Annual Report 2016

Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A.

A member of MUFG, a global financial group

Annual Report
2016

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MUFG

MESSAGE FROM MANAGEMENT

Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. (MIBL) is a bank with a universal banking license located in Luxembourg, and a member of «MUFG Investor Services» which is a global brand of Mitsubishi UFJ Financial Group (MUFG).

The Bank has been focusing on Global Custody services as well as Fund Administration services since the establishment. And we have enhanced banking services since 2015 according to the expansion plan of the MUFG Investor Services.

By cooperating with MUFG Investor Services network, the Bank will continue enhancing our services for both investor services products and banking products, in order to meet client expectations.

Ko TERAWAKI
Managing Director

May 1, 2017

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Today, all Mitsubishi UFJ Financial Group (hereinafter "MUFG") companies subscribe to the corporate principles promulgated throughout the Mitsubishi Group, known as the "Principles of Ethics and Conduct." These principles are:

❶ Customer Focus,

❷ Responsibility as a Corporate Citizen, and

❸ Ethical and Dynamic Workplace through Business.

Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. (MIBL), as a financial institution established under the laws of the Grand Duchy of Luxembourg, is regularly involved in host country initiatives that embrace the realization of a sustainable society. In 2016, our involvement in CSR activities ranged from our participation at the "Relay for Life 2016" to raise funds for cancer research, to charitable contributions, as for example the donation of the Japanese stand at the "International Bazaar" whose proceeds are used to finance humanitarian projects in developing countries.

Our efforts also extend to the campaign for the use of public transportation, to the promotion of saving energy, and the advancement of recycling in order to reinforce our responsibility towards the environment.

International Bazaar

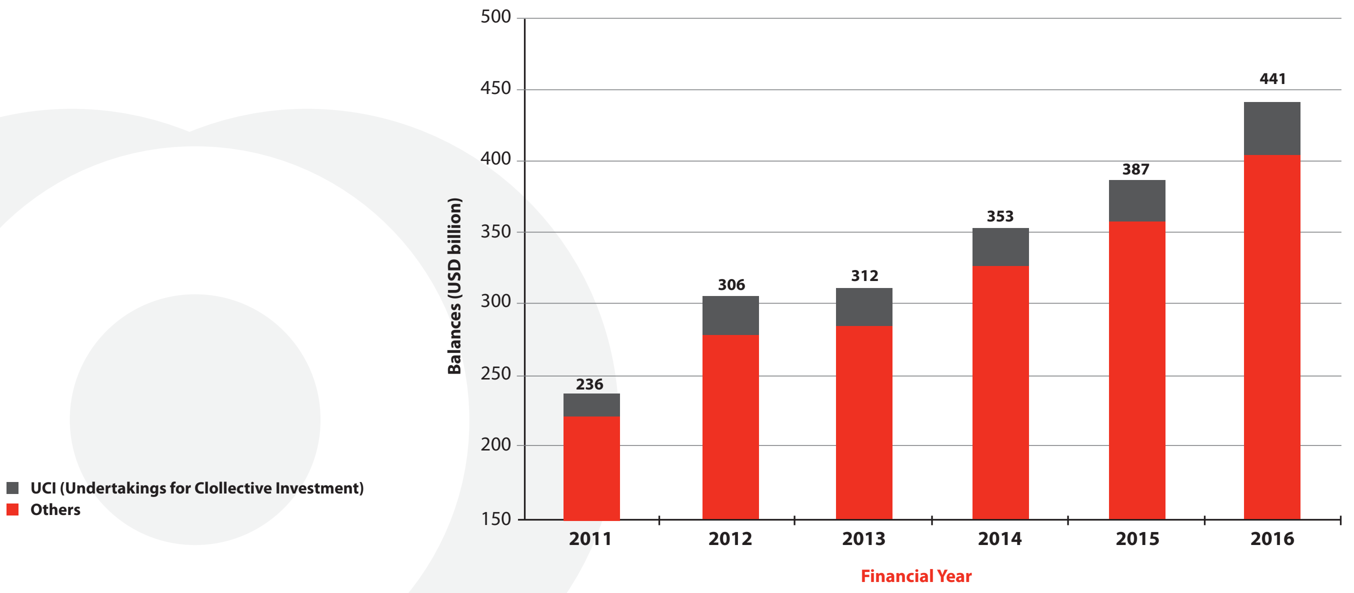
Relay for Life

PERFORMANCE HIGHLIGHT

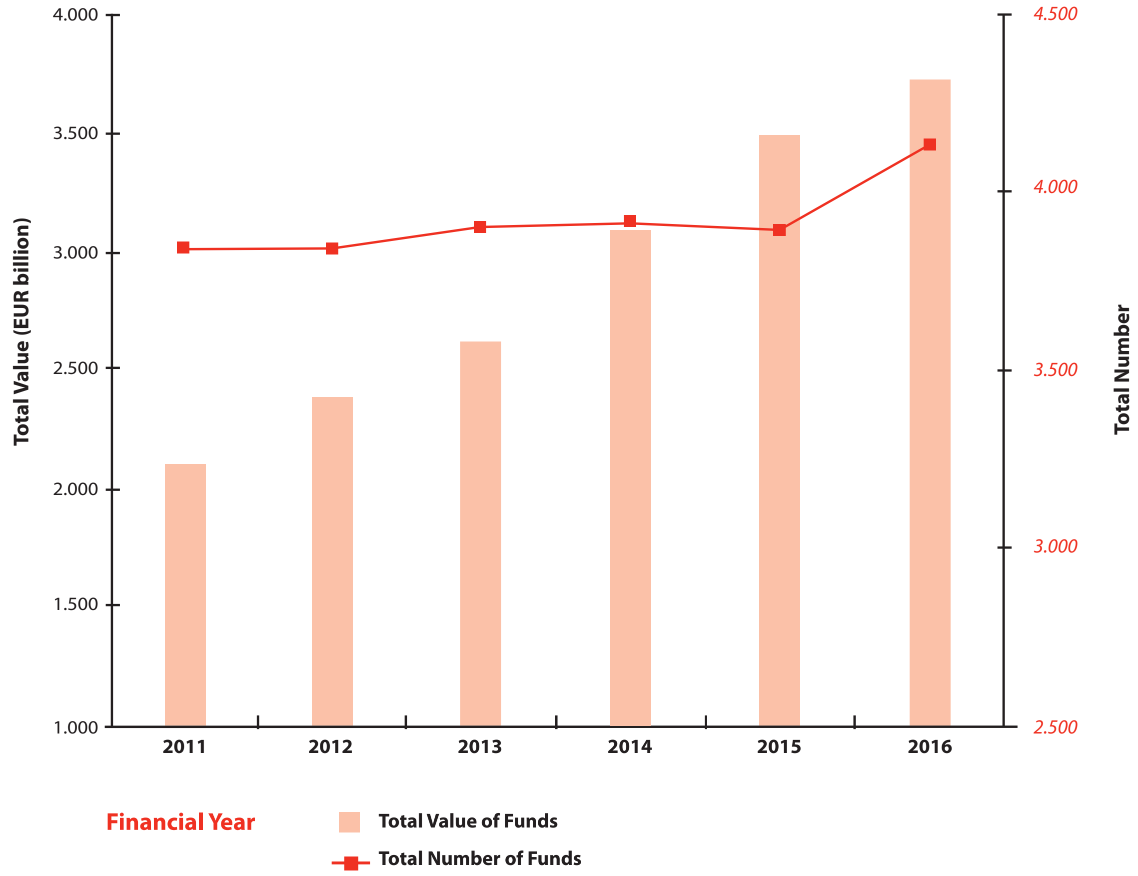
In the Custody business, the assets under custody reached the amount of USD 441 billion as of December 31, 2016. As for the Fund Administration business, the number of Funds (including sub-funds) administered by the Bank was 158 and the Net Asset Value calculations were USD 20.4 billion as of December 31, 2016. 9 new funds (including sub-funds) were launched during the year 2016. The total assets of the new funds launched have reached USD 2.1 billion based on the Net Asset Value calculation as of December 31, 2016.

As for new business, Dublin branch, Bank Account Services, Fund order desk and Fiduciary Services which onboarded in 2015 and 2016, their revenue has increased to USD 1.0 million mainly due to the increase of funds numbers for depository services handled by the Dublin Branch and the new onboarding of Fiduciary Services.

Custody Assets of MIBL



The Market of UCIs in Luxembourg



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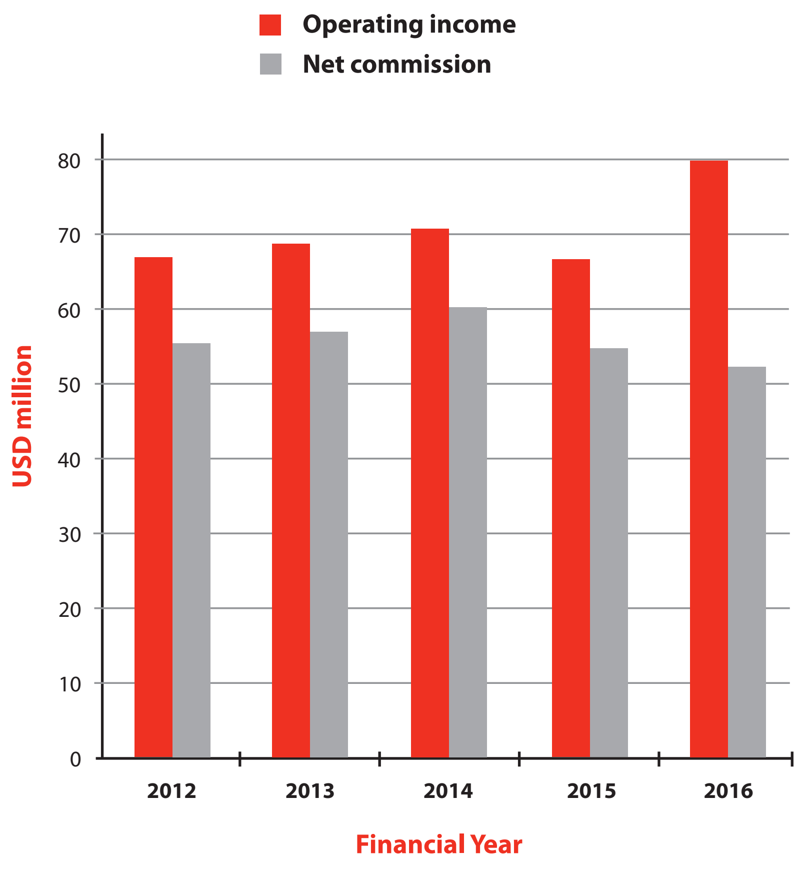
FINANCIAL HIGHLIGHT

For the year ended December 31, 2016, the Bank reported an operating income of USD 80.216 thousand, as compared to USD 67.012 thousand for the previous fiscal year. The increase of USD 13.204 thousand or 19,70%, comes mainly from the net interest income.

In 2016, the net interest income increased due to rising liquidities and interest rates, whilst net commission from the Investment Funds business decreased. On the other hand, general administrative expenses have increased by USD 7.502 thousand to USD 49.304 thousand in 2016, mainly due to professional fees and system costs.

Net operating profit before income taxes in 2016 increased by USD 10.331 thousand to USD 30.316 thousand, as compared to USD 19.985 thousand as at December 2015.

Total Operating Income & Net Commission

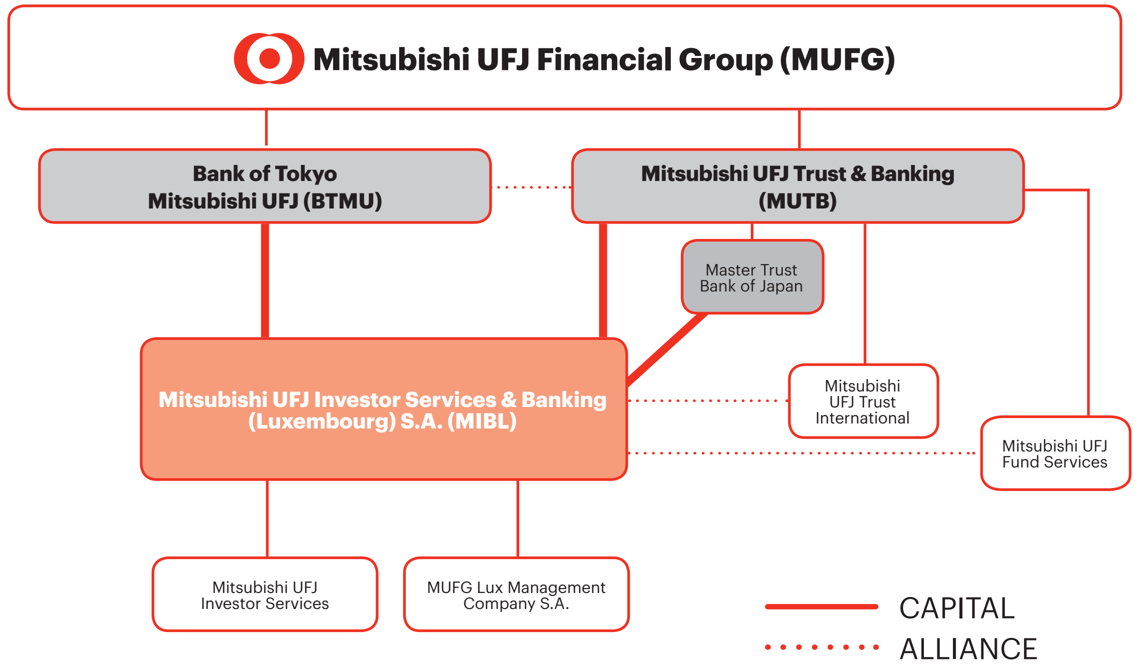


PROFILE

Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. (MIBL) is a member of the MUFG Investor Services, which is a global brand of Mitsubishi UFJ Financial Group (MUFG), one of the largest financial groups worldwide.

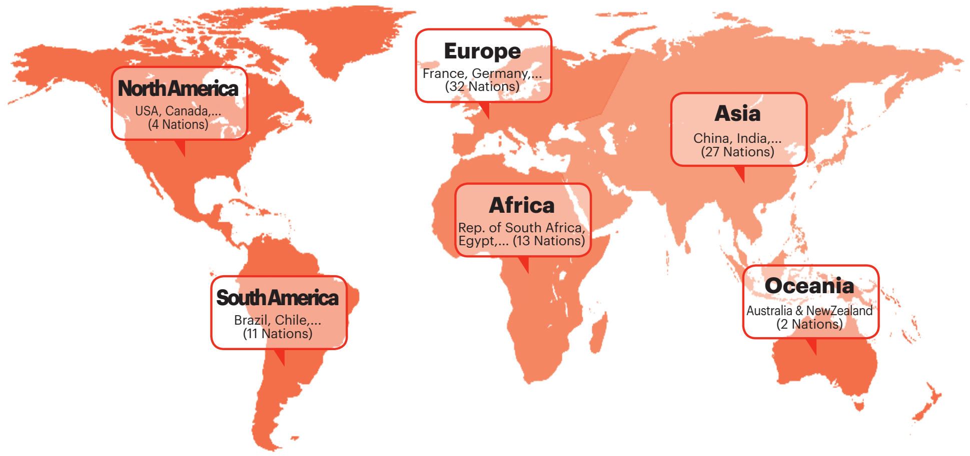
For more than 40 years, MIBL has been providing a wide range of services to institutional investors including:

1. Global Custody Services
2. Investment Funds Administration
3. Fiduciary and Trust Administration
4. Listing on the Stock Exchange
5. Other direct or indirect related services (Cash Management, Foreign Exchange, etc.)



- MIBL will be the wholly-owned subsidiary of MUTB effective from May 31, 2017
- MUFG Lux Management Company S.A. will be recapitalized by MUTB effective from June 1, 2017

MIBL Global Market Coverage



BOARD OF DIRECTORS

CHAIRMAN

Eiji IHORI, Tokyo
(from June 26, 2014)
Managing Executive Officer
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, JAPAN

DIRECTORS

Jiro OMORI, Tokyo
(from April 2, 2015)
General Manager, Investor Services Business Division
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, JAPAN

Ray Paul WINTERS, London
(from February 28, 2014)
Managing Director & Chief Executive
Mitsubishi UFJ Trust International Limited,
24 Lombard Street, London EC3V 9AJ, UK

Manabu TANAKA, Tokyo
(from June 26, 2014)
General Manager, Asset Advisory Division
The Bank of Tokyo-Mitsubishi UFJ, LTD.
7-2, Marunouchi 2- chome, Chiyoda-ku,
Tokyo 100-0005, JAPAN

Eiji IHORI, Tokyo
(from June 28, 2011)
Managing Executive Officer
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, JAPAN

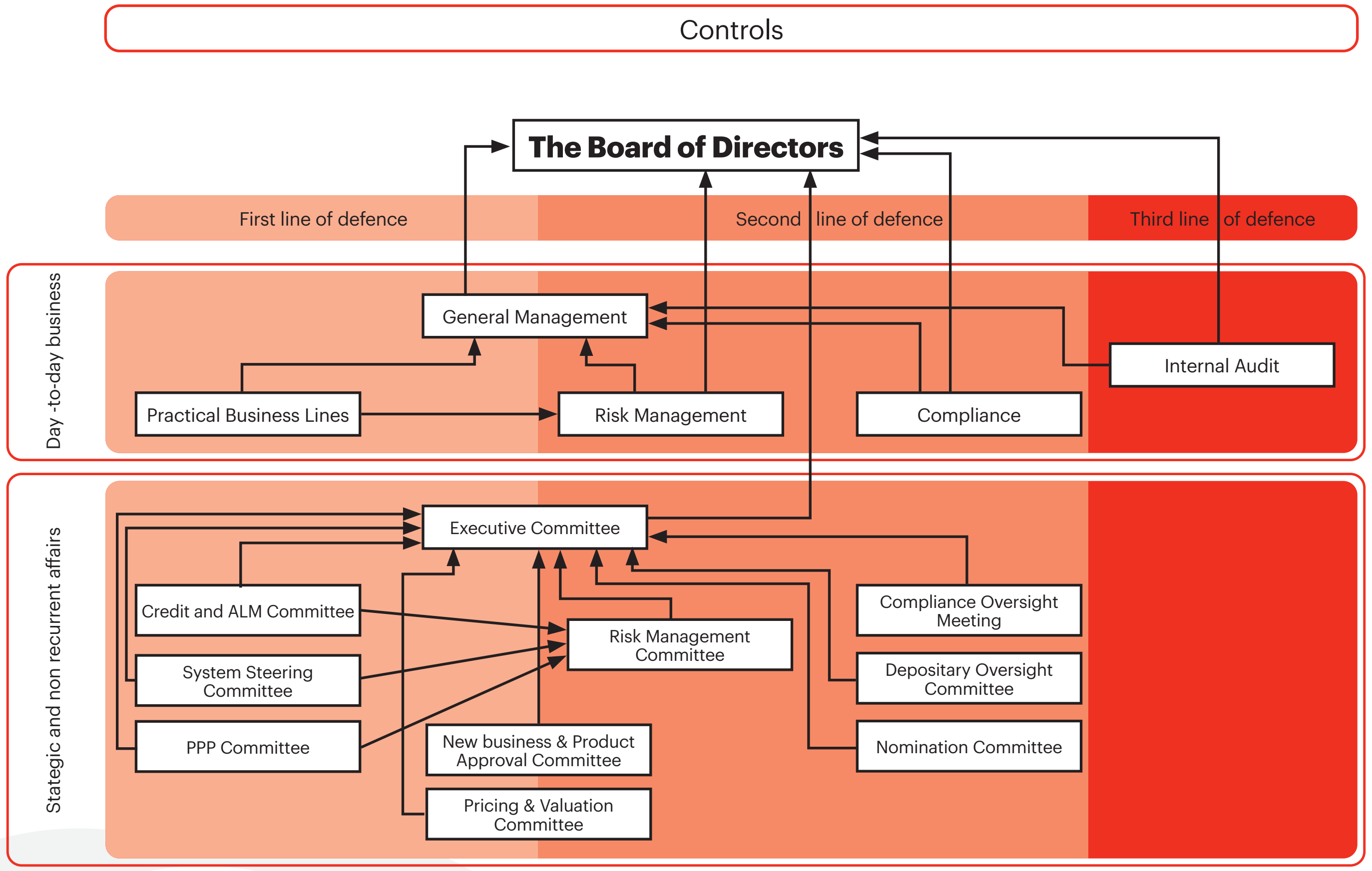
Ko TERAWAKI, Luxembourg
(from June 8, 2015)
Managing Director
Mitsubishi UFJ Investor Services & Banking
(Luxembourg) S.A.
287-289, Route d'Arlon - L-1150 LUXEMBOURG

Masashi KURABE, Luxembourg
(from April 18, 2014)
Deputy Managing Director
Mitsubishi UFJ Investor Services & Banking
(Luxembourg) S.A.
287-289, Route d'Arlon - L-1150 LUXEMBOURG

Ruth BÜLTMANN, Luxembourg
(from January 24, 2017)
Independent Director
Mitsubishi UFJ Investor Services & Banking
(Luxembourg) S.A.
287-289, Route d'Arlon - L-1150 LUXEMBOURG

Michael LÖB, Luxembourg
(from January 24, 2017)
Independent Director
Mitsubishi UFJ Investor Services & Banking
(Luxembourg) S.A.
287-289, Route d'Arlon - L-1150 LUXEMBOURG

Corporate Governance Structure



FREQUENCY OF THE MEETING

Board of Directors:	Quarterly
Executive Committee:	Monthly
Credit and ALM Committee:	Monthly
System Steering Committee:	Quarterly
Portofolio, Program and Project Committee:	Weekly
New business & Product Approval Committee:	Ad-hoc basis
Pricing & Valuation Committee:	Monthly
Risk Management Committee:	Monthly
Compliance Oversight Meeting:	Monthly
Depositary Services Committee:	Monthly
Nomination Committee:	Ad-hoc basis

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CORPORATE GOVERNANCE STRUCTURES

The General Meeting of Shareholders is the highest decision-making body in the Bank. By adopting the articles of incorporation, the shareholders have agreed to transfer the most extensive administrative powers, including the power to delegate, to the Board of Directors, keeping for themselves only the powers reserved by law to the shareholders meeting.

The Board of Directors has in turn delegated the day-to-day management of the company to the General Management ("Authorized Management"), presently composed of two directors, the Managing Director and the Deputy Managing Director. General Management has organized the Bank into such business lines as is necessary to meet legal requirements and to accomplish the Bank's day-to-day objectives.

In order to further strengthen corporate governance and to improve active risk management, as is necessary for a sound organization, the Board of Directors decided in 2010 to reorganize the Bank's committee structure by more clearly defining committees' subjects to be treated, duties, and reporting lines, and by creating a management committee in charge of all strategic and non-recurrent affairs of the Bank, named the "Executive Committee."

The business of the Bank is subject to a three-level control system. The first line of defense occurs within the business lines themselves, which have primary responsibility for any action undertaken, and as a consequence, have been organized in such a manner that each action is carefully checked before being released.

The second line is formed by the support functions, including the Compliance and the Risk Control Functions.

The Risk Management Function comprises the Risk Management Department, the Risk Management Committee, which is overseeing Credit Risk Management, Market Risk Management, Operational Risk Management, Business Continuity Management and Information Security Management, the Credit and ALM Committee, which is overseeing Credit Management, Asset & Liability Management and Liquidity Risk Management and the New Business & Product Approval Committee, which is overseeing the approval of new business and new products. The regular Risk Management Report is delivered for approval to the Board of Directors each quarter.

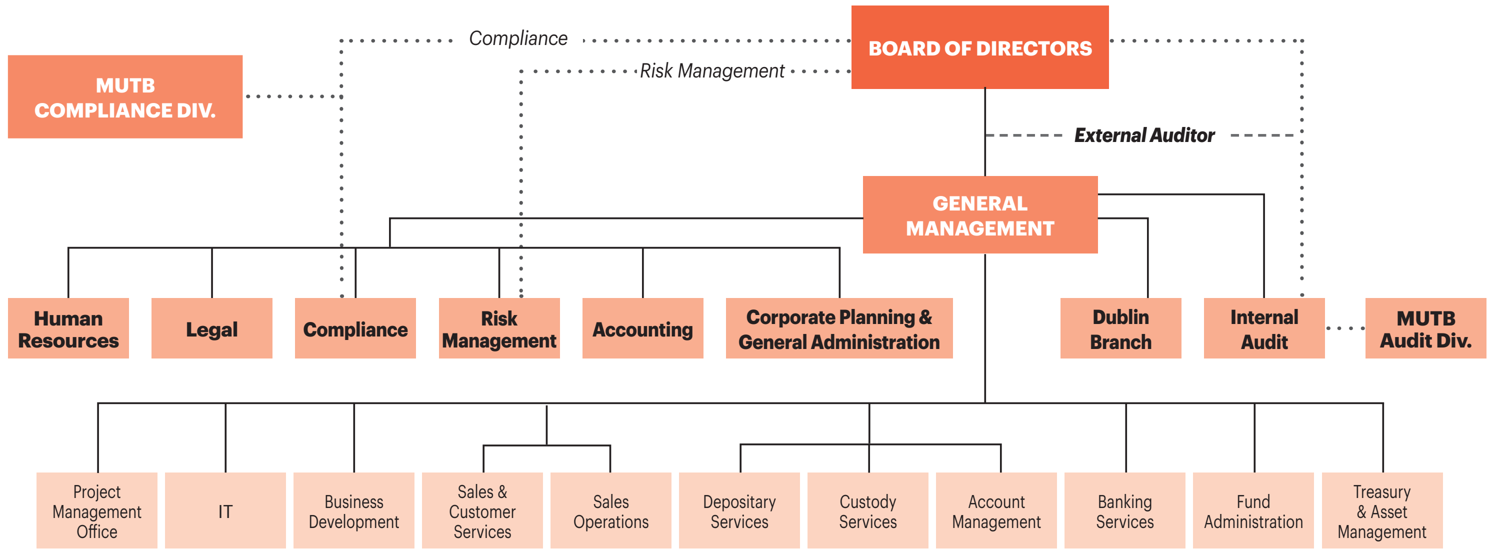
The Compliance Function is subdivided into the Compliance Department and the regular Compliance Oversight Meeting. It ensures the Bank's recognition of and adherence to all applicable laws and regulations, as well as to rules issued by other relevant entities. This function has the authority to contact at will, and reports directly to, the Board of Directors.

General Management and the Executive Committee are part of, and supervise, the first two levels of controls. They also supervise insofar as necessary and required the third level control.

The third-level consists of the Internal Audit Function, which in turns provides an independent, objective, and critical review of the first two lines of defense.

The third level of control, in cooperation with General Management and the Executive Committee, has to ensure the soundness and appropriateness of the Bank's activity. It has the authority to report directly, in case of need or if so required, to the Board of Directors and to regulatory authorities and external auditors, in addition to the Head Office.

ORGANIZATION CHART



MANAGEMENT REPORT

December 31, 2016

Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. (the "Bank") Financial Results 2016

For the year ended December 31, 2016, the Bank reported an operating income of USD 80.216 thousand, as compared to USD 67.012 thousand for the previous fiscal year. The increase of USD 13.204 thousand or 19,70%, comes mainly from the net interest income.

In 2016, the net interest income increased due to rising liquidities and interest rates, whilst net commission from the Investment Funds business decreased. On the other hand, general administrative expenses have increased by USD 7.502 thousand to USD 49.304 thousand in 2016, mainly due to professional fees and system costs.

Net operating profit before income taxes in 2016 increased by USD 10.331 thousand to USD 30.316 thousand, as compared to USD 19.985 thousand as at December 2015.

As of December 31, 2016, the total balance sheet amounted to USD 5.037,5 million versus USD 3.642,4 million as at December 2015. The Liquidity Coverage Ratio (LCR) introduced by the regulation (EU) No 575/2013 of the European Parliament, was 297,23% in December 2016. The Solvency Ratio amounted to 16,78% (prior to the payment of the dividend). Both ratios are well above the statutory minimum requirements. The Return on Assets (ROA) ratio was 0,44% as at December 31, 2016.

The Board of Directors will propose, at the Ordinary Meeting of Shareholders, that the amount of USD 25.254.094,80 consisting of the profit brought forward of USD 1.346,11, the available reserve for Net Worth Tax from the year 2011 of USD 3.100.000,00, and the net profit of the financial year ended December 31, 2016 of USD 22.152.748,69 be allocated as follows:

Allocation to other reserve		
(Net Worth Tax 2016)	USD	174.351,00
Allocation to other reserve		
(Net Worth Tax 2017)	USD	4.102.000,00
Allocation to free reserve	USD	20.940.000,00
Dividends		
Class A Shares dividend	USD	0,00
Class B Shares dividend	USD	33.057,39
Profit carried forward	USD	4.686,41
Total	**USD**	**25.254.094,80**

As of December 31, 2016, the Bank had not acquired any of its own shares.

Business Circumstances in 2016

The world economy was weak in the first half of the year, mainly due to the anxiety about the U.S. and China's economy slowdown, the slumping oil price and Brexit shock (Great Britain voted for withdrawal from the European Union). However it became stable gradually in the second half of the year, especially after the U.S. president election.

In the financial market, Bank of Japan adopted negative interest rate for the first time ever in January. The ECB announced additional monetary easing and the Fed scaled back its expectations for future rate hikes in March. And the long term interest rates declined and stayed low. However the momentum has been changed in the U.S. after the presidential election in November. The Fed raised benchmark interest rates in December.

In terms of foreign exchange markets, the depreciation of the US dollar increased against the Japanese Yen due to the fear about uncertainty of the global economy. However it gained back some strength rapidly against the Japanese Yen, and also against other currencies including EUR, after the U.S. presidential election.

Under such market environment, the Bank's assets under administration were stable and the clients deposits increased gradually throughout the year.

Business Achievement in 2016

The Bank's profit increased 68% compared to 2015 mainly due to the increase of the net interest income derived from the client deposit increase and Fed interest rate hike.

In the Custody business, the assets under custody reached the amount of USD 441 billion as of December 31, 2016, which indicates an increase of 14% compared to December 31, 2015.

As for the Fund Administration business, the number of Funds (including sub-funds) administered by the Bank decreased from 167 as of December 2015 to 158 as of December 2016, and the Net Asset Value calculations as of December 31, 2016 were USD 20.4 billion, so almost the same as that as of 2015 (USD 20.6 billion at the end of 2015). 9 new funds (including sub-funds) were launched during the year 2016. The total assets of the new funds launched have reached USD 2.1 billion based on the Net Asset Value calculation as of December 31, 2016.

As for new business, Dublin branch, Bank Account Services, Fund order desk and Fiduciary Services which onboarded in 2015 and 2016, their revenue has increased to USD 1.0 million (USD 0.1 million at the end of 2015) mainly due to the increase of funds numbers for depository services handled by the Dublin Branch and the new onboarding of Fiduciary Services.

[Robust financial foundation]

The Bank has obtained 'A+' as long term counterparty rating by Standard and Poor's (S&P). It views the Bank as a core subsidiary of Mitsubishi UFJ Financial Group (MUFG) based on its strong integration with the group.

Risk Management (Risk Control Function)

In 2016, the core business strategy of the Bank remained further Japan-centred, with the vast majority of the Bank's clients still being located in Japan. However, the bank started and continues to increase its business towards non-Japanese clients. As Fund Administration and Custody, along with ancillary activities in the provision of hedging services for clients, remained MIBL's main business lines, the Bank continues to mitigate the risks associated with these activities.

Given this environment, the Management's major objective is, in addition to monitoring and controlling the Bank's business-related risks (e.g. credit, market, liquidity and operational risk), to foresee, prevent or mitigate these risks before they have an impact.

To accomplish these objectives, the Risk Management Department is continuously strengthening its current controls and strives to implement improved measures.

Some of the comprehensive risk categories that are of utmost relevance to the Bank are the following:

Credit Risk

The Risk Control Function is in charge of monitoring counterparty and credit risk on a daily basis through the monitoring of exposures towards the Bank's counterparties. A thorough risk management process is in place to monitor limit breaches, apply appropriate corrective measures when breaches occur, and escalate these events when necessary, to Management or to the Regulator.

Funding Liquidity Risk

The Treasury Department is responsible for controlling and managing funding operations, whereas Risk Control is in charge of monitoring on a daily basis compliance with internal standards for appropriate control and management of Funding Liquidity Risk. In particular, Risk Control monitors on a daily basis the Liquidity Coverage Ratio (LCR) which was well above

MUFG

the minimum requirement fixed at 70% for the year 2016. The calculation of the NSFR and the Leverage Ratio started and will be due in 2018.

Market Risk

As of December 31, 2016, the Bank's exposure to market risk was limited; there were no speculative positions. In addition, the Bank assures a careful control over Interest Rate Risk via the calculation of an assets and liabilities duration gap, from both the mark-to-market perspective, and an earnings point of view.

Operational Risk

Operational Risk is the risk category the Bank dedicates the most effort to. It can be defined as the risk of an inadequate or failed process. It is monitored on a regular basis and it was a major part of the Bank's Risk Management plans in 2015 and 2016. Important Operational Risks in the Bank are as follows:

<Operations Risk>

The Bank ensures a detailed focus on the effectiveness of its Operations Risk Management, by using the Operational Risk Self-Assessment (ORSA) and the Operational Risk Quality Assessment (ORQA) to increase the quality of the Operational Risk Management and other tools. In addition, the Bank incorporates the impacts of external changes (e.g. new regulations or added complexity to our business due to client requests) in the Bank's risk policies and procedures.

<Settlement Risk>

It is the risk of non-receipt of funds from counterparties, or an associated risk with settlements. As an example, internal system developments have significantly improved the performance of the Bank's automated intra-day cash reconciliation.

<Information Security>

The main objective of the Information Security Risk Assessment is to assess the Bank's risk exposure to the mishandling of its (confidential) information and therefore ensure that its efforts to mitigate this risk are properly targeting potential vulnerabilities. The Bank has established proper measurement in its controls, trained its staff, issued an information security handbook, and revamped the quarterly security questionnaire that all staff should fill-in. Logical security tools and techniques are administered to restrict access to programs, data and other information resources. User rights per software platform are reviewed on a regular basis by the IT Manager, the Internal Auditor and the Information Security Officer (Deputy Managing Director). In 2017, the Bank hired a dedicated and specialised Information Security Officer (ISO) who will take over the ISO duty from the Deputy Managing Director.

<Outsourcing Risk>

In 2016, the Bank reviewed its approach to Outsourcing Risk by implementing a new risk assessment method for outsourcing contractors. In 2017, the Bank will focus on outsourcing providers with a high residual risk and perform due diligence visits where applicable. Outsourcing Risk is regularly discussed in the planned meetings of the Risk Management Committee in order to closely monitor this type of risk.

Risk Strategy

In conclusion, in compliance with the legal and regulatory mandates and for the purpose of protecting the institution and its reputation, the Bank's Board of Directors approves notably the Bank's risk strategy, including its risk appetite, risk tolerance and the guiding principles governing risk identification, measurement, reporting, treatment, and monitoring.

ICAAP/ILAAP (ICLAAP) and Business Recovery Plan

In line with regulatory rule and guidelines, we conducted Stress Tests in the major risk types (credit, market, operational, liquidity) for the ICLAAP and setup a Business Recovery Plan according the Business Recovery and Resolution Directive (BRRD). Based on Reverse Stress Tests (extreme stress scenarios for the bank), the Recovery Plan allows the bank to take actions for a business recovery in case of a severe business or economic downturn which hit the bank severely and avoids bankruptcy and resolution of the bank. For this, recovery options are defined that the bank could take in order to restore its capital base, liquidity position or profitability. Given the results of the ICLAAP Stress Tests and the setup of the Business Recovery Plan, the bank is quite stable in particular in case of sudden economic downturns.

Business Plan for 2017

In order to expand the client base especially in non-Japanese markets, the Bank will continue its efforts to enhance the service offering and close collaboration within the MUFG group.

The Bank continues to intend to provide various services related to a wider range of alternative funds, such as private equity and infrastructure, in addition to traditional funds through arrangements with MUFG group companies.

MUFG group announced on January 24, 2017 that it will transfer all ordinary shares of the Bank received from other stockholders and transfer them to Mitsubishi UFJ Trust and Banking Corporation (MUTB), therefore the Bank will be the wholly-owned subsidiary of MUTB effective from May 31, 2017 subject to regulatory approval by the relevant authorities. And MUTB announced on February 10, 2017 that two subsidiaries of MIBL, MUFG Lux Management Company S.A. and Mitsubishi UFJ Investor Services Limited will be recapitalized by MUTB. These changes aim to further strengthen the authority and responsibility of MUTB in its role of managing the business, and to create an organizational structure that enables the fastest and most appropriate decision making.

Aligning with MUFG Investor Services strategy, the Bank will continue in enhancing our services for both investor services products and banking products, in order to meet client expectations.

Furthermore, there have been no events in 2016 which had a material impact on the financial figures of the Bank as presented as of December 31, 2016.

Ko TERAWAKI
Managing Director

March 14, 2017

MUFG

BALANCE SHEET

December 31, 2016 (expressed in USD)

ASSETS

	Notes	2016	2015
Cash, balances with central banks and post office banks	29.1., 29.3.	**1.980.130.866**	**1.481.705.021**
Loans and advances to credit institutions	3, 15, 29.1., 29.3.	**3.018.465.826**	**2.109.919.942**
a) repayable on demand		*1.963.465.826*	*1.078.152.942*
b) other loans and advances		*1.055.000.000*	*1.031.767.000*
Loans and advances to customers	29.1., 29.3.	**147.465**	**368.502**
Shares and other variable-yield securities	4, 15, 29.1., 29.3.	**13.162**	**13.556**
Shares in affiliated undertakings	4, 5, 15	**8.036.038**	**8.260.895**
Tangible assets	5	**4.627.120**	**5.600.613**
Other assets		**158**	**136**
Prepayments and accrued income	6, 15	**26.098.088**	**36.586.892**
TOTAL ASSETS	**7**	**5.037.518.723**	**3.642.455.557**

The accompanying notes form an integral part of the annual accounts.

LIABILITIES

	Notes	2016	2015
Amounts owed to credit institutions	15, 29.1.	**1.535.758.747**	**1.410.185.042**
a) repayable on demand		*1.535.758.747*	*1.410.185.042*
Amounts owed to customers	8, 15, 29.1.	**3.299.365.691**	**2.062.070.067**
a) repayable on demand		*3.289.365.691*	*2.062.070.067*
b) with agreed maturity dates		*10.000.000*	*0*
Other liabilities	9	**1.779.768**	**1.230.625**
Accruals and deferred income	10, 15	**17.462.016**	**8.651.896**
Provisions		**13.349.845**	**12.645.069**
a) provisions for taxation	*11*	*12.136.433*	*9.111.035*
b) other provisions	*12*	*1.213.412*	*3.534.034*
Subscribed capital	13	**37.117.969**	**37.117.969**
Reserves	14	**110.530.593**	**97.312.153**
Result brought forward	14	**1.346**	**39.348**
Profit for the financial year		**22.152.748**	**13.203.388**
TOTAL LIABILITIES	**16**	**5.037.518.723**	**3.642.455.557**

The accompanying notes form an integral part of the annual accounts.

OFF BALANCE SHEET ITEMS

December 31, 2016 (expressed in USD)

	Notes	2016	2015
Contingent liabilities	17, 29.1.	**545.385**	**556.865**
of which: *guarantees and assets pledged as collateral security*		545.385	556.865
FIDUCIARY OPERATIONS	**20**	**64.575.929.958**	**57.164.073.225**

The accompanying notes form an integral part of the annual accounts.

PROFIT AND LOSS ACCOUNT

Year ended December 31, 2016 (expressed in USD)

	Notes	2016	2015
Interest receivable and similar income		**29.666.848**	**10.274.222**
of which: - Negative interest received on deposits		*1.866.700*	*181.978*
- Interest Gain from foreign currency swap		*15.403.567*	*3.997.581*
Interest payable and similar charges		**(7.692.118)**	**(2.311.791)**
of which: - Negative interest paid on loans and advances		*(5.812.307)*	*(585.056)*
- Interest Loss from foreign currency swap		*(116.191)*	*(17.112)*
Income from securities		**1.540.691**	**433.631**
Income from shares and other variable yield securities		*1.540.691*	*433.631*
Commission receivable		**102.098.058**	**98.428.083**
Commission payable		**(49.567.473)**	**(43.648.148)**
Net profit on financial operations		**3.841.996**	**3.694.212**
Other operating income	21	**776.916**	**347.071**
General administrative expenses		**(49.304.431)**	**(41.802.616)**
a) staff costs	*23, 24*	*(18.758.113)*	*(17.570.625)*
of which: - wages and salaries		*(15.510.238)*	*(14.446.414)*
- social security costs		*(2.190.449)*	*(2.024.301)*
of which: - social security costs relating to pensions		*(1.388.637)*	*(1.258.548)*
b) other administrative expenses	*25*	*(30.546.318)*	*(24.231.991)*
Value adjustments in respect of tangible and intangible assets		**(2.121.992)**	**(1.999.802)**
Other operating charges	22	**(449.139)**	**(205.173)**
Provision for contingent liabilities and for commitment	12	**2.237.832**	**(2.512.372)**
Tax on profit on ordinary activities	11, 26.1.	**(8.162.892)**	**(6.781.698)**
Profit on ordinary activities after tax		**22.864.296**	**13.915.619**
Other taxes not shown under the preceding items	26.2.	**(711.548)**	**(712.231)**
PROFIT FOR THE FINANCIAL YEAR		**22.152.748**	**13.203.388**

MUFG

NOTES TO THE ACCOUNTS

December 31, 2016

NOTE 1 - GENERAL

1.1. Corporate matters

MITSUBISHI UFJ INVESTOR SERVICES & BANKING (LUXEMBOURG) S.A. ("the Bank") was incorporated in Luxembourg on April 11, 1974 as a *société anonyme*.

On April 1, 1996, the Parent Bank, The Bank of Tokyo, Ltd., merged with The Mitsubishi Bank, Limited to form The Bank of Tokyo-Mitsubishi Ltd., and Bank of Tokyo (Luxembourg) S.A. changed its name to Bank of Tokyo-Mitsubishi (Luxembourg) S.A..

On October 1, 2005, the indirect shareholder, Mitsubishi Tokyo Financial Group, Inc. (MTFG) merged with UFJ Holdings, Inc. (UFJ) and formed a new financial group, Mitsubishi UFJ Financial Group (MUFG).

On January 1, 2006, the Parent Bank, The Bank of Tokyo-Mitsubishi, Ltd. merged with UFJ Bank Limited to form The Bank of Tokyo-Mitsubishi UFJ Ltd., and Bank of Tokyo-Mitsubishi (Luxembourg) S.A. changed its name to Bank of Tokyo-Mitsubishi UFJ (Luxembourg) S.A..

On April 2, 2007, the company became a jointly capitalized subsidiary of Mitsubishi UFJ Trust and Banking Corporation by 70% and Bank of Tokyo-Mitsubishi UFJ Ltd. by 30%, which are under the same holding company Mitsubishi UFJ Financial Group (MUFG). Consequently, Bank of Tokyo-Mitsubishi UFJ (Luxembourg) S.A. changed its name to MITSUBISHI UFJ Global Custody S.A. (MUGC).

On April 28, 2008, MITSUBISHI UFJ Global Custody S.A., has issued 49.080 new shares and the capital of the company has been increased by USD 1.817.968,52. The total subscribed share capital is currently set at USD 37.117.968,52. The two major shareholders of MIBL hold 92,25% of the capital, Mitsubishi UFJ Trust and Banking Corporation by 63,72% and Bank of Tokyo-Mitsubishi UFJ Ltd. by 28,53%.

On August 7, 2014, MITSUBISHI UFJ Global Custody S.A. has established an external branch located at Ormonde House, 12-13 lower Lesson Street, Dublin 2, Ireland. Mitsubishi UFJ Global Custody S.A., Dublin Branch is registered as credit institution pursuant to UE Regulation, 1993, under the number 907648.

On May 1, 2016, MITSUBISHI UFJ Global Custody S.A. has changed its name to MITSUBISHI UFJ INVESTOR SERVICES & BANKING (LUXEMBOURG) S.A. (MIBL).

The members of the Board of Directors are Senior Executives of Mitsubishi UFJ Trust and Banking Corporation Group and The Bank of Tokyo-Mitsubishi UFJ Ltd. Group. The business policy and valuation principles, unless prescribed by the legal requirements existing in Luxembourg, are determined and monitored by the Board of Directors in accordance with those applied in Mitsubishi UFJ Financial Group.

1.2. Nature of business

The object of the Bank is the undertaking for its own account, as well as for the account of third parties either within or outside the Grand-Duchy of Luxembourg, of any banking or financial operations, as well as all other operations, whether industrial or commercial or in real estate, which directly or indirectly relate to the main object described above.

More specifically, the Bank concentrates its activities on investment management services.

A significant volume of the Bank's transactions is concluded directly or indirectly with companies of The Bank of Tokyo-Mitsubishi UFJ Ltd. Group.

1.3. Annual accounts

The Bank prepares its annual accounts in US Dollars (USD), the currency in which the capital is expressed. The Bank's accounting year coincides with the calendar year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank prepares its annual accounts under the historical cost principle in accordance with the laws and regulations in force in the Grand-Duchy of Luxembourg and on the basis of accounting principles generally accepted in the banking sector in the Grand-Duchy of Luxembourg.

In observing these, the following significant accounting policies are applied.

2.1. The date of recording of transactions in the balance sheet

Assets and liabilities are stated in the balance sheet on the date the amounts concerned become cleared funds, that is, on their date of effective transfer.

2.2. Foreign currencies

The Bank maintains a multi-currency accounting system which records all transactions in the currency or currencies of the transaction, on the day on which the contract is concluded.

Assets and liabilities are converted into USD at the spot exchange rates applicable at the balance sheet date. Both realised and unrealised profits and losses arising on revaluation are accounted for in the profit and loss account for the year, except for those resulting from items specifically covered by a forward foreign exchange contract (swap and hedging forward foreign exchange contract) which are recorded at historical exchange rates.

Revenues and expenses in foreign currencies are translated into USD daily at the prevailing exchange rates.

At the year-end, all unsettled forward transactions are translated into USD at the forward rate prevailing on the Balance Sheet date for the remaining maturities.

Results on unsettled forward transactions linked to spot transactions and on swap transactions are accrued at the balance sheet date. The revaluation of these transactions does not affect the result of the financial year.

2.3. Financial instruments derivatives

The Bank's commitments deriving from the derivatives financial instruments such as interest rate swaps, forward rate agreements, financial futures and options are recorded on the transaction date among the off balance sheet items.

At the year-end, where necessary, a provision is set up in respect of individual unrealised losses resulting from the revaluation of the Bank's commitments at market value.

The Bank has constituted a provision for forward derivatives Loss as of December 31, 2016 for an amount of USD 45.798 (2015: USD 57.517).

No provision is set up in those cases where a financial instrument clearly covers an asset or a liability and economic unity is established or where a financial instrument is hedged by a reverse transaction so that no open position exists.

2.4. Specific value adjustments in respect of doubtful and irrecoverable debts

It is the Bank's policy to establish specific value adjustments in respect of doubtful and irrecoverable debts, as deemed appropriate by the Board of Directors.

Value adjustments, if any, are deducted from the assets to which they relate.

2.5. Value adjustments for possible losses on bills, loans and advances and leasing transactions

The value adjustments for possible losses on loans and advances, if any, are deducted from the assets to which they relate.

2.6. Lump-sum provision for risk exposures

In accordance with the Luxembourg tax legislation, the Bank can establish a lump-sum provision for risk exposures, as defined in the legislation governing prudential supervision of banks. The purpose of the provision is to take account of risks which are likely to crystallise but which have not yet been identified as at the date of preparation of the annual accounts.

Pursuant to the Instructions issued by the *Directeur des Contributions* on December 16, 1997, this provision should be made before taxation and should not exceed 1,25% of the Bank's risk exposures.

The Bank has not constituted any provision as of December 31, 2016 (2015: USD 0).

2.7. Transferable securities

Transferable securities are recorded initially at their purchase price. The average cost method is used for initial recognition. Value adjustments, calculated as described in note 2.5. or arising from a diminution of value, are deducted from the account balance.

2.8. Tangible and intangible assets

Tangible and intangible assets are valued at purchase price. The value of tangible and intangible fixed assets with limited useful economic lives is reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives as follows:

- Hardware equipment: 4 years;
- Software: 4 years and 5 years;
- Other intangible assets: 5 years;
- Other tangible assets: 10 years.

2.9. Shares in affiliated undertakings

At the Balance Sheet date, shares in affiliated undertakings held as financial fixed assets are stated at the lower of cost or market value.

2.10. Taxes

Taxes are accounted for on an accruals basis in the accounts of the year to which they relate.

2.11. Prepayment and accrued income

This asset item includes expenditure incurred during the financial year but relating to a subsequent financial year.

2.12. Accruals and deferred income

This liability item includes income received during the financial year but relating to a subsequent financial year.

2.13. Provisions

Provisions are intended to cover losses or debts the nature of which is clearly defined and which, at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

NOTE 3 - LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions other than those repayable on demand may be analysed according to their remaining maturity as follows:

	2016 USD	2015 USD
Not more than three months	477.000.000	227.000.000
More than three months but less than one year	578.000.000	804.767.000
	1.055.000.000	**1.031.767.000**

NOTE 4 - TRANSFERABLE SECURITIES

Transferable securities shown under the items "Shares in affiliated undertakings" and "Shares and other variable yield securities" consist entirely of unlisted securities for USD 8.036.038 and USD 13.162 (2015: USD 8.260.895 and USD 13.556).

Summary of shares in affiliated undertakings

At December 31, 2016, the Bank held at least 20"% of the capital of the following companies:

	Cost USD	Capital held %	Capital and reserves at 31/12/2016 USD	Result for the year ended 31/12/2016 USD
MUFG LUX MANAGEMENT COMPANY S.A.	7.778.825	100 %	10.025.692	862.404
MITSUBISHI UFJ INVESTOR SERVICES Limited	257.213	100 %	1.155.971	197.911

As of December 31, 2016, the share capital of "MUFG LUX MANAGEMENT COMPANY S.A." and MITSUBISHI UFJ INVESTOR SERVICES Limited" amount respectively to EUR 7.375.041,83 and JPY 30.000.000 respectively (2015: EUR 7.375.041,83 and JPY 30.000.000 respectively).

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NOTE 5 - MOVEMENTS IN FIXED ASSETS

The following movements have occurred in the Bank's fixed assets in the course of the financial year:

FIXED ASSETS:

	Gross value at the beginning of the financial year	Additions	Disposals	Exchange difference	Gross value at the end of the financial year	Cumulative value adjustments	Net value at the end of the financial year
	USD	USD	USD	USD	USD	USD	USD
1. Shares in affiliated undertakings	**8.260.895**	**0**	**0**	**(224.857)**	**8.036.038**	**0**	**8.036.038**
2. Tangible assets	**16.468.587**	**1.311.229**	**(146.858)**	**(478.305)**	**17.154.653**	**12.527.533**	**4.627.120**
a) Hardware	1.281.369	73.404	(138.439)	(37.215)	1.179.119	931.947	247.172
b) Software	12.930.805	1.193.087	0	(375.556)	13.748.336	10.272.378	3.475.958
c) Other fixtures and fittings, flat furniture, equipment and vehicles	2.256.413	44.738	(8.419)	(65.534)	2.227.198	1.323.208	903.990
3. Intangible assets	**1.945.439**	**0**	**0**	**0**	**1.945.439**	**1.945.439**	**0**
Goodwill acquired for valuable Consideration	1.945.439	0	0	0	1.945.439	1.945.439	0

Goodwill acquired for valuable consideration represents the value of the takeover of part of the client base of another institution.

NOTE 6 - PREPAYMENTS AND ACCRUED INCOME

The Bank's prepayments and accrued income may be analysed as follows:

	2016	2015
	USD	USD
Prepaid income taxes	119.089	122.070
Accrued interest income	4.629.590	1.536.361
Prepaid general expenses	341.661	2.814.757
Commission on fiduciary operations	1.659.378	1.517.776
Commission on global custody	9.508.271	9.426.884
Commission on investment funds	3.256.497	3.429.370
Other prepayments	320.567	214.721
Advance paid to IRS, US Tax authorities	2.285.714	2.552.106
VAT recoverable	2.536.828	9.666.345
Neutralization of foreign exchange results on position covered by foreign exchange swap	0	4.970.383
Commission from Management Company	357.395	98.351
Other accrued income	1.083.098	237.768
	26.098.088	**36.586.892**

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NOTE 7 - FOREIGN CURRENCY ASSETS

At December 31, 2016, the aggregate amount of the Bank's assets denominated in foreign currencies, translated into USD, is USD 3.681.116.769 (2015: USD 1.553.051.527).

NOTE 8 - AMOUNTS OWED TO CUSTOMERS

As at December 31, 2016, debts other than those repayable on demand amounted to USD 10.000.000 (2015: USD 0).

NOTE 9 - OTHER LIABILITIES

The Bank's other liabilities may be analysed as follows:

	2016 USD	2015 USD
Preferential creditors	732.625	436.777
Sundry creditors	1.047.143	793.848
	1.779.768	**1.230.625**

NOTE 10 - ACCRUALS AND DEFERRED INCOME

The Bank's accruals and deferred income may be analysed as follows:

	2016 USD	2015 USD
Accrued interest expenses	113.912	122.762
Accrued general expenses	3.551.199	2.575.482
Accrued commission	6.454.913	5.881.654
Other accrued expenses	51.140	16.324
Other suspense receipt	56.719	55.674
Deferred income related to custody fees	721.710	0
VAT received from Tax authorities 2012-2014	1.556.606	0
Neutralization of foreign exchange results on position covered by foreign exchange swap	4.955.817	0
	17.462.016	**8.651.896**

NOTE 11 - TAXATION - EXCHANGE DIFFERENCE: DEFERRED TAXATION

Under Luxembourg fiscal regulations, the Bank's fiscal Balance Sheet and its results of operations are required to be expressed in Euro. The earnings of the Bank as determined for fiscal purposes can differ substantially from earnings reported for accounting purposes as a result of unrealised profits or losses on the translation of the Bank's equity into Euro equivalents for fiscal purposes.

In accordance with the Law of July 16, 1987 (as modified), which allows the fiscal neutralisation of translation gains on exchange on the investment of equity in banks, unrealised gains which may be caused by a rise in the USD against the Euro can, under normal circumstances, be neutralised to the extent of the amount that exceeds the unrealised translation losses previously carried forward.

In accordance with the Law of July 23, 1983, however, which allows the fiscal neutralisation of translation gains on exchange on the investment of equity in banks, future unrealised gains which may be caused by a rise in the US dollar against the Euro can, under normal circumstances, only be neutralised to the extent of the amount that exceeds the unrealised translation losses previously carried forward.

Consequently, unrealised translation losses on equity are considered to result from a timing difference and the Bank has provided for revenue taxes on the accounting income as deferred taxation.

As at December 31, 2014, due to the depreciation of the Euro against US dollars, the foreign exchange gain on equity had compensated the accumulated negative position. The deferred tax liabilities had been reduced to USD 0 as of December 2014.

As at December 31, 2016, there is no deferred tax liabilities.

NOTE 12 - OTHER PROVISIONS

The Bank's other provisions may be analysed as follows:

	2016 USD	2015 USD
Provision for remuneration	1.167.614	964.145
Provision for unrealized losses on forward deals (note 2.3.)	45.798	57.517
Provision for tax liabilities in relation with US taxes	0	2.512.372
	1.213.412	**3.534.034**

The amount of USD 2.237.832 in the Profit and Loss account for the year ended December 31, 2016 relates to partial write off of the provision of USD 2.512.372 created in 2015 for tax liabilities in relation with US taxes.

NOTE 13 - SUBSCRIBED CAPITAL

The Bank's subscribed and fully paid up capital amounts to USD 37.117.969 for 953.000 shares of Class A and 49.080 shares of Class B.

NOTE 14 - MOVEMENTS IN RESERVES AND RESULT BROUGHT FORWARD

	Legal reserve USD	Other reserves USD	Result brought forward USD
Balance at January 1, 2016	3.711.797	93.600.356	39.348
Profit for the year ended December 31, 2015			13.203.388
Appropriation of profit			
- Dividends paid to shareholders			(22.950)
- Transfer to reserves for Net Worth Tax		3.348.440	(3.348.440)
- Transfer from Reserve for NWT 2010		(3.130.000)	3.130.000
- Allocation to Free reserve		13.000.000	(13.000.000)
Balance at December 31, 2016	**3.711.797**	**106.818.796**	**1.346**

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Under Luxembourg law, the Bank must appropriate to a legal reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted. This requirement is satisfied as the Bank has reached 10% of the issued subscribed capital.

Based on the Luxembourg tax law, the Bank has elected to get a tax credit for all or part of the net worth tax due for that year. This tax credit is however, limited to the amount of the corporate income tax due for the previous year before the imputation of any tax credits. In order to profit from this credit, the Bank must commit itself to post before the end of the subsequent year an amount equal to five times the net worth tax credit to a special reserve, which has to be maintained for a period of five years.

The Circular I. Fort. N° 47bis issued by the Luxembourg Tax Authorities on 19 November 2015, provides for a dedicated rule allowing the taxpayer to create only one net wealth tax reserve to fully benefit from the Net Wealth Tax reduction for both 2014 and 2015. This reserve should correspond to five times the amount of the highest reduction available for 2014 and 2015 (transitional measure). The reserve for net worth tax is included in the Bank's other reserve for a total amount of USD 15.872.698 (2015: USD 15.519.398).

As resolved in the Annual General Meeting dated March 24, 2016, the Bank has allocated an amount of USD 3.348.440 to Reserve for Net Worth Tax 2016 and reversed the available Net worth tax constituted in 2010 which amounted to USD 3.130.000 (EUR 2.333.120). Additionally, on 28 July 2016, the Bank transferred USD 134.860 from free reserve to Net Worth Taxes reserve 2014-2015.

The accumulated balance of special reserve for Net Worth Taxes states as follows as at December 31, 2016.

Years	**2016 Reserve for Net Worth Tax USD**	**2016 Reserve for Net Worth Tax EUR**
2011	3.100.000	2.388.015
2012	3.304.122	2.506.160
2013	3.101.000	2.250.445
2014 -2015	3.019.136	2.495.050
2016	3.348.440	3.082.425
Balance at December 31, 2016	**15.872.698**	**12.722.095**

In 2005, the Shareholders approved the creation of a special "On-line costs reserve" for a total amount of USD 60.000.000. In the same year, the Bank used the amount of USD 50.000.000 from this reserve to absorb the losses created by the special "On-line costs". The remaining balance of USD 10.000.000 is included in the Bank's other reserves as at December 31, 2016.

NOTE 15 - RELATED PARTY BALANCES

As at December 31, 2016, the following balances with related parties are outstanding:

ASSETS

	2016 USD	**2015 USD**
Loans and advances to credit institutions	2.603.563.578	1.794.463.543
Shares in affiliated undertakings	8.036.038	8.260.895
Prepayments and accrued income	11.780.647	8.355.333
	2.623.380.263	**1.811.079.771**

LIABILITIES

	2016 USD	**2015 USD**
Amounts owed to credit institutions	1.532.309.759	1.405.787.905
Amounts owed to customers	94.447.464	297.629.189
Accruals and deferred income	4.161.707	1.969.812
	1.630.918.930	**1.705.386.906**

The Bank has not entered into any significant transactions with related parties as defined in International Accounting Standards 24 "Related Party Disclosures" which were not made on terms equivalent to those that prevail in arm's length transactions as of December 31, 2016 and for the year then ended.

At the request of the Bank, the CSSF has granted a total exemption for the exposures towards the group (Mitsubishi UFJ Financial Group) in the calculation of large exposure limits, in accordance with the Regulation (EU) No 575/2013 of June 26, 2013 (Part IV).

As at December 31, 2016, the amount towards the group falling under this exemption amounts to USD 2.638.147.665 and can be analysed as follows:

	2016 USD
Loans and advances to credit institutions	2.603.439.021
Prepayments and accrued income	4.628.589
Foreign exchange transactions (Market Risk method)	30.080.055
	2.638.147.665

NOTE 16 - FOREIGN CURRENCY LIABILITIES

At December 31, 2016, the aggregate amounts of liabilities denominated in foreign currencies translated into USD is USD 3.687.241.556 (2015: USD 1.556.640.235).

NOTE 17 - CONTINGENT LIABILITIES

The Bank's contingent liabilities may be analysed as follows:

	2016 USD	2015 USD
Counter-guarantees issued	545.385	556.865

As at the year-end, there were no related party balances.

NOTE 18 - COMMITMENTS

The Bank has entered into certain commitments which are not disclosed neither in the Balance Sheet nor in the Off Balance Sheet Items, but which are significant for the purposes of assessing the financial situation of the Bank. Details of such commitments are as follows:

	2016 USD	2015 USD
Commitments in respect of fixed rental payments contracted on buildings	1.351.407	2.313.443

As at the year-end, there are no related party balances.

NOTE 19 - OPERATIONS LINKED TO CURRENCY EXCHANGE RATES, INTEREST RATES AND OTHER MARKET RATES

The following types of forward transactions are outstanding as at December 31, 2016 and 2015:

Operations linked to currency exchange rates

- Forward exchange transactions (swaps, outrights).

Operations linked to the foreign currency exchange rates are made to a large extent for the purposes of covering the existing positions.

NOTE 20 - INVESTMENT MANAGEMENT SERVICES AND UNDERWRITING FUNCTIONS

Management and agency services provided by the Bank include:

- Custody and administration of transferable securities;
- Fiduciary representations;
- Agency functions;
- Portfolio management and advice.

NOTE 21 - OTHER OPERATING INCOME

	2016 USD	2015 USD
Sub-Rental Fee received from the Management Company (Service level agreement)	66.722	66.016
Income from the adjustment of general expenses regarding previous years	161.260	133.860
Adjustment for commission previous years	437.964	68.793
Other	110.970	78.402
	776.916	**347.071**

NOTE 22 - OTHER OPERATING CHARGES

	2016 USD	2015 USD
Charges from the adjustment of general expenses regarding previous years	122.929	65.072
Commission previous years	293.332	115.459
Interest on previous years	15.350	4.677
Others operating losses	17.528	19.965
	449.139	**205.173**

NOTE 23 - STAFF NUMBERS

The average number or persons employed during the financial year by the Bank is as follows:

	2016 Number	2015 Number
Senior management	29	18
Middle management	71	76
Employees	76	70
	176	**164**

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NOTE 24 - MANAGEMENT REMUNERATION

The Bank has granted emoluments in respect of the financial year to the members of the managerial body of the Bank by reason of their responsibilities as follows:

	2016 USD	2015 USD
Senior management	5.151.542	4.931.286

During the financial year, no pension commitments to the members of the Board of Directors and General Management were made.

As at December 31, 2016 and 2015, the Bank did not grant any advances and credits to the members of the Board of Directors and General Management.

NOTE 25 - OTHER ADMINISTRATIVE EXPENSES

	2016 USD	2015 USD
Rent and related expenses	1.067.196	1.028.303
Telecommunication expenses	361.065	316.394
Professional fees	4.308.794	1.925.092
Data charges	1.223.338	1.310.126
Maintenance	933.559	857.527
Travelling, moving, business trips	135.383	260.850
Service fee	3.985.016	3.475.225
System cost	12.041.688	10.158.996
Service contracts	5.057.176	3.685.300
Other expenses	1.433.103	1.214.178
	30.546.318	**24.231.991**

As of December 29, 2016 the Bank has booked as expenses the remaining balance of Professional fees and System costs treated as prepaid expenses for the year 2012 to year 2015.(Professional fees : USD 701.908, System cost : USD 672.840).

The increase of the costs for these two items are also due to projects started during the year 2016.

NOTE 26 - TAX

26.1. Tax on profit on ordinary activities

	2016 USD	2015 USD
Corporate Income Tax	6.270.710	5.215.462
Municipal Business Tax	1.892.182	1.566.236
	8.162.892	**6.781.698**

26.2. Other taxes not shown under the preceding items

	2016 USD	2015 USD
Net worth tax	33	23.247
VAT	661.473	644.289
Other taxes	50.042	44.695
	711.548	**712.231**

NOTE 27 - PARENT UNDERTAKING

As of December 31, 2015, the Bank is a jointly capitalized subsidiary of Mitsubishi UFJ Trust and Banking Corporation by 63,72% and Bank of Tokyo-Mitsubishi UFJ Ltd. by 28,53%, which are under the same holding company Mitsubishi UFJ Financial Group (MUFG), which is incorporated under the laws of Japan and whose registered office is in Tokyo.

The annual accounts of the Bank are included in the consolidated accounts of Mitsubishi UFJ Trust and Banking Corporation, with Registered Financial Institution number 33 at Kanto Local Finance Bureau Japan and registered address 4-5, Marunouchi 1-Chome, Chiyoda-Ku, Tokyo 100-8212, Japan.

The consolidated accounts of the holding company Mitsubishi UFJ Financial Group (MUFG) may be obtained from the head office at 7-1, Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100, Japan.

NOTE 28 - DEPOSIT GUARANTEE SCHEME

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes ("the Law"), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on December 18, 2015.

The deposit guarantee and investor compensation scheme currently in place through the "Association pour la Garantie des Dépôts Luxembourg" (AGDL) will be replaced by a new contribution based system of deposit guarantee and investor compensation. This new system will cover eligible deposits of each depositor up to an amount of EUR 100.000 and investments up to an amount of EUR 20.000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100.000 for a period of 12 months.

The provisions which have been created in the past by credit institutions for the purpose of AGDL in their annual accounts will be used/released (depending on the accounting treatment chosen) according to the contributions of the banks to the new Luxembourg banking resolution fund "Fonds de résolution Luxembourg" (FRL), respectively to the new Luxembourg deposit guarantee fund "Fonds de garantie des dépôts Luxembourg" (FDGL), which is still to be established.

The funded amount of the FRL shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the FGDL is set at 0,8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. For 2016, the credit institutions have reflected a provision of 0,2% of covered deposits in order to anticipate these contributions, using/releasing (depending on the accounting treatment chosen) the existing AGDL provision in their annual accounts.

When the level of 0,8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0,8% of covered deposits as defined in article 163 number 8 of the Law.

In 2016 the Bank has paid a contribution to the CSSF for USD 429.984 (EUR 386.277) for FRL.

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NOTE 29 - FINANCIAL INSTRUMENT DISCLOSURES

29.1. Primary non-trading financial instruments

As at December 31, 2016, the analysis of primary non-trading financial instruments (the Bank has no trading portfolio) by class and residual maturity is the following:

At carrying amount in USD	≤ 3 months USD	> 3 months ≤ 1 year USD	> 1 year ≤ 5 years USD	> 5 years USD	Total USD
FINANCIAL ASSETS					
Instrument class					
Cash on hand	1.569	0	0	0	1.569
Balances with the BCL	1.980.129.297	0	0	0	1.980.129.297
Loans and advances to credit institutions	2.440.465.826	578.000.000	0	0	3.018.465.826
Loans and advances to customers	147.465	0	0	0	147.465
Shares and other variable yield securities	0	0	0	13.162	13.162
Total	**4.420.744.157**	**578.000.000**	**0**	**13.162**	**4.998.757.319**
FINANCIAL LIABILITIES					
Instrument class					
Amounts owed to credit institutions	1.535.758.747	0	0	0	1.535.758.747
Amounts owed to customers	3.299.365.691	0	0	0	3.299.365.691
Off-balance sheet items disclosed as contingencies					
Guarantees and assets pledged as collateral security	545.385	0	0	0	545.385
Total	**4.835.669.823**	**0**	**0**	**0**	**4.835.669.823**

As at December 31, 2015, the analysis of primary non-trading financial instruments (the Bank has no trading portfolio) by class and residual maturity is the following:

At carrying amount in USD	≤ 3 months USD	> 3 months ≤ 1 year USD	> 1 year ≤ 5 years USD	> 5 years USD	Total USD
FINANCIAL ASSETS					
Instrument class					
Cash on hand	1.041	0	0	0	1.041
Balances with the BCL	1.481.703.980	0	0	0	1.481.703.980
Loans and advances to credit institutions	1.305.152.942	804.767.000	0	0	2.109.919.942
Loans and advances to customers	368.502	0	0	0	368.502
Shares and other variable yield securities	0	0	0	13.556	13.556
Total	**2.787.226.465**	**804.767.000**	**0**	**13.556**	**3.592.007.021**
FINANCIAL LIABILITIES					
Instrument class					
Amounts owed to credit institutions	1.410.185.042	0	0	0	1.410.185.042
Amounts owed to customers	2.062.070.067	0	0	0	2.062.070.067
Off-balance sheet items disclosed as contingencies					
Guarantees and assets pledged as collateral security	556.865	0	0	0	556.865
Total	**3.472.811.974**	**0**	**0**	**0**	**3.472.811.974**

29.2. Derivative non-trading financial instruments

As at December 31, 2016, the analysis of OTC derivative non-trading financial instruments (the Bank has no trading portfolio) by class and residual maturity is the following:

At notional payable amount in USD	≤ 3 months USD	> 3 months ≤ 1 year USD	> 1 year ≤ 5 years USD	> 5 years USD	Total USD	Fair value USD
FINANCIAL ASSETS						
Instrument class						
Foreign exchange transactions						
Forwards	1.513.328.420	14.474.319	0	0	1.527.802.739	15.342.558
Swaps	651.787.947	2.811.669	0	0	654.599.616	2.236.629
Total	**2.165.116.367**	**17.285.988**	**0**	**0**	**2.182.402.355**	**17.579.187**
FINANCIAL LIABILITIES						
Instrument class						
Foreign exchange transactions						
Forwards	1.395.026.531	14.882.836	0	0	1.409.909.367	14.796.033
Swaps	1.683.232.675	4.276.834	0	0	1.687.509.509	5.640.893
Total	**3.078.259.206**	**19.159.670**	**0**	**0**	**3.097.418.876**	**20.436.926**

These amounts include OTC derivative non-trading financial instruments with a trade date before December 31, 2016 and a value date after December 31, 2016.

As at December 31, 2015, the analysis of OTC derivative non-trading financial instruments (the Bank has no trading portfolio) by class and residual maturity is the following:

At notional payable amount in USD	≤ 3 months USD	> 3 months ≤ 1 year USD	> 1 year ≤ 5 years USD	> 5 years USD	Total USD	Fair value USD
FINANCIAL ASSETS						
Instrument class						
Foreign exchange transactions						
Forwards	2.013.239.129	1.603.112	0	0	2.014.842.241	15.784.803
Swaps	1.611.373.895	8.011.462	0	0	1.619.385.357	10.591.362
Total	**3.624.613.024**	**9.614.574**	**0**	**0**	**3.634.227.598**	**26.376.165**
FINANCIAL LIABILITIES						
Instrument class						
Foreign exchange transactions						
Forwards	2.248.328.181	1.600.907	0	0	2.249.929.088	18.816.163
Swaps	532.382.521	0	0	0	532.382.521	2.303.443
Total	**2.780.710.702**	**1.600.907**	**0**	**0**	**2.782.311.609**	**21.119.606**

These amounts include OTC derivative non-trading financial instruments with a trade date before December 31, 2015 and a value date after December 31, 2015.

29.3. Information on credit risk on primary non-trading financial instruments

As at December 31, 2016, the Bank is exposed to the following credit risk on primary non-trading financial instruments:

	2016 Carrying amount in USD	2015 Carrying amount in USD
FINANCIAL ASSETS		
By instrument class and geographic location		
Cash, balances with the BCL	**1.980.130.866**	**1.481.705.021**
EU member countries	*1.980.130.866*	*1.481.705.021*
Loans and advances to credit institutions	**3.018.465.826**	**2.109.919.942**
EU member countries	*413.806.919*	*255.517.247*
North & Central America	*757.029.131*	*342.992.404*
Asia	*1.828.577.178*	*1.507.118.254*
Europe, non-EU member countries	*9.261.471*	*3.405.065*
Australia and New Zealand	*9.791.127*	*886.972*
Loans and advances to customers	**147.465**	**368.502**
EU member countries	*125.983*	*365.584*
North & Central America	*21.482*	*2.918*
Shares and other variable yield securities	**13.162**	**13.556**
North & Central America	*10.547*	*10.863*
EU member countries	*2.615*	*2.693*
Total	**4.998.757.319**	**3.592.007.021**

29.4. Information on derivative non-trading financial instruments

As at December 31, 2016, the Bank is exposed to the following credit risk on derivatives non-trading financial instruments:

	2016 Notional/payable amount in USD	2016 Risk equivalent amount in USD
FINANCIAL ASSETS		
By instrument class and geographic location		
Foreign exchange transactions		
Forwards		
EU member countries	*1.299.763.106*	*12.134.109*
America	*228.039.632*	*3.208.449*
Swaps		
EU member countries	*654.599.617*	*2.236.629*
Total	**2.182.402.355**	**17.579.187**

As at December 31, 2015, the Bank is exposed to the following credit risk on derivatives non-trading financial instruments:

	2015 Notional/payable amount in USD	2015 Risk equivalent amount in USD
FINANCIAL ASSETS		
By instrument class and geographic location		
Foreign exchange transactions		
Forwards		
EU member countries	*1.366.652.545*	*12.240.622*
America	*647.955.936*	*3.542.987*
Asia	*233.760*	*1.194*
Swaps		
EU member countries	*1.619.385.357*	*10.591.362*
Total	**3.634.227.598**	**26.376.165**

REPORT OF THE REVISEUR D'ENTREPRISES AGRÉE

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of MITSUBISHI UFJ INVESTOR SERVICES & BANKING (LUXEMBOURG) S.A., which comprise the Balance Sheet as at December 31, 2016 and the Profit and Loss Account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of MITSUBISHI UFJ INVESTOR SERVICES & BANKING (LUXEMBOURG) S.A. as of December 31, 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the annual accounts and our report of *réviseur d'entreprises agréé* thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

The management report is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.

For ***Deloitte Audit, Cabinet de révision agréé***

Raphaël Charlier, *Réviseur d'entreprises agréé*

Partner

APPENDIX 1 (non audited information)

IFRS Report

The financial statements of this section are based on International Financial Reporting Standards (IFRS) and the deviations allowed by the CSSF for the preparation of the regulatory financial reporting.

All figures are expressed in US Dollars.

Balance and off-balance sheet accounts (Prudential reporting - FINREP)

A Assets	**2016 USD**	**2015 USD**
Cash on hand	1.569	1.041
Cash balances at central banks	1.980.129.297	1.481.704.812
Other demand deposits	488.754.743	369.930.290
Financial assets held for trading - Derivatives	17.579.187	26.376.165
Available for Sales financial assets - Equity instrument	12.255.428	12.950.832
Loans and Receivable - Loans and Advances	2.534.488.136	1.741.849.165
Tangible assets - Property, Plant and Equipment	1.151.162	1.427.494
Other intangible assets	3.475.958	4.173.119
Current tax assets	119.089	122.070
Other assets	20.826.978	30.002.732
Total assets	**5.058.781.547**	**3.668.537.720**
B. Liabilities		
Financial liabilities held for trading - Derivatives	20.436.926	21.119.606
Financial liabilities measured at amortised cost - Deposits	4.835.238.348	3.472.377.871
Current tax liabilities	12.068.718	9.041.295
Other liabilities	15.399.180	10.793.644
Provisions	0	2.512.372
Total Liabilities	**4.883.143.172**	**3.515.844.788**
C. Equity		
Paid up Capital	37.117.969	37.117.969
Retained earnings	1.346	39.348
Revaluation reserves	4.206.227	4.676.381
Other reserves	110.530.593	97.312.153
Profit or loss attributable to owners of the parent	23.782.240	13.547.081
Total Equity	**175.638.375**	**152.692.932**

The principal elements of the Bank's off-balance sheet items are: (prudential reporting)

	2016 USD	**2015 USD**
Contingent liabilities and other off-balance sheet items:		
Financial Guarantees	545.385	556.865
Custody assets from collective investment	34.888.713.574	27.034.701.648
Custody assets from others	405.615.282.717	360.198.343.422
Fiduciary transactions	64.575.929.958	57.164.073.225

Profit and loss account (Prudential reporting - FINREP/IFRS)

		2016 USD	**2015 USD**
	Financial & Operating income & expenses		
1.	Interest income	29.144.258	10.274.221
2.	Interest expense	-7.683.913	-2.311.791
3.	**Net interest income (1+2)**	**21.460.345**	**7.962.430**
4.	**Dividend income**	**1.540.691**	**433.631**
5.	Fee & commission income	102.098.058	98.428.083
6.	Fee & commission expenses	-49.567.473	-43.648.148
7.	**Net Fee income (5+6)**	**52.530.585**	**54.779.935**
8.	Realized gains (losses) on financial assets	2.997	0
9.	Net Gain on financial assets & liabilities held for trading	**5.982.875**	**4.037.905**
10.	Other operating income	**776.916**	**347.071**
11.	Other operating expenses	**-1.160.686**	**-917.404**
12.	**Financial & Operating income & expenses (3+4+7+8+9+10+11)**	**81.133.723**	**66.643.568**
13.	**Administration Costs:**	**-49.304.431**	**-41.802.616**
	Staff expenses (*)	-18.758.113	-17.570.625
	General & Administrative expenses	-30.546.318	-24.231.991
14.	**Depreciation**	**-2.121.992**	**-1.999.802**
15.	**Provisions**	2.237.832	-2.512.371
16.	**Profit before taxes (12+13+14+15)**	31.945.132	20.328.779
17.	**Tax expenses on profit**	**-8.162.892**	**-6.781.698**
18.	**Profit for the year (16+17)**	**23.782.240**	**13.547.081**

(*) In 2016, the Bank has granted emoluments in respect of the financial year to the members of the managerial body of the Bank by reason of their responsibilities as follows (amounts in USD):

Senior management	**5.151.542**
Of which variable remuneration	791.860
Of which fix remuneration	4.359.682

MUFG

APPENDIX 2 (non audited information)

Basel III Disclosure

Annual Report 2016

I. Introduction

This report has been created in compliance with E.U. Directive 2013/36/EU of June 26, 2013, and E.U. Regulation 575/2013 of the same date.

Basel III differentiates between three so-called pillars, which are expected to be mutually reinforcing:

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

Pillar 3 disclosures comprise of:

- Quantitative disclosures relating primarily to actual risk exposures
- Qualitative disclosures relating primarily to risk management practices

Additional qualitative disclosures are applied by enclosing a summary of the Remuneration Policy.

As at December 31, 2016, this disclosure Statement includes the measures required by the full adoption of the Basel III capital reforms. Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk, intended to strengthen bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.

Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. (hereafter "MIBL" or "the Bank"), a member of Mitsubishi UFJ Financial Group (hereafter "MUFG"), whose Head Office (a financial holding company) is located in Japan, has undertaken to carry out the full disclosure required by the above mentioned regulations. Disclosure will be made on an annual basis.

The report may be obtained after the publication of the Annual Accounts, from the following address: Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. 287-289, route d'Arlon, L-1150 Luxembourg.

II. Overview

Due to various changes in the global market and current trends in investment funds, it was necessary to adapt our business model during this past year. As per client requests, new client services have been implemented which further broaden the scope of oversight and the importance of Risk Management at MIBL.

The Bank updates and implements in its policies, procedures, and processes, methods to identify, categorize, measure, monitor, and mitigate the risks linked to its business lines. The Bank remains risk averse and does not engage in proprietary trading for its own account.

III. Risk Classification

The Bank has identified the following risks present in its businesses and operations:

1. **Credit Risk**

   Credit Risk defined as the risk to incur losses due to a decline in, or a total loss of, the value of assets (including off-balance sheet assets) as a result of a counterparty failing to meet its obligations in accordance with agreed terms. Given the nature of MIBL business, credit risk is mainly defined by two sub-categories:

   - **Counterparty (default)** risk covering: settlement risk, counterparty default on FX market exposure (generating replacement costs) or cash placements at risk due to counterparty default.
   - **Country risk** - arising from uncertainties in economic, social, political or other external factors that could have an impact, such as a downgrade of the credit rating.

2. **Concentration Risk**

   The risk of an accumulation of exposure(s) within or across different risk categories of an institution that have the potential to produce either losses large enough to threaten the institution's health and/or ability to maintain its operations, or to produce a material change in an institution's risk profile. The concentration risk is quantified using the Lower Partial Moment approach (LPM) in the stress test models.

3. **Market Risk**

   Market Risk defined as the risk of financial loss due to a decline in the value of assets, or the increase in the value of liabilities, including off-balance sheet items, as a result of fluctuations in market rates (FX rates, interest rates), prices, indices, and volatilities. The Bank has defined two general sub-categories of Market Risk, namely:

   - **Interest Rate Risk** – arises as a result of changes in interest rates; both assets and liabilities may impact the profitability of the Bank;
   - **Foreign Exchange Rate Risk** – defined as the risk of a loss following changes in the market foreign exchange rate on the Bank's transactions.

4. **Liquidity Risk**

   The Bank has identified two types of liquidity risk: market liquidity risk and funding liquidity risk.

   - **Market Liquidity Risk** – defined as the risk of sustaining a loss due to the inability to trade required quantities at a reasonable price, caused, for instance, by market turmoil or a lack of trade volume in the market.
   - **Funding Liquidity Risk** – defined as the risk of sustaining a loss due to the inability to obtain the necessary funds required for trading or settlement of obligations, or the need to acquire funds at disadvantageous terms, caused by deterioration in market conditions and/or in the Bank's financial standing.

5. **Operational Risk**

   Operational Risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people, and systems, or from external events. This includes:

   - **Operations Risk** – defined as the risk of incurring losses caused by negligence of correct operational processing or by incidents or misconduct by officers or staff.
   - **IT Risk** – defined as the risk of sustaining a loss due to IT system destruction, disruption, leakage, errors or similar events.
   - **Outsourcing Risk** – defined as the risk of sustaining a loss due to a failure in delegated activities, because they were not carried out properly or not in accordance with contractual arrangements.

6. **Compliance & Legal Risk**

   Compliance and Legal risks are defined as the risks of loss due to a failure to conduct the business in accordance with applicable laws, rules and standards or due to inappropriate or insufficient response to regulatory changes. It covers a variety of component risks such as litigations, sanctions, together with certain aspects of Operational Risks, across the complete range of the Bank's business activities.

7. **Reputational Risk**

   The Bank defines reputation risk as the risk of sustaining a loss due to an impaired reputation, caused, for instance, by negative perceptions and rumours among the Bank's clients and in the general marketplace, or by an inadequate response of the Bank to events arisen within the course of the Bank's business activities. This affects the Bank's ability to establish new relationships or services or to continue existing servicing relationships.

8. **Remuneration and Personnel Risk**

   Personnel risk is defined as the risk of loss due to high turnover of human resources, lack of training, lack of ethics and degradation of morale, as well as other similar behaviors. Remuneration risk is triggered by an inappropriate remuneration policy of the Bank, allowing abusive personnel compensations that are not tied to the financial results of the Bank, nor to the performance of its employees.

IV. The Strategies and Processes of Risk Management

1. One of the basic functions of the Bank's Risk Control is to monitor the risks linked to the Bank's activities and business strategies that are within the control of the Board of Directors, and to the greatest extent possible to predict, mitigate, and manage the risks of the Bank using a pre-defined standard or method whenever possible.
2. The major objective of comprehensive risk control is not only to maintain preventive measures against business risks, but also to include all departments in its analysis and thereby to improve operations through more efficient processes and systems. Other aims are to identify all potential risks the Bank may face, evaluate the scope and the appropriateness of the controls put in place to assess these risks, and determine an action plan to eliminate weaknesses.
3. The Risk Management Department utilizes and has documented detailed methods in the Bank's policies, procedures, written rules, and other documents in its efforts to monitor and manage the risks noted above. The departments where these risks are generated periodically review these written papers, and amend or abolish them in accordance with changes in the Bank's operating environment.

V. The Structure and Organization of the Risk Management Function

1. The Board of Directors and General Management

The Board of Directors is responsible for deciding and approving the basic framework and strategies of the Bank's internal risk control management, implemented throughout the Bank, and to confirm its implementation.

The Board of Directors determines the usefulness and efficiency of the risk controls in place using risk control reports delivered regularly, and judges if the controls comply with the approved limits and measures.

On behalf of the Board of Directors, General Management creates a risk verification and management framework, which remains independent from the Bank's profit-earning units, and allocates the skilled management resources required for carrying out the necessary controls and functions. For this purpose, General Management establishes policies, standards, and procedures for risk control and management.

In addition, General Management reviews risk control and management plans, organization structures, policies, and procedures so that the Bank's risk management framework evolves consistently with changes in the Bank's businesses, international markets, and "Best Practices" in Risk Management.

Employees are assigned to departments and tasks according to their professional experience and academic background. These assignments are approved by the General Management.

Chief Risk Officer

The Chief Risk Officer (hereafter "CRO") title is assigned to the director carrying out supervisory management of the Risk Management Department (hereafter the "RMD"), which is the department responsible for comprehensive Risk Management, encompassing all risk categories. The CRO is responsible for a complete assessment of MIBL's risks, and for managing these risks adequately. The CRO reports risk control and management methods and plans the Bank's overall risk status to the Board of Directors, General Management, and to the Risk Management Committee.

2. Risk Management Department (RMD)

The RMD is responsible for the selection and execution of an adequate risk management structure. On a daily basis, the department identifies, measures, controls, and monitors all risks within defined and controllable limits. These actions attenuate risks across MIBL's businesses, and thereby provide stability to earnings and risk awareness in the allocation of resources.

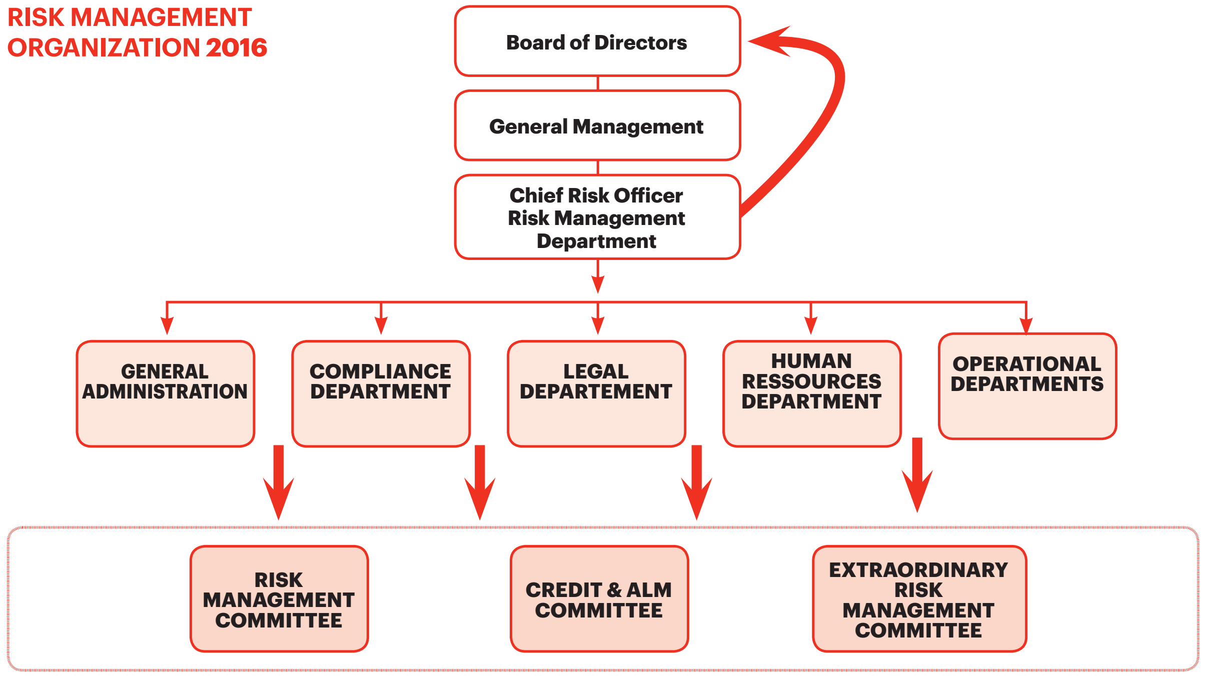
3. Risk Management Committee

The primary responsibility of the Risk Management Committee is to review, discuss, and approve the Bank's Risk Management activities. In particular, and in congruence with the Bank's businesses, the Committee discusses Financial Risk (Credit & Market Risk) and Operational Risk and puts forth policies to avoid losses due to these risks. Its members discuss quantitative, as well as qualitative, methods of managing the Bank's risks.

4. Credit and ALM Committee (For Credit Risk, Market Risk, and Liquidity Risk)

The primary responsibility of the Credit and ALM Committee is to establish an appropriate implementation and a functioning management structure for Credit Risk, Market Risk, and Liquidity Risk. On a monthly basis, its members monitor, and if necessary make decisions regarding, both MIBL clients' assets and the Bank's assets.

RISK MANAGEMENT ORGANIZATION 2016



VI. The Scope and Nature of Risk Reporting and Measurement Systems

The Bank's process for control and managing its diverse categories of risk comprises several levels and phases. A non-exhaustive description of its methodology follows:

1. Detection of Risks

This step includes the identification of the characteristics of the Bank's individual risks, which include, but are not limited to, their type(s), location(s), source(s), and interdependency(ies).

2. Risk Assessment and Computation

This step includes a comprehensive evaluation of the source of risk, using both quantitative and non-numerical methods, at the transaction, portfolio, and overall structure levels of the individual risk.

3. Risk Control

Risk Control at MIBL involves the process of examining and updating approvals, limits, thresholds, operational processes (for example, standing instructions), escalation processes (and exceptional treatment rules), and risk attenuation methods (haircuts, collateral, netting calculations, ratings, etc.). These are contained and updated in MIBL policies, rules, procedures, and practices. MIBL's Head Office, E.U. regulations, CSSF circulars and regulations, and Luxembourg laws also act as inputs into MIBL's policies.

4. Risk Monitoring and Reporting

The Risk Management Department is in charge of updating the risk processes, monitoring of the risk status and exceptional treatment of individual risks, and reports to General Management and Risk Management Committee. The Committee reports to the Board of Directors on a quarterly basis.

VII. The Policies for Mitigating Risk and the Process for Monitoring Risks

1. Credit Risk Monitoring

The Bank is exposed to counterparty risk, as major component of credit risk, via: overdrafts, money market and foreign exchange market transactions. Potential losses are mitigated via the following methods:

- active follow-up of failed transactions
- active follow-up of overdrafts
- reconciliation of nostro accounts
- development of an active approach towards cash management.

The Pillar 1 capital requirement sufficiently covers the Credit Risk profile of the Bank.

Credit Exposure and Limit Monitoring

The Bank's credit risk monitoring framework allows RMD to verify on-demand the Bank's credit exposures and their impact on authorized credit limits. The RMD carries out verifications of the current credit exposure compared to the approved credit limit. The report indicates a "warning," e.g. a color signal, when the usage of the limit is above 80% of the total limit amount. In this event, the RMD transmits a message to the appropriate department to take remedial action as soon as possible. If the limit is breached, a report is forwarded to the General Management.

The Bank uses a banking system which allows an on-demand monitoring of credit limits. All transactions that would transgress the relevant credit limit put in place cannot be processed without the express authorization of the Risk Management Department. The control on credit limit breaches is made possible through the "Visa Control" system put in place by the Bank. In the event the RMD is requested to approve using Visa Control, an exhaustive analysis of the credit limit breach is carried out. The result of this analysis will be transmitted to General Management before releasing or rejecting the transaction.

Credit Limit by Counterparts

The Bank applies for limits to Mitsubishi UFJ Trust and Banking Corporation (hereafter "MUTB"), following the Managing Director's approval.

Credit Limit Control

The RMD controls the Bank's credit limits. Once the credit limit has been authorized by MUTB, the RMD forwards the approval to the General Management. All approved limits are set up in the Banking system. The RMD reviews these limits once a year, or more frequently as necessary (e.g., in case of breach).

Monitoring Credit Rating for Counterparts

The Bank verifies the credit ratings of all counterparts that have a deal or custody agreement with the Bank.

Credit Risk Stress Testing

The Bank put in place a Credit Risk Stress Test model, using macro-economic and financial market data (e.g. GDP, unemployment rates, interest rates, FX rates, exchange indices, bankruptcy indices etc.) to infer stress factors applied on the Probability of Defaults (PDs) and create a credit loss distribution.

For the stress test, hypothetical and historical scenarios (including concentration risk) are considered and applied on the banking credit portfolio: mild recession scenario occurring by assumption once in 10 years, the severe recession scenario occurring once in 50 years, the historical "9/11" event, the historical "Lehman bankruptcy".

Country Risk Monitoring

The RMD monitors the counterparts' country risk by checking country ratings using a Bloomberg Station.

Capital requirements

The Bank uses the Standardized Approach for Credit Risk, wherein each exposure is assigned to an exposure class as detailed in CSSF Circular 14/583. The application of risk weights is based on the exposure class to which the exposure is assigned and its credit quality.

The Credit Risk Pillar II is derived primarily from the transactions in cash placement, the overdrafts (occurred mainly by settlement failures) and FX Forwards (the latter are undertaken to mitigate client Foreign Exchange Risk at the request of the customer).

For 2016 Pillar II credit risk capital requirements the scenario with the maximum loss was considered, with an amount of USD 10.170.003.

2. Market Risk Monitoring

Interest Rate Risk

Interest Rate Risk may be defined as the risk of loss due to the "gap" (i.e. difference) between assets and liabilities on the Balance Sheet that are exposed to interest rate fluctuations. Interest rates are influenced by a variety of factors, such as politics, international news, and the general economic climate of countries.

The Bank's Interest Rate Risk exposure arises from the normal course of its banking activities, such as accepting deposits, placing funds with credit institutions. The objective of the Bank regarding Interest Rate Risk is to minimize potential losses by monitoring fixed rate interest positions. The Bank has just the risk of an opportunity cost for its gap (i.e. cash) placement (i.e. not being able to re-invest at higher interest rates should they occur during a previously contracted fixed-rate loan).

The Bank has adopted a full cover principle for all interest rate-related contracts. The maximum risk allowed is determined by the Authorized Management.

The Bank performs sensitivity analysis on its economic values taking into account positive and negative shifts on all interest rates (200bp parallel shift of yield curves) as defined by CSSF Circular 16/642. The aim of this analysis is to determine to which extent Interest Rate Risk is likely to result in a decline in the economic value of the institution. The Bank applies interest rate shocks to all its treasury flows taking into account the following parameters: residual maturity, contract rate, market rate, and nominal amount.

International changes, such as the trend toward the liberalization of interest rates in the developing world and large money movements into speculative funds in recent years, have added a higher variability to interest rates than they showed in previous years. This has caused Asset & Liability Management to take on a relative position of importance in the area of Risk Management.

Foreign Exchange Rate Risk

The Bank enters into foreign exchange positions as a result of opening FX trades on behalf of its clients. These trades are then hedged in the Interbank Market at the same time without taking on any market risk. Thus, Currency Risk is managed on a timely basis on spot and forward markets. The Bank's policy is to maintain a "full cover" of all transactions. The RMD carries out daily verifications to ensure that all of the Bank's positions are fully hedged.

Daily Control

In general, the total foreign exchange position of the Bank is equal to 0 (or "squared") at the end-of-business each day. A maximum net position of 500.000 USD is allowed at day's end when, due to client transactions, this amount could not be squared. As a matter of practice, the Bank seeks to have the entire FX position squared to the furthest extent possible.

As part of its daily controls, the RMD issues the "Forex Forward Net Short Position Report" (showing the Bank's forward transactions with clients) and the "Net Short Position Report" (for Spot transactions).

As a matter of practice, and due to its risk-averse stance in its businesses, the Bank has virtually no other market risks, i.e. no stock prices risk, commodity price risk, or market liquidity risk.

The Bank has also put in place a FX Stress test that quantifies the potential losses that could be incurred by the Bank in case of significant variation of the FX rates and lack of hedging strategy. The FX stress test is defined using different scenarios where a depreciation of the USD is always assumed using different magnitudes with respect to other currencies.

3. Liquidity Risk Monitoring

The Bank's transactions are continuously monitored with respect to their adherence to its internal liquidity rules and to the current regulations in place.

Introduced by the regulation (EU) No 575/2013 of the European Parliament, the liquidity coverage requirement will be gradually implemented starting from October 2015, with a first minimum requirement fixed at 60%. As from 1st of January 2016 the minimum requirement is fixed to 70%, then the requirement will reach 80% as from January, 2017 and 100% as from 1st of January 2018.

The Liquidity Coverage Ratio (LCR) ensures that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

During the year 2016, the Bank has reported to the CSSF the liquidity coverage ratio on a monthly basis. Pursuant to article 415 CRR IV, the Bank has reported the LCR per currency for liabilities exceeding 5% of the total liabilities, mainly in USD, EUR, GBP, JPY and AUD. There is no minimum requirement for a ratio by currency.

During the 2016, the Liquidity Coverage ratio in USD was well above the minimum requirement.

LIQUIDITY COVERAGE RATIO (LCR) as of 31/12/2016 in USD

A. High Liquidity Assets	1.944.966.267
B. Inflows	2.271.376.267
C. Outflows	2.617.494.899
D. Capped Inflow (Max 75% Outflows)	1.963.121.174
E. Inflows for LCR (Minimum (B) or (D)	1.963.121.174
F. Net Cash Flow (C)-(E)	654.373.725
G. Liquidity Coverage Ratio (A)/(F)	297,23%
H. Minimum Requirement at 31.12.2016	70,00%
I. Minimum Requirement met	OK

The Bank performs quarterly stress-testing of its liquidity risk, simulating extreme market conditions in order to assure that high impact events are easily absorbed.

Asset & Liability Gap Placement Monitoring

MIBL's Funding Liquidity GAP is verified on a daily basis using an automated tool. The Funding Liquidity Report, issued by the tool, is sent to General Management and submitted to a "Four-Eyes" verification on a daily basis. In the daily computation of the GAP, a certain amount of "core cash" is considered to remain on clients' accounts for a longer, more stable period of time.

The amount of core cash at MIBL has increased to 980 million USD, based on the augmentation in customer cash accounts seen in recent years. GAP placement limits have been set by the MUTB Head Office as follows:

Time Period	Limits
- < 1 month	980 Million USD
- < 6 months	900 Million USD
- < 1 year	500 Million USD

The Credit and ALM Committee monitors on a monthly basis the Bank's respect of the Gap Placement Policy.

4. Prudential ratios

As introduced by the requirements of Directive 2013/36/EU / Regulation EU No 575/2013), the Bank calculates and monitors the prudential ratios.

Besides the LCR presented above, the Bank ensures that Net Stable Funding Ratio (NSFR) and Leverage Ratio (LR) are being monitored, although as per December 31, 2016 there is no level requirement applicable.

NET STABLE FUNDING RATIO (NSFR) as of 31/12/2016 in USD

A. Available Amount of Stable Funding	1.640.152.077
B. Required Amount of Stable funding	626.749.575
C. Net Stable Funding Ratio (A)/(B)	261,69%
D. Minimum Requirement from 01.01.2018	100,00%
E. Minimum Requirement met	OK

LEVERAGE RATIO (LR) As of 31/12/2016 in USD

A. Tier 1 Capital	158.069.413
B. Total On and Off-Balance Exposure	5.064.887.637
C. Leverage Ratio (A)/(B)	3,12%
D. Minimum Requirement as of 01.01.2018	3%
E. Minimum Requirement met	OK

5. Operational Risk Monitoring

The Bank has defined Operational risk as the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market nor credit-related. Operational risk is inherent in MIBL's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate behaviour of employees, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage to the bank. The goal is to keep operational risk at appropriate levels, in light of MIBL's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

The Operational Risks of each business line are identified, measured, and controlled. When remedial or preventive measures are necessary to attenuate risks, the RMD in collaboration with General Management, conceives of and implements an action plan.

As part of group-wide management, the Bank collects, measures, and analyzes loss data, if any, which includes financial losses, derived from operational error events.

"Operational mishandling" refers to errors identified as being caused by negligence in processing and/or disrespect of the Bank's internal rules and procedures, or normal commercial customs and practices.

The Bank has put in place an "incident" and an "accident" reporting procedure that is especially designed to enable MIBL to carry out corrective actions by reporting promptly the detail of each incident or accident to the Bank's General Management.

The below-listed cases are taken into consideration:

- wrongful acts,
- cash accidents,
- operational errors,
- accidents in the course of business activities,
- system inconsistencies ("bugs") and disturbances ("shut-downs"),
- violations of relevant laws,
- complaints,
- lawsuits, and
- accidents not related to business activities.

MIBL uses these reports to recommend and implement improvements in collaboration with its parent company. The aim of the improvements is to prevent recurrence of analogous or related cases and to create awareness amongst the Staff of Operational Risk issues. All accidents are promptly reported upon discovery, and follow-up measures are carried out as appropriate.

For the improvement of the Operational Risk mitigation, RMD has put in place in 2016, two qualitative risk assessments tools: the Operational Risk Self-Assessment (ORSA) and the Operational Risk Quality Assessment (ORQA) as preventive measures for reducing Operational Risk. The approach and documentation supporting these both assessments have been approved by the Bank's Executive Committee.

These measures combined with the Operational Risk reporting and statistics on incidents management allow a better management of the mitigation related to potential operational risks. The mitigation of operational risks is based as well on three lines of defence: the first line being under the responsibility of the business and operations units, the second with the RMD and the third with the Internal Audit.

As the Bank considers Operational Risk as one of the most important risks it is currently exposed to, stress tests are performed quarterly using the Operational Risk Loss Simulation (ORLS) model. The model is built on the experience gained from the internal incident reports and is designed to create severity classes in loss intervals and assigning likelihoods for the loss ranges (Insurance Mathematics). Based on this model, the Bank calculated a Pillar II requirement for Operational Risk (including outsourcing, compliance and legal risks) of USD 4.500.167.

MUFG

VIII. Equity Investments Held

Fair value of shares in affiliated undertaking recorded as Equity instrument under IFRS.

Equity investments are not consolidated and are excluded from the own funds. Additional information is given in the Note "Transferable Securities" in the annual accounts.

	Cost	Capital held	Capital and reserves at 31/12/2016	Result for he year ended 31/12/2016
	USD	%	USD	USD
MUFG LUX MANAGEMENT COMPANY S.A.	7.778.825	100 %	10.025.692	862.404
MITSUBISHI UFJ INVESTOR SERVICES Limited	257.213	100 %	1.155.971	197.911

IX. Regulatory Capital Requirements

As required by E.U. Directive 2013/36/EU and E.U. Regulation 575/2013, the Bank maintains eligible own funds at least equal to the amount of its overall capital requirements. The minimum required ratio is 10,5%. The Solvency Ratio amounted to 16,77% The Bank applies the Simplified Standardized Approach for the Credit Risk and the Basic Indicator Approach for the Operational Risk.

This ratio is calculated and communicated to the CSSF on a quarterly basis.

All items included in the calculation of the credit risk are extracted from the accounting records of the bank.

The ratio (expressed in percentage terms) is calculated using the following formula:

- the numerator consists of eligible capital ("own funds") of the Bank,
- the denominator is composed of assets, risk-adjusted by means of percentage weightings that express the degree of credit risk and the capital requirement for Operational Risk.

The details of the capital adequacy ratio calculation as at December 31, 2016 are presented below.

	2016 USD
A) Own Funds for solvency	
- Paid up Paid up Capital instrument	37.117.969,00
of which Common Stock (Class A Shares)	*35.300.000,00*
of which Preferred Stock (Class B Shares)	*1.817.969,00*
- Other reserves- Other reserves	114.736.820,00
- Profit eligible (income from current year)	23.782.240,00
- Previous year retained earnings	1.346,00
- Intangible assets	- 3.475.958,00
- Amount deducted from Tier 1 Capital *(Fair value of shares in affiliated undertaking recorded as Equity instruments under IFRS)*	- 12.241.978,00
Total Own Funds before Dividends	**159.920.439,00**
- Dividend payable	- 33.057,00
Own funds after Dividends	**159.887.382,00**
Total own funds for the Capital ratio	**159.887.382,00**
of which Common Equity Tier 1	158.069.413,00
of which Tier 1 Own Funds	158.069.413,00

B) Capital Requirements

Capital requirement for Credit Risk	65.204.418
Capital requirement for Operational Risk	11.053.507
Total Capital Requirement	**76.257.925**

> Capital Requirements for Credit Risk

Capital requirements for Credit Risk are decomposed as follows:

Counterparty Breakdown	Exposure value before conversion Factor	Capital Requirement	% of Total Capital Requirement
Cash & Central Bank	1.980.129.297	-	-
Institution	3.054.876.218	62.813.976	96,33%
Corporate	7.770.029	621.605	0,95%
Others & Equity	37.830.029	1.768.837	2,71%

In accordance with E.U. Regulation 575/2013 of June 26, 2013, exposures to credit institutions for which a credit assessment by a nominated ECAI is available shall be assigned that risk weight given by the nominated ECAI according to article 120 of the Regulation. Exposures to institutions for which a credit assessment by a nominated ECAI[1] is not available shall be risk-weighted in accordance with article 121 of the Regulation.

As an example, pursuant to article 120 of E.U. Regulation 575/2013, risk weights for exposures with a residual maturity of more than three months at institutions rated by a nominated ECAI are allotted risk weights according to the table below.

[1] "ECAI" is an acronym for External Credit Assessment Institution.

Credit Quality Step	Risk Weight
1	20%
2	50%
3	50%
4	100%
5	100%
6	150%

CEBS GL07 provides mapping from the Credit Quality Steps above to ECAI ratings. For example, for long-term credit assessments, for Moody's, CEBS GL07 indicates:

Credit Quality Step	Moody's Rating
1	Aaa to Aa3
2	A1 to A3
3	Baa1 to Baa3
4	Ba1 to Ba3
5	B1 to B3
6	Caa1 and below

> Capital Requirements for Operational Risk

The capital requirements for Operational Risk calculated in accordance with the Basic Indicator Approach are presented as follows:

	USD 2016	USD 2015	USD 2014
Net interest income	21.460.345	7.962.431	6.479.088
Net fee & commission income	52.530.585	54.779.935	60.346.033
Net foreign exchange trading result	5.982.875	4.037.905	3.701.692
Dividends	1.540.691	433.632	140
Realized gain on financial assets	2.997	-	69
Other operating income	776.916	347.071	687.746
Total gross result	**82.294.409**	**67.560.974**	**71.214.768**
Average result for the last 3 years	**73.690.050**		
Capital Requirement for Operational Risk (Basic Indicator Approach 15%)	11.053.507		
Risk Exposure amount for Operational Risk	138.168.844		

C) Capital Adequacy Ratio (Tier 1)

Total Risk Exposure = Capital Requirements (B) / 8%

$$\frac{\textbf{Common Equity Tier 1 (A)}}{\textbf{Total Risk Exposure amount}} = \frac{158.069.413}{953.224.064} = \textbf{16,58\%}$$

During the financial year 2016, the Bank held regulatory capital well above the required minimum standards.

X. Other Disclosure Requirements

> Determination of Value Adjustments and Provisions

It is the Bank's policy to assess exposures on an individual basis and to establish specific value adjustments with respect to doubtful and irrecoverable debts. As at December 31, 2016, the Bank was not exposed to doubtful and irrecoverable debts and there was no need to establish specific value adjustments.

> Credit Risk Exposure

Quantitative information on credit risk exposure by class and residual maturity and geographic location is given in the "Financial Instrument Disclosures" of the annual accounts, Notes 29.2 and 29.3.

Stress tests are computed are quarterly as at the 31st March, 30th of June, 30th September and as at the 31st of December of each year. The outcomes 31st of December are calculated and reported to the Luxembourg regulator (CSSF) in the ICLAAP[2] Report, based on the Bank's individual status as a credit institution established in Luxembourg, and not on a consolidated basis. The Bank is not subject to CSSF control on a consolidated basis.

As a result of the December 2016 stress tests, the worst case scenario result was USD 10.170.003.

> Interest Rate Risk Exposure

The Bank's potential exposure on a Mark to Market basis for Interest Rate Risk is low. Due to the short term maturities of assets and liabilities, a change of interest rates would mainly impact the Bank's short-term future earnings (EaR).

The Bank has implemented a stress test on interest rates in order to comply with the provisions of the CSSF Circular 08/338 as amended by CSSF Circular 16/642. The stress test aims at quantifying the variation of the value of an institution's wealth when interest rates change.

Requirements to Calculate and Report the Stress Tests on Interest Rates

The interest rate scenarios applied are an increase and a decrease of 200 basis points on all interest rates to which the Bank is exposed. The transactions utilized in the stress scenarios include, but are not limited to, customer cash deposits and OTC derivative contracts written on the client's request. The Bank applies the interest rate shocks to the stated transactions taking into account the following parameters: residual maturity, contract rate, market rate, and nominal amount.

Stress tests are computed semi-annually as at the 30th of June and as at the 31st of December of each year. The outcomes are calculated and reported to the Luxembourg regulator, the CSSF, based on the Bank's individual status as a credit institution established in Luxembourg, and not on a consolidated basis. The Bank is not subject to CSSF control on a consolidated basis.

As a result of the December 2016 stress tests, the scenario results of the 200 basis points increase delivers a gain of USD 11.563.355, and the scenario results of the 200 basis points decrease delivers a loss of USD -12.623.837.

[2] ICLAAP – Internal Capital and Liquidity Adequacy Assessment Process

> Internal Capital and Liquidity Adequacy Assessment

The Bank has created the risk surveillance and reporting framework described in sections V and VI of this disclosure. This framework has been created to permit the Bank to accurately evaluate its internal capital in terms of its current and future businesses.

The Board of Directors, General management, the CRO, and the Risk Management Committee receive regular reports and updates on the Bank's risk profile, its numerical values, and capital needs in order to ensure:

- sufficient capital is held against the Bank's various risks, also under economic downturn scenarios
- qualitative judgment as well as quantitative measurements are used based on stress test scenarios and simulation models as part of the foundation of the Bank's capital estimation system, and
- prospective capital requirements based on the Bank's risk profile and strategic plans are adequately monitored and planned for.

> Derivative Non-Trading Financial Instruments

As at December 31, 2016, the analysis of OTC derivative non-trading financial instruments (the Bank has no proprietary trading portfolio) by class, residual maturity, and geographic location is given in the "Financial Instrument Disclosures" of the annual accounts, Notes 29.2 to 29.4.

> Remuneration policy

The Bank's Remuneration Policy creates the framework for an effective mitigation of remuneration risks, as it will discourage actions and financial transactions that surpass the risk tolerance of the Bank. The Bank's remuneration policy is congruent with the objectives and values of the Bank. The policy is detailing how the Bank avoids variable (alternatively fixed) compensation packages that are not tied to the financial results of the Bank, nor tied to the performance of its employees. The Bank ensures that the fixed and variable components of total remuneration are appropriately balanced. The fixed component represents a sufficiently high proportion of the total remuneration and allows a flexible policy on the variable remuneration components.

The Bank reviews the Remuneration Policy at least once a year to ensure that the principles, objectives, and methods of the policy are followed as they have been adopted. The Bank's Remuneration Policy adheres to the principles laid down in E.U. Directive 2013/36/EU, the Commission Delegated Regulations no. 604/2014 of March 4, 2014 and no. 527/2014 of March 12, 2014.

In addition to the elements noted above, the remuneration policy is providing at a minimum, details regarding the scope (institutions concerned by the policy), governance, and the ratio between fixed and variable compensation for the different employees.

Furthermore, in accordance with Circular 10/496, the Bank reports the number of persons with high remuneration packages following the compensation ranges defined in the Circular. For 2016 the Bank has reported 31 high rank employees with linked higher remuneration packages, outside the in force remuneration convention.

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