, end of mandate

The members of the Board shall be elected by the shareholders' meeting which determines their number.

In case of vacancy of one of the directorships by reason of death, resignation or otherwise, the remaining members may elect a person as director to fill such vacancy until the next shareholders' meeting and subject to ratification by it.

The member of the Board shall be elected for a maximum period of six years and they shall be re-eligible. The renewal of the Board members' mandates shall be based on their past performance.
Their appointments shall be subject to CSSF's prior approval in compliance with the prudential authorisation procedure.

The requirement to notify the CSSF also relates to all information which casts doubt on the qualification or professional standing of a member of the Board.
Any changes related to the composition of the board shall be notified to the CSSF.

14.1.2 Composition

The Bank shall be managed by a Board of Directors composed of at least of three members who need not to be shareholders. The Board of Directors shall choose among its members a chairman.

The Board of Directors shall be sufficiently and properly composed so that it can fully meet its responsibilities. The adequacy of the composition of the Board of Directors refers in particular to professional skills (knowledge, understanding and experience), as well as personal qualities of the members of the Board.

The Board of Directors cannot have among its members a majority of persons who take on an executive role within the Bank (authorised managers or other employees of the Bank, with the exception of staff representatives).

The mandates of authorised manager and chairman of the Board of Directors cannot be combined.

14.1.3 Assessment

Assessing the initial and ongoing suitability of members of the Board is the responsibility of the Bank.

The suitability of the members of the Board shall be assessed in writing:

- prior to their appointment, and if this is not possible, the assessment should be completed as soon as practicable, but in any event within six weeks,
- on a regular basis during their mandate,
- in case of mandate renewal, and,
- on an ad hoc basis where such an assessment is deemed necessary (ie. where new information comes to light which might impact the suitability of any of the Board members).

All matters relevant to and available for the assessment should be taken into account, regardless of where and when they occurred.

Each Board Member will demonstrate his/her professional standing by being assessed under the Fit & Proper approach coordinated by the Human Resources Department of the Bank and around the following criteria:

Experience
The purpose is to demonstrate that the appointees have sufficient knowledge, skills and experience (both practical and theoretical).

Reputation
The purpose is to demonstrate that there is no reasonable doubt about the good repute of the appointee by identifying pending or concluded proceedings.

Conflict of Interest
The purpose is to demonstrate that the governance principles in place allow to identify, mitigate and prevent potential and perceived conflicts of interests.

Time Commitment
The purpose is to make sure that all appointees have sufficient time to perform their function.

Independence of mind
The purpose is to make sure that all appointees can express their view in a free manner.

Collective qualification
The Board of Directors as a whole shall have appropriate skills with regard to the nature, scale and complexity of the activities and the organisation of the Bank.
The Board of Directors, as a collective body, shall fully understand all activities (and inherent risks) as well as the economic and regulatory environment in which the Bank operates. Weaknesses within the overall composition of the Board of Directors should not necessarily lead to the conclusion that a particular member is not suitable. Further trainings would there be implemented to bridge potential gaps.

If the assessment concludes that a person is not suitable to be appointed as a member of the Board, that person should not be appointed or if the member has already been appointed, the Bank should take appropriate measures to replace this member unless the Bank takes appropriate measures to ensure the suitability of the member in a timely manner.

If the re-assessment concludes that a member of the Board members is no longer suitable, the Bank should take appropriate measures to rectify the situation and inform the CSSF accordingly.
When the Bank takes measures it should consider the particular situation and shortcomings of the member; appropriate measures might include, but are not limited to, adjusting responsibilities between members of the Board; replacing certain persons; and training single members or the whole of the board to ensure that the collective qualification and experience of the Board of Directors are sufficient.

14.1.4 Training

In order for these members to be and remain qualified throughout their mandate, a training plan shall be set up by the Bank enabling the members of the Board to update and develop their required skills. The ongoing training programme shall also include the internal governance arrangements as well as their own roles and responsibilities in this regard.

14.2 Authorised Management

14.2.1 Appointment and revocation

The members of the Authorised Management are appointed by the Board of Directors. At least three persons must be responsible for the daily management of the Bank. Those persons must be empowered effectively to determine the direction taken by the business. The Mandates of Board member and Authorised Management may be combined as long as the Board of Directors is not composed of a majority of persons who take on an executive role within the Bank and as long as no Authorised Management member takes on the role of chairman of the Board.

Their appointments shall be subject to CSSF's prior approval in compliance with the prudential authorisation procedure.

The requirement to notify the CSSF also relates to all information which casts doubt on the qualification or professional standing of a member of the Authorised Management.

At least one member of the Authorised Management shall be permanently on site.
Revocation shall be acknowledged by the Board of Directors and be notified to the CSSF.

14.2.2 Qualification

The members of the Authorised Management, both individually and collectively, should have the necessary professional competences (expertise, understanding and experience), the professional standing and personal qualities to manage the Bank and effectively determine the business direction.

Members of the Authorised Management should in any event be of good repute.

The personal qualities shall be those which enable them to properly perform their mandate, as authorised manager with the required commitment, availability, objectivity, critical thinking and independence.

14.2.3 Assessment

Assessing the initial and ongoing suitability of members of the Authorised Management is the responsibility of the Bank.
The suitability of the members of the Authorised Management shall be assessed in writing:

- prior to their appointment, and if this is not possible, the assessment should be completed as soon as practicable, but in any event within six weeks,
- on a regular basis during their mandate, and,
- on an ad hoc basis where such an assessment is deemed necessary (ie. a relevant event happens).

All matters relevant to and available for the assessment should be taken into account, regardless of where and when they occurred.

If the assessment concludes that a person is not suitable to be appointed as a member of the Authorised Management that person should not be appointed or if the member has already been appointed, the Bank should take appropriate measures to replace this member unless the Bank takes appropriate measures to ensure the suitability of the member in a timely manner. If the re-assessment concludes that a member of the Authorised Management is no longer suitable, the Bank should take appropriate measures to rectify the situation and inform the CSSF accordingly.

Each Member of the Authorized Management will demonstrate his/her professional standing by being assessed under the Fit & Proper approach coordinated by the Human Resources Department of the Bank and around the following criteria:

Experience
The purpose is to demonstrate that the appointees have sufficient knowledge, skills and experience (both practical and theoretical).

Reputation
The purpose is to demonstrate that there is no reasonable doubt about the good repute of the appointee by identifying pending or concluded proceedings.

Conflict of Interest
The purpose is to demonstrate that the governance principles in place allow to identify, mitigate and prevent potential and perceived conflicts of interests.

Time Commitment
The purpose is to make sure that all appointees have sufficient time to perform their function.

Collective qualification
The Members of the Authorized Management as a whole shall have appropriate skills with regard to the nature, scale and complexity of the activities and the organisation of the Bank.
The Members of the Authorized Management, as a collective body, shall fully understand all activities (and inherent risks) as well as the economic and regulatory environment in which the Bank operates. Weaknesses within the overall composition of the Authorized Management should not necessarily lead to the conclusion that a particular member is not suitable. Further trainings would there be implemented to bridge potential gaps.

When the Bank takes measures it should consider the particular situation and shortcomings of the Authorised Management member; appropriate measures might include, but are not limited to, replacing certain persons; and training single members.

14.2.4 Training

The Bank has an ongoing training programme which shall ensure that the Authorised Management remain qualified. The ongoing training programme includes the internal governance arrangements as well as the Authorised Management's roles and responsibilities in this regard.

14.3 Diversity of the Management Body

The Bank established in November 2023 a Policy for the Management body, including the Board of Directors and the Authorized Management.

The Bank focused on diversity criteria such as :
- Educational and professional background;
- Age;
- Gender; and
- Geographical origin.

For all diversity criteria, the Bank set practical targets to ensure a greater diversity among the Management bodies and annual reporting on progresses on composition of these two bodies are presented to the Board of Directors.

15 Appendix

15.1 Responsible persons of certain functions and activities

Mizuho Trust & Banking (Luxembourg) S.A. – December 31st, 2023

Membre de la direction autorisée en charge de l’activité de marché	(Circulaire IML 93/101, point II, paragraphe 5)	Mr Jun KOJIMA Executive Vice President
Membre de la direction autorisée en charge du traitement des réclamations de la clientèle	(Circulaire CSSF 17/671, page 3, point 2)	Mr Jun KOJIMA Executive Vice President
Membre de la direction autorisée en charge de l’application correcte de la politique définie par l’entreprise consolidante	(Circulaire IML 96/125, point III.1.6, 3ième alinéa)	Non applicable
Membre de la direction autorisée en charge de la coordination des flux d’informations avec les filiales	(Circulaire IML 96/125, point III.1.6, 6ième alinéa)	Non applicable
Membre de la direction autorisée en charge de la domiciliation	(Circulaire CSSF 01/29, page 2, point II)	Mr Atsushi OKUDA Managing Director & CEO
Membre de la direction autorisée en charge des règles de conduite relatives au secteur financier	(Circulaire CSSF 07/307, point 15)	Mr Jun KOJIMA Executive Vice President
Membre(s) de la direction autorisée en charge de l’organisation administrative, comptable et informatique	(Circulaire CSSF 12/552, point 65, paragraphe 1)	Mr Iwao OKUYAMA Executive Vice President
Membre de la direction autorisée en charge de la fonction d’audit interne	(Circulaire CSSF 12/552, point 65, paragraphe 2)	Mr Atsushi OKUDA Managing Director & CEO
Chief Internal Auditor	(Circulaire CSSF 12/552, point 118)	Mr Emmanuel KABAMBA Senior Vice President
Expert externe (sous-traitance des tâches opérationnelles de l’audit interne)	(Circulaire CSSF 12/552, points 120, 121 et 122)	Non applicable
Membre de la direction autorisée en charge de la fonction Compliance	(Circulaire CSSF 12/552, point 65, paragraphe 2)	Mr Atsushi OKUDA Managing Director & CEO
Chief Compliance Officer	(Circulaire CSSF 12/552, point 118)	Mr Naïm TLIBA Vice President
Membre de la direction autorisée en charge de la fonction de contrôle des risques	(Circulaire CSSF 12/552, point 65, paragraphe 2 et circulaire CSSF 20/753, annexe 2, point 7)	Mr Iwao OKUYAMA Executive Vice President
Chief Risk Officer	(Circulaire CSSF 12/552, point 118)	Mr Iwao OKUYAMA Executive Vice President

Responsable de la fonction TIC (ou "IT Officer")	(Circulaire CSSF 20/750, paragraphe 3.2.1, point 2 « EBA/GL/2019/04 Guidelines »)	Mr Christophe COUTELET Senior Vice President
Fonction(s) de contrôle des risques liés aux TIC et à la sécurité	(Circulaire CSSF 20/750, paragraphe 3.3.1, point 11 « EBA/GL/2019/04 Guidelines »)	Mr Raphaël BERNARD Vice President
Membre de la direction autorisée en charge du dispositif Vue Unique du Client (VUC) dans le cadre de la garantie des dépôts	(Circulaire CSSF 13/555, point 13)	Mr Iwao OKUYAMA Executive Vice President
Responsable des questions relatives à la protection des avoirs des clients	(Règlement grand-ducal du 30 mai 2018, article 6)	Mr Atsushi OKUDA Managing Director & CEO
Membre de la direction autorisée en charge du suivi de la mise en oeuvre des dispositions des orientations de l'Autorité européenne des marchés financiers (« ESMA ») relatives à l'évaluation des connaissances et des compétences et de la circulaire CSSF 17/665	(Circulaire CSSF 17/665, point 3.a) 5ième paragraphe)	Mr Jun KOJIMA Executive Vice President
Membre de la direction autorisée ou du conseil d'administration en charge du respect des obligations professionnelles en matière de LBC/FT	(Règlement CSSF N° 12-02 du 14 Décembre 2012, article 40, 1er paragraphe)	Mr Atsushi OKUDA Managing Director & CEO
Responsable du contrôle du respect des obligations professionnelles en matière de LBC/FT	(Règlement CSSF N° 12-02 du 14 Décembre 2012, article 40, 1er paragraphe)	Mr Naïm TLIBA Vice President
Chief Financial Officer auprès des établissements d'importance significative	(Circulaire CSSF 12/552, point 82)	Non applicable

Table 24: Responsible persons

15.2 External Ratings and Credit Quality Steps

Standard & Poor's	Moody's	Credit Quality Step
AAA to AA-	Aaa to Aa3	1
A+ to A-	A1 to A3	2
BBB+ to BBB-	Baa1 to Baa3	3
BB+ to BB-	Ba1 to Ba3	4
B+ to B-	B1 to B3	5
CCC+ and below	Caa and below	6
AAA to AA-	Aaa to Aa3	1

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