



MUFG Alternative Fund Services (Cayman) Limited

Pillar III – Market Discipline Disclosures Report – As of 2022 Q4.

Report Date: Mar 31, 2023

MUFG Alternative Fund Services (Cayman) Limited

A subsidiary of MUFG Investor Services Holdings Limited

MUFG Alternative Fund Services (Cayman) Limited is incorporated in the Cayman Islands as an exempted company since 1972. Company Registration Number: CR-18063.

MUFG Alternative Fund Services (Cayman) Limited is regulated by the Cayman Islands Monetary Authority.

The Company has been granted the following licenses by the Cayman Islands Monetary Authority: Category A Banking License, Trust License, Mutual Fund Administrator's License.

Registered Office: MUFG House, 227 Elgin Avenue, PO Box 852, Grand Cayman KY1-1103 Cayman Islands.

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1. ABOUT THE COMPANY

1.1. MUFG GROUP OVERVIEW

Mitsubishi UFJ Financial Group, Inc. (“MUFG Group” or the “Group”) is one of the world’s leading financial groups with total assets of approximately US\$3.2 trillion. Headquartered in Tokyo and with approximately 360 years of history, MUFG is a global network with over 3,000 offices across more than 50 countries. The Group has approximately 180,000 employees offering services including commercial & retail banking, trust banking, securities, credit cards, consumer finance, asset management and leasing.

The MUFG Group’s operating companies include MUFG Bank, Ltd., (formerly known as Bank of Tokyo Mitsubishi UFJ, Ltd); Mitsubishi UFJ Trust and Banking Corporation (“MUTB”), Japan’s leading trust bank; and Mitsubishi UFJ Securities Holdings Co., Ltd., one of Japan’s largest securities firms. Through close partnerships among its operating companies, the Group aims to be the world’s most trusted financial group, flexibly responding to all of the financial needs of its customers, serving society, and fostering shared and sustainable growth for a better world. MUFG Group’s shares trade on the Tokyo (TYO: 8306), Nagoya (NSE: 8306), and New York (NYSE: MTU) stock exchanges.

Within the MUFG Group, MUTB is the sole shareholder of MUFG Investor Services Holdings Limited (the “Parent Company”), a company incorporated in Bermuda on 26 January 2011 as an exempt limited company. The Parent Company is the holding company for the MUFG IS subsidiaries, including MAFS Cayman.

1.2. MUFG INVESTOR SERVICES

MUFG Investor services (MUFG IS) is a global asset servicing solutions provider with over 35 years of experience. MUFG IS provides clients with fund administration, custody, foreign exchange (“FX”), trustee, banking services, as well as a broad range of regulatory solutions employing in excess of 1,500 personnel. It has service centers located in Bermuda, Canada (Halifax, Mississauga and Toronto), the Cayman Islands, Cyprus, Ireland, Jersey, Luxembourg, Singapore and the United States (New York, Rockville and Dallas), with additional business development offices located in Hong Kong and London.

MUFG IS provides a full-service fund administration and delivers its services utilizing a client-centric global delivery infrastructure which enables work to be performed globally while retaining control locally. The model recognizes the need for a dedicated Client Relationship Manager (CRM) or a Client Service Manager (CSM) to act as a single point of contact for a client in their own time zone. The model is enabled by robust procedures and advanced technology, which includes both proprietary and industry standard technology platforms.

One of the prominent members of MUFG Investor Services is MAFS Cayman, a company that is incorporated in the Cayman Islands and is a licensed Category “A” Bank. Sections 1.3 and 1.4 below provide more information with respect to MAFS Cayman. MUFG IS offers fund administration services to its participating clients and provides banking products such as credit facilities and foreign exchange facilities through MAFS Cayman who has been licensed to offer such products.

1.3. MAFS CAYMAN OVERVIEW

MAFS Cayman was incorporated in the Cayman Islands as a resident company on 1 September 1972 as Swiss Bank & Trust Corporation Limited. On 1 July 1998 it was renamed to UBS (Cayman Islands) Ltd. and later to UBS Fund Services (Cayman) Ltd. on 2 January 2003. On 11 December 2015, the company was sold by UBS AG to the MUFG Group, and it was renamed to MUFG Alternative Fund Services (Cayman) Limited.

MAFS Cayman holds a Category “A” Banking and Trust license as well as a Mutual Fund Administrator license with the Cayman Islands Monetary Authority (“CIMA”). The holding Company MUFG IS provides fund administration services to various funds and MAFS Cayman is engaged in providing banking services to these funds, which includes Committed and Uncommitted Credit Facilities (including any resulting drawdown) and FX facilities.

1.4. NATURE OF OPERATIONS

MUFG Alternative Fund Services (Cayman) Limited is a subsidiary of the Mitsubishi UFJ Trust and Banking Corporation (MUTB), Tokyo. MUFG AFS Cayman (MAFS Cayman) is currently registered in the Cayman Islands and holds a Class A license as a banking entity regulated by the Cayman Islands Monetary Authority (CIMA).

Mitsubishi UFJ Trust and Banking (the Trust Bank) was established in 1927 and has been in business for approximately 100 years. The Trust Bank is a wholly owned subsidiary of MUFG and a core MUFG company. With total assets of 35.3 trillion yen as of March 2022, it is one of Japan's largest trust banks. Besides operations in Japan, the Trust Bank serves customers to pursue its global business through a worldwide network of branches and subsidiaries in Asia, Europe and the United States. As Japan's major trust bank, the Trust Bank offers high-quality and comprehensive financial services for customers, which include various commercial banking services as well as asset management and administration, real estate, and stock transfer agency services.

MAFS Cayman Ltd (MAFS Cayman) is a privately held bank and operates within MUFG Investor Services (MUFG IS), which is the holding company and which in turn is owned by Mitsubishi UFJ Trust and Banking (MUTB, Tokyo). MUFG IS has a global presence extending fund administration services to multiple alternative asset classes across several major jurisdictions worldwide and engages in offering various credit products to its clients under its MAFS Cayman banking license.

MUFG IS provides a full-service fund administration offering including front, middle and back-office solutions to hedge funds, fund of funds, managed accounts, family offices, private equity, infrastructure and real estate funds, through its global offices.

The credit products offered by MAFS Cayman to its clients include committed and uncommitted credit facilities for the purposes of providing liquidity and fund financing to our clients. The credit facilities can be further categorized based on the lines of business; namely.

- (i) NAV Based Financing.
- (ii) Subscription Line of Credits - New business/product in consideration.

NAV Based Financing: The Bank provides fund financing services to its clients on a collateralized basis and such facilities are considered for counterparties to provide short term liquidity, to be granted for timing a mismatch of cash flows arising from the fund's trading and/or investor subscriptions and redemptions. The credit facilities are collateralized by the underlying assets of the funds (NAV) and are revolving lines of credit with maximum term of 3 years.

In general, the Banks NAV Finance customers are primarily the Fund of Hedge Funds ("FOF") entities that have existing or prospective business relationships with MUFG IS, whereby the credit products enhance the bundle services offerings of the company. However, the bank is also looking to extend such NAV based financing to its clientele of Private Equity funds in the near future. In certain cases and limited to large counterparties (investment manager groups) the bank provides credit facilities that are uncommitted lines for NAV based financing. Lending activity under the NAV Finance Facilities are for temporary purposes, including borrowings for a cash management, FX settlement or such other short-term purpose permitted under the banks credit policies.

Subscription Line of Credits (SLOCs): The Subscription Line of Credit facilities (also known as Capital Call) is typically provided in a form of revolving credit lines extended to the asset funds or private equity funds to provide short-term bridging needs between calling capital and making investment, as well as long-term general business needs to facilitate operation and enhance performances of the borrowers. A lender's collateral is the right to call capital from lending partners (LPs)/investors in the fund. The SLOC facilities are to be offered as committed credit facilities with a maximum term of five years.

2. BASIS OF PREPARATION

The Pillar 3 – Market Discipline Disclosures Report represents the Basel Pillar 3 disclosures for the Bank which are made pursuant to the Cayman Islands Monetary Authority (CIMA) regulatory guidelines on Pillar 3 - Market Discipline Disclosures Requirements and are based on the global standards that have been established by the Basel Committee on Banking Supervision. The annual financial figures presented in this report are based on the Bank’s audited financial statements for the assessment year, which are prepared in accordance with Financial Accounting Standards Board (FASB) of the United States, Generally Accepted Accounting Principles (US GAAP). The quarterly and semi-annual disclosures on the reports are based on its interim financial reports. The disclosures made in this report are in accordance with the *Basel Pillar 3 – Regulatory Market Discipline Disclosure Policy* of the Bank. No material differences between the accounting and regulatory consolidation of financial statements and mapping of financial statement categories with regulatory risk categories are noted.

3. PILLAR 3 – MARKET DISCIPLINE DISCLOSURES

3.1. OVERVIEW OF RISK MANAGEMENT AND RISK WEIGHTED ASSETS (RWA)

3.1.1 OVA: Overview of Bank's Risk Management Approach

The Board of Directors at MUFG Investor Services is responsible for establishing the overall strategy and objectives of the Bank (MAFS Cayman) and its governance and conduct with respect to its stakeholders. The Bank's strategies and the management of its risks are supported by an overall risk management framework, which includes policies, procedures and guidelines for each major risk category of its operations and lines of business. The risk management framework requires the involvement of the Board of Directors, the Risk Committee, senior/executive management, and other employees to continually identify, measure, assess, manage and monitor risks that could potentially affect the Bank. At all levels of the Bank, risk management is applied in defining strategies and setting goals, helping to ensure that these can be accomplished within its pre-defined risk appetites.

The Bank's risk governance follows the three lines of defense model:

- **First Line of Defense:** The First Line of Defense comprises of the Business Owners and employees within each business area identify, take and manage risk on a day-to-day basis, adhering to the established risk appetite and supporting policies, guidelines and procedures of the Bank. These operations management group are involved in implementing actions to manage or treat risks, comply with risk management process, execute and enable risk assessments and helps in identifying new emerging risks.
- **Second Line of Defense:** The Risk Management and Compliance functions, represented by the Chief Risk Officer (CRO) and the Head of Compliance, including the Anti-Money Laundering Officer (MLRO), and Legal Counsel and Corporate Secretary, respectively, establish policy and provide direction, guidance, methodology, tools and independent monitoring and analysis of First Line of Defense risk taking and risk management activities. These groups are also referred to as the oversight functions and are responsible for setting the standards for providing enterprise-wide oversight of operational, financial and regulatory risk management.
- **Third Line of Defense:** The Internal Audit function provides independent assurance on the adequacy and effectiveness of the Risk Management Framework and the supporting practices and compliance of the first and second lines of Defense.

The Bank is exposed to various types of risk owing to the nature of its business activities, and, like other financial institutions, is exposed to the symptoms and effects of domestic and global economic conditions and other factors that could adversely affect its business, financial condition, and operating results.

The Risk Appetite Statement (or policy) of the Bank outlines the key risk appetite measures (RAMs) that indicate the level of risk tolerance and risk capacity that the Bank is willing to assume given the nature of its business and operations. Key risk policies and the risk appetite statements are reviewed at least annually and amended or updated as required. The Bank reviews its risk appetite measures in relation to the growth in its business, changes from new business and initiatives and various other factors that may contribute to the changes to its risk appetites and risk capacity.

The Bank's risk profile is measured against the pre-approved risk appetites at least monthly and reported to the Risk Committee and the Board of Directors.

(i) The Board of Directors

The MUFG IS Board of Directors *Governance Policy* establishes, within all MUFG IS' entities, a framework of good corporate governance, enabling it to promote strong and effective governance.

The Board of Directors for the holding company, MUFG IS is currently composed of seven directors, which include five non-executive directors and two executive directors, namely, the Co-CEO and the DCEO & Chief Risk Officer (CRO). Collectively, the non-executive members of the Board offer extensive experience in international finance, legal and regulatory matters, and a wealth of experience in fund services. The non-executive members bring independent judgment to bear on issues of strategy, performance, resources and standards of conduct. In establishing the governing values, the Board of Directors has adopted the principles of corporate governance such as integrity, ethical values and sound risk management. In implementing the same, the Board of Directors meets regularly, retains full effective control over MUFG IS and monitors the performance of executive management and its reporting committees, to which it has delegated oversight responsibilities.

The Board of Directors is responsible for the leadership, strategic direction and control of MUFG IS, and exercises oversight of the development and overall performance of the business. The Executive Management with the Board's oversight, establishes the reporting lines, appropriate authorities and responsibilities in the pursuit of defined and set objectives. The Board of Directors reviews and approves Executive and Senior Management's business plans, closely monitors financial performance, risk management, and oversees regulatory reporting and compliance.

In line with the Governance Policy of MUFG IS, as at 31 December, 2022 the Board of Directors of MAFS Cayman is comprised of four directors of which three of the directors hold positions within the executive management. The core responsibilities of the MAFS Cayman Board includes:

- i. effective, prudent and ethical oversight of MAFS Cayman;
- ii. setting MAFS Cayman's strategic aims;
- iii. ensuring all departments and functions are properly segregated and managed;
- iv. providing leadership, support and advice;
- v. supervising the management of the business and capital; and
- vi. reporting to the Parent Company; where applicable.

The MAFS Cayman Board is responsible for promoting strong and effective governance in the bank. The MAFS Cayman Board has been provided autonomous control over local operations in the Cayman Islands and effectively manages the legal and regulatory obligations in order to avoid any conflicts within group entities. The members of the Board of Directors of MAFS Cayman are adequately experienced, and each member has been approved and are currently registered with the Cayman Islands Monetary Authority (CIMA).

(ii) Management Oversight - Risk Committee (RC), Finance Committee and the Business Operations Committee

The management oversight at MAFS Cayman comprises of the following three committees, namely:

Risk Committee: The Risk Committee at MUFG IS has the primary responsibility of providing leadership, oversight and advice to the Board of Directors in relation to current and potential future risk exposures and compliance activities within the company. The RC assess and discuss all forms of risks that are identified or could potentially impact MUFG IS, including, but not limited to, credit risk, market risk, liquidity risk, as well as operational risk with its sub-categories operations (processing) risk, information security risk, IT risk (Information Technology risk), personnel risk (human resources risk), crisis risk/ business continuity, tangible asset risk, legal risk, compliance risk (incompliance with laws and regulations risk), new product/ business/ client risk, outsourcing risk, vendor risk, strategic risk and reputational risk, ensuring that the any risk exposure is appropriate and in within MUFG IS's approved risk appetite statements and risk management framework. The Risk Committee ensures that adequate controls are in place to identify, assess, respond to, as well as monitor and report MUFG IS' risk exposure, including any gaps or weaknesses in the controls. The RC is responsible to review and approve the MUFG IS and MAFS Cayman risk management framework, capital assessment process and its regulatory reporting process.

The Risk Committee comprises of members at the Senior and Executive Management levels, from all areas of the business including the DCEO & CRO, the Chief Operations Officer, the Chief Compliance Officer (CCO), the Head of Risk, the Head of Legal, the Head of Controls and the Chief Information Security Officer(CISO) and the Deputy Head of Client Operations.

Finance Committee: The Finance Committee is headed by the First Line of Defense functions, Finance and Treasury. The committee is responsible for financial planning and budgeting and oversees profitability, balance sheet management and the strategic financial decision making of the bank.

Business Operations Committee: The Business Operations Committee is comprised of senior members of all operational and support functions including Operational Risk, Product and Project Management amongst others and provides governance over operational controls and procedures. It is responsible for overseeing operational effectiveness, operational and client risk management issues and operational improvement. It also covers oversight of project and change management within operations.

Further more, the Bank has formed a Asset Liability Management Forum starting January 2023, which will report into the Risk Committee and the Finance Committee for the specific purposes of its balance sheet management activities pursuant to Section 4.7 of the Liquidity Risk Management rules and guidelines of its regulator, the Cayman Island Monetary Authorities (CIMA). This ALM forum has been designed as a discussion group that will rely on the Risk Committee and the Finance Committee for all approvals related to the banks balance sheet and liquidity management.

(iii) Risk and Compliance Departments – Second Line of Defense

The MUFG IS business is segmented with one CEO being responsible for all of the product, sales, operational and banking and treasury business and service support lines, and the second DCEO also having the role of CRO, who is responsible for the risk management, compliance, financial and Information security oversight of the MUFG IS business. The latter role is therefore independent of the business lines and has, amongst others, a Compliance Department, an Operational Risk Department, Banking Risk Department and an Information Security Department, (*Second line of defense control functions*), are responsible for identifying, assessing, responding to, monitoring and reporting on risks, and ensuring compliance with relevant legislations, regulations, reporting requirements and licenses.

The Banking Risk Department at MAFS Cayman is responsible for the implementation of the risk management framework for the Banking, Credit and Treasury functions. This involves identifying, measuring, monitoring and reporting of risks in line with defined policies, standards and regulatory reporting requirements.

(iv) Policies and Procedures

MUFG IS values and standards are formally documented and communicated to all personnel through relevant policies and procedures document and a formal code of conduct recorded in the Employee Handbook, enforced by management through a formal approval process.

The Banking Risk and Operational Risk Departments are responsible for developing and reviewing on an annual basis any relevant policies and procedures to ensure that all identified risks are managed appropriately throughout MUFG IS. To ensure a comprehensive Risk Management Framework, an overarching Risk Management Policy, a Capital Management Policy and Procedure, as well as a Risk Appetite Statement were developed. All policies and procedures related to risk management are developed to align with the MUFG IS Risk Management Policy and are approved by the Risk Committee. Authorization standards set by the parent company also dictates the requirements for approval of some of these policies and procedures by the parent company's (MUTB) risk management division. All Policies and Procedures are subject to an approval and consultation process with a formal repository in place recording all such approvals from relevant committees and Board members.

(v) Internal Audit – Third Line of Defense

The MUG IS Internal Audit Department is the third line of defense, and an independent function that provides timely and effective feedback to the Board of Directors and Executive Management on all the key risks that the company is exposed to and evaluates the effectiveness of the control processes that management has put in place as a third line of defense. The Internal Audit Department manages the audit review process and reports risk management issues and internal controls deficiencies directly to the Internal Audit Committee. Internal Audit also plays a guidance role whereby it provides recommendations for improving the internal controls within the organization's operations and its overall effectiveness. MUG IS uses a risk-based assessment model to facilitate the effective and efficient allocation of audit resources to areas or departments generally assessed to be of higher risk and establishes an appropriate audit review frequency. The MUG IS Internal Audit Department conducts an audit on the MUG IS banking business every two years.

MUG Investor Services is also occasionally subject to independent review by the parent company's (MUTB) Internal Audit function. MUTB's Internal Audit function works independently of the MUG IS Internal Audit Department, although there may be coordination with, and reliance on certain areas. The MUTB Internal Audit function would typically assess various areas of MUG IS' business including Banking, Compliance and Fund Administration, dependent on its risk assessment and audit plan.

3.1.2 OV1: Overview of Risk Weighted Assets (RWA)

The Minimum Capital Requirement represents the minimum amount of Capital the bank is required to hold at any given time as per Pillar 1 – Minimum Regulatory Capital Requirements under the banking regulators (CIMA) rules and guidelines, on Minimum Capital Requirements. The Bank is required to maintain a minimum capital adequacy ratio (CAR) of 10% of the total risk-weighted assets (RWA) of the bank. The capital adequacy ratio is calculated by dividing eligible regulatory capital by the total Risk weighted Assets (RWA). The table below provides the details of the banks risk weighted assets (RWAs) and the minimum capital requirements.

Table 3: OV1 - Overview of RWA and Minimum Capital Requirements

| Row Index | Description | RWA (In USD 000's) | | Minimum Capital Requirements (In USD 000's) |
|-----------|---|-----------------------|-------------|--|
| | | Dec-31- 2022 | Sep-30-2022 | Dec-31-2022 |
| 1 | Credit risk (excluding counterparty credit risk) [standardised approach (SA)] | 2,631,737 | 2,768,957 | 263,174 |
| 2 | Counterparty credit risk | | | |
| 3 | Of which: standardised approach | 204,113 | 512,361 | 20,411 |
| 4 | Of which: other CCR | | | |
| 5 | Credit valuation adjustment (CVA) | 0 | 0 | 0 |
| 6 | Equity positions under the simple risk weight approach | 0 | 0 | 0 |
| 7 | Equity investments in funds – look-through approach | 0 | 0 | 0 |
| 8 | Equity investments in funds – mandate-based approach | 0 | 0 | 0 |
| 9 | Equity investments in funds – fallback approach | 0 | 0 | 0 |
| 10 | Settlement risk | 0 | 0 | 0 |
| 11 | Securitisation exposures in banking book (SA) | 0 | 0 | 0 |
| 12 | Market risk | 2,294 | 2,376 | 229 |

| | | | | |
|----|--|------------------|------------------|----------------|
| 13 | Capital charge for switch between trading book and banking book | 0 | 0 | |
| 14 | Operational risk | 280,641 | 241,241 | 28,064 |
| 15 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 0 | 0 | |
| 16 | Floor adjustment | 0 | 0 | |
| 17 | Total: | 3,118,785 | 3,524,935 | 311,878 |

MAFS Cayman reported Total Risk Weighted Assets (RWA) of USD 3.119 Billion as of Dec 31,2022 and a minimum capital requirement of USD 312 Million, based on the audited financial statements. The Bank reported a Total Net Tier 1 and Ter 2 capital (Available Capital Base) of \$732 Million as of Dec 31,2022. The details of the Banks capital management and structure has been provided in section 3.3 of this report. The Bank reported a Tier 1 capital ratio of 23.48% and a Capital Adequacy Ratio (CAR) of 23.48% as of Dec 21,2022.

The total risk weighted assets of the bank consist of a Credit Risk charge at 84.38% of the Total RWA as of 2022 Q4, primarily attributed to overnights and (USD/EUR) term deposit placements (maximum 1 year) with counterparty banks and from the credit assets from the banks overdraft lending facilities (credit facilities) to its fund administration clients.

Counterparty Credit Risk (CCR) Charge was reported at 6.54% of the Total RWA. CCR is attributed mainly to the foreign exchange derivatives (FX Forward positions) that the bank places on behalf of its clients, as a part of its foreign exchange hedging services. It also includes all counterparty credit exposures from foreign exchange derivatives positions that the bank takes, such as swap positions (riskless principal trading) on USD/EUR currency exposures.

Operational Risk charges was reported at 9.0 % of the Total RWA, at an annualized figure, under the *Basic Indicator Approach*.

Market Risk (Foreign Exchange Risk) contribution to the risk weighted assets is reported at a nominal 0.07% of the Total RWA as of Dec 31 ,2022. The Market risk charges are calculated for its net open FX positions (Long or Short Positions) on and off-balance sheet assets and liabilities. The Bank primarily holds USD against other currencies and hedges it EUR positions using FX forward derivatives.

3.2. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY REPORTS

3.2.1 LI1: Differences between Accounting and Regulatory scopes of Consolidation and Mapping.

| Row Index | Description | Carrying Values of Items: | | | | | Not subject to capital requirements or subject to deduction from capital |
|-----------|--|---|----------------------------------|---|---|--------------------------------------|--|
| | | Carrying values as reported in published financial statements and under scope of regulatory consolidation | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to the securitisation framework | Subject to the market risk framework | |
| | | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | |
| | Assets: | | | | | | |
| 1 | Cash Items | 117 | 0 | 0 | 0 | 0 | 117 |
| 2 | Items in the course of collection from other banks | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Loans and advances to banks | 3,021,984 | 3,021,984 | 0 | 0 | 0 | 0 |
| 4 | Securities purchased under reverse repurchase agreement | 475,000 | 475,000 | 0 | 0 | 0 | 0 |
| 5 | Investments – Held-to-maturity | 354,504 | 354,504 | 0 | 0 | 0 | 0 |
| 6 | Loans and advances to customers | 981,351 | 981,351 | 0 | 0 | 0 | 0 |
| 7 | Derivative financial instruments | 214,640 | 0 | 214,640 | 0 | 0 | 0 |
| 8 | Property and equipment | 4,261 | 4,261 | 0 | 0 | 0 | 0 |
| 9 | Other assets | 152,425 | 152,425 | 0 | 0 | 0 | 0 |
| | Total Assets | 5,204,282 | 4,989,525 | 214,640 | 0 | 0 | 117 |
| | Liabilities: | | | | | | |
| 11 | Due to customers on demand | 4,228,592 | 0 | 0 | 0 | 0 | 0 |
| 12 | Derivative financial instruments | 211,825 | 0 | 0 | 0 | 0 | 0 |
| 13 | Customer accounts | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | Repurchase agreements and other similar secured borrowings | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 | Trading portfolio liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| 16 | Financial liabilities designated at fair value | 0 | 0 | 0 | 0 | 0 | 0 |
| 17 | Other liabilities | 31,460 | 0 | 0 | 0 | 0 | 0 |
| | Total Liabilities | 4,471,877 | 0 | 0 | 0 | 0 | 0 |

MAFS Cayman prepares its consolidated regulatory reporting based on the accounting consolidations and do not report any material differences in consolidation and mapping. The carrying values of assets and liabilities reported in the published financial statements and the regulatory reporting are reported to be the same and the mapping of the regulatory risk charges have been provided in the table above.

Items subject to more than one risk category includes the following:

1. Cash Items – No risk charge is applied to currency notes and cash held by the bank (USD/KYD) and is not subject to capital requirements. Subject to market risk charge if non-USD currencies are held.
2. Loans and Advances to banks: Overnight Cash deposit placements with counterparty banks are subject to credit risk charge and market (FX) risk charge to capital. Such deposits include nostro deposits placements in currencies other than USD.
3. Loans and Advances to Customers: Overdraft loans or draws on credit facilities are subject to 100% credit risk charge and may impact market risk (FX) if advances are made in currencies other than USD.
4. Investments held to Maturity: USD/EUR term Deposits placed with affiliate banks. Subject to credit risk and market risk (FX) for non-USD deposits.
5. Derivative Financial Instruments: OTC FX forward derivatives subject to counterparty credit risk (CCR) charge and Market Risk charge (FX).

3.2.2 LI2: Sources of differences between regulatory exposure amounts and carrying values in financial statements.

| Row Index | Description | Total | Items Subject To: | | | |
|-----------|---|------------------------|------------------------|--------------------------|------------------------------------|------------------------|
| | | | Credit Risk Framework | Securitisation framework | Counterparty credit risk framework | Market risk framework |
| | | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 5,204,282 | 4,989,525 | 0 | 214,640 | 0 |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | 4,471,877 | 0 | 0 | 0 | 0 |
| 3 | Total net amount under regulatory scope of consolidation | 732,405 | 4,989,525 | 0 | 214,640 | 0 |
| 4 | Off-balance sheet amounts | 4,198,713 | 699,203 | 0 | 0 | 0 |
| 5 | Differences in valuations | 0 | 0 | 0 | 0 | 0 |
| 6 | Differences due to different netting rules, other than those already included in row 2 | 0 | 0 | 0 | 0 | 0 |
| 7 | Differences due to consideration of provisions | 0 | 0 | 0 | 0 | 0 |
| 8 | Differences due to prudential filters | 0 | 0 | 0 | 0 | 0 |
| 9 | Exposure amounts considered for regulatory purposes | 9,402,995 | 5,688,728 | 0 | 214,640 | 0 |
| | | | | | | |

Charges to credit risk on Off-Balance sheet Items includes the undrawn portion of the banks committed credit facilities. As of Dec 31, 2022, the bank reported a committed facility size of USD 4.199 Billion. The credit risk charge for undrawn committed facilities include:

- (i) USD 3.048 Billion in Committed facilities (less than 1 year): 20% CCF applied with 100% Risk weight.
- (ii) USD 179 Million in Committed facilities (over 1 year, but less than 5 Year): 50% CCF applied with 100% Risk weight.

A total of USD 3.227 Billion in undrawn commitments owing to a credit risk charge of USD 699.20 Million. The bank held USD 971.34 Million in drawdowns on committed facilities and USD 7.12 Million in drawdowns on uncommitted facilities as of Dec 31, 2022.

3.2.3 LIA: Explanations of differences between accounting and regulatory exposure amounts

The Bank prepares its consolidated regulatory reporting based on the accounting consolidations and do not report any material differences in consolidation and mapping. The carrying values of assets and liabilities reported in the published financial statements and the regulatory reporting are reported to be the same.

The valuation of the PRV (Positive Realizable Value) for FX forward derivatives on the financial statement and the value used for regulatory reporting can carry some differences due to the effect of CRM (Credit Risk Mitigation) and netting of FX positions, which has been summarized in the table below.

The counterparty credit risk charges on its OTC FX Forward Derivatives reported by the bank as of Dec 31,2022 is summarized below under the Current Exposure Method:

| (Amounts In USD '000s) | Notional Amount | Add on Percentage (@ 1% of the Notional Amount) | PRV (Positive Realizable value) | Replacement Value | Credit Equivalent Amount | Adjustments to Net Exposure for Collateral | Credit Equivalent Amount after CRM | Risk Weights | CCR Charge to Capital |
|------------------------|---------------------|---|---------------------------------|-------------------|--------------------------|--|------------------------------------|--------------|-----------------------|
| PRV | \$10,565,233 | \$105,652 | \$192,342 | \$192,342 | \$297,994 | \$0 | \$297,994 | 20% | \$59,599 |
| NRV | \$1,306,837 | \$13,068 | (\$9,148) | \$0 | \$13,068 | \$0 | \$13,068 | 20% | \$2,614 |
| Total: | \$11,872,070 | \$118,721 | | \$192,342 | \$311,062 | \$0 | \$311,062 | 20% | \$62,212 |
| PRV | \$704,937 | \$7,049 | \$7,025 | \$7,025 | \$14,075 | \$0 | \$14,075 | 100% | \$14,075 |
| NRV | \$8,372,554 | \$83,726 | (\$155,975) | \$0 | \$83,726 | \$0 | \$83,726 | 100% | \$83,726 |
| Netted Amounts | \$4,416,888 | \$44,169 | (\$31,429) | \$0 | \$44,169 | \$0 | \$44,169 | 100% | \$44,169 |
| Total: | \$13,494,379 | \$134,944 | | \$7,025 | \$141,969 | (\$69) | \$141,900 | 100% | \$141,900 |
| Total: | \$25,366,449 | \$253,664 | | \$199,367 | \$453,032 | (\$69) | \$452,963 | | \$204,113 |

- (i) The bank determines the counterparty credit risk charges from its OTC FX derivatives based on the replacement value as the PRV of the FX positions, derived on daily mark to market basis. The PRV values in the financial statement are on gross basis and does not take into account the effect of netting between clients with master and feeder fund structures where such netting is allowed. The FX Forward Derivatives (PRV) reported in the financial statements is reported at USD 214.6 Million, while the replacement value derived for CCR calculation is reported at USD 199.4 Million as of Dec 31,2022.
- (ii) The mark-to-market valuation of the FX PRV is performed on a daily basis using WM/Refinitiv FX benchmark rates which is extracted as of 4:00 PM EST, prior business day.
- (iii) The Bank receives cash margin and independent amount (cash) as collateral for some of its FX hedging transactions from clients and the same has been used as adjustments to net exposure from Collateral as credit risk mitigation (CRM) under Collateral Comprehensive Approach.

3.3. CAPITAL MANAGEMENT AND CAPITAL STRUCTURE

3.3.1 CAP: Details on the Bank’s capital, including specific capital instruments.

Table1: SCOPE

| | | |
|--------------------------|-----|--|
| Qualitative Disclosures | (a) | MUFG Alternative Funds Services Cayman Limited (MAFS Cayman). |
| | (b) | <p>MAFS Cayman was incorporated in the Cayman Islands as a resident company on 1 September 1972 as Swiss Bank & Trust Corporation Limited. On 1 July 1998 it was renamed to UBS (Cayman Islands) Ltd. and again to UBS Fund Services (Cayman) Ltd. on 2 January 2003. On 11 December 2015, the company was sold by UBS AG to the MUFG Group, and it was renamed to MUFG Alternative Fund Services (Cayman) Limited. MAFS Cayman holds a Category “A” Banking and Trust license as well as a Mutual Fund Administrator license with the Cayman Islands Monetary Authority (“CIMA”). MAFS Cayman provides fund administration and fund financing services and provides short-term lending facilities and FX hedging services.</p> <p>MAFS Cayman has the following five wholly owned subsidiaries that are domiciled in Cayman Islands as ordinary exempted companies:</p> <ol style="list-style-type: none"> i. Firtown International Holdings Limited ii. General Secretaries Limited iii. AFS Controlled Subsidiary 1 Limited iv. AFS Controlled Subsidiary 2 Limited v. AFS Controlled Subsidiary 3 Limited <p>Firtown International Holdings Limited is a real estate company which owns the land and building currently occupied by MAFS Cayman. General Secretaries Limited is a Trust Nominee Licensee which provides nominee services. AFS Controlled Subsidiary 1 Limited, AFS Controlled Subsidiary 2 Limited, and AFS Controlled Subsidiary 3 Limited were created to provide trustee services to hedge fund clients administered by MAFS Cayman.</p> <p>The Banks Capital figures are consolidated figures for all entities listed above and domiciled in the Cayman Islands. There are no differences noted in consolidation of Capital for accounting and regulatory reporting purposes.</p> |
| | (c) | No restrictions, or other major impediments, on transfer of funds or regulatory capital within the group is noted. |
| Quantitative Disclosures | (d) | The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group – Not Applicable. |
| | (e) | The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries – Not Applicable. |
| | (f) | The aggregate amounts (e.g. current book value) of the firm’s total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method, as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction or alternate group-wide method – Not Applicable |

Table 2: CAPITAL STRUCTURE

| | | |
|-------------------------|-----|--|
| Qualitative Disclosures | (a) | <p>As of December 31, 2022 the authorized share capital of the company is 5,000,000 ordinary shares valued at USD 1.25 per share (KYD 1.00), par value of which 4,500,000 shares have been fully issued and paid.</p> <p>On February 12, 2021 and August 31, 2021 the company received the amounts of USD 300 Million and USD 2 Million respectively by way of additional paid-in-capital on the existing shares held, from the parent company (MUTB). The additional capital was provided in order to fund the expansion of the banking business of the company. The company declared and paid dividends of USD 2 Million to its parent company MUTB, during 2022.</p> <p>The company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain and or adjust the capital structure, the company may adjust the amount of dividend payment to its shareholders, return capital to its shareholders or apply for qualifying subordinated debt.</p> |
|-------------------------|-----|--|

| | | No of Shares | \$ Book Value per Share | Amount (In USD '000s') | |
|--------------------------|-----|--|-------------------------|------------------------|------------------|
| | | | | Dec-31-2022 | |
| Quantitative Disclosures | (b) | Share Capital | 4,500,000 | 1.25 | \$5,625 |
| | | Additional Paid In Capital: | | | \$468,500 |
| | | Total Paid Up capital: | | | \$474,125 |
| | | Share premium | | | \$0 |
| | | Retained earnings (Less: Dividends paid) | | | \$214,690 |
| | | Current year's earnings (audited) | | | \$43,590 |
| | | General reserves | | | \$0 |
| | | Foreign currency translation adjustment | | | \$0 |
| | | Paid-up perpetual non-cumulative preference shares | | | \$0 |
| | | Eligible innovative instruments | | | \$0 |
| | | Minority interest | | | \$0 |
| | | Other Tier 1 Capital | | | \$0 |
| | | Total Tier 1 Capital: | | | \$732,405 |
| | | Deductions from Tier 1 Capital: | | | \$0 |
| | (c) | As of Dec 31, 2022 the bank does not hold any Tier 2 and Tier 3 Capital. | | | |
| | (d) | No deductions from Capital are applied. | | | |
| | (e) | Total eligible capital of USD 732.4 Million is reported as of Dec 31, 2022. | | | |

Table 3: CAPITAL ADEQUACY

| Qualitative Disclosures | (a) | <p>MAFS Cayman's capital adequacy assessment can be described at two levels of monitoring and assessment conducted periodically by the bank:</p> <ol style="list-style-type: none"> The bank assesses its capital adequacy ratio on a monthly basis and provides reporting to its Risk Committee and executive management as directed under its capital management policy and procedures. The Board of Directors are notified on a quarterly basis. The Bank's capital management policy and procedures articulate the following framework in which the bank shall assess its capital requirements: <ul style="list-style-type: none"> The Bank shall at all times maintain a Capital Adequacy Ratio (CAR) of more than 10%. The Bank shall at all times maintain a leverage ratio of more than 3%. The Bank shall at all times calculate and maintain an Outlier Ratio, which measures the ratio of expected losses resulting from a 200-basis points interest rate shock, measured against available capital, at a maximum of 20%. Any large credit exposures over 25% of Capital Base (Tier 1 and Tier 2 capital) is immediately reported to the banking regulator for review and approval. All outstanding Large Exposures over 10% of Capital Base is reported quarterly to the banking regulator. The Bank conducts its Pillar 2 – Annual Internal Capital Adequacy Assessment Process (ICAAP) through which it examines its capital requirements proportional to its size, complexity and business strategy. At a minimum, the ICAAP must incorporate: <ul style="list-style-type: none"> Adequate systems and procedures to identify, measure, monitor and manage the risks arising from the Company's activities on a continuous basis to ensure that Capital is held at a level consistent with the Company's risk profile and regulatory requirements. A Capital management plan, consistent with the Company's overall financial (business) plan, for managing Bank's Capital levels on an ongoing basis; and A summary of the results of the Company's Capital Stress Test Framework. The Bank's Capital stress testing framework incorporates a scenario testing of its financial performance and capital adequacy for a forecasted period of three years, under various applicable macro-economic impacts to the business. | | | | | | | |
|------------------------------------|--------------------------|--|--|------------------------------------|-----------------|-----------------|--------------|-----|--------------|
| | Quantitative Disclosures | (b) | <p>Capital requirements for Credit Risk (As of Dec 31, 2022):</p> <table border="1"> <thead> <tr> <th>CREDIT RISK: (Amounts in USD 000s)</th> <th>Gross Exposures</th> <th>CRM Adjustments</th> <th>Net Exposure</th> <th>CCF</th> <th>Risk Weights</th> <th>RWA</th> </tr> </thead> </table> | CREDIT RISK: (Amounts in USD 000s) | Gross Exposures | CRM Adjustments | Net Exposure | CCF | Risk Weights |
| CREDIT RISK: (Amounts in USD 000s) | Gross Exposures | CRM Adjustments | Net Exposure | CCF | Risk Weights | RWA | | | |

| | | | | | | |
|--|--------------------|--------------------|--------------------|-----|------|--------------------|
| A. Cash Items | \$117 | | \$117 | | 0% | \$0 |
| B. Claims on Sovereigns | \$0 | | \$0 | | 0% | \$0 |
| C. Claims on Non-Central Government PSEs | | | | | | |
| D. Claims on Multilateral Development Banks | | | | | | |
| E. Claims on Banks and Security Firms | \$350,000 | | \$350,000 | | 50% | \$175,000 |
| E 1. Short Term Claims | \$3,496,984 | (\$422,022) | \$3,074,962 | | 20% | \$614,992 |
| F. Claims on Corporates and Security Firms | \$981,351 | | \$981,351 | | 100% | \$981,351 |
| G. Claims on Short Term Issue Specific | | | | | | |
| H. Claims on Retail Portfolio | | | | | | |
| I. Claims secured by Residential Property | | | | | | |
| J. Claims secured by Commercial Real Estate | \$3,483 | | \$3,483 | | 100% | \$3,483 |
| K. Claims secured on Higher Risk Categories & Other Assets | \$157,707 | | \$157,707 | | 100% | \$157,707 |
| L. Past Due Exposures | | | | | | |
| TOTAL ON-BALANCE SHEET CREDIT RISK: | \$4,989,642 | (\$422,022) | \$4,567,621 | | | \$1,932,534 |
| Total Non-Retail Exposures: | \$3,048,284 | | \$3,048,284 | 20% | 100% | \$609,657 |
| | \$179,092 | | \$179,092 | 50% | 100% | \$89,546 |
| Counterparty Credit Exposures (FX): | \$311,062 | | \$311,062 | | 20% | \$62,212 |
| | \$141,969 | (\$69) | \$141,900 | | 100% | \$141,900 |
| TOTAL CREDIT RISK: | \$8,670,050 | (\$422,091) | \$8,247,959 | | | \$2,835,849 |

The Banks on-balance sheet credit risk assets portfolio subject to standardised approach includes the following:

- (i) Overnight Placements with counterparty banks (Group Banks, Affiliates and Third-party banks) [E. Claims on Banks and Security Firms]
- (ii) Term Deposits placements with group banks (USD/EUR). Less than 1 year. [E. Claims on Banks and Security Firms]
- (iii) Reverse Repurchase Investments. [E1. Short term Claims]
- (iv) Loans and Advances – Drawdowns on credit facilities offered to corporate clients. [F. Claims on Corporates and Security Firms]
- (v) Other Assets – Premises, Fixed Assets and Other Receivables.

The Banks off-balance sheet credit risk assets include the following:

- (i) Undrawn Committed Facilities. [Total Non-Retail Exposures]
- (ii) Counterparty Credit Risk from – OTC Foreign Exchange Forward Derivatives. [Counterparty Credit Exposures (FX)]

- The bank or its subsidiaries does not act as an originator or as a sponsor to any securitization vehicle(s) and has no securitization exposures through investments.

Capital requirements for Market Risk:

- Standardised Approach.

(c)

| MARKET RISK: (Amounts in USD 000s) | Net Exposure | Risk Weights | RWA |
|---------------------------------------|--------------|---------------|---------------|
| T.FX & Gold | \$184 | 1/8% or 12.5X | \$2294 |
| U. Commodities | | | |
| V. Interest Rate Risk Maturity Method | | | |
| W. Interest Rate Risk Duration Method | | | |
| X. Equities | | | |
| Y. Correlation Trading Portfolio | | | |
| TOTAL MARKET RISK: | \$184 | | \$2294 |

- (i) Foreign Exchange Risk: The Bank assesses its foreign exchange risk from its currency positions on its balance sheet (including contingent assets/liabilities) under the standardised approach as follows:
 - A. For all currencies (other than USD), the sum of net long and short positions are derived from the balance sheet including contingent assets and liabilities (FX Forwards Derivative Positions).
 - B. A higher of the Aggregate Net short/long open positions is considered to the net exposure. Risk weight of 8% is applied.
- (ii) Interest rate Risk (Maturity Method): MAFS Cayman does not have a trading book and does not issue or hold any interest-bearing financial instruments for sale or trading purposes i.e. all interest-bearing assets are held to maturity. The Bank is engaged in the following investing activities through its banking book:
 - a) Investments into certificate of deposits less than 1 year (USD/EUR) with its affiliate' banking partners and held to maturity.
 - b) Reverse repurchase agreements secured by tradable collateral/securities through a securities lending service provided by MUTB NY, are fixed for a short term (1 week) or subject to daily reset of rates (OBFR).
 - c) May periodically invest in US Treasury Bills and Notes and held to maturity.
- (iii) Interest rate Risk (Duration Method): The Bank has no interest rate exposure on its lending book as the bank's deposits and loans are benchmarked against OBFR/SOFR rates that are both reset (repriced) on a daily basis.
- (iv) The bank notes no market risks from commodities, equities and other co-related trading portfolios.

Capital requirements for Operational Risk:

- Basic Indicator Approach (BIA).

| (d) | OPERATIONAL RISK: (Amounts in USD 000s) | Gross Income (Revenue) | | | Weight | Weighted Income | | | Weighted Average | RWA |
|-----|--|-----------------------------------|-----------|-----------|--------|-----------------|------|----------|------------------|-----|
| | | 2020 | 2021 | 2022 | | 2020 | 2021 | 2022 | | |
| | | Fund Financing (Asset Management) | \$122,969 | \$147,571 | | \$178,486 | 15% | \$18,445 | | |

The banks' capital requirements for Operational Risk Charge as of Dec 31,2022 is shown in the table above. The weighted average figure of USD 22.5 Million is divided by the Risk weight (8%) to arrive at the RWA for Operational Risk under BIA. The revenue figures used are from the audited financials for three years.

Total and Tier 1 Capital Ratio:

- (e) A Total Capital of USD 732.4 Million is reported for MAFS Cayman (and its subsidiaries) as of Dec 31, 2022. The Consolidated Total Tier 1 Capital Ratio and the Total Capital Adequacy Ratio (CAR) is reported at 23.48%, as of Dec 31, 2022, as the bank does not hold any Tier 2 and Tier 3 capital.

3.4. CREDIT RISK MANAGEMENT

3.4.1 CRA: General Information about Credit Risk

Credit risk is defined as the risk that MUFG Investor Services (MUFG IS) will incur a loss because its customers or counterparties fail to discharge their contractual obligations. MUFG IS recognizes the crucial role of Credit Risk Management to assure the safety and soundness of its business, by ensuring that credit risk is effectively managed. MUTB, the parent company to MUFG IS, provides support and guidance for the management of such credit risks and has laid down a credit risk management framework that MUFG IS currently adheres to, for the purposes of credit approvals, monitoring and credit rating, loss provisioning and credit risk mitigation where applicable. The Credit Supervisory Division (CSD) at MUTB lays down the governing policies and procedures for credit risk management, holds authority and provides approval for all credit extensions made by the company.

The Risk Committee at MUFG IS convenes monthly, where risk appetite measures and any other pertinent matters relating to credit risk management are discussed and reviewed regularly. The Board of Directors at MAFS Cayman convenes on a quarterly basis and are also responsible for ensuring that the bank's credit risk exposures are within the prescribed risk tolerance levels and there are no immediate credit events that can have a significant impact on the company's credit risk profile.

Credit Risk Assets Portfolio:

The Banks on-balance sheet credit risk assets include the following:

- (vi) Overnight Placements with counterparty banks (Group Banks, Affiliates and Third-party banks)
- (vii) Term Deposits placements with group banks (USD/EUR). Less than 1 year.
- (viii) Reverse Repurchase Investments.
- (ix) Loans and Advances – Drawdowns on credit facilities offered to corporate clients
- (x) Other Assets – Premises, Fixed Assets and Other Receivables.

The Banks off-balance sheet credit risk assets include the following:

- (iii) Undrawn Committed Facilities
- (iv) Counterparty Credit Risk from – OTC Foreign Exchange Forwards.

Credit Risk from Loans and Advances:

MAFS Cayman's exposure to credit risk is primarily through its committed and uncommitted credit (lending) facilities that it offers to its fund administration clients. The credit facilities are offered and secured based on the two lines of business the Bank provides to its clients, namely.

- (i) NAV Based financing: Committed (secured) facilities are offered based on the underlying value (NAV) of the funds. Typically, the NAV based financing facilities have maximum term of 3 years, which can be renewed at the Banks discretion. Uncommitted or (Unsecured) facilities are also offered to a few large clients with a prescribed credit limits and a maximum repayment tenure of 180 days.
- (ii) Subscription lines of Credits (SLOCs): Committed Facilities to be offered for a maximum term of 5 years based on the underlying value of the capital call as collateral, and primarily offered to private equity funds.
- (iii) FX Margin Facilities: Short-term credit facilities provided to the clients to meet margin requirements on its foreign exchange hedging positions. These facilities are backed by cash margins and an independent amount (acting as collateral) calculated, based on the notional size of the trade and the foreign exchange pricing. As such, these margin facilities only carry counterparty credit risk or settlement (default) risk.

The credit facilities offered to the clients are primarily in the form of overdraft facilities. The overdraft facilities are provided to its clients for the purposes of short-term borrowing and any loans and advances under such credit agreements are subject to credit risk.

The FX margin facilities are offered by the bank to its clients, with whom the bank has a foreign exchange hedging agreement. The FX margin facilities are a form of short-term credit facilities to cover the margin requirements of the FX derivatives

positions, executed under the hedging agreement. All such hedging agreements using foreign exchange forward contracts are executed under standard master agreements (ISDA) for OTC derivatives.

MAFS Cayman has recently engaged in providing foreign exchange (FX) hedging services to some clients to whom the bank does not provide fund-administration services but has an agreement to provide foreign exchange hedging services. It is important to note that all foreign exchange hedging agreements with its counterparties are solely for the purpose of hedging foreign exchange risks for itself or on behalf of its clients. The Bank does not provide any lending support to such non-administration clients and only carry counterparty credit risks under such foreign exchange hedging agreements.

All such credit facilities offered by MAFS Cayman to its clients are approved by the parent company's (MUTB) Credit Supervisory Division (CSD) in accordance with appropriate credit authorization policies and are assigned a risk rating in accordance with risk rating methodologies described in the parent company's credit policies and procedures.

Internal Credit Rating Methodology:

The MUFG Group's, Internal Credit Rating System (ICRS), which is based on regulatory classifications by the US Regulators (FRB) provides guidance on the asset classification methodologies adopted by the company. The ICRS scale uses an obligor rating method that evaluates the obligor's medium-term (3 to 5 years) repayment ability to assign a score to the credit facilities (ICRSO). All credit assets are classified using the ICRSO methodology into performing and non-performing assets.

Table 6: Credit Risk - Asset Classification Matrix

| ICRSO | Federal Savings Associations (FSA) Borrower Type | Federal Savings Associations (FSA) Classification | FRB (Federal Reserve Bureau) Classification |
|--------|---|--|--|
| 1 to 8 | Performing | Classification I (Not Classified) | Pass |
| 9 | | | |
| 10 | Monitor | Classification II | Special Mention |
| 11 | | | Sub standard |
| 12 | | | |
| 13 | Possible Bankrupt | Classification III | Doubtful |
| 14 | Substantial Bankrupt | Classification IV | Loss |
| 15 | Bankrupt | | |

Write-Offs and Loan Loss Provisioning (Reserves):

As of 31 December 2022, and historically, the bank has not reported any instances of default or impairment of its credit facilities and all existing loans and advances are classified as active or performing assets. The historically low or non-existent default rates can be primarily attributed to the nature of short-term committed credit facilities offered by the bank which are primarily granted for the sole purpose of short-term funding the liquidity needs of its corporate clients (funds).

Loan loss provisions (or reserves) and write-offs of all non-performing assets are also managed as required under the parent's company's (MUTB) credit policies and guidelines. No loan loss provisions are currently applied to the bank's loan book and its other assets, as no such evidence of impairment has been reported or recorded historically.

The Bank currently adheres to the US GAAP financial reporting standards and is currently not required to provision for such assets. However, it is important to note that the US GAAP accounting standard for current expected credit loss (CECL) is effective from January 2023, and the Bank is currently considering the scope of this implementation, whereby the bank shall be required to maintain reserves or provisions for write-offs of such assets for its upcoming SLOC facilities.

Risk Appetite Measures:

MUFG IS has established some key credit risk measures (or Risk Appetite Measures) to monitor and assess its credit risk exposures which are regularly monitored for any breach of limits and reported to the Risk committee and the Board periodically.

These credit risk measures include both aggregate and individual facility level assessment and monitoring of the credit facilities offered by the bank.

The aggregate level credit risk measures include the following measures:

- (i) Aggregate Drawdowns (Overdrafts) against the aggregate credit facility limits. This is the aggregate size of the Banks loans and advances and is subject to capital charge.
- (ii) Aggregate Drawdowns for credit facilities with credit limits over 25% of capital. This measure has been introduced to monitor credit concentration risks (large exposures) from top facilities with credit limits that exceed 25% of the Capital Base (defined as Tier 1 and Tier 2 Capital).
- (iii) Aggregate Exposures of all such facilities (large exposures) that exceed 10% of the Capital base, shall not exceed 800% of the bank's Capital Base.

Furthermore, the Banks also monitors credit risk at individual facility level which include the following:

- (i) Individual facility drawdowns over credit limits provided on the facility. This is regularly monitored by the bank and reported to the Credit Supervisory Division (CSD) of the parent company. The credit limits on the individual credit facilities are regularly monitored to ensure that all credit facilities are compliant to the credit limits approved by its parent company and set out in the credit agreements. Any breach of credit limits by any counterparty is appropriately reported and managed for mitigating any such credit breach events. The large exposures policy on credit concentration risk, ensures that individual credit facilities shall never exceed 100% of the bank's capital base.
- (ii) Collateral Monitoring: The underlying eligible collateral (example, NAV of the underlying Funds) backing such facilities are regularly monitored by the Bank to ensure any deterioration of credit quality and reported to the Credit supervisory Division.
- (iii) In addition, the bank's credit operations and risk management team regularly monitor's each individual facilities credit risk attributes such credit rating, loan to value, eligible collateral, underlying funds restructuring such as wind downs and liquidations etc. to assess the repayment abilities of the funds against such drawdowns.

3.4.2 CR1: Credit Quality of Assets.

| Row Index | Description | Gross carrying values of: | | Allowances/ impairments | Net values (a+b-c) |
|-----------|-----------------------------|---------------------------|-------------------------|-------------------------|------------------------|
| | | Defaulted exposures | Non-defaulted exposures | | |
| | | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Loans | \$0 | \$981,351 | \$0 | \$981,351 |
| 2 | Debt Securities | \$0 | \$0 | \$0 | \$0 |
| 3 | Off-balance sheet exposures | \$0 | \$3,227,376 | \$0 | \$3,227,376 |
| 4 | Total | \$0 | \$4,208,727 | \$0 | \$4,208,727 |

As of Dec 31, 2022, the Bank held USD 981.4 Million in loans and advances, drawdowns on it credit facilities. The bank held USD 971.34 Million in drawdowns on committed facilities and USD 7.12 Million in drawdowns on uncommitted facilities as of Dec 31, 2022. The Off-Balance sheet assets of USD 3.227 Billion represent the undrawn portion of the committed credit facilities.

3.4.3 CR2: Changes in stock of defaulted Loans and Debt Securities

| Row Index | Description | Amount (In USD '000s') |
|-----------|---|------------------------|
| | | Dec-31-2022 |
| 1 | Defaulted loans and debt securities at end of the previous reporting period | 0 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 0 |
| 3 | Returned to non-defaulted status | 0 |
| 4 | Amounts written off | 0 |
| 5 | Other changes | 0 |
| 6 | Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5) | 0 |

The Bank has no loans or assets (debt securities) reported to have defaulted as of Dec 31, 2022.

3.4.4 CRB: Additional Disclosures related to the credit quality of assets

As of 31 December 2022, and historically, the bank has not reported any instances of default or impairment of its credit facilities or any of its credit assets, and all existing loans and advances are classified as active or performing assets (Type I) equivalent to **Satisfactory**. The historically low or non-existent default rates can primarily be attributed to the nature of short-term committed credit facilities offered by the bank which are granted for the sole purpose of short-term funding the liquidity needs of its corporate clients (funds).

| Asset Type (Amounts in USD 000s) | Asset Classification | | | | Total | Provisions | Write-offs |
|----------------------------------|----------------------|---------|----------|---------|--------------------|------------|------------|
| | Type I | Type II | Type III | Type IV | | | |
| Cash | \$117 | | | | \$117 | | |
| Due from banks | \$3,376,488 | | | | \$3,376,488 | | |
| Advance to customers | \$981,351 | | | | \$981,351 | | |
| Other Assets | \$152,425 | | | | \$152,425 | | |
| Derivative financial instruments | \$214,640 | | | | \$214,640 | | |
| Property and equipment | \$4,261 | | | | \$4,261 | | |
| Total Assets | \$5,204,282 | | | | \$5,204,282 | | |

Loans and Advances:

The credit facilities offered by the bank are rolling credit lines to meet short-term funding requirements of the funds, on which drawdowns and repayments are made. These credit facilities offered by the bank are generally classified by the purpose for which such facilities are utilized and are of two kinds:

- (i) Overdraft Facilities are primarily utilized by the funds for borrowing for investor subscriptions and redemptions where there is a timing mismatch of cash flows.
- (ii) FX margin facilities are credit facilities that the funds can utilize to meet its margin requirements on the foreign exchange derivatives (forward) positions for hedging its currency exposures. The Funds usually require a FX hedging due to the subscription money of the investor to the funds and the investments or underlying investments by the funds are denominated in different currency.

Reverse Repo Investments:

The Bank periodically invests in money market instruments such as reverse repurchase transactions that are secured by underlying collateral in the form of various investment grade securities. These reverse repo transactions are benchmarked on overnight rates (OBFR) and are further secured by an indemnity agreement with MUTB, NY who acts as a lending agent to

the bank and covers the shortfall in the event of deterioration of the market value of the underlying collateral backing such repo transaction.

The bank reports no past due or impaired exposures and do not hold any restructured or fore-borne exposures in its portfolio of credit assets.

3.4.5 CRC: Qualitative Disclosure Requirements related to Credit Risk Mitigation (CRM) techniques

Credit Risk from Loans and Advances:

Overdraft Credit Facilities: MAFS Cayman provides NAV based financing to its clients, which includes credit facilities backed by the underlying assets of the funds (NAV). However, the bank **does not apply any credit risk mitigation adjustments** to its loans and advances (from drawdowns on Overdraft facilities) and assumes 100% risk weighted charge to capital.

Credit Risk from Investments in Reverse Repurchase Securities:

Reverse Repurchase Transactions: The reverse repurchase investments by the bank are backed by collateral in the form securities (US Treasury Bills and Notes, US corporate debt securities, US municipal bonds, common equity etc.) and the value of which are marked-to-market on a daily basis by the custodian bank. The value of such securities are posted as collateral to the reverse repurchase transactions by the repo counterparty are sensitive to market movements and are subject to standardised collateral haircuts as per regulatory guidelines.

MAFS Cayman applies credit risk mitigation (CRM) adjustments to all reverse repurchase transactions it holds using the value of such collateral (less: appropriate haircuts) received, based on a daily mark-to-market basis, using the Comprehensive Approach to CRM.

The Bank reported a total of USD 475 Million in reverse repurchase securities as of Dec 31, 2022, subject to a collateral CRM adjustment of USD 422 Million.

3.4.6 CR3: Credit Risk Management Techniques – Overview

| Row Index | Description | Exposures unsecured: carrying amount | Exposures secured by collateral | Exposures secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposures secured by financial guarantees, of which: secured amount | Exposures secured by credit derivatives | Exposures secured by credit derivatives, of which: secured amount |
|-----------|--------------------|--------------------------------------|---------------------------------|---|---|---|---|---|
| | | <i>Amount (In USD '000s')</i> | <i>Amount (In USD '000s')</i> | <i>Amount (In USD '000s')</i> | <i>Amount (In USD '000s')</i> | <i>Amount (In USD '000s')</i> | <i>Amount (In USD '000s')</i> | <i>Amount (In USD '000s')</i> |
| | | <i>Dec-31-2022</i> | <i>Dec-31-2022</i> | <i>Dec-31-2022</i> | <i>Dec-31-2022</i> | <i>Dec-31-2022</i> | <i>Dec-31-2022</i> | <i>Dec-31-2022</i> |
| 1 | Loans | \$981,351 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 2 | Debt securities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 3 | Total | \$981,351 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 4 | Of which defaulted | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

3.4.7 CRD: Qualitative Disclosures on Banks use of external credit ratings under the standardised approach for Credit Risk

Loans and Advances: The Bank relies on an internal credit rating methodology (ICRSO) described in Section 3.4.1, for assessing credit risk on its loans and advances.

Debt securities: The bank does not issue or hold debt securities.

Reverse Repurchase Investments: The Bank uses the following external credit ratings for the purpose of determining haircuts on the collateral backing its reverse repurchase investments.

- (i) Standard and Poor's (S&P) Ratings
- (ii) Moody's Ratings

The credit ratings are provided by the custodian on a daily basis with mark-to-market valuations of the collateral.

3.4.8 CR4: Standardised Approach - Credit Risk Exposures and CRM Effects

| Row Index | Asset Classes | Exposures before CCF and CRM | | Exposures post-CCF and CRM | | RWA and RWA density | |
|-----------|---|------------------------------|--------------------------|----------------------------|--------------------------|------------------------|------------------------|
| | | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA Density |
| | | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Sovereigns and their central banks | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 2 | Non-central government public sector entities | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 3 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 4 | Banks | 3,846,984 | 0 | 3,424,962 | 0 | 789,992 | 15.18% |
| 5 | Securities firms | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 6 | Corporates | 981,351 | 3,227,376 | 981,351 | 699,203 | 1,680,554 | 32.29% |
| 7 | Regulatory retail portfolios | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 8 | Secured by residential property | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 9 | Secured by commercial real estate | 3,483 | 0 | 3,483 | 0 | 3,483 | 0.07% |
| 10 | Past-due exposures | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 11 | Higher-risk categories | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 12 | Other assets | 157,707 | 0 | 157,707 | 0 | 157,707 | 3.03% |
| 13 | Total | 4,989,525 | 3,227,376 | 4,567,504 | 699,203 | 2,631,737 | 50.57% |

3.4.9

CR5: Standardised Approach – Exposures by Asset Classes and Risk Weights

| Row Index | Risk Weight | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total credit exposure amount (post CCF and post-CRM) |
|-----------|---|------------------------|-------------|------------------|-------------|----------------|-------------|------------------|-------------|-------------|--|
| | Asset Classes | Amount (In USD '000s') | | | | | | | | | |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Sovereigns and their central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Non-central government public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Banks | 0 | 0 | 3,074,962 | 0 | 350,000 | 0 | 0 | 0 | 0 | 3,424,962 |
| 5 | Securities firms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 1,680,554 | 0 | 0 | 1,680,554 |
| 7 | Regulatory retail portfolios | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 | Secured by residential property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Secured by commercial real estate | 0 | 0 | 0 | 0 | 0 | 0 | 3,483 | 0 | 0 | 3,483 |
| 10 | Past-due exposures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | Higher-risk categories | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Other assets | 0 | 0 | 0 | 0 | 0 | 0 | 157,707 | 0 | 0 | 157,707 |
| 13 | Total | 0 | 0 | 3,074,962 | 0 | 350,000 | 0 | 1,841,744 | 0 | 0 | 5,266,707 |

3.5. COUNTERPARTY CREDIT RISK MANAGEMENT (CCR)

3.5.1 CCRA: Qualitative disclosure related to Counterparty Credit Risk (CCR)

MAFS Caymans credit policy defines counterparty credit risk (CCR) as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Counterparty Credit Risk (CCR) from FX Derivatives:

FX Hedging Services: MAFS Cayman provides Collateralized FX hedging services to its clients (funds) who enter into OTC FX forwards trades to hedge their currency exposures from subscriptions, investments and redemption activities, as one of its banking services. As a result of this, the bank assumes counterparty credit risk (settlement risk) on the settlement of the OTC forward positions and reports charge to Capital for Counterparty Credit Risk (CCR).

The Bank follows the current exposure method (CEM) approach to determining such counterparty credit risk exposures. Under the CEM approach, the bank credit equivalent exposure is determined as the sum of:

- (i) Replacement cost of all the FX forward contracts with positive realizable value (PRV), obtained on a daily mark-to-market basis.
- (ii) an amount for potential future credit exposure (PFE), calculated on the basis of the total notional principal amount of its book, split by residual maturity.
- (iii) the volatility adjusted collateral amount under the comprehensive approach or zero if no eligible collateral is applied to the transaction.

The Banks policy and procedures for determining such counterparty credit risk exposures on its OTC FX forward derivatives outline the following:

- (i) All FX forward derivatives placements are restricted to less than 1 year maturity.
- (ii) Cash margins and Independent Amount (IA) (volatility adjusted collateral amount) are required to support any adverse movements over the variation margin frequency, and clients are required to post such amounts. A separate FX transactions policy documents and describes the process and methodology used to determine the IA calculations that is reviewed on a semi-annual basis by the risk management team at MAFS Cayman.
- (iii) All FX forward positions, for all counterparties are marked- to-market on a daily basis and the replacement cost (PRV) is determined.
- (iv) The bank currently uses the WM /Refinitiv FX benchmark rates which is extracted as of 4:00 PM EST, prior business day.
- (v) Bilateral Netting: The bank performs bilateral netting only for some specific (client) counterparty FX positions where an explicit agreement is in place between the master-feeder fund structures to allow such netting of positions.

The banks Counterparty Credit Risk (CCR) charge to capital under the CEM approach is calculated as:

$$\text{CCR Charge to capital} = [(RC + \text{add-on}) - CA] \times r \times \text{Minimum CAR (10\%)}$$

| | |
|--------|--|
| RC | Replacement Cost: determined as the Positive Realizable Value (PRV) of the FX Forward positions on a daily MTM basis. |
| Add-On | An add-on based on 1% of the Notional Amount is applicable for OTC Derivative Transactions (Foreign Exchange). |
| CA | Volatility adjusted collateral amount. Client counterparties are required to place variation margins (VM) and an Independent amount (IA) as collateral to support the FX transactions. |
| r | Applicable Risk weights to the counterparties. Counterparty Banks at 20% and Counterparty Clients (Funds) at 100%. |

FX Settlement Limits:

The Bank's operating settlement limits in reference to the central counterparties (Banking counterparties) are determined by the bank's parent company MUTB on an annual basis.

The bank has fixed FX settlement limits for banking counterparties other than the affiliate banks, but no settlement limits are applicable for transactions with the affiliate banks and parent company.

The credit limits and settlement limits for each counterparty banks are based on the external agency's credit ratings and determined by the parent company (MUTB).

Risk Mitigation:

Client Counterparties to the FX transactions are required to place variation margins (VM) and an Independent amount (IA) as collateral to support the FX transactions. This collateral is primarily received in cash and applied as a credit risk mitigation (CRM) for calculating counterparty credit risks. The Bank reports no other credit risk mitigants or guarantees applicable to the FX transactions. Only cash deposits related to variation margins and IA are used for mitigation and down grade of credit ratings (Funs Assets) to the counterparties have no or very little impact to such margin collateral posted by the client funds, in relation to the FX Derivatives positions and the banks Counterparty Credit Risk assessment.

Wrong Way Risks:

Wrong-way risk is defined by the International Swaps and Derivatives Association (ISDA) as the risk that occurs when "exposure to a counterparty is adversely correlated with the credit quality of that counterparty". In short it arises when default risk and credit exposure increase together.

The OTC FX Forward derivatives transactions with the bank, are solely for the purpose of hedging the currency risks. The notional size of the FX transactions are determined by the size of the funds (NAV) and the size of the subscriptions/redemption activities of the client funds and thereby, the wrong-way exposure is limited. Consequently, the wrong way risks (CCR) is restricted to the settlement risk by the counterparty, as the transactions are solely for hedging the client funds foreign exchange exposures and are not considered speculative trading.

3.5.2 CCR1: Analysis of counterparty credit risk exposure by approach

| Row Index | Description | Total Replacement cost / Mark-to Market | Add-on Potential future exposure (PFE) | EAD post-CRM | RWA |
|-----------|--|---|--|------------------------|------------------------|
| | | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Current Exposure Method (CEM) | 199,367 | 253,664 | 452,963 | 204,113 |
| 2 | Standardised Method | | | 0 | 0 |
| 3 | Simple Approach for credit risk mitigation (for SFTs) | | | 0 | 0 |
| 4 | Comprehensive Approach for credit risk mitigation (for SFTs) | | | 0 | 0 |
| 5 | Total | | | | 204,113 |

- (i) The Bank reported an aggregate of USD 25.366 Billion in outstanding OTC FX Forwards FX Notional Amount and a replacement cost (PRV) of USD 214.6 Million as of Dec 31, 2022. Of which,

- (ii) The Bank reported a total of USD 69 Thousand in CRM adjustments for variation margins and independent amount posted by the client funds against FX notional size of USD 13.49 Billion as of Dec 31,2022.
- (iii) The Bank reported a total of FX notional size of USD 11.87 Billion as of Dec 31,2022 for OTC FX Forwards contracts placed with the banking counterparties.
- Please refer to section 3.2.3 for the table summarizing the CCR calculations as of Dec 31, 2022.

3.5.3 CCR3: CCR exposures by regulatory portfolio and risk weights

| Row Index | Risk weight | 0% | 10% | 20% | 50% | 75% | 100% | 150% | Others | Total credit exposure |
|-----------|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | Regulatory Portfolio | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Sovereigns | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Non-central government public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Banks | 0 | 0 | 311,062 | 0 | 0 | 0 | 0 | 0 | 311,062 |
| 5 | Securities firms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Corporates | 0 | 0 | 0 | 0 | 0 | 141,900 | 0 | 0 | 141,900 |
| 7 | Regulatory retail portfolios | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 | Other assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Total | 0 | 0 | 311,062 | 0 | 0 | 141,900 | 0 | 0 | 452,963 |

3.5.4 CCR5: Composition of collateral for CCR exposure

| Row Index | Description | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|-----------|--------------------------|--|------------------------|---------------------------------|------------------------|-----------------------------------|---------------------------------|
| | | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | Fair value of posted collateral |
| | | Segregated | Unsegregated | Segregated | Unsegregated | | |
| | | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') | Amount (In USD '000s') |
| | | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 | Dec-31-2022 |
| 1 | Cash – domestic currency | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Cash – USD | 22,424 | 0 | 69 | 0 | 0 | 0 |
| 3 | Cash – EUR | 4,020 | 0 | 0 | 0 | 0 | 0 |
| 4 | Cash – GBP | 1,837 | 0 | 0 | 0 | 0 | 0 |
| 5 | Domestic sovereign debt | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Other sovereign debt | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | Government agency | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | |
|----|-------------------|---------------|----------|-----------|----------|----------|----------|
| 8 | Corporate bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Equity securities | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Other collateral | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | Total | 28,281 | 0 | 69 | 0 | 0 | 0 |

3.5.5 CCR6: Credit Derivatives Exposures

MAFS Cayman has no credit derivative products in its portfolio for mitigating counterparty credit risk as of Dec 31,2022.

| Row Index | Description | Protection Bought | Protection Sold |
|-----------|----------------------------------|-------------------|-----------------|
| | | Amount (in USD) | Amount (in USD) |
| | | Dec-31-2021 | Dec-31-2021 |
| 1 | Notionals: | | |
| 2 | Single-name credit default swaps | 0 | 0 |
| 3 | Index credit default swaps | 0 | 0 |
| 4 | Total return swaps | 0 | 0 |
| 5 | Credit options | 0 | 0 |
| 6 | Other credit derivatives | 0 | 0 |
| 7 | Total Notionals: | 0 | 0 |
| 8 | Fair values: | | |
| 9 | Positive fair value (asset) | 0 | 0 |
| 10 | Negative fair value (liability) | 0 | 0 |

3.6. LEVERAGE RATIO

3.6.1 LR1: Summary comparison of Accounting Assets vs Leverage Ratio

| Row Index | Description | Amount (In USD) |
|-----------|--|--------------------|
| | | Dec-31-2022 |
| 1 | Total consolidated assets as per published financial statements | \$4,989,642 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | \$0 |
| 3 | Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference | \$0 |
| 4 | Adjustments for temporary exemption of central bank reserves (if applicable) | \$0 |
| 5 | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | \$0 |
| 6 | Adjustments for regular way purchases and sales of financial assets subject to trade date accounting | \$0 |
| 7 | Adjustments for eligible cash pooling transactions | \$0 |
| 8 | Adjustments for derivative financial instruments | \$452,963 |
| 9 | Adjustment for securities financing transactions (i.e., repurchase agreements and similar secured lending) | \$0 |
| 10 | Adjustment for off balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures) | \$699,203 |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital | \$0 |
| 12 | Other adjustments | \$0 |
| 13 | Leverage Ratio Exposure Measure | \$6,141,807 |

MAFS Cayman reported a Leverage Ratio Exposure Measure of USD 6.14 Billion as of Dec 31,2022 and a total consolidated assets (net of on-balance sheet derivatives) as per published (audited) financial statements of USD 4.99 Billion. The bank has also reported adjustments for off-balance sheet items converted to credit equivalent amounts (undrawn amounts from committed facilities) of USD 0.70 Billion. The bank reports no material differences between the total balance sheet assets as reported in the financial statements and the on-balance sheet exposures of the leverage ratio exposure measure.

3.6.2 LR2: Leverage Ratio Common Disclosures template

| Index | Description | Amount (In USD) | Amount (In USD) |
|-------|--|-----------------|-----------------|
| | | Dec-31-2022 | Sep-30-2022 |
| | On-Balance Sheet Exposures: | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | \$4,989,642 | \$4,963,195 |
| 2 | Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework | \$0 | \$0 |
| 3 | (Deductions of receivable assets for cash variation margin provided in derivatives transactions) | \$0 | \$0 |
| 4 | (Adjustment for securities received under securities financing transactions that are recognised as an asset) | \$0 | \$0 |
| 5 | (Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital) | \$0 | \$0 |
| 6 | (Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments) | \$0 | \$0 |

| | | | |
|-----|--|--------------------|--------------------|
| 7 | Total on balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6) | \$4,989,642 | \$4,963,195 |
| | Derivative Exposures: | | |
| 8 | Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | \$199,298 | \$361,963 |
| 9 | Add on amounts for potential future exposure associated with all derivatives transactions | \$253,664 | \$249,516 |
| 10 | (Exempted central counterparty (CCP) leg of client cleared trade exposures) | \$0 | \$0 |
| 11 | Adjusted effective notional amount of written credit derivatives | \$0 | \$0 |
| 12 | (Adjusted effective notional offsets and add on deductions for written credit derivatives) | \$0 | \$0 |
| 13 | Total derivative exposures (sum of rows 8 to 12) | \$452,963 | \$611,479 |
| | Securities financing transaction exposures: | | |
| 14 | Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions | \$0 | \$0 |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | \$0 | \$0 |
| 16 | Counterparty credit risk exposure for SFT assets | \$0 | \$0 |
| 17 | Agent transaction exposures | \$0 | \$0 |
| 18 | Total securities financing transaction exposures (sum of rows 14 to 17) | \$0 | \$0 |
| | Other off-balance sheet exposures: | | |
| 19 | Off-balance balance sheet exposure at gross notional amount | \$3,227,376 | \$2,958,327 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | -\$2,528,173 | -\$2,303,662 |
| 21 | (Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital) | \$0 | \$0 |
| 22 | Off-balance sheet items (sum of rows 19 to 21) | \$699,203 | \$654,665 |
| | Capital and total exposures: | | |
| 23 | Tier 1 capital | \$732,405 | \$688,818 |
| 24 | Total exposures (sum of rows 7, 13, 18 and 22) | \$6,141,807 | \$6,229,339 |
| | Leverage ratio: | | |
| 25 | Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) | 11.92% | 11.06% |
| 25A | Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | 11.92% | 11.06% |
| 26 | National minimum leverage ratio requirement | 3.00% | 3.00% |
| 27 | Applicable leverage buffers | NA | NA |

MAFS Cayman reported a slightly higher Leverage Ratio of 11.92% as of Dec 31, 2022 compared to a lower ratio of 11.06 % as of Sep 30, 2022, as the banks total exposures reduced and its capital increased. Available Capital was reported at USD 732 Million as of Dec 31, 2022 versus USD 689 Million as of Sep 30, 2022. The Total Exposure measures was noted to decline as the banks' balance sheet reduced from a decrease in deposit balances (assets and liabilities) and a simultaneous decrease in the clients FX hedging activities (FX Derivatives Assets/Liabilities) at year-end.

3.7. LIQUIDITY RISK

3.7.1 LIQA: Liquidity Risk Management

MUFG Investor Services considers Liquidity Risk as the risk of an inability to meet current and future cash flow needs, both expected and unexpected, due to it insufficient liquid assets or there being an unexpected change in the level of deposits, without materially affecting daily operations or its overall financial condition.

MAFS Cayman is exposed to liquidity risks as a banking and financial services entity primarily from its lending activity (loans and advances on the credit facilities offered by the bank), deposit placements with other counterparty banks, foreign exchange currency positions and any investing activities on its banking book.

The bank manages the following portfolio of assets and liabilities on its balance sheet, which it considers to be readily available.

- (i) Currency Notes and Cash
- (ii) Overnight Cash deposits placements (on demand) with affiliate banks (with whom the bank has an explicit agreement to make available such deposits at times of liquidity requirements): These deposits form the primary assets on the bank's balance sheet and was reported at USD 1.4 Billion as of Dec 31, 2022.

The bank's market risk and liquidity policy permits investments by the bank into short-term money market placements for a maximum of 1 year. As such, the bank manages the following portfolio of deposits and investments in the near term or short term.

- (i) Overnight deposit placements (Nostro Accounts) with other counterparty banks.
- (ii) Term deposits placements (USD/EUR) – As of Dec 31,2022 the bank held USD 4.0 Billion in USD Term deposits placement of which USD 3.0 Billion was placed on deposits with maturity of less than 3 months.
- (iii) Reverse Repurchase Placements: As of Dec 31,2022 the bank reported USD 475 Million in reverse repurchase investments, with USD 325 Million in investments rolling on 34 days maturity and resetting on a daily basis. The bank held USD 150 Million on reverse repurchase investments which is rolled over every 1 week.

The bank's assets are mainly composed of overnights and time deposits and any investments or lending activity are typically short-term (within 3 months, or up to a maximum of 1 year). The bank primarily relies on overnight deposits placements from its fund financing clients to fund its balance sheet and reported deposits placements (Liabilities) of USD 4.229 Billion as of Dec 31,2022.

Given the nature of its fund financing business and lending activity requiring short term liquidity, the banks approach to liquidity risk management is to ensure that there is always sufficient liquidity to meet liabilities when due, under both normal and crisis conditions, without incurring unacceptable losses or risking sustained damage to the business.

MUFG Investor Services' Liquidity Risk Management Policy and Procedure, approved by the Risk Committee, defines the processes, roles and responsibilities that ensure the bank's exposure to liquidity risk is adequately and proactively managed.

The Banks Liquidity Risk Management process includes the following key controls and principles in place to manage, monitor and mitigate liquidity risk:

- i. MUFG IS remains compliant with all regulatory liquidity requirements, such as the Minimum Liquidity Ratio (MLR) of 15% at all times.
- ii. The Bank has adopted an internal risk appetite measure, assessing liquidity or cash flow gap that is managed to be positive cash flows in the next 5 - 10 business days at all times.
- iii. In the event of a liquidity crisis, or situation leading to such a crisis, the bank maintains a contingency funding plan which is reviewed, revised and updated annually. The banks contingency funding plan includes various actionable measures such as:
 - a. Immediate termination of all investing and lending activities by the bank. Based on the severity of the liquidity situation, disposal of all liquid assets (investments and securities) held by the bank, can be initiated.

- b. The Contingency funding plan includes utilization of back-up facilities provided by the parent company (MUTB) to meet its immediate funding requirements in the event of a liquidity shortage or crisis.

MUFG IS has adopted the following approaches for measuring and assessing liquidity risk:

Liquidity Gap Measure: The liquidity or the cashflow gap measure is an internal metric or risk appetite measure adopted by the bank to help forecast its daily liquidity and funding requirements. The measure is derived using a cash forecasting model which looks at expected inflows and outflows of cash from its day-to-day business activities and balance sheet management activities, to help identify potential liquidity and maturity gaps.

However, the net cashflows derived are largely impacted by cash projections from redemptions and subscription activities by underlying funds (which is largely client driven) which impact the banks liquidity position. These activities determine the large cash placements by the clients with the bank and are the primary reason for variances in the gap measure over the period. In order to account for impact of outflows from such cash deposit withdrawals on its funding gaps, the bank has implemented stress factors to eliminate large variances in the projection of the liquidity (maturity) gaps using the following outflow rates to adjust for the variability in the cash flows:

Drawdown Ratio on Credit facilities (20%) – Figures revised 6 months based on historical data.

Clients Deposits Run Off Rate (21%) – Figures revised 6 months based on historical data.

The internal limit for the liquidity gap measure (after applying such stress criteria's) is set at 0 and the liquidity gap measure is calculated as the minimum amount of net cashflow gap in the next 5 business days. A positive liquidity gap indicates an expected surplus or utilizable cash. A negative liquidity gap balance indicates an estimated shortfall of cash and a potential liquidity crisis.

The following table highlights the current liquidity gap limit, which has been set at zero to keep the liquidity or funding gap positive at all times.

| Liquidity Stage | Normal | Concern | Crisis |
|------------------------------------|---------------------------------|----------------------------------|----------------------------------|
| Liquidity GAP Limit (US\$ million) | US\$ 0 (next 5 business day) | US\$ 0 (next 10 business day) | US\$ 0 (next 10 business day) |

The table denotes that a negative liquidity gap amount within the next 10 Business Day is considered a concern or crisis stage and at which point the liquidity contingency funding plan is invoked.

The Bank has reported a positive Liquidity Gap of USD 1.307 Billion on Dec 31, 2022 (forecasted as of Dec 30th 2022, previous business day). The bank has reported a yearly average liquidity gap of USD 793 Million, with a minimum positive cash flow gap observed at USD 69 Million as of Jul 12, 2022 and maximum positive cash flow gap of USD 2.4 Billion as of Mar 28, 2022.

As noted, the huge variance in the liquidity (cashflow) gaps over the periods are largely due to overnight cash deposits placements by the banks clients that significantly impact the banks liquidity position on a daily basis.

In addition to the daily Liquidity gap measure noted above, the bank conducts a monthly stress test of its balance sheet position and Net Liquidity Position and provides reporting to its parent company and the Risk Committee.

Minimum Liquidity Ratio: MAFS Cayman is classified as a Category A, Non-Retail bank by the banking regulator (CIMA) and is subject to report the Minimum Liquidity Ratio (MLR) under section 32 to section 35 of the Basel 3 Liquidity Risk Management Rule and Guidelines. The minimum liquidity Ratio (MLR) is defined as the ratio of Liquid Assets to Qualifying Liabilities and specifies the per cent of liquid assets a bank must hold.

MAFS Cayman's portfolio to of liquid assets and qualifying liabilities that it considers for the purposes of determining the Minimum liquidity ratio are as follows:

The Banks Liquid Assets includes any cash (currency and notes) assets and its nostro cash held overnight at banks and its O/N (overnight) deposits at affiliate banks. The liquidity risk regulatory guidelines have a requirement specifying that such placements with any intra group banks can be considered as a Liquid Asset, provided there is an explicit agreement in place specifying that the funds will be available during a liquidity crisis. The bank has an agreement in place with all of its affiliate banking partners specifying that any demand, O/N or T/N (tomorrow/next) deposits will be made available should MAFS Cayman encounter a liquidity issue.

For MAFS Cayman, the majority of its Qualifying Liabilities are overnight cash deposits from its clients, which account for on average 95%. The remaining 5% of Qualifying Liabilities consists of 15% of MAFS Cayman's Committed Facilities (its undrawn commitments).

The Bank has reported a Minimum Liquidity Ratio of 56.47% as of Dec 31, 2022 and continues to maintain a portfolio of highly liquid assets in order to meet its liquidity requirements.

3.7.2 LIQ1: Liquidity Coverage Ratio (LCR)

MAFS Cayman is a licensed Category A non-retail bank and required to comply with the minimum requirements for reporting the minimum liquidity ratio (MLR) with the banking regulator under section 32 to 35 of the Liquidity Risk Management Rules and Guidelines (2018) with the Cayman Islands Monetary Authority (CIMA). The Bank is exempted from reporting the Leverage Coverage ratio (LCR) under the regulatory guidelines.

3.7.3 LIQ2: Net Stable Funding Ratio (NSFR)

MAFS Cayman is a licensed Category A non-retail bank and required to comply with the minimum requirements for reporting the minimum liquidity ratio (MLR) with the banking regulator under section 32 to 35 of the Liquidity Risk Management Rules and Guidelines (2018) with the Cayman Islands Monetary Authority (CIMA). The Bank is exempted from reporting the Net Stable Funding Ratio (NSFR) under the regulatory guidelines.

3.8. SECURITISATION

MAFS Cayman or its subsidiaries does not act as an originator or as a sponsor to any securitization vehicles. The Bank does not hold any assets explicitly intended for the purpose of securitization. The bank does not conduct any form of direct or indirect investments in securitized product such as mortgage-backed securities, asset backed securities or any other forms of securitized products.

As such, the following sections from 3.8.1 to Section 3.8.5 are **NOT** applicable for the bank's disclosure requirements.

3.8.1 SECA: Qualitative Disclosure Requirements related to Securitisation Exposures

3.8.2 SEC1: Securitisation exposures in the Banking Book

3.8.3 SEC2: Securitisation exposures in the Trading Book

3.8.4 SEC3: Securitisation exposures in the banking book and associated regulatory Capital Requirements - Bank acting as Originator or as Sponsor

3.8.5 SEC4: Securitisation exposures in the Banking Book and associated Capital Requirements - Bank acting as Investor

3.9. MARKET RISK

3.9.1 MRA: Qualitative disclosure requirements related to market risk

Market risk is defined as the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices. MAFS Cayman manages its exposure to general market risk and has identified two subcategories of market risk, Foreign Exchange Risk and Interest Rate Risk. A separate measurement and monitoring approaches have been developed and summarized in Section 3.11 (IRRBB) for Interest Rate Risk in the Banking Book.

The Bank's market risk management procedure outlines a list of permitted investments (assets) and lending activities that the bank can transact which includes, offering loans through credit agreements, money market activities, investing in short term treasury securities, and foreign exchange (FX) derivatives transactions. The Bank does not have a trading book and does not issue or hold any interest-bearing financial instruments for sale or trading purposes i.e. all interest-bearing assets (investments) are held to maturity.

Foreign Exchange Risk: FX Risk is defined as the risk that net open positions in foreign currencies fluctuate because of changes in the exchange rates at which the balances are recorded. MAFS Cayman limits its exposures on derivative financial instruments denominated in foreign currencies by matching assets and liabilities in the same currency. The Bank enters into foreign exchange forward contracts on behalf of its customers and then places matching contracts with its counterparty banks (primarily an MUFG Group affiliate bank) in order to reduce its exposure to FX risk to a minimal amount. All assets and liabilities in each individual currency are also matched to limit such foreign currency exposure.

The Bank assesses its market risk charge to capital from foreign exchange risk under the standardised approach as follows:

- (i) For all currencies (other than USD), the sum of net long and short positions are derived from the balance sheet including contingent assets and liabilities (FX Forwards Derivative Positions).
- (ii) A higher of the Aggregate Net short/long open positions is considered to the net exposure. Risk weight of 8% is applied.

Interest Rate Risk: MAFS Cayman does not have a trading book and do not report Interest rate risk charges to capital. under the Standardised Approach for the measurement of the interest rate risk, in order to determine the capital requirement for market risk. All the Banks interest bearing assets and liabilities are held to maturity and not available for sale.

3.9.2 MR1: Market risk under standardised approach

| Row Index | Description | RWA |
|-----------|---|------------------|
| | | Amounts (In USD) |
| | | Dec-31-2022 |
| | Outright products | |
| 1 | Interest rate risk (general and specific) | 0 |
| 2 | Equity risk (general and specific) | 0 |
| 3 | Foreign exchange risk | 2,294 |
| 4 | Commodity risk | 0 |
| | Options | |
| 5 | Simplified approach | 0 |
| 6 | Delta-plus method | 0 |
| 7 | Scenario approach | 0 |
| 8 | Securitisation | 0 |
| 9 | Total | 2,294 |

3.10. OPERATIONAL RISK

3.10.1 OPR: Qualitative and Quantitative disclosure Requirements

Operational Risk is one of the major risks associated to all fund administration, trustee and banking business that MAFS Cayman is currently conducting and is defined as the risk of loss resulting from inadequate or failed internal processes and controls, people and systems or from external events. The Compliance Department and the Risk Department at MAFS Cayman are conducting the roles of providing continuous evaluation of the risks identified, enhancing processes and ensuring that management take appropriate action in response to gaps and shortcomings in operational activities. Detailed Procedures and Policies are maintained to cover the performance of services offered by the Company. These documents reflect the internal controls which are embedded in the Company's day-to-day activities and are designed to ensure controls are efficient, effective, information is reliable, timely and complete and that the Company is compliant with applicable laws and regulations. To ensure the effectiveness of the above, appropriate training and guidance has been designed and put in place to aid the business operations in its day-to-day activities.

The company's (MUFG IS) exposure to Operational Risk is assessed by regular maintenance of Risk Registers and the Risk Appetite Statement process. The Risk Appetite with regards to Operational Risk is assessed by reviewing past and potential operational losses. Changes to products and new business initiatives and impacts to the control environment as well as business projections are taken into account. The potential operational loss is then reviewed against the Risk Appetite.

The company has developed various Risk Appetite Measures (RAMs) and Key Risk Indicators (KRIs) to assess its exposure to operational risk in relation to its appetite for operational risk. The RAMs assess various components of operational risk, with one of the RAMs measuring the amount of operational risk losses to the specific business lines or processes. The Company actively manages an incident tracking system that assesses all operational incidents and incorporates changes in processes (risk mitigating controls) or policies, with application of preventative measures in place. The bank continues to monitor operational risks against all business functions and has a comprehensive statement of controls and procedures. The bank has developed a robust business continuity program and is also focused on further developing its operational resilience.

The risk categories considered under Operational Risk includes Operations Risk (Process Risk), Information Technology and Information Security Risk, Legal Risks, Crisis Risk and Business Continuity management, Outsourcing and Vendor Risk, New Product and Business or Clients Risk, Personnel Risk (Human Resources), Tangible Assets Risk, Strategic Risks and Reputational Risks. Each of the different risk functions reports to the Risk Committee on a monthly basis.

Operational Risk Losses by Business Lines:

The company (MUFG IS) reported the following operational loss figures by business processes (functions) as of Dec 31, 2022.

| Financial Impact | 2020 | 2021 | 2022 |
|--------------------------------|------------------------------|---------------|---------------|
| | <i>(Amounts in USD 000s)</i> | | |
| Ancillary service | 1.00 | 2.98 | 121.37 |
| Banking and Treasury | 0.18 | 0.86 | 4.36 |
| BPO services | 0.00 | 0.00 | 0.00 |
| Fund of hedge funds | 18.86 | 130.72 | 28.18 |
| Others | 10.91 | 0.00 | 0.00 |
| Single Manager Funds | 12.27 | 60.43 | 79.33 |
| FX Hedging | 27.14 | 11.43 | 11.92 |
| Private equity and real assets | 1.62 | 5.76 | 13.75 |
| Total Operational Loss: | 71.98 | 212.17 | 258.91 |

Operational Risk Charge to Capital:

In order to calculate its required capital for operational risk to account for these low probability, high impact events, MAFS Cayman uses the Basel II Basic Indicator Approach (the “BIA”). The BIA determines the capital requirement as 15% of the average of three years of a bank’s gross income. MAFS Cayman uses the Basel II BIA rules as set out in CIMA’s Pillar I requirements for its calculation of operational risk RWA.

| OPERATIONAL RISK: (Amounts in USD 000s) | Gross Income (Revenue) | | | Alpha Factor | Weighted Income | | | Weighted Average | RWA |
|--|------------------------|-----------|-----------|--------------|-----------------|----------|----------|------------------|-----------|
| | Year 1 | Year 2 | Year 3 | | Year 1 | Year 2 | Year 3 | | |
| Fund Financing (Asset Management) | \$122,969 | \$147,571 | \$178,486 | 15% | \$18,445 | \$22,136 | \$26,773 | \$22,451 | \$280,641 |

As at 31 Dec, 2022 MAFS Cayman reported an operational risk weighted exposure of USD 280.6 Million and a minimum capital requirement or charge to Capital of USD 28.1 Million.

MAFS Cayman believes that the BIA calculation of operational risk RWA of US\$280.6 million is conservative given that its largest annual loss was reported at USD 258.9 Thousand in 2022. Therefore, MAFS Cayman does not hold Pillar II capital for its exposure to operational risk.

3.11. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

3.11.1 IRR: Qualitative and quantitative disclosure requirements related to interest rate risk in the banking book

Interest Rate Risk in the Banking Book (“IRRBB”) refers to the current or prospective risk to MAFS Cayman’s capital and earnings arising from adverse movements in interest rates that affect its banking book positions. In the case of a financial instrument whose interest rate resets before maturity, such fluctuations result in a change in the effective interest rate of the instrument, usually without a corresponding change in its fair value.

However, it is important to note that the majority of MAFS Cayman’s financial assets and financial liabilities are short dated, thus it is therefore not significantly exposed to interest rate risks for longer duration. The table below provides an idea of the banks interest rate risk impact for a 200 basis point parallel shock under IRRBB

| | | USD | JPY | OTHER CCY | TOTAL |
|---|---------------------------------------|-----------------|----------------|---------------|-----------------|
| Fixed Rates | Total Assets and Long Positions | 2,369,435.63 | 1,091,343.96 | 0.00 | 3,460,779.59 |
| | Total Liabilities and Short positions | 975,689.70 | 0.00 | 0.00 | 975,689.70 |
| | Net Position | 1,998,000.00 | 1,091,342.56 | 0.00 | 3,089,342.56 |
| | Weighted Position | 2,478.40 | 873.07 | 0.00 | 3,351.47 |
| Floating Rates | Total Assets and Long Positions | 14,265,029.07 | 2,257,350.07 | 10,583,068.01 | 27,105,447.14 |
| | Total Liabilities and Short positions | 15,667,394.40 | 3,348,877.95 | 10,584,625.89 | 29,600,898.24 |
| | Net Position | (1,402,365.34) | (1,091,527.88) | 4,293.72 | (2,489,599.50) |
| | Weighted Position | (337.92) | (873.63) | (0.13) | (1,211.68) |
| Change in Economic value (Net Interest Impact at 200Bps) | | 2,140.48 | (0.56) | (0.13) | 2,139.79 |

Things to Note:

- (i) The Banks Assets and Liabilities under the IRRBB method, bucketed under various maturities has a **maximum maturity of 3-6 months**. Thereby, noting that the impact of any interest rate risk exposures in the short term.
- (ii) The assets and Liabilities considered for IRRBB includes short/long positions in Foreign Exchange Forward Derivatives.
- (iii) Only term deposits (USD/EUR) held by the bank and JPY nostro account (overnights) are fixed rate instruments. All other assets and liabilities are floating rate instruments benchmarked against OBFR/SOFR (or LIBOR where not transitioned yet) rates.

| Currency | Change in Economic Value (Amounts in USD 000s) |
|----------------------------|---|
| USD | \$2,140.48 |
| JPY | (\$0.56) |
| Others | (\$0.13) |
| Change in Economic Capital | \$2,140 |
| Eligible Capital | \$732,405 |
| Capital at Risk | 0.292% |

The Bank reports the impact to Economic Capital as USD 2.1 Million for a 200 Basis point movement (Eligible Capital at USD 732 Million) and further notes that the duration of the Banks assets and liabilities are all less than 1 year. The Bank considers the present value factor for such duration is significantly nominal given the term to maturity.

Internal Interest Rate Risk Measures:

The Bank has adopted the parametric historical method of deriving Value-At-Risk (VaR) as a simple approach to assessing interest rate risk on its portfolio of investment assets on its banking book, which includes the following:

- a) Investments into certificate of deposits (term) less than 1 year (USD/EUR) and held to maturity.
- b) Back-to-Back (Riskless principal), FX Forward trades to hedge its currency exposures.
- c) Reverse repurchase agreements secured by tradable collateral/securities through a securities lending service provided by MUTB, NY, and subject to daily reset of rates (OBFR).
- d) The Bank periodically invests in US Treasury Bills and Notes and held to maturity.

The deposits placements from clients (liabilities) with the bank and the loans (assets) are benchmarked at overnight rates (OBFR/SOFR) and reset on a daily basis. The Bank does not consider these assets/liabilities to have any repricing risks and therefore does not consider them for interest rate risk assessment.

Some of the interest rate risk measures adopted by the bank to assess and monitor its interest rate risks on its investments portfolio (interest bearing assets/liabilities) are briefly described below:

- (i) Value-At-Risk (VaR): The VaR measure is calculated at the confidence level of 99% with a holding period of 10 business days and an observation period of 701 business days (approximately 3 years). The calculated VaR on daily basis and compared against established internal loss limits for tracking and monitoring any potential interest rate change impacts to the investment portfolio
- (ii) 1 bpv (basis point value): The 1bpv risk measure assesses the impact on the value of the portfolio of a 0.01 percent change in yield.
- (iii) Outlier Ratio: The ratio of expected losses to the investment portfolio resulting from an interest rate shock of 200 basis point, measure against the Banks Available Capital (1bpv*200bp/MAFS capital).

3.12. REMUNERATION

3.12.1 REM: Qualitative and quantitative disclosure requirements related to remuneration

MAFS Cayman is a wholly owned subsidiary of MUTB and considers the Board of Directors Remuneration as a proprietary and confidential information. The share capital of the Bank is privately held and is not listed on any secondary markets. The Bank considers publishing disclosures related to the Board of Directors Remuneration may contravene its privacy policies and have requested exemptions from the banking regulator (CIMA) for such matter.

3.13. ASSET ENCUMBERANCE

3.13.1 ENC: Asset encumbrance

MAFS Cayman does not hold encumbered assets on its balance sheet as of Dec 31, 2022.

| | Encumbered assets | [Optional] Central Bank Facilities | Unencumbered assets | Total |
|--|-------------------|------------------------------------|---------------------|-------|
| The assets on the balance sheet would be disaggregated; there can be as much disaggregation as desired | | | | |
| | | | | |
| | | | | |
| | | | | |