

Allfunds Bank, S.A. and Subsidiaries composing the Allfunds Bank Group

Consolidated Financial Statements and
Directors' Report for the year ended 31
December 2015, together with Auditor's
Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 30). In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 30). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Allfunds Bank, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Allfunds Bank, S.A. ("the Bank") and Subsidiaries composing, together with the Bank, the Allfunds Bank Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Bank's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of the Allfunds Bank Group in accordance with the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 1-b to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Bank's directors of the consolidated financial statements 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Allfunds Bank Group as at 31 December 2015, and its consolidated results and its consolidated cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Group in Spain and, in particular, with the accounting principles and rules contained therein.

Emphasis of Matter

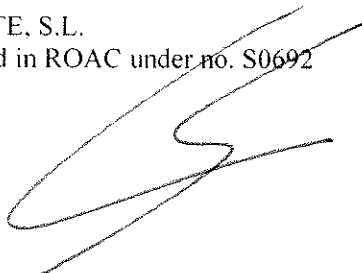
We draw attention to Note 2-j to the accompanying consolidated financial statements for 2015, in which the Bank's directors indicate that on 3 March 2011, Fairfield Sentry Limited and Fairfield Sigma Limited ("the Funds"), both in liquidation and affected by the so-called Madoff case, filed a claim at the United States Bankruptcy Court for the Southern District of New York against a distributor company outside the Allfunds Bank Group and against the Bank, as a result of the reimbursements made prior to December 2008, through the Bank, in accordance with the instructions of the aforementioned distributor company, because, in the opinion of the liquidators of the Funds, among other reasons, incorrect payments were made and unjust enrichment had resulted from such reimbursements in the amount of USD 3,505,471.33 (approximately EUR 3,220 thousand). The aforementioned Note 2-j to the consolidated financial statements also states that although the proceedings have been temporarily suspended since the Judge of the US Bankruptcy Court for the Southern District of New York, following an appeal filed and resolved at the State Court, must decide whether to maintain the secondary jurisdiction over this matter and continue with the aforementioned proceedings, the Bank's directors consider that, ultimately, the Bank would not have to bear such adverse consequences as might arise from the aforementioned proceedings, since they understand that the Bank acted merely as an intermediary and did not benefit, in any case, from the reimbursements performed. Accordingly, no provision was recognised for this litigation in the accompanying consolidated balance sheet of the Group as at 31 December 2015. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Allfunds Bank, S.A. and Subsidiaries.

DELOITTE, S.L.

Registered in ROAC under no. S0692



Juan Manuel Alonso Fernández

24 June 2016

Allfunds Bank, S.A. and Subsidiaries composing the Allfunds Bank Group

Consolidated Financial Statements and
Directors' Report for the year ended 31
December 2015

ALLFUNDS BANK GROUP
CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2015 AND 2014
(Thousands of Euros)

ASSETS	Note	2015	2014 (*)	LIABILITIES AND EQUITY	Note	2015	2014 (*)
CASH AND BALANCES WITH CENTRAL BANKS		35,231	1,664	LIABILITIES			
FINANCIAL ASSETS HELD FOR TRADING	8 and 18	444	172	FINANCIAL LIABILITIES HELD FOR TRADING	8 and 18	304	250
Trading derivatives		444	172	Trading derivatives		304	250
<i>Memorandum item: Loaned or advanced as collateral</i>		-	-				
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS:	6	20,2	5,236	FINANCIAL LIABILITIES AT AMORTISED COST:	13	546,741	313,317
Debt instruments		20,007	5,129	Deposits from credit institutions		186,944	76,919
Equity instruments		193	107	Customer deposits		195,406	125,463
<i>Memorandum item: Loaned or advanced as collateral</i>		-	-	Other financial liabilities		164,391	110,935
LOANS AND RECEIVABLES	7	649,811	426,943	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
Loans and advances to credit institutions		638,331	420,311	HEDGING DERIVATIVES		-	-
Loans and advances to customers		11,48	6,632	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
<i>Memorandum item: Loaned or advanced as collateral</i>		-	-	PROVISIONS		-	-
HELD-TO-MATURITY INVESTMENTS		-	-	TAX LIABILITIES	11	31,61	21,761
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-	Current		31,546	21,761
HEDGING DERIVATIVES		-	-	Deferred		64	-
NON-CURRENT ASSETS HELD FOR SALE		-	-	OTHER LIABILITIES	12	159,194	123,31
INVESTMENTS		-	-	TOTAL LIABILITIES		737,849	458,638
INSURANCE CONTRACTS LINKED TO PENSIONS		-	-	EQUITY			
TANGIBLE ASSETS	9	4,003	2,537	SHAREHOLDERS' EQUITY	14	185,943	144,403
Property, plant and equipment - For own use		4,003	2,537	Share capital (Note 18)	15	27,041	27,041
<i>Memorandum item: Acquired under a finance lease</i>		-	-	Registered		27,041	27,041
INTANGIBLE ASSETS	10	3,939	4,329	Reserves	16	117,362	66,931
Other intangible assets		3,939	4,329	Accumulated reserves (losses)		117,362	66,931
TAX ASSETS	11	25,654	18,438	Profit/Loss for the year attributable to the Parent		75,983	50,431
Current		25,654	18,438	Less Dividends and remuneration		(34,443)	-
OTHER ASSETS	12	184,662	143,725	VALUATION ADJUSTMENTS		152	3
Others		184,662	143,725	Available-for-sale financial assets	6	21	-
TOTAL ASSETS		923,944	603,044	Exchange differences		131	3
MEMORANDUM ITEMS				NON-CONTROLLING INTERESTS		-	-
Contingent liabilities		-	-	TOTAL EQUITY		186,095	144,406
Contingent commitments	17	48,091	52,1	TOTAL LIABILITIES AND EQUITY		923,944	603,044

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 30 and Appendices I and II are an integral part of the consolidated balance sheet as at 31 December 2015.

ALLFUNDS BANK GROUP
INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

	Note	Income/(Expenses)	
		2015	2014 (*)
INTEREST AND SIMILAR INCOME	19	3,989	4,804
INTEREST EXPENSE AND SIMILAR CHARGES	20	(138)	(67)
NET INTEREST INCOME		3,851	4,737
INCOME FROM EQUITY INSTRUMENTS		-	-
FEE AND COMMISSION INCOME	21	742,732	533,584
FEE AND COMMISSION EXPENSE	22	(586,863)	(423,640)
GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES (net):	23	139	(78)
<i>Held for trading</i>		139	(78)
EXCHANGE DIFFERENCES (net)		72	299
OTHER OPERATING INCOME:	25	834	399
<i>Sales and income from the provision of non-financial services</i>		2	5
<i>Other operating income</i>		832	394
OTHER OPERATING EXPENSES:	25	(705)	(474)
<i>Other operating expenses</i>		(705)	(474)
GROSS INCOME		160,060	114,827
ADMINISTRATIVE EXPENSES:	24	(48,116)	(38,945)
<i>Staff costs</i>		(25,549)	(21,452)
<i>Other general administrative expenses</i>		(22,567)	(17,493)
DEPRECIATION AND AMORTISATION CHARGE	9 and 10	(3,693)	(3,614)
PROVISIONS (net)		-	-
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	7	(640)	250
<i>Loans and receivables</i>		(640)	250
PROFIT FROM OPERATIONS		107,611	72,518
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	9	(6)	-
<i>Other assets</i>		(6)	-
GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE		-	-
NEGATIVE GOODWILL ON BUSINESS COMBINATIONS		-	-
GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS		-	-
PROFIT BEFORE TAX		107,605	72,518
INCOME TAX	11	(31,622)	(22,087)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		75,983	50,431
PROFIT FROM DISCONTINUED OPERATIONS (net)		-	-
PROFIT FOR THE YEAR		75,983	50,431
PROFIT ATTRIBUTABLE TO THE PARENT		75,983	50,431
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 30 and Appendices I and II are an integral part of the consolidated income statement for 2015

ALLFUNDS BANK GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

A) CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

	Income/(Expenses)	
	2015	2014 (*)
A) CONSOLIDATED PROFIT FOR THE YEAR	75,983	50,431
B) OTHER RECOGNISED INCOME AND EXPENSE	149	18
B.1) Items that will not be reclassified to profit or loss	-	-
Actuarial gains/(losses) on defined benefit pension plans	-	-
Non-current assets held for sale	-	-
Entities accounted for using the equity method	-	-
Income tax relating to items that will not be reclassified to profit or loss	-	-
B.2) Items that may be reclassified to profit or loss	149	18
Available-for-sale financial assets	30	-
Revaluation gains/(losses)	30	-
Cash flow hedges	-	-
Hedges of net investments in foreign operations	-	-
Exchange differences	183	18
Revaluation gains/(losses)	183	18
Non-current assets held for sale	-	-
Entities accounted for using the equity method	-	-
Other recognised income and expense	-	-
Income tax relating to items that may be reclassified to profit or loss	(64)	-
C) TOTAL RECOGNISED INCOME AND EXPENSE (A + B)	76,132	50,449
C.1) Attributable to the Parent	76,132	50,449
C.2) Attributable to non-controlling interests	-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 30 and Appendices I and II are an integral part of the consolidated statement of recognised income and expense for 2015

ALLFUNDS BANK GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (cont.)

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

2015

	EQUITY ATTRIBUTABLE TO THE PARENT							NON- CONTROLLIN G INTERESTS	TOTAL EQUITY
	SHAREHOLDERS' EQUITY					VALUATION ADJUSTMENTS	TOTAL		
	Share Capital	Accumulat ed Reserves (Losses)	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Shareholders' Equity				
Ending balance at 31 December 2014	27,041	66,931	50,431	-	144,403	3	144,406	-	144,406
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	27,041	66,931	50,431	-	144,403	3	144,406	-	144,406
Total recognised income and expense	-	-	75,983	-	75,983	149	76,132	-	76,132
Other changes in equity	-	50,431	(50,431)	(34,443)	(34,443)	-	(34,443)	-	(34,443)
Dividends	-	-	-	(34,443)	(34,443)	-	(34,443)	-	(34,443)
Transfers between equity items	-	50,431	(50,431)	-	-	-	-	-	-
Ending balance at 31 December 2015	27,041	117,362	75,983	(34,443)	185,943	152	186,095	-	186,095

2014 (*)

	EQUITY ATTRIBUTABLE TO THE PARENT (*)							NON- CONTROLLIN G INTERESTS	TOTAL EQUITY
	SHAREHOLDERS' EQUITY					VALUATION ADJUSTMENTS	TOTAL		
	Share Capital	Accumulat ed Reserves (Losses)	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Shareholders' Equity				
Ending balance at 31 December 2013	27,041	122,032	34,952	-	184,025	(15)	184,010	-	184,010
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	27,041	122,032	34,952	-	184,025	(15)	184,010	-	184,010
Total recognised income and expense	-	-	50,431	-	50,431	18	50,449	-	50,449
Other changes in equity	-	(55,101)	(34,952)	-	(90,053)	-	(90,053)	-	(90,053)
Dividends	-	(56,640)	(33,413)	-	(90,053)	-	(90,053)	-	(90,053)
Transfers between equity items	-	1,539	(1,539)	-	-	-	-	-	-
Ending balance at 31 December 2014	27,041	66,931	50,431	-	144,403	3	144,406	-	144,406

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 30 and Appendices I and II are an integral part of the consolidated statement of changes in total equity for 2015.

ALLFUNDS BANK GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

	2015	2014 (*)
CASH FLOWS FROM OPERATING ACTIVITIES (1)	237,734	240,043
Consolidated profit for the year	75,983	50,431
Adjustments made to obtain the cash flows from operating activities:	35,899	25,152
Depreciation and amortisation charge	3,693	3,614
Other adjustments	32,196	21,538
Net increase/(decrease) in operating assets:	(92,860)	34,230
Financial assets held for trading	(272)	153
Available-for-sale financial assets	(14,943)	3,631
Loans and receivables	(58,487)	52,824
Other operating assets	(19,158)	(22,378)
Net increase/decrease in operating liabilities:	247,589	155,947
Financial liabilities held for trading	54	74
Financial liabilities at amortised cost	233,424	134,430
Other operating liabilities	14,111	21,443
Income tax recovered/paid	(28,867)	(25,717)
CASH FLOWS FROM INVESTING ACTIVITIES (2)	(4,755)	(3,921)
Payments:	(4,775)	(3,921)
Tangible assets	(2,359)	(1,001)
Intangible assets	(2,416)	(2,920)
CASH FLOWS FROM FINANCING ACTIVITIES (3)	(34,443)	(90,053)
Payments:	(34,443)	(90,053)
Dividends	(34,443)	(90,053)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (4)	52	317
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4)	198,588	146,386
Cash and cash equivalents at beginning of year	212,647	66,261
Cash and cash equivalents at end of year	411,235	212,647
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	19	19
Cash equivalents at central banks	35,212	1,645
Loans and advances to credit institutions	376,004	210,983
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	411,235	212,647

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 30 and Appendices I and II are an integral part of the consolidated statement of cash flows for 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 30). In the event of a discrepancy, the Spanish-language version prevails.

Allfunds Bank Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2015

1. Description of the Bank, basis of presentation of the consolidated financial statements and other information

a) Description of the Bank

Allfunds Bank, S.A. ("the Bank") was incorporated for an indefinite period of time in Madrid on 14 December 2000. The Bank is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, which has its registered office at calle Estafeta 6- Complejo Plaza de la Fuente, Edificio 3, La Moraleja (Madrid), where the bylaws and other public information on the Bank can be consulted. The Bank is registered in the Bank of Spain's Official Register of financial institutions under code 0011.

The activities that constitute the Bank's object are as follows:

- a) The performance of all kinds of activities, transactions and services of the banking business in general, related thereto or permitted to it under current legislation.
- b) The acquisition, holding, use, administration and disposal of Spanish and foreign marketable securities, shares and equity interests in companies, in accordance with current legislation.
- c) The provision of investment services and any applicable supplementary activities under current legislation.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Allfunds Group ("the Group"). Therefore, the Bank is required to prepare in addition to its own financial statements, these consolidated financial statements for the Group.

b) Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2015 were prepared by the directors of the Bank, as the Parent, at the Board meeting on 30 March 2016 in accordance with the regulatory framework applicable to the Group, which is that established in Bank of Spain Circular 4/2004, of 22 December, and subsequent amendments thereto ("Circular 4/2004"), in the Spanish Commercial Code and in other Spanish corporate and commercial law, and other compulsory legislation approved by the Bank of Spain and, accordingly, present fairly the Group's consolidated equity and financial position at 31 December 2015 and the consolidated results of its operations, the changes in the consolidated equity and its consolidated cash flows for the year then ended. These consolidated financial statements, which were prepared from the accounting records of the Bank and those of each of its subsidiaries, include the adjustments and reclassifications required to unify the accounting policies used by the subsidiaries with those used by the Parent. (Bank of Spain Circular 4/2014)

The Group's consolidated financial statements for 2015 have not yet been approved by the shareholders at the Annual General Meeting. However, the Bank's Board of Directors considers that the aforementioned consolidated financial statements will be approved without any changes. The Group's consolidated financial statements for 2014 were approved by the shareholders at the Annual General Meeting of the Bank on 25 June 2015 and filed at the Madrid Mercantile Registry.

The principal accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2015 are described in Note 2. All mandatory accounting policies and measurement bases with a material effect on the consolidated financial statements for 2014 were applied in their preparation. No non-obligatory accounting principles were applied.

In 2015 various Bank of Spain Circulars came into force, of which the following are noteworthy:

- *Bank of Spain Circular 3/2015, of 29 July, amending Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register; Bank of Spain Circular 5/2014, of 28 November, amending Bank of Spain Circular 4/2004, of 22 December, on public and confidential financial reporting rules and formats; Bank of Spain Circular 1/2010, of 27 January, on statistics on interest rates applied to deposits and loans vis-à-vis households and non-financial companies; and Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register.*

Bank of Spain Circular 3/2015 amends, postpones and in certain cases repeals the methods for the use and remittance of confidential accounting statements and certain modules of the Risk Information Centre. A reminder is given of the remittance date, for significant groups, of the separate financial information of subsidiaries established in EU Member States not participating in the Single Supervisory Mechanism, or in third countries. And lastly, the frequency of certain Circular 4/2004 statements is changed. The entry into force of this Circular did not have a material impact on the Bank or the Group or on the information disclosed in these consolidated financial statements.

- *Bank of Spain Circular 4/2015, of 29 July, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats, Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register and Bank of Spain Circular 5/2012, of 27 June, to credit institutions and payment service providers, on transparency of banking services and responsibility in the granting of loans.*

Bank of Spain Circular 4/2015 introduces changes to Bank of Spain Circulars 4/2004 and 1/2013 to include the essential data for the special accounting registers of territorial covered bonds, internationalisation covered bonds and internationalisation bonds, based on the minimum content established for each register by Royal Decree 579/2014, of 4 July. Also, an amendment was introduced to Annex 8 of Bank of Spain Circular 5/2012, of 27 June, with respect to sources of information of one of the official mortgage market reference rates, specifically the "average rate for mortgage loans between one and five years to acquire unsubsidised housing granted by credit institutions in the euro zone" since those that were being used until now to obtain the average rate are no longer available. For this reason, recourse can be had to other alternative sources of this information. The entry into force of this Circular did not have a material impact on the Bank or the Group or on the information disclosed in these consolidated financial statements.

- *Bank of Spain Circular 8/2015, of 18 December, on the information to determine the bases for calculating the contributions to the Deposit Guarantee Fund for Credit Institutions.*

Bank of Spain Circular 8/2015 establishes the information that entities and branches participating in the Deposit Guarantee Fund for Credit Institutions must submit on a quarterly basis to the Bank of Spain and the measurement methods to be used in the calculation of the bases for determining the contributions to the Fund. This Circular repealed Bank of Spain Circular 4/2001. The entry into force of this Circular did not have a material impact on the Bank or the Group or on the information disclosed in these consolidated financial statements.

All accounting policies and measurement bases with a material effect on the Group's consolidated financial statements for 2015 were applied in their preparation.

c) Use of estimates

The information in these consolidated financial statements is the responsibility of the Bank's directors. In the Bank's consolidated financial statements for 2015 estimates were made by the senior executives of the Bank, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

1. The impairment losses on certain assets (see Notes 6, 7, 9 and 10).
2. The useful life of the tangible and intangible assets (see Notes 9 and 10).
3. The assessment of any possible contingent liabilities affecting the Group and the need to recognise provisions therefor (see Note 2-j).

Although these estimates were made on the basis of the best information available at 2015 year-end, future events might make it necessary to change these estimates in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of Bank of Spain Circular 4/2004, recognising the effects of any change in estimates in the related consolidated income statement in future years.

d) Basis of consolidation

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise management control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, where applicable, even if this percentage is lower or zero, as is the case with the agreements with other shareholders of the investee that give the Bank control. For these purposes, an entity is considered to control another when:

- i) it has the power, due to legal or bylaw provisions or agreements, to govern the significant activities of the investee, i.e. those that significantly affect its performance;
- ii) it has the ability to use power over the investee to affect the amount of the investor's returns; and
- iii) it has exposure, or rights, to variable returns from involvement with the investee.

The financial statements of the subsidiaries are fully consolidated with these consolidated financial statements in accordance with the Bank of Spain Circular 4/2004.

The following methods were applied in the consolidation process:

- i) The financial statements of the subsidiaries are aggregated with those of the Bank. Prior to this aggregation, any material unification adjustments that might be necessary to adapt the subsidiaries' accounting policies and measurement bases to those used by the Bank, which are those contained in Bank of Spain Circular 4/2004, were made.
- ii) All material balances and transactions between the consolidated companies, and the material results of intra-Group transactions not realised vis-à-vis third parties, were eliminated on consolidation.
- iii) The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

Changes in the scope of consolidation

On 24 March 2015, Allfunds Bank Brasil Representações Ltda. was incorporated for an indefinite period in Sao Paulo (Brazil). Its company object consists of providing representation services to the Allfunds Bank Group. The company was incorporated with share capital of EUR 204 thousand, divided into 700,000 shares of BRL 1 par value each, of which Allfunds Bank, S.A. subscribed a total of 699,999 shares and Allfunds Bank International, S.A. 1 share, paid in full at 31 December 2015. On 4 May 2015, Allfunds Bank Brasil Representações Ltda. increased capital by EUR 21 thousand through the issue of 72,800 new shares of BRL 1 par value each, which were fully subscribed and paid by Allfunds Bank S.A. This company's financial statements are fully consolidated in these consolidated financial statements and this transaction did not give rise to any goodwill.

No additional changes occurred in the Group's scope of consolidation in 2015.

Appendix I contains salient information on the subsidiaries.

e) Agency agreements

Neither at the end of 2015 or 2014 nor at any other time during these years did the Bank have any agency agreements in force, as defined in Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

f) Comparative information

The information contained in these consolidated financial statements relating to 2014 is presented with the information relating to 2015 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2014.

g) Environmental impact

In view of the business activities carried on by the Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these Notes to the consolidated financial statements.

h) Capital and capital management

At 31 December 2015, Bank of Spain Circular 3/2008, of 22 May, to credit institutions ("Circular 3/2008"), and its related amendments, on the calculation and control of minimum capital requirements regulated the minimum capital requirements for Spanish credit institutions –both as stand-alone entities and as consolidated groups– and the criteria for calculating them, as well as the various internal capital adequacy assessment processes they should have in place and the public information they should disclose to the market in this regard. This Circular adapts Spanish legislation on capital requirements to the Community Directives, which stem, in turn, from the Basel Capital Accord, and is structured around three core pillars: minimum capital requirements (Pillar 1), the internal capital adequacy assessment process (Pillar 2) and market disclosures (Pillar 3).

With effect from 1 January 2014, certain amendments were made to capital adequacy regulations that are applicable to European financial institutions, such as the Bank. In this regard, Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, was published in the Official State Gazette on 30

November 2013. This Royal Decree-Law establishes, inter alia, the most urgent measures to adapt the Spanish legal system to the new developments arising from Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and addresses other urgent reforms. For this purpose, the capital adequacy rules of the aforementioned EU legislation were included in the aforementioned Royal Decree-Law.

In this regard, Bank of Spain Circular 2/2014, of 31 January, to credit institutions was published on 5 February 2014. This Circular relates to the exercise of various regulatory options contained in Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which are directly applicable to financial institutions in the EU, such as the Bank. This Circular established, pursuant to the powers conferred upon the Bank of Spain, which options of the aforementioned Regulation (EU) No 575/2013 must be complied with by Spanish financial institutions, including the Bank, from 1 January 2014, on a permanent or transitory basis.

Regulation (EU) No 575/2013 lays down uniform rules that must be complied with by entities in relation to: 1) regulatory own funds requirements relating to elements of credit risk, market risk, operational risk and settlement risk; 2) requirements limiting large exposures; 3) liquidity risk coverage relating to entirely quantifiable, uniform and standardised elements of liquidity risk, after the Commission delegated act has entered into force; 4) the setting of the leverage ratio; and 5) public disclosure requirements. As a result of the entry into force of the aforementioned EU Regulation, all the provisions of Bank of Spain Circular 3/2008 that might contradict this Regulation were repealed.

The aforementioned EU Regulation introduces a review of the concept and of the components of the regulatory own funds required of entities. These consist of two elements: Tier 1 capital and Tier 2 capital. In turn, Tier 1 capital comprises Common Equity Tier 1 and Additional Tier 1 capital. Therefore, Tier 1 capital consists of instruments that are able to absorb losses when the entity is a going concern, while the elements of Tier 2 capital will absorb losses primarily when the entity, as the case may be, is not viable.

In general, institutions must satisfy the following own funds requirements:

- i) A Common Equity Tier 1 ratio of 4.5%.
- ii) A Tier 1 capital (common equity plus additional capital) ratio of 6%.
- iii) A total capital ratio of 8%.

In addition to these requirements, pursuant to the aforementioned legislation the Group must comply with the following capital requirements:

- Hold a capital conservation buffer, which was established as Common Equity Tier 1 capital equal to 0.625% of RWAs for 2016, and which will increase by an additional 0.625% each year until it reaches the required level of 2.5% of RWAs in 2019. In 2015, pursuant to current legislation, the Group was not required to hold a capital conservation buffer.
- Hold a countercyclical buffer of Common Equity Tier 1 capital that can be up to 2.5% of RWAs. From 2016 onwards, the level that this buffer must reach will be set by the national competent authorities, using macroeconomic variables, when a period of excess credit growth that might be leading to the build-up of system-wide risk is observed. In this connection, at the end of 2015 the Bank of Spain announced that the countercyclical buffer set for Spanish financial institutions is 0% for 2016, although this percentage will be reviewed every quarter by the Bank of Spain.

The Bank's management of its capital at 31 December 2015, as far as conceptual definitions are concerned, is in keeping with Regulation (EU) No 575/2013 and Bank of Spain Circular 3/2008. With a view to ensuring that the aforementioned objectives are met, the Bank performs an integrated management of these risks.

The main figures relating to the capital ratios applicable to the Bank pursuant to Regulation (EU) No 575/2013, at 31 December 2015, are as follows:

	Thousands of Euros
Common Equity Tier 1 (I)	144,724
Additional Tier 1 capital (II)	-
Total Tier 1 capital (III = I + II)	144,724
Tier 2 capital (IV)	51
Total eligible capital (V= III + IV)	144,775
Exposure for capital adequacy purposes	593,496

Common Equity Tier 1 includes basically the Group's share capital and reserves net of deductions.

Tier 2 capital includes mainly the general allowance specified in Article 62 of Regulation (EU) No 575/2013.

Lastly, subsequent to 31 December 2015, Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and capital adequacy, came into force, which completes the adaptation to Spanish law of Directive 2013/36/EU and Regulation (EU) 575/2013, and repeals Bank of Spain Circular 3/2008 in relation to certain matters and Section Eleven of Bank of Spain Circular 2/2014. Although the contents of this Circular are currently being analysed by the Bank's management, its entry into force is not expected to have a material impact.

At 31 December 2015 and 2014, the Group's eligible capital exceeded the minimum required under the regulations in force.

i) Deposit Guarantee Fund

i. Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund.

In 2015 and 2014, the accompanying income statements did not include any expense in this connection since there was no obligation to contribute in this respect, in accordance with Article 4 of Royal Decree 2606/1996, of 20 December, on deposit guarantee funds of credit institutions.

ii. National Resolution Fund

2015 saw the publication of Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services firms, and amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions. Law 11/2015 regulates the creation of the National Resolution Fund, the financial resources of which must, prior to 31 December 2024, reach 1% of the amount of the deposits guaranteed, through contributions from credit institutions and investment services firms in Spain. The detail of the method for calculating the contributions to this Fund is regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and the calculation is performed by the Fund for Orderly Bank Restructuring ("FROB") using information provided by the Entity.

The expense incurred on the contribution made to the National Resolution Fund amounted to EUR 52 thousand in 2015, and is recognised under "Other Operating Expenses - Other" in the accompanying consolidated income statement for 2015. Also, the subsidiary Allfunds Bank International, S.A. incurred an expense for the contribution made to the equivalent fund in Luxembourg of EUR 2 thousand, which was recognised under the same heading in the accompanying consolidated income statement for 2015 (see Note 25).

iii. Single Resolution Fund

In March 2014, the European Parliament and the Council reached a political agreement for the creation of the second pillar of Banking Union, the Single Resolution Mechanism ("SRM"). The SRM's main purpose is to ensure an orderly resolution of failing banks in the future with minimal costs to taxpayers and to the real economy. The SRM's scope of activity is identical to that of the SSM, i.e., a central authority, the Single Resolution Board ("SRB"), is ultimately responsible for deciding whether to initiate the resolution of a bank, while the operational decision is implemented in cooperation with the national resolution authorities. The SRB commenced its work as an independent EU agency on 1 January 2015.

The purpose of the rules governing banking union is to ensure that bank resolutions will be financed first of all by the banks and their shareholders and, if necessary, partly by the bank's creditors. However, another source of funding will also be available to which recourse can be had if the contributions of the shareholders and of the bank's creditors are not sufficient. This is the Single Resolution Fund ("SRF"), which is administered by the SRB. The legislation requires banks to make the contributions to the SRF over eight years.

The SRF, which was set up by Regulation (EU) No 806/2014 of the European Parliament and of the Council, will come into operation on 1 January 2016. The competency for calculating the contributions to be made to the SRF by credit institutions and investment services firms lies with the SRB. From 2016 onwards, these contributions will be based on: (a) a flat contribution (or basic annual contribution), that is pro-rata based on the amount of each entity's liabilities excluding own funds and covered deposits, with respect to the total liabilities, excluding own funds and covered deposits, of all of the institutions authorised in the territories of the participating Member States; and (b) a risk-adjusted contribution, that shall be based on the criteria laid down in Article 103(7) of Directive 2014/59/EU, taking into account the principle of proportionality, without creating distortions between banking sector structures of the Member States. The amount of this contribution shall fall due every year from 2016 onwards.

j) Customer care service annual report

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions, the Annual Report was presented to the Board meeting of the Bank held on 30 March 2016. In 2015, this report indicated that the Service did not receive any claims or complaints and, accordingly, at 31 December 2015, there were no unresolved matters.

k) Events after the reporting period

From 1 January 2016 to the date on which these consolidated financial statements were authorised for issue there were no events significantly affecting them.

2. Accounting policies and measurement bases

The accounting policies and rules and measurement bases applied in preparing these consolidated financial statements were as follows:

a) Definitions and classification of financial instruments

i. Definitions

A “financial instrument” is any contract that gives rise to a financial asset of one entity and to a financial liability or equity instrument of another entity.

An “equity instrument” is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A “financial derivative” is a financial instrument whose value changes in response to the change in a specified variable, sometimes called the underlying (such as an interest rate, financial instrument price, commodity price, foreign exchange rate, credit rating or the related index), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as “Non-current assets held for sale” or they relate to “Cash and balances with central banks”, “Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side)”, “Hedging derivatives” or “Investments”, which are reported separately.

Financial assets are generally included for measurement purposes in one of the following categories:

- Financial assets held for trading: this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.
- Available-for-sale financial assets: includes any debt instruments not classified as “loans and receivables”, “held-to-maturity investments” or as “at fair value through profit or loss” (a category that encompasses financial assets held for trading and other financial assets at fair value through profit or loss), and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as “financial assets at fair value through profit or loss”.
- Loans and receivables: this category includes financing to third parties, in accordance with their nature, regardless of the nature of the borrower and the form of the financing granted, and unquoted debt securities.

In general terms, the Group intends to hold the loans and credits granted until their final maturity and therefore, they are presented in the consolidated balance sheet at amortised cost (which includes any corrections that must be made to show estimated losses on their recovery).

iii. Classification of financial assets for presentation purposes

In addition to the categories included in section "ii" above, financial assets are classified, by type of instrument, into the following items in the consolidated balance sheet:

- Cash and balances with central banks: cash balances and deposits with the Bank of Spain and other central banks.
- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items, where applicable. They are classified, depending on the institutional sector to which the borrower belongs, under:
 - Loans and advances to credit institutions: credit of any nature, including credit received and money market operations in the name of credit institutions.
 - Loans and advances to customers: includes the remaining credit, including money market operations through central counterparties, if any.
- Debt instruments: bonds and other securities that create a debt for their issuer, that generate an implicit or explicit interest return at a contractually agreed rate, and that are in the form of certificates or book entries, irrespective of the issuer.
- Equity instruments: financial instruments issued by other entities, such as shares and non-voting equity units, if any, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item, if any.
- Trading derivatives: includes the fair value in favour of the Group of derivatives which do not form part of hedge accounting.

iv. Classification of financial liabilities for measurement purposes

In the consolidated balance sheet, financial liabilities are classified into the various categories used for management and measurement purposes. Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading: this category includes, where applicable, the financial liabilities issued for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets purchased under resale agreements or borrowed ("short positions").
- Financial liabilities at amortised cost: financial liabilities not included in the above category which arise from the ordinary borrowing activities carried on by financial institutions, irrespective of their instrumentation and maturity.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet for presentation purposes, where applicable:

- Deposits from credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.
- Customer deposits: includes all repayable balances received in cash by the Group and the money market operations through central counterparties, other than those instrumented as marketable securities and those having the substance of subordinated liabilities, where applicable.
- Trading derivatives: includes the fair value of the Group's liability in respect of derivatives which do not form part of hedge accounting.
- Other financial liabilities: includes the amount of payment obligations having the substance of financial liabilities not included under any other item.

b) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial instruments are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be their acquisition cost. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs and any fees and commissions which, under the applicable rules, should form part of the calculation of the effective interest rate on the transactions. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their sale or other form of disposal, except for loans and receivables and equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives, where applicable, that have those equity instruments as their underlying and are settled by delivery of those instruments.

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep active market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Financial assets held for trading

All derivatives are recognised in the consolidated balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in

"Gains/(Losses) on Financial Assets and Liabilities (Net)" in the consolidated income statement. Specifically, the fair value of any financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques accepted in the financial markets: "net present value" (NPV), option pricing models, etc.

Loans and receivables

Loans and receivables are measured after acquisition at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interests repayments and the cumulative amortisation (taken to the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised. The interest earned on these assets is recognised under "Interest and Similar Income" in the consolidated income statement. Any impairment losses that might arise are recognised under "Impairment losses on financial assets (net) - Loans and receivables" in the consolidated income statement using the criteria indicated in Note 2-e).

The "effective interest rate" is the discount rate that exactly matches the initial amount of a financial instrument to the present value of its estimated cash flows during its life, based on the contractual terms, but disregarding future credit losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted, where applicable, by the fees and the transaction costs that, because of their nature, should be included in the calculation of the interest rate. In the case of floating rate financial instruments, the effective interest rate coincides with the rate calculated for floating rate transactions in all connections until the next benchmark interest reset date, when the effective interest rate is recalculated in accordance with the new cash flows of the transaction.

Available-for-sale financial assets

The instruments classified as available-for-sale financial assets are initially recognised at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognised in the consolidated income statement when the assets become impaired or are derecognised. Subsequent to acquisition, financial assets included in this category are measured at fair value at each reporting date.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognised under "Interest and Similar Income" (calculated using the effective interest method) and "Income from Equity Instruments" in the consolidated income statement, respectively. Any impairment losses on these instruments are recognised as detailed in Note 2-e. Exchange differences on financial assets denominated in currencies other than the euro are recognised as detailed in see Note 2-k.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognised in equity under "Equity- Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet until the financial asset is derecognised, or impaired, where applicable when

the balance recorded under this item is recognised under "Gains/(Losses) on Financial Assets and Liabilities (Net)" or " Impairment Losses on Financial Assets" in the consolidated income statement, respectively. However, financial instruments whose fair value cannot be determined in a sufficiently objective manner or whose impact on the consolidated financial statements is not material are measured in these consolidated financial statements at cost, net of any impairment losses, calculated as detailed in Note 2-e.

Equity instruments of other entities whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment losses.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under "Financial Liabilities Held for Trading", which are measured at fair value, using the same measurement and recognition methods as those described in the preceding section for derivatives with a favourable balance for the Group.

iii. Valuation techniques

The fair value recognised by the Group for the financial instruments included under "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" in the consolidated balance sheet is based on "internal valuation models" using data drawn from the market. The main technique used in the "internal valuation models" is the "present value" method.

The Bank's directors consider that the result of applying these valuation techniques on the financial assets and liabilities recognised in the consolidated balance sheet and the income arising from these financial instruments are reasonable and reflect their market value.

iv. Recognition of fair value changes

Changes in the fair value of financial instruments classified as financial assets held for trading (all of which are derivatives) are recognized under "Gains/(Losses) on Financial Assets and Liabilities (Net)" in the consolidated income statement.

c) Derecognition of financial assets and liabilities

Financial assets are generally only derecognised when the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired by the Group (with the intention either to cancel them or to resell them).

In 2015 and 2014 the Group did not transfer any financial instrument which was not derecognised.

d) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group did not

hold any financial assets or liabilities in the accompanying consolidated balance sheets at 31 December 2015 and 2014 that had been offset or were eligible for offset.

e) *Impairment of financial assets*

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the year in which the impairment becomes evident. The reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the year in which the impairment is reversed or reduced, except in the case of equity instruments classified as available-for-sale financial assets measured at fair value or cost, as appropriate, for which the reversal of previously recognised impairment losses is recognised in the Group's equity under "Valuation Adjustments" or is not recognised until it is realised through the disposal of the aforementioned equity instrument, respectively.

Impairment losses on debt instruments classified as loans and receivables and available-for-sale financial assets are estimated and recognised as set forth in Annex IX of Bank of Spain Circular 4/2004.

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the Bank may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

f) *Tangible assets*

The Group's tangible assets relate in full to property, plant and equipment for own use and are presented at acquisition cost, less:

- The related accumulated depreciation, and
- Any estimated impairment losses, calculated by comparing the carrying amount of each asset with its recoverable amount, which is defined as the higher of value in use and fair value less costs to sell.

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite useful life, if any, and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Furniture and fixtures	10
Computer hardware	25

The consolidated entities assess at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced with a charge to the consolidated income statement to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset on which an impairment loss has been recognised, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods with a credit to the consolidated income statement and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses are recognised as an expense on the consolidated income statement in the period in which they are incurred.

g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Expenses resulting from operating leases are charged to the consolidated income statement in the year in which they are incurred.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

At 31 December 2015 and 2014, the Bank and the remaining subsidiaries did not own any buildings for their own use, but rather carried on their activity in properties leased under operating leases. The balance of the lease expenses accrued in 2015 amounted to EUR 2,156 thousand (2014: EUR 2,042 thousand), and this amount was recognised under "Administrative Expenses – Other General Administrative Expenses" in the consolidated income statement for that year (see Note 24.2).

h) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Group, where applicable. Only assets whose cost

can be estimated reasonably objectively and from which the Group considers it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets.

The Group recognises any impairment loss on the carrying amount of these assets with a charge to "Impairment Losses on Other Assets (Net)" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (see Note 2-f).

i) Other assets and other liabilities

"Other Assets" in the consolidated balance sheet includes the amount of assets not recorded in other items, which relate basically to the accrued income from the Group's activity, excluding accrued interest, which is recognised in the same item as the financial instruments giving rise to it.

"Other Liabilities" includes the payment obligations having the substance of financial liabilities not included in any other consolidated balance sheet item and mainly the accrual accounts arising from transfers of the fees and commissions associated with the Group's main activity.

j) Provisions and contingent liabilities

Provisions are present obligations at the consolidated balance sheet date arising from past events which could give rise to a loss for the Group, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing, and the Group expects that an outflow of resources embodying economic benefits will be required to settle such obligations.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. They include the Group's present obligations when it is considered possible but not probable that an outflow of resources embodying economic benefits will be required to settle them and their amount cannot be quantified in a sufficiently reliable manner.

The consolidated financial statements include, where applicable, all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with current standards, contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the Notes.

In this respect, on 3 March 2011, Fairfield Sentry Limited and Fairfield Sigma Limited ("the Funds"), both in liquidation and affected by the so-called Madoff case, filed a claim at the United States Bankruptcy Court for the Southern District of New York against a distributor company outside the Group and against the Bank, as a result of the reimbursements made prior to December 2008, through the Bank, in accordance with the instructions of the abovementioned distributor company because, in the opinion of the liquidators of the Funds, among other reasons, incorrect payments had been made and unjust enrichment had resulted from such reimbursements in the amount of USD 3,505,471.33 (approximately EUR 3,220 thousand).

At the date of authorisation for issue of these consolidated financial statements, the proceedings were temporarily suspended as the judge of the US Bankruptcy Court for the Southern District of New York, by virtue

of an appeal filed and ruled by the State Court, must decide whether to maintain the secondary jurisdiction over this matter and continue with the proceedings. However, it is our opinion that, ultimately, the Bank should not have to bear any adverse consequences of the proceedings since it acted merely as an intermediary and never profited from any reimbursement made. Accordingly, no provision was recognised in this connection at the end of the 2015 reporting period in these consolidated financial statements.

At 2015 and 2014 year-end, there were no additional legal proceedings outstanding or claims against the Group.

k) Foreign currency transactions

The Group's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in "foreign currency".

The detail, by currency and item, of the main balances in the consolidated balance sheet denominated in foreign currency at 31 December 2015 and 2014 is as follows:

Nature of Foreign Currency Balances	Equivalent Value in Thousands of Euros			
	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars-				
Cash and balances with Central Banks	3	-	3	-
Loans and receivables	97,757	-	42,216	-
Other assets	27,974	-	23,777	-
Financial liabilities at amortised cost	-	98,125	-	43,341
Other liabilities	-	24,788	-	19,998
	125,734	122,913	65,996	63,339
Balances in pounds sterling-				
Cash and balances with Central Banks	6	-	5	-
Available-for-sale financial assets	-	-	5,129	-
Loans and receivables	40,203	-	23,882	-
Tangible assets	1,388	-	239	-
Intangible assets	1	-	3	-
Other assets	5,622	-	6,323	-
Financial liabilities at amortised cost	-	34,248	-	23,277
Other liabilities	-	6,375	-	6,694
	47,220	40,623	35,581	29,971
Balances in other currencies-				
Cash and balances with Central Banks	5	-	4	-
Loans and receivables	28,360	-	10,528	-
Tangible assets	738	-	510	-
Tax assets	10	-	-	-
Other assets	1,120	-	787	-
Financial liabilities at amortised cost	-	20,607	-	5,716
Tax liabilities	-	166	-	31
Other liabilities	-	1,225	-	941
	30,233	21,998	11,829	6,688
Total foreign currency balances	203,187	185,534	113,406	99,998

In general, exchange differences arising on the translation of foreign currency balances to the functional currency applying the exchange rate prevailing at year-end are recognised, since substantially all of them arise from monetary items, at their net amount under "Exchange Differences (Net)" in the consolidated income

statement, except for exchange differences arising on any financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in the fair value of these instruments.

l) Recognition of income and expenses

The most significant criteria used by the Group to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the right to receive them arises, if any.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and liabilities measured at fair value through profit or loss are recognised when collected.
- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services, such as the fees from the marketing of units in collective investment undertakings (CIUs), which are calculated as the result of applying the agreed-upon percentage to the daily volume of such units held for the account of the Group's customers.
- Those relating to the provision of a service in a single act, which are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates, when the effect of discounting is material.

m) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death.

The Group's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods.

At 31 December 2015 and 2014 the Group did not have any obligations which should be considered to be defined benefit obligations in accordance with applicable legislation.

The contributions made by the Group each year under its defined contribution obligations are recognised under "Administrative Expenses - Staff Costs" in the consolidated income statement (see Note 24.1). The amounts not yet contributed at each year-end are recognised, at their present value, under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" (see Note 13.3).

n) Termination benefits

Under current legislation, the consolidated entities are required to pay termination benefits to employees terminated without just cause. At 31 December 2015 and 2014, there were no redundancy plans making it necessary to record a provision in this connection.

ñ) Income tax

The current Income tax expense is calculated as the tax payable on the taxable profit, adjusted by the amount of the period changes in the assets and liabilities arising from temporary differences and of any tax credit or tax loss carryforwards.

The expense for Spanish corporation tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the tax effect is also recognised in the consolidated equity.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases that are expected to reverse in the future, and tax loss and tax credit carryforwards, if any. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

"Tax Assets" in the consolidated balance sheet includes, if any, the amount of all tax assets, distinguishing between: "current" (amounts of tax to be recovered within the next twelve months) and, where applicable, "deferred" (amounts of tax to be recovered in future years, including those arising from any tax loss and tax credit carryforwards).

"Tax Liabilities" in the consolidated balance sheet includes, if any, the amount of all tax liabilities (except provisions for taxes), which are broken down into "current" –the amount payable in respect of the Income tax on the taxable profit for the year and other taxes in the next twelve months– and "deferred" –the amount of income tax payable in future years that could exist.

Deferred tax liabilities are recognised for all taxable temporary differences, except those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit and is not a business combination.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards that could exist) are only recognised to the extent that it is probable that the consolidated entities will have future taxable profits against which they can be utilised.

The deferred tax assets recognised are reassessed at each reporting date in order to ascertain whether they still exist, and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and

are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

o) Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the consolidated equity and liabilities that are not operating activities.

For the purposes of preparing the consolidated statement of cash flows, "cash and cash equivalents" were considered to be cash balances (EUR 19 thousand at 31 December 2015 and 2014, respectively) and balances with central banks (EUR 35,212 thousand and EUR 1,645 at 31 December 2015 and 2014, respectively) under "Cash and Balances with Central Banks" and the cash balances recognised under "Loans and Receivables - Loans and Advances to Credit Institutions" in the consolidated balance sheets.

p) Consolidated statement of changes in equity

The consolidated statement of changes in equity presented in these consolidated financial statements shows the changes in consolidated equity in 2015. This information is in turn presented in two statements: the consolidated statement of recognised income and expense and the consolidated statement of changes in total equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Consolidated statement of recognised income and expense

This part of the consolidated statement of changes in equity presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses. A distinction is made among the latter, in turn, between items that may be reclassified to profit or loss, pursuant to applicable legislation, and those that may not.

Accordingly, this statement presents:

- a) Consolidated profit for the year.
- b) The net amount of the income and expenses recognised in equity under valuation adjustments that will not be reclassified to profit or loss in the future.
- c) The net amount of the income and expenses recognised in the consolidated equity that may be reclassified to profit or loss in the future.
- d) The effect of the income tax incurred in respect of the items indicated in b) and c) above.
- e) Total recognised consolidated income and expense, calculated as the sum of a) to d) above.

Consolidated statement of changes in total equity

This part of the consolidated statement of changes in equity includes all the changes in consolidated equity, if any, including those due to changes in accounting policies and from the correction of errors. Accordingly, this consolidated statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes made are grouped together on the basis of their nature into the following items:

- Adjustments due to changes in accounting policy and adjustments made to correct errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policies or to the correction of errors, if any.
- Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.
- Other changes in equity: includes the remaining items recognised in consolidated equity, including, inter alia, increases and decreases in the Bank's share capital, distribution of consolidated profit, transactions involving the Bank's own equity instruments, the Bank's equity-instrument-based payments, transfers between consolidated equity items and any other increases or decreases in consolidated equity, if any.

3. Allfunds Bank Group

a) Allfunds Bank, S.A.

Allfunds Bank, S.A. is the Parent of the Allfunds Bank Group. At 31 December 2015, the Bank's assets and equity represented over 90% of all the Group's consolidated assets and equity. The Bank's net profit and its separate profit for 2015 represented over 90% of the consolidated net profit attributable to the Parent in 2015, excluding adjustments or eliminations on consolidation.

To perform its business activities, the Bank has one office in Spain and two branches abroad (Milan and London).

The Bank's condensed 2015 and 2014 balance sheets, income statements, statements of recognised income and expense, statements of changes in equity and statements of cash flows are as follows:

ALLFUNDS BANK, S.A.

CONDENSED BALANCE SHEETS AS AT 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

ASSETS	2015	2014	LIABILITIES AND EQUITY	2015	2014
CASH AND BALANCES WITH CENTRAL BANKS	1,783	1,658	LIABILITIES		
FINANCIAL ASSETS HELD FOR TRADING	448	176	FINANCIAL LIABILITIES HELD FOR TRADING	316	250
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	20,200	5,236	FINANCIAL LIABILITIES AT AMORTISED COST	515,673	314,184
LOANS AND RECEIVABLES	628,425	411,026	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
HELD-TO-MATURITY INVESTMENTS	-	-	HEDGING DERIVATIVES	-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-	PROVISIONS	-	-
HEDGING DERIVATIVES	-	-	TAX LIABILITIES	31,233	21,655
NON-CURRENT ASSETS HELD FOR SALE	-	-	OTHER LIABILITIES	131,545	103,767
INVESTMENTS	16,335	16,110	TOTAL LIABILITIES	678,767	439,856
INSURANCE CONTRACTS LINKED TO PENSIONS	-	-			
TANGIBLE ASSETS	3,485	2,163			
INTANGIBLE ASSETS	3,918	4,298	EQUITY		
TAX ASSETS	25,507	18,358	SHAREHOLDERS' EQUITY	175,852	141,328
OTHER ASSETS	154,539	122,159	VALUATION ADJUSTMENTS	21	-
TOTAL ASSETS	854,640	581,184	TOTAL EQUITY	175,873	141,328
Memorandum items:			TOTAL LIABILITIES AND EQUITY	854,640	581,184
Contingent liabilities	-	-			
Contingent commitments	48,091	52,100			

ALLFUNDS BANK, S.A.

CONDENSED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

	Income/(Expenses)	
	2015	2014
INTEREST AND SIMILAR INCOME	3,956	4,786
INTEREST EXPENSE AND SIMILAR CHARGES	(301)	(88)
NET INTEREST INCOME	3,655	4,698
INCOME FROM EQUITY INSTRUMENTS	-	-
FEE AND COMMISSION INCOME	628,086	459,459
FEE AND COMMISSION EXPENSE	(487,231)	(359,067)
GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES (net)	132	(74)
EXCHANGE DIFFERENCES (net)	217	257
OTHER OPERATING INCOME	2,353	1,229
OTHER OPERATING EXPENSES	(609)	(469)
GROSS INCOME	146,603	106,033
ADMINISTRATIVE EXPENSES	(42,175)	(34,309)
DEPRECIATION AND AMORTISATION CHARGE	(3,546)	(3,552)
PROVISIONS (net)	-	-
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	(640)	250
PROFIT FROM OPERATIONS	100,242	68,422
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	(6)	-
GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD-FOR SALE	-	-
GAINS/(LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS HELD-FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	-	-
PROFIT BEFORE TAX	100,236	68,422
INCOME TAX	(31,269)	(22,058)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	68,967	46,364
PROFIT FOR THE YEAR	68,967	46,364

ALLFUNDS BANK, S.A.

STATEMENTS OF CHANGES IN EQUITY

**CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS
ENDED 31 DECEMBER 2015 AND 2014**

(Thousands of Euros)

	2015	2014
A) PROFIT FOR THE YEAR	68,967	46,364
B) OTHER RECOGNISED INCOME AND EXPENSE	21	-
B.1) Items that will not be reclassified to profit or loss	-	-
B.2) Items that may be reclassified to profit or loss	21	-
TOTAL INCOME AND EXPENSE FOR THE YEAR (A+B)	68,988	46,364

ALLFUNDS BANK, S.A.

STATEMENTS OF CHANGES IN EQUITY (cont.)

**CONDENSED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS
ENDED 31 DECEMBER 2015 AND 2014**

(Thousands of Euros)

	SHAREHOLDERS' EQUITY					Valuation Adjustments	Total Equity
	Share Capital	Reserves	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity		
Balance at 31/12/14	27,041	67,923	46,364	-	141,328	-	141,328
Total recognised income/(expense)	-	-	68,967	-	68,967	21	68,988
Other changes in equity	-	46,364	(46,364)	(34,443)	(34,443)	-	(34,443)
Balance at 31/12/15	27,041	114,287	68,967	(34,443)	175,852	21	175,873

	SHAREHOLDERS' EQUITY					Valuation Adjustments	Total Equity
	Share Capital	Reserves	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity		
Balance at 31/12/13	27,041	124,563	33,413	-	185,017	-	185,017
Total recognised income/(expense)	-	-	46,364	-	46,364	-	46,364
Other changes in equity	-	(56,640)	(33,413)	-	(90,053)	-	(90,053)
Balance at 31/12/14	27,041	67,923	46,364	-	141,328	-	141,328

ALLFUNDS BANK, S.A.

CONDENSED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

	2015	2014
A. CASH FLOWS FROM OPERATING ACTIVITIES	196,700	239,422
Profit for the year	68,967	46,364
Adjustments made to obtain the cash flows from operating activities:		
Depreciation and amortisation charge	3,546	3,552
Other adjustments	31,698	21,551
Net increase/decrease in operating assets:		
Financial assets held for trading	(272)	134
Available-for-sale financial assets	(14,943)	3,631
Loans and receivables	(60,409)	56,016
Other operating assets	(10,870)	(15,465)
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	66	50
Financial liabilities at amortised cost	201,489	135,696
Other operating liabilities	6,087	13,610
Income tax recovered/paid	(28,659)	(25,717)
B. CASH FLOWS FROM INVESTING ACTIVITIES	(4,719)	(3,472)
Payments		
Tangible assets	(2,077)	(603)
Intangible assets	(2,417)	(2,869)
Investments	(225)	-
C. CASH FLOWS FROM FINANCING ACTIVITIES	(34,443)	(90,053)
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	217	257
E. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	157,755	146,154
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	200,626	54,472
G. CASH AND CASH EQUIVALENTS AT END OF YEAR	358,381	200,626
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	16	16
Cash equivalents at central banks	1,767	1,642
Other financial assets	356,598	198,968
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	358,381	200,626

4. Distribution of the Bank's profit

The distribution of the Bank's net profit for 2015 that the Board of Directors will propose for approval by shareholders at the Annual General Meeting and the distribution of the net profit for 2014 approved by the shareholders at the Annual General Meeting are as follows:

	Thousands of Euros	
	2015	2014
Dividends	51,725	-
To voluntary reserves	17,242	46,364
	68,967	46,364

At the Board Meeting held on 1 October 2015, the Bank's directors resolved to distribute an interim dividend out of 2015 profit of EUR 34,443 thousand, which had been paid in full at 31 December 2015.

The provisional accounting statement prepared by the Bank's directors in accordance with Article 277 of the Consolidated Spanish Limited Liability Companies Law evidencing the existence of sufficient liquidity for the distribution of the interim dividend is as follows:

	Thousands of Euros
	31/08/15
Profit before tax	66,766
Less:	
Estimated income tax	(20,842)
Distributable profit	45,924
Interim dividend to be distributed	34,443
Gross dividend per share (euros)	38.21

5. Remuneration and other benefits paid to the Bank's directors and senior executives

a) Remuneration of directors

In 2015, the Bank's Board members received no remuneration in respect of salaries, bylaw-stipulated emoluments or attendance fees, except for Ms Laura Febbraro and Mr Rodrigo Echenique, who received EUR 15 and EUR 4 thousand, respectively, for those items (2014: EUR 15 and EUR 11 thousand, respectively).

In 2015 and 2014, the directors did not receive any other short-term remuneration, post-employment benefits, other long-term benefits, termination benefits or equity-instrument-based payments. Also, at 31 December 2015 and 2014, the Group had no post-employment benefit obligations to its current or former Board members.

However, in 2015, the Bank paid an insurance company premiums amounting to EUR 25 thousand in relation to third-party liability insurance to cover the Bank's directors and executives (2014: EUR 25 thousand).

b) Remuneration of senior executives

For the purposes of the preparation of these consolidated financial statements, the 28 members of the Management Committee were considered to be senior executives of the Group.

Following is a detail of the remuneration paid to the Group's senior executives in 2015 and 2014:

Year	Number of Persons	Thousands of Euros		
		Salary		
		Fixed	Variable	Total
2015	28	4,010	1,590	5,600
2014	16	1,820	1,004	2,824

In 2015 and 2014, the senior executives did not receive any other variable remuneration relating to long-term incentive plans. A 31 December 2015 and 2014, no incentive plans were in force.

c) Pension, insurance and other obligations

At 2015 year-end, the Bank had defined contribution post-employment obligations to 19 current senior executives (2014: two senior executives). The contributions made in this connection in 2015 amounted to EUR 140 thousand (2014: EUR 49 thousand) (see Note 24.1).

The capital guaranteed by life insurance policies for senior executives amounted to EUR 13,151 thousand at 31 December 2015 (31 December 2014: EUR 4,435 thousand). At 31 December 2015 and 2014, there were no life insurance policies covering any of the Bank's current or former directors.

d) Loans

The Group's direct lending to previous or current members of its Board of Directors or senior executives, and the guarantees provided to them, are detailed below. These transactions were made on an arm's-length basis or the related compensation in kind was recognised:

	Thousands of Euros					
	2015			2014		
	Loans and Credits	Guarantees	Total	Loans and Credits	Guarantees	Total
Directors	-	-	-	-	-	-
Senior Executives	17	-	17	32	-	32
	17	-	17	32	-	32

e) Information regarding situations of conflict of interest involving the directors

At the end of 2015, the members of the Bank's Board of Directors had not notified the other members of the Board of Directors of any direct or indirect conflict of interest that they or persons related to them as defined in the Spanish Limited Liability Companies Law might have with respect to the Bank.

6. Available-for-sale financial assets

Following is a detail of the financial assets included in "Available-for-Sale Financial Assets" in the consolidated balance sheets as at 31 December 2015 and 2014:

	Thousands of Euros	
	2015	2014
Debt instruments-		
Resident public sector securities	10,004	-
Non-resident public sector securities	10,003	5,129
	20,007	5,129
Equity instruments-		
Shares not quoted on organised markets (*)	193	107
	193	107
	20,200	5,236

(*) Relates to the amount of the shares held by the Bank in S.W.I.F.T., SCRL, an unlisted company.

"Resident public sector securities" in the foregoing table at 31 December 2015 relates in full to Spanish treasury bills that the Bank acquired on 22 October 2015 amounting to EUR 9,999 thousand.

"Non-resident public sector securities" in the foregoing table at 31 December 2015, relates in full to Italian treasury bills that the Bank acquired on 22 October 2015 amounting to EUR 9,974 thousand. In addition, on 15 April 2015, UK treasury bills amounting to EUR 5,568 thousand were acquired; they matured on 12 October 2015 at a value of EUR 5,405 thousand. Furthermore, at 31 December 2014, "non-resident public sector securities" related in full to UK treasury bills which the Bank acquired on 14 October 2014 for EUR 5,023 thousand; they matured on 13 April 2015 at a value of EUR 5,544 thousand.

The interest earned on these instruments is included under "Interest and Similar Income" in the consolidated income statements for 2015 and 2014 (see Note 19).

In 2015 changes in the fair value of "Debt securities" in the foregoing table totalling a net amount of EUR 21 thousand were recognised under "Equity - Valuation Adjustments – Available-for-Sale Financial Assets" in the consolidated balance sheet.

At 31 December 2015 and 2014, the Bank did not hold any debt instruments assigned to own or third-party commitments.

Note 26 provides information on the residual maturities and the average interest rates on the debt instruments classified in this financial asset category. Note 28 provides information on the fair value of these financial assets.

At 31 December 2015 and 2014, there were no impaired or past-due but not impaired financial assets in this category. Also, at 31 December 2015 and 2014, there were no impairment losses on these assets and no impairment losses were recognised in those years.

7. Loans and receivables

The detail, by type of financial instrument, of "Loans and Receivables" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014, is as follows:

	Thousands of Euros	
	2015	2014
Loans and receivables:		
Loans and advances to credit institutions	638,331	420,311
Loans and advances to customers	11,480	6,632
	649,811	426,943

7.1. Loans and advances to credit institutions

The detail, by type and currency of the transaction, of "Loans and Advances to Credit Institutions" on the asset side of the accompanying consolidated balance sheets as at 31 December 2015 and 2014, is as follows:

	Thousands of Euros	
	2015	2014
Type:		
Time deposits	261,973	207,710
Other accounts	376,004	210,983
Add: Valuation adjustments	354	1,618
<i>Of which:</i>		
<i>Accrued interest</i>	<i>354</i>	<i>1,618</i>
	638,331	420,311
Currency:		
Euro	478,129	345,729
Foreign currencies	160,202	74,582
	638,331	420,311

Note 26 contains a detail of the terms to maturity of these assets at 2015 and 2014 year-end and of the average annual interest rates in 2015 and 2014. Note 28 provides information on the fair value of these financial assets.

7.2. Loans and advances to customers

The detail, by loan type and status and borrower's geographical area of residence, of "Loans and Advances to Customers" on the asset side of the accompanying consolidated balance sheets as at 31 December 2015 and 2014, is as follows:

	Thousands of Euros	
	2015	2014
Loan type and status of the operations:		
Receivable on demand and other (*)	11,055	6,655
Impaired assets	1,092	4
Less: Valuation adjustments	(667)	(27)
<i>Of which:</i>		
<i>Impairment losses</i>	(667)	(27)
	11,480	6,632
Borrower's geographical area:		
Spain	461	750
European Union (excluding Spain)	9,873	4,764
Rest of the world	1,146	1,118
	11,480	6,632

(*) At 31 December 2015 and 2014, this item included EUR 5,046 thousand and EUR 1,064 thousand, respectively, in respect of fees and commissions for the marketing of units in collective investment undertakings receivable at those dates (see Note 21).

Note 26 contains a detail of the terms to maturity of these assets at 2015 and 2014 year-end and of the average annual interest rates in 2015 and 2014. Note 28 provides information on the fair value of these financial assets.

At 31 December 2015 and 2014, there were no loans and advances to customers for material amounts without fixed maturity dates.

Impairment losses

The changes in the balance of "Impairment Losses" in the foregoing table in 2015 and 2014 were as follows:

	Thousands of Euros	
	2015	2014
Beginning balance	27	277
Impairment losses charged to consolidated income for the year	640	12
<i>Of which:</i>		
<i>Individually assessed (*)</i>	612	-
<i>Collectively assessed</i>	28	12
Impairment losses reversed with a credit to consolidated income	-	(262)
Net additions/(reversals) charged/(credited) to consolidated income for the year (**)	640	(250)
Ending balance	667	27
<i>By method of assessment:</i>		
<i>Individually assessed (*)</i>	616	4
<i>Collectively assessed</i>	51	23

(*) These amounts related in full to impairment losses on fees and commissions receivable for the marketing of units in collective investment undertakings.

(**) Recognised under "Impairment Losses on Financial Assets (Net) - Loans and Receivables" in the accompanying consolidated income statements for 2015 and 2014.

Past-due but not impaired financial assets

The Group held past-due but not impaired financial assets in the accompanying balance sheets as at 31 December 2015 and 2014 amounting to EUR 3,954 thousand and EUR 1,060 thousand, respectively, all of which had maturities of less than 30 days.

Impaired assets

The detail of the changes in the balance of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Beginning balance	4	643
Additions net of recoveries	1,088	(639)
Ending balance	1,092	4

At 31 December 2015 and 2014, there was no accrued interest receivable on these assets.

In addition, following is a detail of the financial assets classified as loans and receivables which were considered to be impaired due to credit risk at 31 December 2015 and 2014, classified by age of the oldest past-due amount:

	Thousands of Euros				
	With Balances Past Due by				Total
	Within 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	
Balances at 31 December 2015	376	334	109	273	1,092
Balances at 31 December 2014	-	-	-	4	4

Written-off assets

At 31 December 2015 and 2014, the Group did not hold any financial assets classified as loans and receivables and considered to be written-off assets, and there were no changes in this connection in those years.

8. Trading derivatives (assets and liabilities)

The balances recognised under "Trading Derivatives" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 reflect the fair value of trading derivatives whose inherent risk is foreign currency risk. Information on the notional value of the derivatives is included in Note 18.

9. Tangible assets

The changes in 2015 and 2014 in "Tangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2015	2014
Cost:		
Beginning balance	8,309	7,468
Additions	2,359	1,001
Disposals	(494)	(160)
Ending balance	10,174	8,309
Accumulated depreciation:		
Beginning balance	(5,772)	(5,194)
Charge for the year (*)	(887)	(738)
Disposals	488	160
Ending balance	(6,171)	(5,772)
Impairment losses:		
Impairment charges (**)	(6)	-
Disposals	6	-
Ending balance	-	-
Tangible assets, net	4,003	2,537

(*) This amount was recognised with a charge to "Depreciation and Amortisation cCharge" in the accompanying consolidated income statements for 2015 and 2014.

(**) This amount was recognised with a charge to "Impairment Losses on Other Assets (Net) – Other Assets" in the accompanying consolidated income statement for 2015.

The detail, by type of asset, of the items composing "Tangible Assets" in the accompanying consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	Thousands of Euros		
	Cost	Accumulated Depreciation	Carrying Amount
Furniture and fixtures	6,854	(4,682)	2,172
Computer hardware	1,455	(1,090)	365
Balances at 31 December 2014	8,309	(5,772)	2,537
Furniture and fixtures	8,608	(5,126)	3,482
Computer hardware	1,566	(1,045)	521
Balances at 31 December 2015	10,174	(6,171)	4,003

At 31 December 2015, fully depreciated tangible assets amounted to approximately EUR 2,035 thousand (31 December 2014: approximately EUR 2,012 thousand).

In view of the nature of the Group's tangible assets, its directors consider that their fair values do not differ significantly from their respective carrying amounts at 31 December 2015 and 2014.

At 31 December 2015 and 2014 and throughout those years, there were no impairment losses on property, plant and equipment for own use in addition to those indicated this Note.

10. Intangible assets

The detail of "Intangible Assets" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Estimated Useful Life	Thousands of Euros	
		2015	2014
IT developments	3 years	10,912	10,745
Less: Accumulated amortisation		(6,973)	(6,416)
Total, net		3,939	4,329

At 31 December 2015 or 2014, all of the Group's intangible assets had a finite useful life.

The changes (gross amounts) in 2015 and 2014 in "Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2015	2014
Beginning balance	10,745	10,361
Additions	2,416	2,920
Disposals	(2,249)	(2,536)
Ending balance	10,912	10,745

The changes in "Accumulated Amortisation" in 2015 and 2014 were as follows:

	Thousands of Euros	
	2015	2014
Beginning balance	(6,416)	(6,076)
Charge for the year (*)	(2,806)	(2,876)
Disposals	2,249	2,536
Ending balance	(6,973)	(6,416)

(*) These amounts were recognised with a charge to "Depreciation and Amortisation Charge" in the accompanying consolidated income statements for 2015 and 2014.

At 31 December 2015, fully amortised intangible assets amounted to approximately EUR 2,613 thousand (31 December 2014: approximately EUR 2,167 thousand). None of the Group's intangible assets were impaired or had become impaired at 31 December 2015 or 2014 or in the years then ended, and no balance was recognised in this connection in those years.

11. Tax matters

The Milan and London branches file individual tax returns, in conformity with the tax regulations applicable in Italy and the United Kingdom. The income tax expense recognised by the Group for 2015 was accrued in full at the Italian branch, by the Bank in Spain and by the subsidiary Allfunds International, Schweiz AG, and amounted to EUR 11,852 thousand, EUR 19,380 thousand and EUR 330 thousand, respectively (2014: EUR 9,003 thousand, EUR 12,635 thousand and EUR 29 thousand, respectively). Additionally, the Group recognised a charge of EUR 60 thousand under "Income Tax" in the accompanying 2015 consolidated income statement for adjustments made to the 2014 income tax settlement (2014: a charge of EUR 420 thousand for adjustments made to the 2013 income tax settlement).

The balance of "Tax Assets - Current" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 includes income tax prepayments for each year, which are settled in the following year.

The balance of "Tax Liabilities - Current" in the accompanying consolidated balance sheets includes the current liability relating to the various taxes applicable to the Group.

Although the income tax return for 2015 has not yet been filed, the reconciliation of the consolidated accounting profit to the estimated taxable profit in Spain, and the Spanish income tax expense recognised in the consolidated income statements for 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Consolidated profit before tax	107,605	72,518
Permanent differences:		
Reductions (*)	(43,005)	(30,403)
Tax base (taxable profit, which coincides with adjusted accounting profit)	64,600	42,115
Tax rate applicable in Spain	30%	30%
Income tax expense	19,380	12,635

(*) Relating mainly to the results of the branches abroad, which are taxed in the respective countries in which they are established, and to the earnings/ losses of the consolidated companies.

For reporting purposes as provided for in the Spanish Income Tax Law, it is hereby stated that no transactions were performed under the special tax regime for mergers, spin-offs, contributions of assets and exchanges of securities in which the Bank acted as the acquirer or as a shareholder.

In addition, pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired. Therefore, at 31 December 2015, the Bank had the taxes applicable to it open for review by the tax authorities, in relation to its activity for which, at that date, the period established by the corresponding regulations for the related review (four years since the end of the voluntary filing period in the case of Spanish legislation) had not elapsed.

In 2015 EUR 64 thousand were recognised under "Tax Liabilities - Deferred" in the accompanying consolidated balance sheet as at 31 December 2015 in connection with the income recognised directly in the Bank's equity arising from valuation adjustments on "Available-for-Sale Financial Assets" (EUR 9 thousand) EUR 55 thousand of

exchange differences were also recognised under "Valuation Adjustments – Exchange Differences" in consolidated equity. No income tax benefit or expense was recognised directly in the Group's equity in 2014.

At 31 December 2015 and 2014, there were no tax loss or tax credit carryforwards or unrecognised deferred tax assets arising from temporary differences except for the tax loss carryforwards from prior years arising at the London branch, amounting to EUR 1,265 thousand and EUR 254 thousand, respectively, there being no time limit on the offset of these balances, and certain tax exemptions held by the subsidiary Allfunds Bank International, S.A. which, in accordance with the accounting principle of prudence, the Group has not recognised since the timing of their recovery is not certain.

As a result of the tax audit for 2007 of the Italian branch, tax assessments amounting to EUR 110 thousand were issued, of which assessments amounting to EUR 100 thousand were signed on a contested basis, leaving an amount of EUR 33 thousand payable at 31 December 2015.

In view of the varying interpretations that can be made of certain tax regulations applicable to the operations of the Bank and the consolidated companies, the open years might give rise to contingent tax liabilities. However, the Bank's directors and tax advisers consider that the tax charge, if any, which might arise from future inspections by the tax authorities, or from inspections already performed but pending a final decision, would not have a material effect on these consolidated financial statements.

12. Other assets and Other liabilities

The detail of "Other Assets" and "Other Liabilities" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2015	2014	2015	2014
Sundry accounts	1,081	986	2,478	986
Accrued expenses (*)	-	-	7,562	6,418
Accrued fees and commissions on the marketing of units in collective investment undertakings (Notes 21 and 22)	183,448	142,223	149,154	115,906
Prepaid expenses	133	516	-	-
	184,662	143,725	159,194	123,310

(*) At 31 December 2015 and 2014, this item included EUR 5,707 thousand and EUR 4,641 thousand, respectively, relating to the variable remuneration payable at those dates. The Bank's directors consider that no significant differences will arise between these amounts and those finally paid.

13. Financial liabilities at amortised cost

The detail, by type of financial instrument, of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Financial liabilities at amortised cost:		
Deposits from credit institutions	186,944	76,919
Customer deposits	195,406	125,463
Other financial liabilities	164,391	110,935
	546,741	313,317

13.1. Deposits from credit institutions

The detail, by type and currency, of "Deposits From Credit Institutions" on the liability side of the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Type:		
Demand accounts	186,944	76,919
	186,944	76,919
Currency:		
Euros	102,075	44,952
Foreign currencies	84,869	31,967
	186,944	76,919

Note 26 contains a detail of the terms to maturity of these liabilities at 2015 and 2014 year-end and of the average annual interest rates in 2015 and 2014, and Note 28 provides information on the fair value of these financial liabilities.

13.2. Customer deposits

The detail, by type and currency, of "Customer Deposits" on the liability side of the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Type:		
Demand accounts	195,406	125,463
	195,406	125,463
Currency:		
Euros	146,118	95,405
Foreign currencies	49,288	30,058
	195,406	125,463

The balance of "Customer Deposits" included current accounts held by the non-resident sector, for an amount of EUR 192,497 thousand and EUR 123,933 thousand as at 31 December 2015 and 2014, respectively.

Note 26 contains a detail of the terms to maturity of these liabilities at 2015 and 2014 year-end and of the average annual interest rates in 2015 and 2014, and Note 28 provides information on the fair value of these financial liabilities.

13.3. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Tax collection accounts	12,592	10,835
Special accounts	132,843	84,634
Payment obligations (*)	6,506	6,305
Other	12,450	9,161
	164,391	110,935

(*) Includes EUR 6,232 thousand and EUR 6,178 thousand relating to accrued fees and commissions payable at 31 December 2015 and 2014, respectively (see Note 22). It also includes EUR 37 thousand relating to the amounts not yet contributed at 31 December 2015 to the Group employees' defined contribution plans (see Note 2-m).

"Special accounts" in the foregoing table basically refers to funds temporarily held on behalf of clients due to orders of transfer of investments in collective investment undertakings received, which were yet to be settled, at year-end.

Note 26 contains a detail of the terms to maturity of these liabilities at 2015 and 2014 year-end, and Note 28 provides information on the fair value of these financial liabilities.

Disclosures on the average periods of payment to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions corresponding to Allfunds Bank, S.A.

As permitted by the Single Additional Provision of the aforementioned Resolution, since this is the first reporting period in which it is applicable, no comparative information is presented. The aforementioned required disclosures are as follows:

	2015
	Days
Average period of payment to suppliers	22
Ratio of transactions settled	22
Ratio of transactions not yet settled	25
	Thousands of Euros
Total payments made	14,313
Total payments outstanding	939

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

"Average period of payment to suppliers" is taken to be the period that elapses from the date of receipt of the invoices (with no significant differences compared to the corresponding dates of the invoices) and the payment date.

14. Shareholders' equity

The balance of "Shareholders' Equity" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 amounted to EUR 185,943 thousand and EUR 144,403 thousand, respectively and includes the amounts of equity contributions from the Bank's shareholders and accumulated profit or loss recognised through the consolidated income statement, that have not been distributed to shareholders.

The changes in the Group's shareholders' equity in 2015 and 2014 are presented in the accompanying consolidated statements of changes in total equity for 2015 and 2014.

15. Registered share capital

On 19 November 2014, Banco Santander, S.A. sold 450,677 of the Bank's shares representing 50% of its share capital to AFB SAM Holdings, S.L. (of which Banco Santander, S.A. owns 50.50% of its share capital). Also, on 23 December 2014, Intesa Sanpaolo S.p.A. transferred title to 450,677 of the Bank's shares representing the other 50% of its share capital to Eurizon Capital SGR S.p.A. (an Intesa Sanpaolo Group company).

As a result of the foregoing, at 31 December 2015 and 2014, the Bank's share capital consisted of 901,354 fully subscribed and paid registered shares of EUR 30 par value each, all with the same voting and dividend rights. At those dates, the Bank's shareholders were AFB SAM Holdings, S.L. (50%) and Eurizon Capital SGR S.p.A. (50%). As regards share transfers, the intention to sell must be notified to the Chairman of the Board of Directors, and the remaining shareholders have a pre-emptive acquisition right for 15 days, although relating to the purchase agreement described in the preceding paragraph, that right has not been exercised.

16. Reserves

The balance of "Reserves" in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of the profit, was assigned to consolidated equity and was not distributed subsequently to the Bank's shareholders.

The detail of "Reserves" of the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Accumulated reserves:		
Restricted reserves-		
Legal	5,408	5,408
Unrestricted reserves-		
To voluntary reserves	106,471	60,908
Reserves at subsidiaries	5,483	615
<i>Allfunds Bank International, S.A.</i>	7,349	1,042
<i>Allfunds International, Schweiz AG</i>	(1,866)	(427)
	117,362	66,931

At the Bank's Annual General Meeting held on 13 June 2014, it was resolved to distribute a dividend of EUR 56,640 thousand out of voluntary reserves. This dividend had been paid in full at the end of 2014. Accordingly, at 31 December 2015, the Group's voluntary reserves amounted to EUR 60,908 thousand.

Legal reserve

Under Legislative Royal Decree 1/2010, of 2 June, approving the Consolidated Spanish Limited Liability Companies Law, Spanish entities must transfer 10% of net profit for each year to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. At 31 December 2015 and 2014, the Bank's legal reserve had reached the stipulated level.

17. Memorandum items

"Memorandum Items" relates to balances at 31 December 2015 and 2014 representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the Group although they may not impinge on its net assets.

Contingent obligations held by the Group which may result in the recognition of financial assets refer in their entirety to those available to third parties. The detail thereof at 31 December 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Available to third parties:		
Credit institutions	38,592	41,950
Other resident sectors	550	550
Non-resident sectors	8,949	9,600
	48,091	52,100

Also, at 31 December 2015, the Group held off-balance-sheet funds under management relating to units in collective investment undertakings (CIUs) amounting to EUR 215,738 million (31 December 2014: EUR 159,195 million).

18. Notional values of trading derivatives

The detail of the notional and/or contractual amounts of the trading derivatives held by the Group at 31 December 2015 and 2014, maturing in less than twelve months, is as follows:

	Thousands of Euros	
	2015	2014
Unmatured foreign currency purchases and sales (*):		
Purchases	34,650	56,078
Sales	29,460	64,544
	64,110	120,622

(*) Relating to OTC foreign currency purchases and sales.

The notional and/or contractual amounts of the aforementioned contracts do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the currency risk.

19. Interest and similar income

"Interest and Similar Income" in the accompanying consolidated income statements at December 2015 and 2014 comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value (except for derivatives).

The detail of the main items of interest and similar income earned by the Group in 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Loans and advances to credit institutions	3,934	4,532
Other finance income (*)	55	272
	3,989	4,804

(*) In 2015, it includes EUR 23 thousand relating to interest accrued on the debt instruments held by the Group classified as available-for-sale financial assets (EUR 251 thousand in 2014) -see Note 6-.

20. Interest expense and similar charges

"Interest Expense and Similar Charges" in the accompanying consolidated income statements at 31 December 2015 and 2014 includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value (except for those that might have arisen from derivatives).

The detail of the main items of interest expense and similar charges borne by the Group in 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Deposits from credit institutions	83	38
Other	55	29
	138	67

21. Fee and commission income

"Fee and Commission Income" comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments, if applicable.

The detail of "Fee and Commission Income" in the accompanying consolidated income statements at 31 December 2015 and 2014, is as follows:

	Thousands of Euros	
	2015	2014
Fee and commission income arising from:		
Marketing of products-		
Investment funds	718,878	515,240
Other	6,222	4,094
	725,100	519,334
Investment services-		
Administration and custody	1,817	1,180
	1,817	1,180
Other-		
Foreign exchange	13,849	11,753
Other fees and commissions	1,966	1,317
	15,815	13,070
	742,732	533,584

Fee and commission income arising in 2015 and 2014 from the distribution of units in collective investment undertakings amounted to EUR 718,878 thousand and EUR 515,240 thousand, respectively, of which EUR 188,494 thousand and EUR 143,287 thousand had not been received at 31 December 2015 and 2014, and were recognised under "Loans and receivables – Loans and advances to customers" and "Other assets", respectively in the accompanying consolidated balance sheets (see Notes 7.2 and 12).

22. Fee and commission expense

"Fee and Commission Expense" shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of "Fee and Commission Expense" in the accompanying consolidated income statements at 31 December 2015 and 2014, is as follows:

	Thousands of Euros	
	2015	2014
Fees and commissions assigned to:		
Third parties	1,149	902
Distributors	585,714	422,738
	586,863	423,640

The fee and commission expenses incurred in 2015 and 2014 in respect of fees and commissions paid to distributors amounted to EUR 585,714 thousand and EUR 422,738 thousand, respectively, of which EUR 155,386 thousand and EUR 122,084 thousand were payable at 31 December 2015 and 2014, respectively, and were

recognised under "Financial Liabilities at Amortised Cost – Other Financial Liabilities" and "Other Liabilities" in the accompanying consolidated balance sheets (see Notes 12 and 13.3).

23. Gains/(Losses) on financial assets and liabilities (net)

"Gains/(Losses) on Financial Assets and Liabilities (Net)" includes the amount of the valuation adjustments of financial instruments, arranged by the Group in 2015 and 2014 to hedge its foreign currency positions.

24. Administrative expenses

24.1. Staff costs

"Staff Costs" comprises all the remuneration accruing in the year in any respect to permanent or temporary employees, regardless of their function or post.

The detail of "Staff Costs" in 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Wages and salaries	21,003	17,576
Social security costs	3,378	2,924
Termination benefits	188	127
Contributions to defined contribution pension funds (Note 2-m) (*)	553	241
Training expenses	144	122
Other staff costs	283	462
	25,549	21,452

(*) Includes the 2015 and 2014 contributions to the defined contribution pension plans, of which EUR 140 thousand and EUR 49 thousand related to the contributions made for the Bank's senior management in 2015 and 2014, respectively (see Note 5-c).

The average number of employees at the Group, by professional category, in 2015 and 2014 was as follows:

	Average Number of Employees	
	2015	2014
Senior executives	27	16
Other line personnel	235	214
General services personnel	7	8
	269	238

At 31 December 2015 and 2014, the number of employees at the Group, by professional category and gender, was as follows:

	2015		2014	
	Women	Men	Women	Men
Senior executives	5	23	4	12
Other line personnel	122	134	102	126
General services personnel	7	-	8	-
	134	157	114	138

At 31 December 2015 and 2014, the Bank's Board of Directors consisted of one woman and four men.

At 31 December 2015 and 2014, under the collective agreements currently in force and other agreements, the Group had defined contribution obligations to supplement the public social security system benefits accruing to certain employees in the Milan and London branches, as well as the subsidiary Allfunds International, Schweiz AG and to their beneficiary right holders, for retirement, permanent disability or death. At 31 December 2015 and 2014, the Bank did not have any defined-benefit pension or similar long-term obligations to its employees.

24.2. Other general administrative expenses

The detail of "Other General Administrative Expenses" in the accompanying consolidated income statements for 2015 and 2014, is as follows:

	Thousands of Euros	
	2015	2014
Property, fixtures and supplies (*)	3,483	3,104
Information technology	5,598	4,301
Communications	2,313	1,741
Advertising and publicity	569	368
Legal expenses and lawyers' fees	523	397
Technical reports	1,966	1,403
Surveillance and cash courier services	77	80
Insurance and self-insurance premiums	228	261
Entertainment and staff travel expenses	2,763	2,462
Association membership fees	297	246
Subcontracted administrative services	3,652	2,293
Levies and taxes	769	580
Contributions to foundations	36	16
Other expenses	293	241
	22,567	17,493

(*) Includes lease expenses on the branches at which the Group companies carry on their business amounting to EUR 2,156 thousand (EUR: 2,042 thousand in 2014). –see Note 2-g-.

In 2015, "Technical reports" in the foregoing table includes, among others, the fees for audit and other services provided by the auditor to the Group or companies related thereto by control, common ownership or management, which are detailed below:

	Thousands of Euros
Audit services	220
Other assurance services	41
	261

The services provided by the Group's auditors meet the independence requirements stipulated by Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Law and did not involve the performance of any work that is incompatible with the audit function.

25. Other operating income and Other operating expenses

The balance of "Other Operating Income" in the accompanying consolidated income statements relates mainly to income from the provision of non-financial services.

The balance of "Other Operating Expenses" in the accompanying consolidated income statements relates to losses arising from Group's normal operations. It also includes the expense incurred in relation to contributions made to the National Resolution Fund and the equivalent Luxembourg fund in 2015 amounting to EUR 54 thousand (see Note 1-i-ii).

26. Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets as at 31 December 2015 and 2014, and of the average interest rates in both years is as follows:

	2015							Average Annual Interest Rate (%)
	Thousands of Euros							
	Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total	
Assets:								
Cash and balances with central banks	19	35,212	-	-	-	-	35,231	(0.09%)
Available-for-sale financial assets (Note 6)- Debt instruments	-	-	-	10,004	10,003	-	20,007	0.07%
Loans and receivables (Note 7)- Loans and advances to credit institutions	376,004	91,854	44	30,120	140,309	-	638,331	0.57%
Loans and advances to customers	10,975	7	13	60	163	262	11,480	0.00%
	386,998	127,073	57	40,184	150,475	262	705,049	
Liabilities:								
Financial liabilities at amortised cost (Note 13)- Deposits from credit institutions	186,944	-	-	-	-	-	186,944	0.00%
Customer deposits	195,406	-	-	-	-	-	195,406	0.00%
Other financial liabilities	151,524	12,867	-	-	-	-	164,391	0.00%
	533,874	12,867	-	-	-	-	546,741	

	2014							Average Annual Interest Rate (%)
	Thousands of Euros							
	Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total	
Assets:								
Cash and balances with central banks	19	1,645	-	-	-	-	1,664	0.11%
Available-for-sale financial assets (Note 6)								
Debt instruments	-	-	-	5,129	-	-	5,129	0.37%
Loans and receivables (Note 7)-								
Loans and advances to credit institutions	210,983	24,710	-	154,618	30,000	-	420,311	1.00%
Loans and advances to customers	6,153	8	14	71	140	246	6,632	0.00%
	217,155	26,363	14	159,818	30,140	246	433,736	
Liabilities:								
Financial liabilities at amortised cost (Note 13)-								
Deposits from credit institutions	76,919	-	-	-	-	-	76,919	0.01%
Customer deposits	125,463	-	-	-	-	-	125,463	0.01%
Other financial liabilities	99,973	10,962	-	-	-	-	110,935	0.00%
	302,355	10,962	-	-	-	-	313,317	

This table, prepared pursuant to the legislation applicable to the Group, does not reflect the Group's liquidity position since it considers demand accounts and other customer deposits as any other liability, whereas their stability is a typical feature of commercial banking. Considering this effect, the differences between assets and liabilities for each of the maturity periods are within reasonable thresholds in view of the business volume managed, and the directors do not envisage any liquidity problems or stress for the Group.

27. Related party transactions

a) Transactions with companies in the Intesa Sanpaolo Group and the Santander Group

The detail of the Group's most significant balances at 31 December 2015 and 2014 and of the results of the transactions performed in those years with Intesa Sanpaolo Group companies and Santander Group companies (see Note 15) is as follows:

	Thousands of Euros			
	2015		2014	
	Santander Group Entities	Intesa Sanpaolo Group Entities	Santander Group Entities	Intesa Sanpaolo Group Entities
Assets:				
Loans and advances to credit institutions	504,716	190	337,321	444
Loans and advances to customers	2	169	140	22
Trading derivatives	285	114	104	8
Other assets	3,437	675	2,687	424
Liabilities:				
Deposits from credit institutions	7,279	5,331	2,955	4,092
Other financial liabilities	37	396	136	2,051
Trading derivatives	211	56	65	14
Other liabilities	30,315	2,767	24,096	2,865
Profit and loss:				
Debit-				
Fee and commission expense	120,488	11,826	89,791	16,372
Other general administrative expenses	2,547	20	1,965	20
Credit-				
Interest and similar income	3,211	-	3,187	-
Fee and commission income	13,149	2,435	9,447	1,549
Other operating income	120	-	120	-

b) Transactions with the Bank's Board members and Senior executives of the Group

The information on the remuneration payable to the Board members and Group's key executives is detailed in Note 5.

28. Fair value of financial assets and financial liabilities

The following breakdown of the fair value of the Group's financial instruments at 31 December 2015 and 2014 by class of financial asset and liability, relates substantially in full to Level 2, which includes financial instruments whose fair value was estimated by reference to quoted prices on organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data:

	Thousands of Euros			
	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and balances with central banks	35,231	35,231	1,664	1,664
Financial assets held for trading	444	444	172	172
Available-for-sale financial assets (*)	20,200	20,200	5,236	5,236
Loans and receivables	649,811	651,292	426,943	426,943
	705,686	707,167	434,015	434,015
Financial liabilities:				
Financial liabilities held for trading	304	304	250	250
Financial liabilities at amortised cost	546,741	546,741	313,317	313,317
	547,045	547,045	313,567	313,567

(*) Of which EUR 193 thousand and EUR 107 thousand, respectively, related to Level 3 financial assets at 31 December 2015 and 2014, as defined in Bank of Spain Circular 4/2004. The rest of the balance at 31 December 2015 related to listed debt securities the fair value of which is estimated in accordance with the market price – Level 1 for the purposes of determining the fair value.

Most of the assets and certain liabilities, not measured at fair value, earn or bear interest at a floating rate, with a maturity, generally, less than a year which is adjusted periodically; therefore, their fair value resulting from the variations in market interest rates does not differ from the amount at which they are recognised in the accompanying consolidated balance sheets.

The remaining assets and liabilities, not measured at fair value, earn or bear interest at a fixed rate; and, since a significant portion of them mature within one year, their market value resulting from the variations in market interest rates does not differ from the amount at which they are recognised in the accompanying consolidated balance sheets.

Accordingly, the only financial assets with differences between their carrying amount and fair value at 31 December 2015 (all of which are immaterial) relate to the loans and advances made by the Bank to credit institutions at fixed interest rates maturing in more than one year, the fair value of which has been estimated as their present value, discounting the cash flows at market rates.

29. Risk management

a) Credit risk exposure

Credit risk is the possibility of loss stemming from the failure of customers or counterparties to meet their payment obligations to the Group. Specifically, the exposure is mainly to regulated institutions (which are the only authorised customers for the Group) to which the Group has granted credit lines tied to the settlement of brokerage transactions.

In order to manage and control this risk, the Risk Control Unit has implemented a system of account overdraft limits by counterparty based on an internal rating assignment methodology which results in a probability of default for each counterparty. This assigned probability is reviewed and measured at least once a year, so that the limits can be adjusted to each customer's risk profile.

Counterparty limits are controlled through an integrated system operating in real time, enabling the Group to be aware at all times of the unused credit line for each counterparty.

As can be seen in the following sections of this Note and in other sections of these notes to the consolidated financial statements, at 31 December 2015 and 2014, the main asset positions held by the Group related to unsecured balances with public sector bodies in the European Union, positions with financial institutions also in the European Union and balances of an eminently transitional nature associated with its activity, with non-performing balances representing at 31 December 2015 and 2014 0.12% and 0.001%, respectively, of its assets at those dates, the coverage ratio of those balances being 56% and 100%, respectively.

In view of the business activities carried on by it, the Group does not provide financing for property construction or development, or provide financing to households for home purchase.

In 2015 and 2014, the Group did not conduct any material renegotiation or restructuring of its debit balances, as those terms are defined in the applicable legislation.

b) Settlement risk exposure

Settlement risk is the risk arising from counterparties not fulfilling or failing to settle transactions.

The Group has developed a procedure for limits and calculating settlement risk exposure by counterparty. The settlement/counterparty limits are assigned in accordance with the internal methodology described above. The use of the limits is calculated using in-house methodologies approved by the Group. The calculation is performed by the Risk Control Unit. Automatic delivery-versus-payment (collateralised order) procedures are also established for counterparties identified as sensitive by the Bank's Risk Committee.

c) Interest rate risk exposure

The Group is not exposed to a significant interest rate risk since its main consolidated balance sheet aggregates are on demand or short term maturities.

d) Liquidity risk exposure

Liquidity risk is the risk that the Group might not have sufficient liquidity to meet its payment commitments.

The Risk Control Unit has developed a methodology to dynamically calculate the exposure to liquidity risk through static and dynamic ratios, set a limit in terms of a liquidity buffer and has supplemented this with limits by underlying and counterparty. The Group also periodically performs stress scenario analyses and uses back-testing to measure these scenarios. Furthermore, the Bank's Board of Directors has established a contingency procedure to cater for possible losses from this type of risk.

To supplement the monitoring performed by the Risk Control Unit, the Settlement Department of the Transactions Area performs ongoing follow-up of order settlement processes in each of the currencies in which the Group operates, thus providing twofold control of the Group's liquidity.

e) Operational risk exposure

Operational risk is defined as "the risk of loss resulting from deficiencies or failures of internal processes, human resources or systems or that arising due to external causes". This risk relates to events of a purely operational nature, which differentiates it from market or credit risk.

The Group's aim in operational risk control and management is to identify, prevent, measure, mitigate and monitor this risk. The priority, therefore, is to identify and eliminate any clusters of operational risk.

In order to reduce this risk, the main operating processes are analysed periodically. These processes are contained in procedures manuals and include the measures required to perform a comprehensive operational control.

The Group considers insurance as a key factor in operational risk management. In 2015 the professional indemnity insurance and employee fidelity insurance policies were renewed.

f) Exposure to other market risks

In addition to the risks above, the Group is exposed to the structural exchange rate risk arising from its foreign currency transactions. This risk is monitored and managed on a daily basis and the impact on the consolidated income statement is limited by setting maximum exposure limits and applying procedures subsequently to ensure that these limits are not exceeded, and by using hedges.

g) Risk concentration

The detail, by activity and geographical area of the counterparty, of the concentration of the Bank's risk for being the most representative of the Group (see Note 3) at 31 December 2015 and 2014 is as follows:

	2015				
	Thousands of Euros				
	Spain	Other EU Countries	America	Rest of the World	Total
Credit institutions	541,239	83,885	1,456	15,719	642,299
Public sector – Central government	10,004	10,003	-	-	20,007
Other financial institutions	77	6,529	416	627	7,649
Non-financial companies and individual entrepreneurs -	130	6	-	115	251
<i>Other purposes – SMEs and individual entrepreneurs</i>	130	6	-	115	251
Other households and NPISH- (*)	260	39	-	-	299
<i>Consumer loans</i>	254	28	-	-	282
<i>Other purposes</i>	6	11	-	-	17
Sub-total	551,710	100,462	1,872	16,461	670,505
Less: impairment losses not allocated to specific transactions					(51)
Total (**)					670,454

(*) NPISH: non-profit institutions serving households.

(**) For the purposes of this table, the definition of risk includes the following items in the Bank's public balance sheet: loans and advances to credit institutions, loans and advances to customers, debt instruments, equity instruments, trading derivatives, hedging derivatives, investments and contingent liabilities.

	2014				
	Thousands of Euros				
	Spain	Other EU Countries	America	Rest of the World	Total
Credit institutions	367,066	35,629	14,405	6,811	423,911
Public sector – Other	-	5,129	-	-	5,129
Other financial institutions	380	1,443	-	1,011	2,834
Non-financial companies and individual entrepreneurs -	121	6	-	108	235
<i>Other purposes – SMEs and individual entrepreneurs</i>	121	6	-	108	235
Other households and NPISH- (*)	254	16	-	-	270
<i>Consumer loans</i>	244	14	-	-	258
<i>Other purposes</i>	10	2	-	-	12
Sub-total	367,821	42,223	14,405	7,930	432,379
Less: impairment losses not allocated to specific transactions					(23)
Total (**)					432,356

(*) NPISH: non-profit institutions serving households.

(**) For the purposes of this table, the definition of risk includes the following items in the Bank's public balance sheet: loans and advances to credit institutions, loans and advances to customers, debt instruments, equity instruments, trading derivatives, investments and contingent liabilities, if any.

	2015					
	Thousands of Euros					
	Balearic Islands	Cantabria	Castilla y León	Catalonia	Madrid	Total Spain
Credit institutions	5	499,880	-	2	41,352	541,239
Public sector – Central government	-	-	-	-	-	10,004
Other financial institutions	-	-	-	-	77	77
Non-financial companies and individual entrepreneurs -	-	-	-	-	130	130
<i>Other purposes – SMEs and individual entrepreneurs</i>	-	-	-	-	130	130
Other households and NPISH- (*)	-	-	2	-	258	260
<i>Consumer loans</i>	-	-	2	-	252	254
<i>Other purposes</i>	-	-	-	-	6	6
Total	5	499,880	2	2	41,816	551,710

	2014						
	Thousands of Euros						
	Balearic Islands	Cantabria	Castilla y León	Catalonia	Madrid	Basque Country	Total Spain
Credit institutions	81	337,229	-	1	29,752	3	367,066
Public sector – Other	-	-	-	-	380	-	380
Other financial institutions	-	-	-	-	-	-	-
Non-financial companies and individual entrepreneurs -	-	-	-	-	121	-	121
<i>Other purposes – SMEs and individual entrepreneurs</i>	-	-	-	-	121	-	121
Other households and NPISH- (*)	-	-	5	-	249	-	254
<i>Consumer loans</i>	-	-	5	-	239	-	244
<i>Other purposes</i>	-	-	-	-	10	-	10
Total	81	337,229	5	1	30,502	3	367,821

30. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1-b). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Subsidiaries composing the Allfunds Bank Group at 31 December 2015 and 2014

31 December 2015

Entity	Location/ Registered Office	Line of Business	Audit/ Review	Ownership Interest	Thousands of Euros		
					Company Data (*)		
					Share Capital	Reserves	Profit (Loss) 2015
Allfunds Bank International, S.A. (**)	Luxembourg	Institutional brokerage services for the purchase and sale of units in collective investment undertakings	Audited	100%	15,000	4,062	5,886
Allfunds Nominee, Limited	United Kingdom	Asset holding	Not audited	100%	1	-	-
Allfunds Bank Brasil Representações LTDA	Brazil	Representation services	Not audited	100%	225	-	(68)
Allfunds International, Schweiz AG	Switzerland	Distribution of collective investment undertakings	Limited review	100%	2,060	544	1,140

(*) These entities' financial statements for 2015 have not yet been approved by their sole shareholder. However, the Bank's directors consider that the aforementioned financial statements will be approved without any changes.

(**) Through this Company, a 100% ownership interest is held in the share capital of Allfunds International, Schweiz AG.

31 December 2014

Entity	Location/ Registered Office	Line of Business	Audit/ Review	Ownership Interest	Thousands of Euros		
					Company Data		
					Share Capital	Reserves	Profit (Loss) 2014
Allfunds International, S.A. (*)	Luxembourg	Institutional brokerage services for the purchase and sale of units in collective investment undertakings	Audited	100%	15,000	127	3,935
Allfunds Nominee, Limited	United Kingdom	Asset holding	Not audited	100%	1	-	-
Allfunds International, Schweiz AG	Switzerland	Distribution of collective investment undertakings	Limited review	100%	2,060	-	544

(*) On 2 May 2014, this entity acquired the status of a bank.

Appendix II

Annual banking report

This information was prepared in compliance with Article 89 of Directive 2013/36/EU of the European Parliament and Council, of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (commonly known as CRD IV) and its transposition to Spanish domestic legislation in accordance with Article 87 and Transitional Provision Twelve of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, published in the Official State Gazette of 27 June 2014.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must for the first time publish, specifying, by country in which they are established, the following information on a consolidated basis for the last complete financial year:

- a) Name, nature and geographical location of the activity.
- b) Turnover.
- c) Number of employees on a full-time equivalent basis.
- d) Profit before taxes.
- e) Income tax.
- f) Subsidies or state aid received.

Pursuant to the above, Allfunds Banks, S.A. (the "Bank") hereby provides the required information mentioned above.

- Name, nature and geographical location of the activity.

This information is available in Notes 1 and 3 and in Appendix I of the consolidated financial statements of the Allfunds Bank Group for the year ended 31 December 2015 and prior years, which give details of the companies that operate in each jurisdiction, including their name, geographical location and the nature of their activity, amongst other things. The financial statements for the previous years are available to the public on the Bank's website at the following address:

<https://www.allfundsbank.com/?sec=ipi&lng=esp>

As shown in the information indicated above, the main activity carried on by the Allfunds Bank Group in the various jurisdictions in which it operates is the provision of investment services and, specifically, the marketing of units/ shares in collective investment undertakings.

- The information corresponding to turnover and the number of employees on an equivalent full-time basis is shown below, together with some explanatory notes on the basis of presentation of that information:

Jurisdiction	Turnover (Millions of Euros)	No. of Employees on a Full-Time Equivalent Basis
Chile	-	4
Dubai (EAU)	-	3
Colombia	-	1
Spain	96	183
Italy	49	40
Luxembourg	12	22
United Kingdom	8	33
Switzerland	3	5
Total	168	291
Consolidation adjustments	(8)	
Allfunds Bank Group	160	

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

The data on turnover per country, shown in the previous table, was obtained from the statutory accounting records for 2015 of the Group's companies with the corresponding geographic location and was converted into euros.

"Consolidation adjustments" in the above table includes the necessary adjustments in order to convert the above aggregate information into information on the consolidated Group and it therefore includes adjustments for uniformity and to eliminate transactions between Group companies.

The number of employees on a full time equivalent basis was obtained from the headcount of each company/country at 2015 year-end.

The consolidated income statement for the year ended 31 December 2015 includes profit before tax for the Allfunds Bank Group of EUR 108 million and income tax of EUR 32 million:

Jurisdiction	Millions of Euros	
	Profit Before Tax	Income Tax
Spain	65	20
Italy	35	12
Luxembourg	7	-
Switzerland	1	-
Total	108	32
Consolidation adjustments	-	
Consolidated Allfunds Bank Group	108	

At 31 December 2015, the Group's return on assets (ROA) was estimated at 8.22%.

The Allfunds Bank Group did not receive any public aid in 2015.

Allfunds Bank Group

Consolidated Directors' Report for the
year ended
31 December 2015

ALLFUNDS BANK GROUP

The consolidated financial statements of the ALLFUNDS BANK Group ("the Group") for 2015 consist of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements, which are audited by Deloitte, S.L. The accompanying directors' report summarises the main characteristics of the Group's performance and outlines the most significant future prospects.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

DIRECTORS' REPORT FOR 2015

In 2015 the Group obtained net profit amounting to EUR 75,983 thousand, up 50.67% on the previous year. Fee and commission income was the largest revenue item. It increased by 41.77% in net terms, as a result of the higher volume of trading in 2015 compared with 2014.

The detail, by geographical area, of customer positions at 31 December 2015 is as follows:

<i>Geographical Area</i>	<i>Millions of Euros</i>
Continental Europe, except Spain and Portugal	114,666
Spain and Portugal	79,274
UK and Ireland	15,662
Latin America	3,683
Middle East	2,453

At 31 December 2015, the Bank's share of the Spanish market for foreign collective investment undertakings (CIUs) was 63% in trading volume terms.

The foreign CIU market in Spain increased by 49% to EUR 118,000 million at 2015 year-end, compared with EUR 78,904 million at 2014 year-end.

At 31 December 2015, the 25% share of the Italian market was also noteworthy.

Economic environment

After a year (2015) in which global economic growth was lower than the 3.1% expected, slight improvements are expected for 2016 (3.4%) and 2017 (3.6%). Sustained though volatile growth is forecast for advanced economies, accompanied by a reduction in the productivity gap, while emerging market and developing economies present a more varied growth outlook. Also, the recovery of growth in Brazil, Russia and areas of the Middle East might be affected by political and economic shocks.

These economic outlooks are based mainly on three factors: 1) the fall in energy and raw material prices; 2) the production change in the Chinese economy, with a greater emphasis placed on the services sector, to the detriment

of the manufacturing sector; and 3) more restrictive financing conditions resulting from the greater financial volatility and the US Federal Reserve's interest rate increase.

In view of the expected increase in crude oil production by OPEC members, resulting in continuing excess supply, it is expected that oil prices will continue to fall, which will have an adverse effect on the current account balances and, therefore, the GDP of oil-exporting countries.

The increasing moves towards a services-based economy in China are resulting in a decrease in activities in other sectors, such as manufacturing. Together with a decrease in investment, this has given rise to a greater than expected decrease in trade flows and has resulted in a certain amount of contagion in world trade.

Despite the reduction in interest rates both in Japan, where the six-month TIBOR is set at 0.1 pps for 2016 and 2017, and the eurozone, where three-month EURIBOR will be -0.3 pps in 2016 and -0.2 pps in 2017, it is expected that interest rates on US federal funds will reach 1.2% in 2016 and 2.2% in 2017. These increases, together with financial volatility and uncertainty regarding the development of emerging economies, are contributing to a tightening of financial conditions and a reduction in capital flows.

It is possible that inflation at a global level will decrease as a result of the fall in raw material prices and the reduced weight of manufacturing relative to other sectors. These factors will have an uneven effect on price index growth in economies such as those of the emerging countries.

Growth outlook

Growth is expected to increase by 0.2% in developed economies in 2016 to 2.1%, and will remain unchanged in 2017. At 2.6% (2015: 2.5%) US growth is expected to be 0.9% above its European counterpart, as a result of the still favourable financial conditions and the improved home-buying and employment markets. Forecast growth in Japan has fallen to 1% (2015: 0.6%) as a result of the decrease in raw material prices, inter alia. Growth in the eurozone is estimated to be 1.7% (2015: 1.5%), due to stronger private consumption, which compensates for the net reduction in exports. GDP growth in Spain in 2016 is forecast to be around 2.8% (2015: 3.2%), due to a more moderate increase in domestic demand. This increase is thought to be a result of increased household consumption due to the fall in oil prices and the increase in employment, with the unemployment rate expected to be around 20% of the active population in the coming months.

Emerging and developing countries expect steadily increasing growth rates, from 4% in 2015 to 4.3% in 2016 and finally 4.7% in 2017. It is likely that the Chinese economic slowdown will continue as the country continues to rebalance the structure of its economy, with growth of 6.3% expected in 2016 and 6% in 2017. Growth rates in India and the other Asian emerging economies are forecast to continue apace (7.3% in India in 2015 and 2016), although some will suffer the effects of the restructuring of the Chinese economy.

The general trend in European emerging economies is uniform growth of around 3%: 3.4% in 2015 and 2017, and 3.1% in 2016. It is likely that Russia's economic recession, resulting from the fall in oil prices and international sanctions, will continue, although to a lesser degree. Positive growth of 1% is expected in Russia in 2017, compared with growth of -1% in 2016 and -3.7% in 2015.

Due to the fall in oil prices and, in certain cases, geopolitical tensions and internal conflicts, the growth forecasts in the Middle East for 2016 and 2017 are identical at 3.6% (2015: 2.5%).

A gradual rebound in growth, although at rates lower than over the last decade, is foreseen for most countries in Sub-Saharan Africa (4% in 2016 and 4.5% in 2017, compared with 3.5% in 2015), due to the fall in raw material prices and greater debt costs.

In 2016 the economies of Latin America and the Caribbean are expected to maintain the same negative growth rate of -0.3% experienced in 2015. The outlook for 2017 is more favourable, with growth of 1.6% forecast.

Transaction performance

In 2015, the focus remained on the objectives set in previous years:

- To support Allfunds International, S.A. in its objective to complement the Bank in countries where it does not have a permanent establishment. Also, in 2014 Allfunds International became a bank.

In 2012 this company incorporated a wholly-owned investee in Switzerland with the aim of commencing a CIU distribution activity in the local market. In 2014 a larger office was leased to make room for the new employees who have strengthened the various departments.

- To continue to strengthen its commercial presence in the Latin American area through the new representative office in Bogotá, and increase its customer base in the region.
- To continue to increase the number of distribution agreements entered into with customers in all markets in which the Group operates. In 2015 27 new agreements were signed.
- To continue to enter into agreements with the world's foremost management companies in order to be able to offer customers a wider range of products. In 2015 the products of 77 new asset managers were included in the brokerage platform.
- The commercial activity in the Middle East was reinforced through the opening of a representative office in Dubai.

Performance of the distribution channels

The distribution channels operated by the Group, which play a highly significant role in obtaining its revenue are as follows:

- Direct fund distribution (Retail and Portfolios) accounted for 51%, compared with 53% in 2014.
- The CIU channel, comprising funds of funds, open-end investment companies ("SICAVs" in Spanish) and insurance, represented 48.6% of the total traded volume (2014: 46%).
- Structured products, including underlying investment funds, decreased to 0.4%.

Consolidated balance sheet

At 31 December 2015, the Group's total assets amounted to EUR 923,944 thousand, up 53.21% on 2014.

As in previous years, the accounts balance (bank deposits) was the main item on the asset side of the consolidated balance sheet as at 31 December 2015.

As in previous years, "Loans and Advances to Credit Institutions" was the main item on the asset side of the consolidated balance sheet, amounting to EUR 638,331 thousand at 31 December 2015, i.e. 51.87% more than the previous year.

Fees and commissions receivable and payable at 31 December 2015 amounted to EUR 188,494 thousand and EUR 155,386 thousand, respectively, up 31.55% and 27.28%, respectively, on 2014.

Intangible assets (all relating to software and licences) amounted to EUR 3,939 thousand at 31 December 2015, i.e. down 9.01% year on year. This change was mainly a result of lower investment in IT development, together with greater software maintenance costs.

Tangible assets (furniture, computer equipment and fixtures) net of depreciation, amounted to EUR 4,003 thousand at 31 December 2015, which represents a 57.78% increase, as result of the computer equipment refurbishment work, the equipment for the new hires and the work at the Milan, London, Luxembourg, Bogotá and Santiago offices.

Customers may open current accounts at the Bank for the purpose of receiving an enhanced brokerage service in relation to the purchase and sale of units in CIUs. At 31 December 2015, the balance held in these accounts amounted to EUR 382,350 thousand, i.e. 88.92% more than the previous year. This increase was due mainly to the increased current account balances at the Madrid, Milan and Luxembourg branches.

The amount of the transactions arranged for the purchase and sale of CIU units not yet settled recognised on the liability side of the balance sheet rose by 56.96% on 2014, as a result of the higher volume of brokered transactions. At 31 December 2015, this amount was EUR 132,843 thousand.

Earnings

The Group obtained net profit of EUR 75,983 thousand at 2015 year-end, up 50.67% on 2014.

The detail by company, without taking intra-Group transactions into consideration, is as follows:

	Thousands of Euros
Allfunds Bank, S.A.	68,967
Allfunds Bank International, S.A.	5,886
Allfunds International, Schweiz AG	1,140

Net interest income amounted to EUR 3,851 thousand, i.e. 18.70% less than in 2014, most of which related to fee and commission income from deposits, as a result mainly of the decrease in interest rates.

Net fee and commission income amounted to EUR 155,869 thousand in 2015, which represents a 41.77% increase on 2014. Of this fee and commission income, 98.31% in 2015 and 98.55% in 2014 related to the brokerage of shares and units of international CIUs.

Administrative expenses, which comprise staff costs and other general administrative expenses, amounted to EUR 48,116 thousand in 2015, up 23.55% on 2014. This increase was mainly due to the higher cost of IT systems, new hires and the increase in travel in order to boost the entity's business.

Off-balance-sheet figures

As in previous years, the main activity carried on by the Group is the provision of brokerage services in the distribution of foreign CIUs, without taking ownership of the assets in which the investments are made. As a result, none of the customers' assets are recognised on the Group's consolidated balance sheet.

At 31 December 2015, the volume of customers' intermediated funds amounted to EUR 215,738 million, which represents a 35.52% increase.

Share capital and treasury shares

At 31 December 2015, the Bank's share capital amounted to EUR 27,040,620, represented by 901,354 fully subscribed and paid registered shares of EUR 30 par value each.

On 19 November 2014, Banco Santander, S.A. sold 450,677 shares representing 50% of the share capital of Allfunds Bank, S.A. to AFB SAM Holding, S.L.

On 23 December 2014, Intesa Sanpaolo S.p.A. transferred title to 450,677 shares representing the other 50% of the share capital of Allfunds Bank, S.A. to Eurizon Capital SGR S.p.A. (an Intesa Sanpaolo Group company).

As a result of foregoing, the Bank's current owners are AFB SAM Holding, S.L. (50%) and Eurizon Capital SGR S.p.A. (50%).

No transactions involving treasury shares were carried out in 2015.

Research and development policy

The Bank initiated new technological developments in the computer platform in 2015 with the object of providing solutions to new business needs in order to enhance the service to current and/or new customers and of adapting to the new regulatory requirements.

The most noteworthy developments were as follows:

- Adaptation to the Solvency II Directive (2009/138/EC)
- Integration with the MorningStar database
- Progress in the standardisation process in the Italian market
- Change in web architecture
- Development of own brand internet portals (Moon).
- FATCA

Staff

The main data in this connection are contained in Note 24.1 to the accompanying consolidated financial statements.

Financial risk management policies

The main risks arising from the Group's activities are: credit risk, settlement risk, liquidity risk, interest rate risk, market risk and operational risk. Certain procedures have been defined in order to control and monitor these risks, and to comply with the risk aversion policy established by the Bank's most senior governing body, i.e. its Board of Directors.

For this purpose, general management provides the Bank with the human and technological resources it needs in order to develop risk management best practices.

The actions undertaken by the Bank with regard to the management of these risks are described in Note 29 to the accompanying consolidated financial statements.

Outlook

The Group's management policy for 2016 includes the following aims:

- Opening of a branch in Singapore to increase the presence in the Asian market.
- Continue to increase the number of customers, the trading volume and the percentage market share in the marketing of foreign CIUs in the various markets in which it has a presence.
- Provide the London and Milan branches and the Luxembourg subsidiary with new offices in order to increase human resources, thereby enabling continued growth in business volume.
- Increase the presence in new markets classified as core in the Bank's business plan (Nordic countries and Central Europe).
- Obtain a larger market share in the geographical areas of the Middle East, by leveraging the representative office in Dubai (UAE).
- The consolidation of the representative office in Colombia in order to obtain a larger market share and to provide an enhanced service to customers in the region.

The Bank's directors consider that the current business plan will enable the Bank to meet the budgets agreed upon for 2016 in spite of the economic turbulence buffeting the markets in which it operates.

Environment

In view of the Group's operations, there are no environmental implications in this respect. See Note 1-g to the accompanying consolidated financial statements.

Average payment period to suppliers

The average period of payment to suppliers in 2015 was 22 days, which was less than the maximum period established in the applicable legislation (see Note 13.3 to the accompanying consolidated financial statements).

Events after the reporting period

From 1 January 2016 to the date on which these consolidated financial statements were authorised for issue, no events took place having a material effect on the consolidated financial statements.