PILLAR 3 DISCLOSURES REPORT

Allfunds Bank Group

Year 2016

1. General Overview

1.1. About Allfunds Bank[1]

Allfunds Bank, S.A. (hereinafter, “the Bank” or “AFB”) was incorporated in Madrid on 14 December 2000. The Bank is a public limited company 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). 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 corporate 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.

However, the business of the Bank and its affiliates is mainly focused in providing investment and banking services regarding the access to and distribution of third party mutual funds across different markets to financial service providers in an ‘open architecture’ environment. AFB is currently one of the leading platforms for the distribution of investment funds at an institutional level, consolidating open architecture solutions for more than 16 years. With a presence on the ground in Spain, Italy, the United Kingdom, Chile, Colombia, Dubai, Luxembourg, Switzerland and Singapore, it currently offers distribution services comprising c540 fund managers and over 50,000 funds, and an extensive network which includes more than 533 contracts with institutional clients, spread over more than 38 countries, including commercial banks, private banking institutions, fund managers, insurance companies and fund supermarkets. Clients generally use funds for one or two purposes: self-investment (pure B2B) or direct distribution (B2B2C). AFB has no proprietary asset management, insurance, pension or retail (B2C) businesses that could cause any conflict of interests in offering its services to its clients.

The Bank’s strategy remains focused on becoming the B2B partner of any financial institution willing to enter into Open Architecture business, becoming their fund platform and main B2B service provider. AFB is client demand driven, product-agnostic, continuously incorporating new managers and funds according to client demand. AFB’s institutional clients, top financial distributors, ultimately decide the way they want to undertake and implement their business using all the tools and services available at AFB. Through the platform, AFB is also able to help distributors select the best counterparties in terms of service and information provided. Access to information, service performance and marketing support are now key factors used to select fund providers.

[1] More information available in our web page https://www.allfundsbank.com/lr/web/public/about-us

In 2016, AFB experienced an outstanding growth in assets, going from €215 Bn (end 2015) to €253 Bn by end of 2016, representing an annual growth rate of +18% (+€38Bn) during 2016. AFB has benefited from a growth and diversification in our client base as well as an increase in assets from our existing client base.

The growth in its client base has partly been driven by the efforts to increase the breadth and depth of the fund offering and partly driven by the increasing demand for international funds across different markets.

Regarding the history of AFB since its inception, in 2003, the Italian bank Sanpaolo (now Intesa Sanpaolo) acquired 50% of the company. And a branch was then opened in Italy to cater to local clients.

In 2005, the platform opened its second branch, in the United Kingdom, to serve local and global distributors in what is considered one of the most important global financial centers in the world.

In 2007, AFB established its international affiliate, Allfunds Bank International (AFBI) as a Luxembourg PSF (“Professionnel du Secteur Financier”), to provide easier access to international clients at the heart of the European Fund Industry.

In 2009, AFB expanded its reach with the establishment of its first representative office in Santiago de Chile its services to Chilean based clients.

In 2011 it set up a representative office in the United Arab Emirates to promote the services to financial institutions in the Middle East, becoming the first fund platform in the world to meet Sharia law. Today, Allfunds is the only investment fund platform within the Islamic open architecture space.

On May 31st 2013 Allfunds Switzerland, a subsidiary of AFBI, was established in Zurich with a Fund Distributor license to expand the business into the most important private banking center in the world.

In 2014, AFBI started to operate as a bank in Luxembourg authorized to render both banking and investment services by upgrading its previous PSF license.

In 2015 Allfunds opened its first representative office in Bogotá, making it the second branch in Latin America and reinforcing its commitment to the region. Throughout 2016 and continuing with its internationalization strategy, Allfunds Bank obtained local licenses in Singapore (branch) and Brazil (representative office). On December 2016 Allfunds announced the launch of its Singapore office that is due to start operations in early 2017. The Sao Paolo office has not been yet effectively opened.

As of December 31st 2016, the share capital of the Bank was represented by 901.354 nominative shares, each with a nominal value of 30 euros, completely paid-up, with identical economic and political rights. The shareholders of the Bank as of December 31st 2016 were AFB SAM Holdings, S.L. (50%) and Eurizon Capital SGR S.p.A. (50%).

On the 6th of March 2017, the current shareholders of Allfunds Bank, S.A., AFB SAM Holdings, S.L. and Eurizon Capital SGR S.p.A. have signed a Share Purchase Agreement with the company ADUBALA ITG, S.L.U. (indirectly owned in turn by funds managed or advised by the firm Hellman & Friedman and the Sovereign Wealth fund GIC).

The sale of the shares of Allfunds Bank, S.A. is subject to the fulfilment of certain conditions (including the authorisation -non-opposition- to the direct acquisition of the shares by the European Central Bank and non-opposition by the European Central Bank of the acquisition of an indirect qualifying holding in Allfunds Bank International S.A., the approval of the acquisition of control over Allfunds Singapore Branch by the Monetary Authority of Singapore, the non-objection from the Swiss Financial Market Supervisory Authority (FINMA) regarding the indirect change of control of Allfunds International Schweiz AG and the EU and Brazilian anti-trust approval) and, thus, completion of the sale will not take place until all these conditions have been met.

1.2. Balance & Results

At 31st December 2016, the Group's total assets amounted to EUR 937,912 thousand, up 4.41% compared with a year earlier.

Credit institutions maintained a balance amounting to EUR 539,483 thousand, with a decrease of 15.49% over the previous year, mainly explained by higher balances held at central Banks in order to comply with large exposures regulation.

Intangible assets (all relating to software and licences) amounted to EUR 5,099 thousand, up 29.45% in 2016, mainly by increased spending on application maintenance and less investment in new IT developments.

Tangible assets (furniture, computer equipment and fixtures) net of depreciation, amounted to EUR 6,616 thousand, which represents a 65.28% increase, as a result of the building projects of new offices in Milan, London and Luxembourg.

Customers can open cash accounts at AFB in order to receive a better intermediation service in the process of trading CIIs shares. The balance held at 31st December 2016 in these accounts amounted to EUR 466,957 thousand, up 22.22% in the year. This rise is mainly due to higher balances in the offices of Madrid, Milan and Luxembourg.

The unsettled trades related to the purchase and sale of CIIs shares, under other financial liabilities, shows a decrease of -28.95% vs 2015, due to the higher volume of trades in 2016. At 31st December 2016, it amounted to EUR 94,381 thousand.

The Group obtained a net profit of EUR 69,074 thousand at 2016 year-end, i.e. 9.09% less than in 2015. The detail by company, without taking intra-Group transactions into consideration, is as follows:

Entity	Thousand Euros
Allfunds Bank, S.A.	63.975
Allfunds Bank International, S.A.	4.924
Allfunds International, Schweiz AG	231
Allfunds Bank Brasil Representaçoes LTDA	(38)

Net interest income amounted to EUR 989 thousand (-74.32% in 2016), due to the lower profitability on current accounts and deposits as a result of the decrease in interest rates.

Net fee and commission income amounted to EUR 154,513 thousand, which represents a slight decrease of -0.87% versus 2015. Most of this figure is generated by the brokerage of international CIIs, 86.88% in 2016 and 85.43% in 2015.

At 31st December 2016, the receivable and payment commissions amounted to 181,335 and 155,848 thousand euros respectively, which means a decrease of 3.30% in collections and an increase of 0.30% in payments in the year.

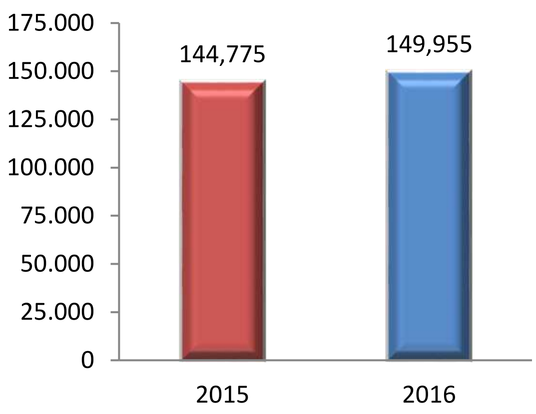
Administrative expenses, which comprise staff costs and other general administrative expenses, amounted to EUR 57,472 thousand, up +19.44% in 2016. This increase was mainly due to the higher cost of IT systems, new hires and higher travel expenses in order to boost the entity business.

1.3. Solvency

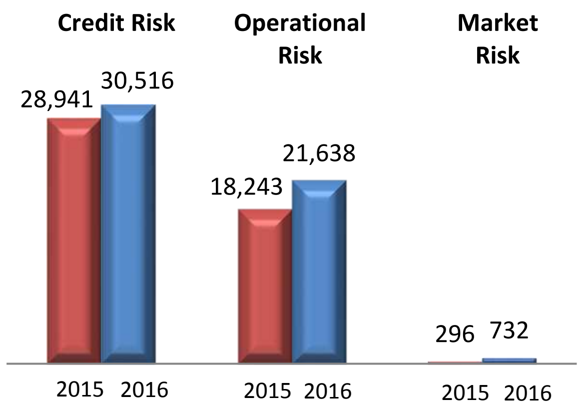
Regarding Solvency, and according to the CRR/CRD IV, the Bank shows comfortable levels above the regulatory requirements[2].

The following charts show the change in qualifying own funds, capital requirements and total capital ratio (thousand Euros):

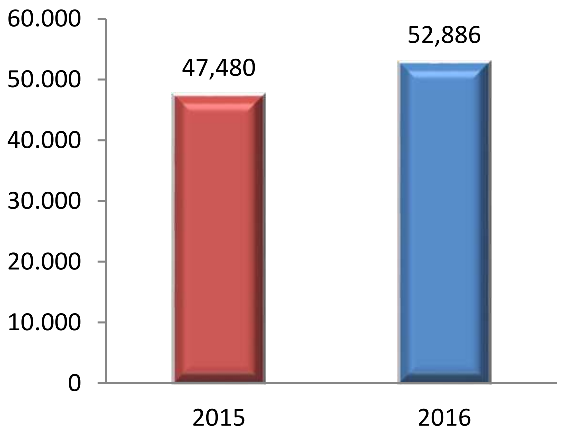
Qualifying Own Funds[3]



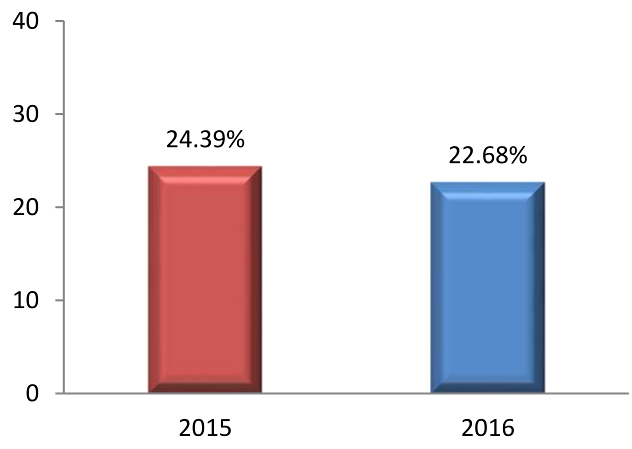
Risk Sources



Capital Requirements



Total Capital Ratio



[2] By virtue of Art. 92 of the CRR institutions shall apply the following own funds requirements:

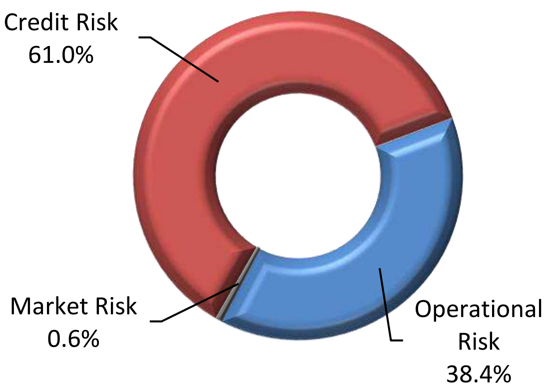
a) Common Equity Tier 1 (CET1) capital ratio of 4.5%;
b) Tier 1 capital ratio of 6%;
c) Total capital ratio of 8%.

Additionally, the CRD IV introduced a capital conservation buffer, a countercyclical capital buffer and a systemic risk buffer. Institutions are required to maintain in addition to the previous requirements, a capital conservation buffer of CET1 equal to 2.5 % of their total risk exposure amount by 1st January 2019.

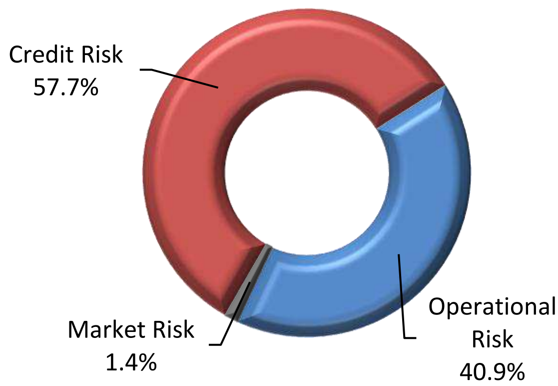
[3] Due to the low impact on its solvency levels, the Bank has decided to work on a fully-loaded basis instead of a phase-in basis. The only difference comes from the deductions of intangible assets from CET1 during the transitory period between 1st January 2014 and 31st December 2017. According to Circular 2/2014 of Bank of Spain the deduction of intangible assets will be 60% of total intangible assets in 2016, 80% in 2017 and 100% in 2018. AFB is already applying a 100% deduction due to the low impact on its solvency levels.

Distribution (%)

2015



2016



In spite of an increase of qualifying own funds in 2016, there has been a slight decrease in the Bank's Total Capital Ratio due to the increase in Risk Weighted Assets and its associated capital requirements, both for credit risk and operational risk. However, the Bank has accomplished its objective to reach a total capital ratio above 20% in 2016.

2. Information on General Requirements

2.1. Legal Framework

During 2016, the Bank has continued to comply with EU solvency regulations reflected in the principles established by the two standards that contain the recommendations of the Basel Committee, summarized below.

The Basel III Committee agreed on December 2010 the "Global Legal Framework to strengthen Banks and the Banking system", on which the international prudential standard pivots and whose aim was to reinforce significantly the capital requirements on banks to avoid future crisis and to improve international cooperation.

The EU accepted and stated these agreements into its legal provisions through:

- The Regulation (EU) nº 575/2013 (CRR) from the European Parliament and the Council, 26th June 2013, on the prudential requirements of credit institutions and investment firms that modifies the former EU regulation.
- The Capital Requirement Directive 2013/36/UE (CRD IV), from the European Parliament and the Council, 26th June 2013, concerning the access to activities from credit institutions and the prudential supervision of the credit institutions and investment firms, modifying the Directive 202/87/U and abolishing the Directive 2006/48/CE and 2006/49/2006.

These EU rules constituted the basic legal framework for solvency and access to the activity of credit institutions and had a double goal:

- To reduce the excessive dependency on credit rating institutions for the assessment of the exposure to different risks, after becoming apparent how this rating methodology underestimated the risks of some assets, and
- To draft a unique banking regulation in terms of solvency in the case of the founding of the Banking Union and the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM).

The CRR sets uniform standards to be met by credit institutions with regard to: 1) requirements of regulatory own funds relative to credit risk, market risk, operational risk and liquidity risk; 2) requirements aimed at establishing limits to large risks; 3) hedging liquidity risk in relation to standard elements fully quantifiable and normalized, once they have been developed through an executive act of the Commission; 4) the establishment of the leverage ratio, and 5) information and public disclosure requirements. With its entry into force, all the provisions of Bank of Spain Circular 3/2008 that might be contrary to that regulation were repealed.

The CRR is directly applicable without the need to transpose it since 1st January 2014, although in certain cases the Regulation allows Member States to choose between different regulatory options. The transposition into Spanish law of this EU regulations on supervision and solvency of financial institutions began with the Royal Decree-Law 14/2013, 29th November, on urgent measures for the adaptation of the Spanish framework, and continued with the adoption of additional regulations and the recent Bank of Spain Circular 2/2016.

- Royal Decree-Law 14/2013, 29th November introduced, as urgent matter, the most pressing regulatory amendments to Directive 2013/36/EU required to provide supervisors and financial institutions with the guarantees to operate from 1 January 2014 in the new EU regulatory environment derived from package CRD IV-CRR, announcing that the rule would be followed by a new legal text which, in addition to completing the transposition of the CRD IV rules which requires a legal standard range, would furthermore consolidate the main rules of management and discipline of credit institutions hitherto regulated the subject in a scattered and disjointed manner.
- Since the RD Law 14/2013 only made a partial transposition into Spanish law of Directive 2013/36/EU, the obligations that had to comply with immediately (since the entry into force of the new solvency regulatory framework) consolidated groups of credit institutions and Spanish credit institutions integrated or not in a consolidated group, were established by the Circular 2/2014 January 31, for credit institutions, on the exercise of various regulatory options contained in the CRR.
- Next minor modifications to Circular 2/2014 were introduced through Bank of Spain Circular 3/2014, of 30 July, introducing regulatory options regarding the deduction of intangible assets.
- Subsequently, Law 10/2014, 26th June meant the full incorporation into Spanish law of the provisions of the CRD IV whose transposition required to be introduced by Law. In addition to completing the work of transposition of EU legislation, Law 10/2014 merges in a single text the main regulation on management and discipline of credit institutions existing heretofore in Spain.
- Similarly, the adoption of Royal Decree 84/2015, 13 February, allowed the regulatory development of Law 10/2014, and merged into a single text those rules with regulatory status.
- Finally, the Spanish regulatory framework has incorporated Bank of Spain Circular 2/2016 February 2, on supervision and solvency of credit institutions, repealing the Bank of Spain Circular 3/2008 of 22nd May, to credit institutions for the determination and control of minimum own funds. This recent approval completes the adaptation of the Spanish legal system to the European standards arising from the Basel III agreement.

By virtue of Article 85 of Law 10/2014 and Article 93 of Royal Decree 84/2015 credit institutions and, in accordance with Part Eight disclosure by institutions of Regulation (EU) No. 575/2013, 26th June, consolidated financial groups and credit entities not integrated into one of these consolidated groups will publish the information, as soon as possible, at least annually and properly integrated through a single document called "*Pillar III Disclosures Report*", specifying information about their financial situation and activities which the market and other stakeholders may be interested, in assessing the risks that those groups and organizations face, their market strategy, risk control, internal organization and their situation in order to comply with the minimum capital requirements under solvency regulation.

The aim of this report is to promote market discipline, allowing different agents to assess the adequacy of capital of the entities. In order to do so, according to article 74 of the CRR, entities will be equipped with solid Corporate Governance procedures, including a clear organizational structure with well-defined responsibility lines, transparent, consistent and effective procedures to identify, manage, control and communicate the risks they are exposed to or may be exposed to, adequate internal control mechanisms including proper administrative and accounting procedures as well as policies and practices that are consistent with an adequate an effective risk management and that promote the aforesaid.

The Bank has prepared this document in accordance with the revised disclosure requirements issued by the Basel Committee on Banking Supervision (BCBS) issued on January 2015. These BCBS's Revised Pillar 3 disclosure requirements are binding for banks from end-2016. In this sense, this report contains information about:

- Own funds, capital requirements and solvency level of the AFB Group.
- Policies and objectives for risk management in relation to:
    - Strategies and management of these risks.
    - Structure and organization of the different risk functions.
    - Measurement systems, information and risk mitigation, and a variety of control limits.

The Pillar III Disclosures Report is sent to Bank of Spain annually, after the approval by the Board of Directors of the Group. Besides, the report is available on the corporative web page (www.allfundsbank.com) under section *Company Information - Financial Information*.

2.2. Scope of the report

The scope of application corresponds to the consolidated group:

- Parent Company:
    - Allfunds Bank, S.A. is the parent company of a group of affiliated financial institutions which, together with the Bank, constitute Allfunds Bank Group.

      Allfunds Bank S.A. is the core entity within the Allfunds Bank Group both from an operational and business perspective and serves as its headquarters. Most of the group's key global activities are run from here. These include corporate management, IT, operations, finance, legal, sales and compliance. Sales activities related to Iberia and Latin America are also run from the Group's headquarters.

- Affiliate entities:
  - Allfunds Bank International, S.A., is a financial institution with registered address at 30 Boulevard Royal, Luxembourg, and registration no. 315 at the Commission de Surveillance du Secteur Financier ("CSSF"). Until May 3rd 2014 the entity was an Investment Service Company.
  - Allfunds International Schweiz, AG, a company with registered address at Bahnhofstrasse 26, Zurich Switzerland, subsidiary of Allfunds Bank International, S.A. created in November 2012. The Swiss subsidiary provides a local-adapted service in Switzerland, where there are specific regulatory limitations to fund distribution.
  - Allfunds Nominee, Ltd., a company with registered office in the United Kingdom, and the activity of which is the holding of assets. It is a dormant company.
  - Allfunds Bank Brasil Representaçoes Ltda. A limited company incorporated on March 24th 2015 for an indefinite period of time in São Paulo, Brazil; its object is the provision of representation services to the Allfunds Bank Group. The company was incorporated with a share capital of 225 thousand Euros, consisting of 772,800 shares of BRL 1 par value each. It has not performed any activity in 2016 waiting for the representation license to be granted by the Banco Central do Brasil.

As of 31st December 2016, no consolidated subsidiary of the AFB Group held qualifying own funds below the established limit required under the applicable legislation.

2.3. Risk Management policies and objectives.

2.3.1. General principles of risk management

Prudence applied to risk management constitutes a pillar of AFB Group activity and in the provision of services to their clients; therefore it is a priority axis in obtaining transparent results and providing added value to their clients and their two shareholders (AFB SAM Holdings, S.L. and Eurizon Capital SGR S.p.A.), which control an equal number of shares.

The general principles which serve as guidelines for the definition, monitoring, and control of risks are those which are listed below:

- The risks assumed must be compatible with the capital of AFB Group, in accordance with the objective level of solvency. In this sense, the Bank has a commitment to maintain levels of solvency which are at least similar to those of their shareholders.
- Intention to maintain a low risk profile, by means of:
  - Stick to the business of distribution avoiding investment and the incorporation of a trading portfolio into the balance sheet which may generate risks that the Bank does not wish to assume.

  - The pursuit of a high degree of diversification in the structural risks, setting up concentration limits on clients, sectors, markets, and/or geographical areas which could put at risk the objectives of solvency, liquidity, and recurrent results.
  - Continuous attention to the identification and monitoring of the risks, providing all the areas with adequate and dynamic systems that generate an optimal management and control on the risk assumed.
- Existence of a procedure for the control and monitoring of all of the risks to which the Bank is exposed in the course of its business.
- Existence of solid mechanisms for the control and mitigation of operational and reputational risks.
- Independence of the risk function from other business areas.
- Involvement of the organization in risk management philosophy.

2.3.2. Corporate governance scheme

The Bank has a Corporate Governance system on risks management process which is appropriate to the nature of the business that it carries out, and which has been adapted to international recommendations and trends.

In compliance with Chapter 8 of the Circular 2/2016 of Banco de España that completes the implementation of Directive 2013/36/UE and the CRR (UE) n.º 575/2013, the Bank has published on its website a set of "Corporate Governance Documents"[4]:

- Corporate By-Laws
- Organizational Structure
- Internal Control Mechanisms
- Remuneration Policy
- Good Business and Professional Repute Procedure
- Risk Procedures
- Rules and Regulations BOD
- Organisation of AML/CFT
- Wolfsberg Questionnaire
- CRS and FATCA
- General Code of Conduct
- Client Attention Service

The general principles on Corporate Governance (within the framework of the agreement signed by the shareholders), indicate that the overall management and direction of the Bank is the responsibility of the Board of Directors, who assign the monitoring and supervision of the policies and objectives of the Bank to the General Manager.

[4] The documents are available from https://www.allfundsbank.com/lr/web/public/company-information

In the field of control, it is the responsibility of the General Manager to submit to the Board of Directors the definition of the mechanisms and resources necessary to supervise the processes of management and to guarantee compliance with internal policies.

Consequently, it is the Board who establishes the risk strategy of the Bank. The General Manager with the support of the Finance Department has been delegated the following functions:

- Proposing risk policies for the Bank and the level of risk assumed which the Bank considers acceptable.
- Where appropriate, authorising potential technical overdrafts which may occur on the assigned limits.
- Define the responsibilities and functions of the persons related to risk management function.
- Validate, and therefore authorize, the internal and external reporting in matters of Risk.
- Ensure that the acceptable level of risk is in accordance with the strategic objectives which have been set out.
- Direct and lead the internal risk committee which shall, among other functions, review and approve the structure of the limits which the Company is to establish for each risk factor

The risk procedures in the Group will be managed by the Finance department through the Risk Control Unit.

The principal mission of the Risk Control Unit is to control, monitor and manage the risks arising during the business activity of the Group. This mission is carried out a continuous process which considers the size, the complexity, and the typology of the activities which the Bank carries out.

2.3.3. Risk Management

2.3.3.1. Basic Principles

The management of the risks in the Group is regulated in accordance with the following basic principles:

- All of the hierarchy of the Bank should be involved in the monitoring and observance of the principle of governance in matters of risk. This principle flows from the Board of Directors and the General Manager and should involve every area of the Bank.
- Creation and promotion of a series of internal committees formed of the functional heads of each department, in order to ensure a continuous monitoring over the proper compliance with the procedures marked in the internal policy manual, including those which make reference to risk.

- Independence of functions.
- Analysis, monitoring, and control of risk positions.
- Supply the Bank with the necessary resources for the risk function to be as appropriate and as effective as possible, emphasizing efforts in operational risks.

2.3.3.2. Risk Management Structure

The Bank organizational structure represents a system of clear defined roles to manage risks. According to the Board of Directors, the General Manager with the support of the Management Body are responsible for the management and execution of the duly compliance with the principles and the application of policies in the formal operational procedures. As of December 31st 2016 the Management Body is represented by 15 directors (General Management and the heads of the business areas of the bank).

No member of the Board of Directors has held directorship roles during 2016.

Additionally, the General Manager considers the Management Body is suitable enough in terms of their knowledge, skills and expertise in risk management.

As part of the ongoing process of strengthening and improving the entity's corporate governance framework, a new committee structure was approved in early 2016, including the Risk Committee, whose main objective is to define, manage and control Compliance with the Entity's risk management policies. Among others, its functions are:

- Defining the required investments in order to improve the monitoring, control and management of the risks assumed by the Bank.
- Requesting and monitoring new limits.
- Requesting and monitoring credit internal ratings.
- Validating credit ratings proposed by the Risk Control Unit.
- Reviewing and approving, at least annually, the effective limit structure, in order to ensure suitability for current market conditions.
- Monitoring and controlling risk management activities and procedures.
- Identification of new regulatory requirements.

The Risk Committee was launched as a dedicated committee on March 2016 and has met 6 times since then (once in the Q1, twice in Q2, once in Q3 and twice in Q4). Additionally, the Risk function has actively participated in the Client Acceptance Committee held on a monthly basis to accept/reject new clients/jurisdictions, in collaboration with the Compliance and Legal departments. Finally, on a daily basis, the Risk area delivers to the management several reports with risk indicators to monitor the situation of the main risks in the company.

2.4. Risk Categories

2.4.1. Credit Risk

2.4.1.1. Definition

Credit risk is defined as the potential loss derived from the failure of a client or counterparty to meet its payment obligations in accordance with the agreed terms.

2.4.1.2. Strategies and management processes

Given the typology of the business which the Bank currently carries out, that is to say, the distribution of third party investment funds, the Bank does not maintain, and does not have the objective of maintaining, any active credit business.

The bank only assumes credit exposures with regulated financial entities.

On the other hand, liquidity generated from its equity (reserves) and from operating flows from their CIIs distribution and intermediation activities, in accordance with the directives marked by General Manager subject to a limited risk acceptance framework, is deposited in either current accounts at sight, "overnight" deposits, as well as long and short term deposits (with no penalty for early cancellation). At December 31st 2016 this liquidity was deposited in the following entities:

Entity	Rating Standard & Poor's/Moody´s/Fitch Ratings
Banco Santander S.A.	A-/A3/A-
JP Morgan Chase Bank N.A.	A+/Aa2/AA-
Barclays Bank PLC	A-/A1/A
Intesa Sanpaolo S.p.A.	BBB-/A3/BBB+
Citibank N.A.	A+/A1/A+
Banco de Sabadell S.A.	BB+/Baa2/Withdrawn
Banco Popular Español S.A.[5]	B+/Ba1/B+
Banco Bilbao Vizcaya Argentaria, S.A.	BBB+/A3/ A-
UBS Group AG	A-/Ba1/A
Banque Internationale à Luxembourg	A-/A2/BBB+
Kingdom of Spain	BBB+/Baa2/BBB+
Republic of Italy	BBB-/Baa2/BBB+
Grand Duchy of Luxembourg	AAA/Aaa/AAA

2.4.1.3. Structure and organization of the credit risk management function

The credit risk management function will be managed within the Group by the Finance Department through the Risk Control Unit.

The main mission of the Risk Control Unit is to control, monitor and manage the risks arising from the business activity of the Group.

[5] Allfunds Bank did not have any exposure to this entity as of 7 June 2017, date on which the Single Resolution Board ("SRB") took resolution action in respect of Banco Popular Español pursuant to Article 29(5) SRMR.

2.4.1.4. Reporting, measurement and mitigation systems

To cope with this risk, the Group has developed an internal credit model to assess a client's probability of default, which may be used to set overdraft limits when needed, but with a strictly controlled risk policy in mind.

The developed system allows the Risk Control Unit to know at any time the credit limits consumption by counterparty.

Besides, on a daily basis the Risk Control Unit performs an accurate report in order to know the liquidity balance by counterparty, with additional intraday monitoring. In addition, with the aim of preventing risk limit breaches, alert levels by counterparty have been defined.

2.4.2. Market Risk (Position and Interest Rate)

2.4.2.1. Definition

Market risk can be defined as the risk of losses arising from adverse movements in interest rates, FX rates and market prices.

2.4.2.2. Strategies and management processes

The Bank has decided to maintain a policy of low acceptance of risk. For this reason, the Bank does not hold any on-balance sheet or off-balance sheet positions that may be affected by market risk, except the strictly necessary assets to comply with regulatory requirements on liquidity matters. Additionally, the Bank keeps a position on FX derivatives for hedging purposes in order to mitigate this risk.

As a direct consequence of its activity, the Bank keeps asset and liabilities in different currencies. In order to strengthen the mitigation mechanisms for FX risk, the General Manager with the support of the Finance Department has established a maximum of foreign currency net global position.

On the other hand, as mentioned above, the vast majority of assets are deposited in either current accounts at sight, "overnight" deposits, as long as short term deposits (with no penalty for early cancellation), whereas the liabilities are credited to deposits from credit institutions at sight. Therefore, there is no relevant exposure to interest rate fluctuations.

2.4.2.3. Structure and organization of the Market risk management function

The market risk management function will be managed within the Group by the Finance Department through the Risk Control Unit.

2.4.2.4 Reporting, measurement and mitigation systems

Within the foreign currency risk, on a daily basis the Finance Department reports the General Management about the exposure and impact on the income statement due to the foreign currency movements, measures, if applied, to mitigate the open risk.

Regarding interest rate risk, due to the low sensitivity to movements in interest rates, no limits have been defined for this risk. However, in order to comply with the standards issued by the CRR/CRD IV, the impact of the yield curve on net interest income and the equity is calculated and reported every six months, for the Bank and its affiliates.

2.4.3. Operational risk

2.4.3.1. Definition

Operational risk is "the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events”. Operational risk arises from events with an operational source, in contrast with market or credit risk event.

2.4.3.2. Strategies and management processes

The objective of the Bank in matters of operational risk is based in the identification, monitoring, valuation, mitigation, and prevention of the risk deriving from deficiencies or failures in internal processes, human resources, or systems, or deriving from external causes.

Procedures and control systems have been defined and put into practice, which makes it possible to identify the assets of the Bank and those of the clients at any time. These procedures are disclosed in the ISAE 3402, report issued by the auditing firm PriceWaterhouseCoopers which contributes to carrying out a more exhaustive assessment of the control procedures applied in the main operational processes, ensuring their quality.

The Bank has considered pushing mitigation strategies. During the year 2016 professional third party liability and infidelity of employees’ insurance policies were renewed.

2.4.3.3. Structure and organization of the Operational risk management function

The accounting in the P&L statement of the effect caused by any operational error which may have occurred during the daily operating is centralized by the Finance Department. Thus, the risk of remaining hidden is prevented and at the same time each person involved in the operational process, in which such errors have occurred, is informed of the deficiency or failure of the internal process. The General Manager is duly informed as to the impact on the profit and loss statement deriving from operational risk.

2.4.3.4. Reporting, measurement and mitigation systems

The Operations Department develops on a daily basis the reconciliation of cash balances and client positions, which guarantees control over the maintained balances in order to identify the differences arising in the daily management of the business of the Bank, for subsequent analysis and effective solution.

Furthermore, the losses/profits derived from operational errors are reported periodically to the General Manager. The Bank feeds an internal database of losses/profits derived from operational incidents and is currently implementing analysis tools that allow the identification of actions to improve control and monitoring of the processes.

2.4.4. Liquidity risk

2.4.4.1. Definition

Liquidity risk can be defined as the possibility of incurring losses when there are not sufficient cash or liquid resources to comply with the obligations assumed.

2.4.4.2. Strategies and management processes

The Bank follows conservative criteria in the management and dilution of losses for this risk. The management of the liquidity risk is properly implemented as well as duly documented in the risk procedures manual. The procedures also provide a full coverage of the liquidity standards required by the regulator. The Finance Department performs periodically the following regulatory reports:

- LQs statements (monthly): as Circular 4/2011 of Bank of Spain states, the objective of this report is to define the information required to evaluate the liquidity profile of the entities. This reporting was simplified by Bank of Spain in August 2016 due to the new ALMM reporting obligations.
- LCR Ratio (monthly) and NSFR (quarterly):
  - The Liquidity Coverage Ratio (LCR): introduced in order to deal with liquidity problems in the short term, i.e., to ensure the availability of sufficient high quality liquid assets to cover a severe crisis scenario for a month.
  - The Net Stable Funding Ratio (NSFR): introduced with the aim of ensuring enough coverage for liquidity risk over a long-term horizon, i.e., to ensure the provision of stable funding for institutions to finance their activities.
- ALMM (monthly): introduced in order to increase effective liquidity supervision, as referred to in Article 415(3)(b) of Regulation (EU) No 575/2013, providing a more complete overview of the liquidity position of an institution, proportionate to the nature, scale and complexity of an institution's activities.
- ICAAP for Bank of Spain, where the adequacy of the bank´s capital and liquidity is assessed for normal and stressed scenario.

2.4.4.3. Structure and organization of the Liquidity risk management function

Operating or short-term cash flow is managed by the Banking Services Area integrated in the Bank Operations Department and should be monitored by the Finance Department.

Due to the current business model and the low liquidity risk exposure established by the General Manager the probability of incurring losses through not having sufficient liquid resources available to meet the obligations assumed is low.

2.4.4.4. Reporting, measurement and mitigation systems

Due the current business model of the Bank, and the low exposure to liquidity risk, the Bank has decided not to establish limits in order to hedge the potential risks that may arise from operating liquidity (derived from not being able to unwind or close a position in time) as well as liquidity limits orientated towards covering structural liquidity risk that keep a minimum level of liquid assets, so the bank can assure that there are no maturity gaps between assets and liabilities.

2.4.5. Other risks

2.4.5.1. Concentration risk.

Concentration risk is a part of credit risk that includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type. Concentration risk can take place in assets, liabilities or in off-balance sheet items, by executing or processing transactions, or through a combination of these wide categories.

Due to their nature, credit risk concentrations are due to common or correlated risk factors, which in times of crisis negatively affect the solvency of each of the counterparties comprising the concentration.

The Bank's cash assets are deposited in Current accounts in the entities mentioned in section 2.4.1.2. of Credit Risk. Its sole exposure therefore is the banking sector, concretely on highly-solvent entities.

For grouping and calculation purposes, the Bank is subject to the guidelines established by the CRR under its Part Four concerning "large exposures" (those exceeding 10% of qualifying own funds). No single exposure, including all types of credit and variable investment income, can exceed 25% of regulatory own funds.

In the specific case of Allfunds Bank S.A. given that the amount of EUR 150 million is higher than 25 % of its qualifying own funds, the limit with other institutions can be increased up to 100% of the institution's qualifying own funds, according to article 395 of the CRR. At 31st 2016 AFB's eligible own funds were slightly below EUR 150 million, setting the maximum amount for large exposures purposes.

At 31st December 2016 no exposure was above the previous limit.

According to the activity the Bank carries out (fundamentally CIIs distribution and sub-custodian services at institutional level), it has not defined additional limits on concentration risks other than the legal requirements mentioned above. In view of this specific activity in spite of being a bank, the credit risk exposure is focussed exclusively on the financial services sector, although it has to be considered as a highly regulated and supervised sector. In any case, the Bank follows a prudent approach regarding this risk, with continuous monitoring, aiming at a high geographical and sub-sectorial diversification both in its balance sheet and income statement. The Bank has presence on the ground in Spain, Italy, the United Kingdom, Chile, Colombia, Dubai, Luxembourg, Switzerland and Singapore, currently offering distribution services comprising 540 fund managers and over 50,000 funds, and an extensive network of more than 533 institutional clients, spread over more than 38 countries, including commercial banks, private banking institutions, fund managers, insurance companies and fund supermarkets.

2.4.5.2. Technology risk

Information Technology and Infrastructure are basic elements for all Bank processes, both for business ones as well as for support ones. Thus, technology risk management is highly important within the organization.

For this reason and within Technology's scope, a set of controls are applied to the information systems. These are:

- IT Governance. Creation and monitoring of strategic plans for being aligned with business, legal and regulatory requirements as well as innovation projects due to the digital transformation that the bank is involved. Management and monitoring of the necessities of new specific profiles as well as the maintenance of an adequate knowledge management. Performing periodic Committees with the different areas of the department to follow up the objectives fulfillment. Maintenance an internal control framework including all key controls related to technology department performance.
- Software and hardware acquisition. Selection, approval, purchase or outsource of third party software and hardware with technological providers. Management and maintenance of contracts and Service Level agreements with them as well as monitoring of the service provided.
- Software development and maintenance. Core business applications are developed in-house being internal staff in charge of the development and maintenance tasks. The bank has defined a Software Development Life Cycle Methodology that includes functional and security requirements analysis, feasibility analysis, approval, functional & technical design, software development, testing (unit, integration, quality, UAT) and go-life into the production environment. Additionally, performing periodic Committees with the business areas in order to monitor the achieving of business needs.
- Systems Operation. Controls related to system operation and data management (including administration, data storage, backup management and performance, capacity and availability monitoring). Additionally, management of the technological assets.
- Systems upgrading and substitution management. Controls related to change/updating processes such as migrations, co-existence, decommissioned or partial implementations.
- Information security management. Designing, implementation and maintenance of information security policies and procedures. This includes password policies, user management, users and profiles recertifications, security incident management, data protection, media destruction, physical security and IT security awareness plans. On the other hand, periodic risks and vulnerabilities assessments are performed.

- Business Continuity. Definition of Business Continuity Management through crisis management and processes and systems recovery plans. Plans are reviewed annually in order to keep them properly updated in case of changes in business processes or systems. On an annual basis, business continuity tests are performed evaluating different risk scenarios and, if necessary, corrective measures are applied.

In the case that the critical business transactions and support are supported by a specific software, the controls implementing this software are identified to ensure the integrity, precision & validity of the information generated. The scope covered from a technological point of view for these controls are:

- Integrity: all access records are necessary and the number of processed transactions must be guaranteed as constituting the totality of the population.
- Control of User Access and segregation of functions: transactions are correctly authorised based on profiles, thereby assuring data confidentiality.
- Calculation accuracy: correction of the result of the calculations relies on the software user’s responsibility, since the user is familiar with the details & the logic of the operation they are able therefore to identify deceptive reasoning (casuistic) not correctly supported by the software tool.
- Availability: all the information is accessible and available must be guaranteed.

2.4.5.3. Legal risk

Risk of loss that results from legal proceedings (including claims from providers and clients and bankruptcy) initiated against the Bank or a trade/order not being able to be executed because it is not compliant with the minimum requirements or the applicable regulatory framework. Another legal risk relates to regulatory risk, i.e., that a transaction could conflict with applicable laws and regulation or with a regulator's policy, that services are not provided in accordance with the applicable regulations or, more generally, that legislation might change during the life of a contract under which services are being provided.

AFB’s legal department, with the support of external legal advice if needed, reviews and analyses the applicable laws and regulations to the services provided and drafts and negotiates all the contracts that the Bank enters into further to such previous legal analysis.

The Senior Management considers several mitigating factors, the most relevant ones being:

- All agreements are based on standard templates which are designed in accordance with applicable laws and regulations from time to time, deviations are only authorised if validated by a senior lawyer and the agreement must have always validation of legal department before being signed
- All services are designed and rendered in accordance with applicable laws and regulations from time to time.
- The Bank receives the legal support and advisory of external law firms, if necessary.

The Global Head of Legal Department is the Secretary of the Board of Directors and keeps the members of the Board informed about legal concerns.

2.4.5.4. Reputational risk

Reputational risk is considered a basic item for action by the Senior Management of the Bank. Before obtaining the General Management's approval, all new services and products must be subject to a comprehensive analysis by different control areas (Legal, Compliance, IT, Operations and the Financial departments).

In the case of new clients, the approval of the General Manager is subject to a previous analysis performed by the Compliance and Risk departments of AFB Group, supported by the Sales department. This analysis will determine the potential impact on the reputational and financial risks of the Bank.

Moreover, any particular asset and/or asset management house that the entity regards as sensitive to generate reputational risk will not incorporated into the product range available to clients. Conversely, if a client requests trading a product of its kind, the Bank requires the signature of a legal agreement whereby the client disclaims all subsidiary responsibility resulting from the investment, and therefore the customer assumes and accepts all risks involved in the investments concerned (including a possible default).

2.4.5.5. Environmental risk

In view of the business activities carried out 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 this report.

2.4.5.6. Residual risk

While companies use credit risk mitigation (CRM) techniques to reduce their credit risk, these techniques give rise to other risks that may render the overall risk reduction less effective. No identification applies because the Entity does not apply mitigation techniques.

2.4.5.7. Securitization risk

Risk linked to asset securitization (transformation of generally illiquid assets into securities that can be traded in capital markets). Securitization exposes financial institutions to a number of risks, including credit, market, liquidity, operational & legal risks among others.

No identification applies because the Bank does not participate in securitization activities.

2.4.5.8. Model risk

Model risk is associated to the inappropriate use of information taken from a model.

Identification: AFB does not use internals models to make decisions such as consumer credit score or real-time probability prediction of a fraudulent credit card transaction.

3. Information on Own Funds

The qualifying own funds of the Bank at 31st December 2016 were as follows:

Amounts in Thousand Euros	31.12.15	31.12.16
CET1 Instruments	**151,616**	**156,771**
Shareholders' equity	220,554	220,689
Capital	27,041	27,041
Profit	75,971	69,074
Reserves and others	117,542	124,574
Minority interests and unrealised gains/losses	-	-
Adjustments of comput. of minority int. and unrealised g/l	-	-
Other adjustments (1)	(68,938)	(63,918)
Deductions from CET1	**(6,892)**	**(6,828)**
Intangible assets	(3,939)	(5,099)
Financial investments	-	-
Deferred tax assets	-	-
Other CET1 deductions (2)	(2,953)	(1,729)
CET 1	**144,724**	**149,943**
AT1 Instruments	**-**	**-**
TIER 1	**144,724**	**149,943**
T2 instruments	**51**	**12**
Financing of subordinated issues	-	-
Generic provisions and excess of provisions IRB (3)	51	12
T2 deductions	**-**	**-**
TIER 2	**51**	**12**
TOTAL CAPITAL	**144,775**	**149,955**

(1) Expected dividends
(2) Deduction according to Art. 379 Free deliveries of the CRR
(3) Generic provision related to retail credit exposures

4. Information on Capital Requirements

4.1. General Requirements.

The total Pillar I risk exposures of AFB Group as at 31st December 2016 are listed below:

	RWA	
Amounts in Thousand Euros	**31.12.15**	**31.12.16**
Credit risk (excluding counterparty credit risk)	**361,758**	**381,445**
Standardised Approach (SA)	361,758	381,445
Internal Rating-Based (IRB) Approach	-	-
Counterparty credit risk	**-**	**-**
Standardised Approach for counterparty credit risk (SA-CCR)	-	-
Internal Model Method (IMM)	-	-
Equity positions in banking book under market-based approach	**-**	**-**
Simple risk-weight approach	-	-
Internal Model approach	-	-
Equity investments in funds – look-through approach	**-**	**-**
Equity investments in funds – mandate-based approach	**-**	**-**
Equity investments in funds – fall-back approach	**-**	**-**
Settlement risk	**-**	**-**
Securitisation exposures in banking book	**-**	**-**
Market risk	**3,700**	**9,150**
Standardised Approach (SA)	3,700	9,150
Internal Model Approaches (IMM)	-	-
Operational risk	**228,038**	**270,475**
Basic Indicator Approach	228,038	270,475
Standardised Approach	-	-
Advanced Measurement Approach	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	**-**
Floor adjustment	**-**	**-**
Total (1)	**593,496**	**661,070**

(1) Capital requirement of Pillar I: 8% RWA

4.2. Compliance with regulatory requirements.

As of 31st December 2016 Allfunds Banks comfortably complied with the minimum requirements described in Section 1.3.

Amounts in Thousand Euros	31.12.15	31.12.16
CET1	144,724	149,943
Tier 1 adittional	-	-
TIER 1	144,724	149,943
TIER 2	51	12
TOTAL CAPITAL	144,775	149,955
RWA	593,496	661,070
CET1 ratio	***24.39%***	***22.68%***
Tier 1 ratio	***24.39%***	***22.68%***
Total Capital ratio	***24.39%***	***22.68%***

4.3. Summary of the procedure used to evaluate whether the internal capital is enough to cover current and future activities or not

Since the year 2008, the Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) for a three-year period, anticipating future capital requirements to fulfill its main objective regarding solvency. These forecasts, are revised on an annual basis and the final document is presented to the Board of Directors for its approval. The ICAAP is then submitted to Bank of Spain for its supervision no later than April 30th of the year next to the analysis period.

The ICAAP comprises the following aspects:

- Qualitative and quantitative assessment of the risk profile of the Group considering the following relevant risks: credit, operational, market, interest rate, liquidity and concentration.
- Analysis of governance and management and control systems of each of these risks, identifying potential areas for improvement.
- Quantification of each of the risks above, in terms of internal capital required to cover them.
- Planning of necessary capital based on a 3-year projection considering the forecasted increases in volumes, margins, interest rates and other variables.
- Preparation of exercise stress tests considering a number of stress scenarios marked by the regulation and its impact on the Group's balance sheet structure.
- A program for future action based on the identification of weaknesses and planned improvements in risk management.

5. Information on Credit Risk

5.1. Capital buffers

An important innovation of Directive 2013/36/EU, which will be implemented progressively until 2019, is the criterion of capital buffers during a peak phase of the economic cycle, with the objective of creating a more stable banking system that helps softening, instead of amplifying, economic and financial crisis.

These buffers may be used to absorb losses in difficult economic or stressful times. While its use does not involve a breach of the regulation, this could generate restrictions on dividends of the entity or the payment of variable remuneration for its managers.

- The capital conservation buffer (+2.5%) is set in order to provide the entity with enough ordinary capital to absorb losses in an economic environment of stress. In case of non-compliance, limits on profit distribution or payment of variable remuneration of its executives are imposed.
- A countercyclical capital buffer (0%-2.5%) is a capital requirement in cases of excessive credit growth to avoid the formation of economic bubbles. The buffer will only be constituted in moments in which credit is growing excessively. During periods of normal credit growth, this buffer will be zero. When it is necessary, it will be additional to capital conservation buffer.

According to Law 10/2014, its Eighth Transitional Provision sets that the requirement of capital conservation buffer shall not apply until 1 January 2016. From this date until 31 December 2018, the buffer will be built in terms of ordinary capital of level 1 on total weighted exposures by risk, in accordance with the following schedule:

a) From 1st January 2016 to 31st December 2016: 0.625%.

b) From 1st January 2017 to 31st December 2017: 1.25%.

c) From 1st January 2018 to 31st December 2018: 1.875%

As of 31 December 2016 the countercyclical buffer for the Bank was at 0.00094% on RWA. Most central banks keep a 0% for the time being and depending on macroeconomic circumstances that are assessed by the national supervisory bodies.

5.2. Credit Risk Adjustments

5.2.1. Definitions and accounting standards

In accordance with current regulation, the Bank applies the following criteria:

- Standard exposures: transactions that do not qualify for other categories.

- Standard exposures under special monitoring: transactions that, while not qualifying as doubtful or write-off, present weaknesses that may lead to losses exceeding those on similar transactions.
- Doubtful exposures as a result of the debtor's arrears: the amount of debt instruments, whoever the borrower and whatever the guarantee or collateral, any part of principal, interest or contractually agreed expenses that is more than 90 days past due, unless such instruments should be classified as written off. This category also includes guarantees given if the guaranteed party has fallen into in arrears in the guaranteed transaction.

  This category shall include the amounts of all borrower's transactions if the transactions with amounts more than 90 days past due exceed 20% of the arrears.

  In overdrafts and other demand debit balances without an agreed maturity, the age of the past-due amounts shall be counted from the start date of the debit balance.
- Doubtful exposures for reasons other than the debtor's arrears: debt instruments, past due or not, which are not classifiable as write-off or doubtful due to borrower arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. This category also includes off-balance-sheet exposures not classified as doubtful due to borrower arrears whose payment by the entity is likely but whose recovery is doubtful.
- Write-off: this category shall include debt instruments, due or not, for which the entity, after an individual analysis, considers very unlikely the possibility of recovery due to manifest and irreversible deterioration of the solvency of the transaction or borrower. Classification in this category entails the writing-off of the full gross carrying amount of the transaction and its total derecognition from assets.

On the other hand, the methods used for calculating the specific and generic provisions are recognised in the regulation as well as the criteria set forth below:

5.2.1.1. Specific provision (for doubtful exposures).

The allowance percentages applied to unsecured transactions, based on the age of the past-due amounts, are:

- Over 90 days, but not exceeding 6 months: 30.00%
- Over 6 months, but not exceeding 9 months: 70.00%
- Over 9 months, but not exceeding 1 year: 80.00%
- Over 1 year, but not exceeding 15 months: 90.00%
- Over 15 months, but not exceeding 18 months: 95.00%
- Over 18 months, but not exceeding 21 months: 100.00%
- Over 21 months: 100.00%

5.2.1.2. Generic provision (for standard exposures)

The aim of this provision is to cover any potential credit loss that could arise.

The applicable allowance for this item is calculated in accordance with the following procedure:

The percentages in the table below are applicable to the amount of the exposure not covered by the amount recoverable from the effective collateral:

- Normal Risk: 0.2%
- Standard exposures under special monitoring: 2.3%

A provisioning percentage of 0% shall be applied to the exposures identified as having negligible risk. Negligible risks are the following transactions:

a) Transactions with central banks;

b) Transactions with governments of EU countries, including those deriving from reverse-repurchase agreements on government debt securities;

c) Transactions with general governments of countries classified in group 1 for the purpose of country risk;

d) Transactions in the name of deposit guarantee funds and resolution funds, provided their credit quality is such that they are equivalent to those of the European Union;

e) Transactions in the name of credit institutions and specialized lending institutions from countries of the European Union and, in general, from countries classified in group 1 for the purpose of country risk;

f) Transactions with Spanish reciprocal guarantee companies and government agencies or enterprises from other countries classified in group 1 for the purpose of country risk whose main activity is credit insurance or guarantees;

g) Transactions with non-financial corporations considered to belong to the public sector as referred in rule sixty-six, paragraph 7;

h) Advances on the following month's pensions or wages, provided the paying entity is a government agency and the wage or pension is direct credited to the entity; and

i) Advances other than loans.

5.2.2. Adjustments and impairments

The amount of impaired assets is residual.

The generic provisions as at 31st December 2016 amounted to EUR 12 thousand.

The details of the variations made in the value of assets for impairment adjustment during the period are as follows:

Thousand Euros. 31st December 2016	Total
Balance at begining of year	667
Impairment losses charged to year income	-
Impairment losses reversed wih a credit to income	-81
Balance at the end of year	586

5.2.3. Exposure Distribution

This section contains information on the Group's exposures to credit risk:

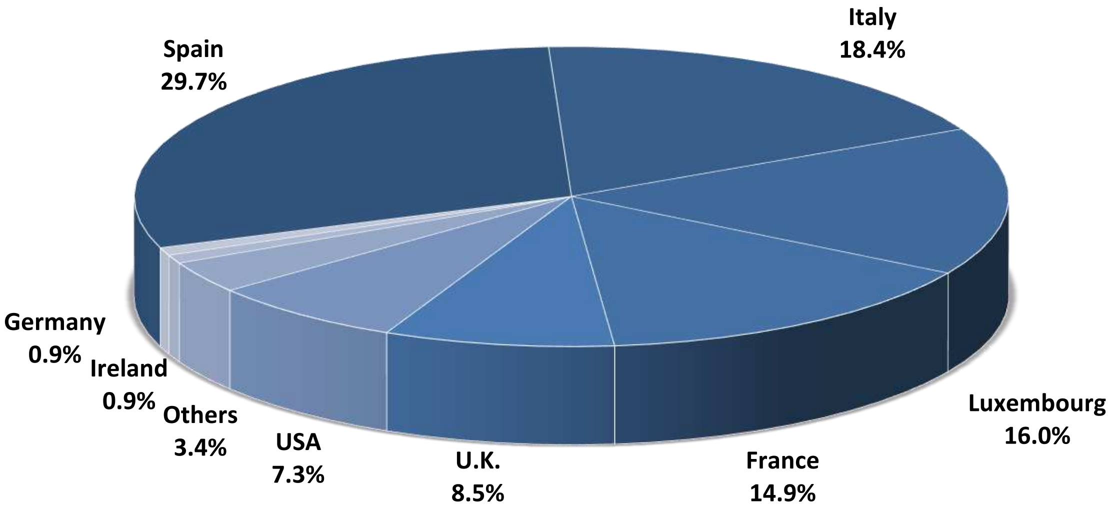
5.2.3.1. Exposure Category

The following table shows the total credit risk exposures after adjustments and impairment:

Amounts in Thousand Euros	Exposures before CCF and CRM			RWA	RWA density
	On-balance sheet amount	Adjustments	Total		
Sovereigns and their central banks	192,918	-	192,918	0	0.00%
Non-central government public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Institutions/Banks	540,021	-	540,021	177,475	32.86%
Corporates	16,374	(573)	15,801	15,801	100.00%
Regulatory retail portfolios	417	(12)	405	304	75.06%
Secured by commercial real state	-	-	-	-	-
Equity	193	-	193	193	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	187,690	-	187,690	187,672	99.99%
Total Credit Risk - SA portfolio	**937,613**	**(585)**	**937,028**	**381,445**	**40.71%**

5.2.3.2. Geographical area

The following chart shows, by geographical area, the distribution of the Group's exposure to credit and dilution risk:



5.2.3.3. Activity sector

In view of the specific activity of the Bank, the credit risk exposure is focussed exclusively on the financial services sector.

5.2.3.4. Residual maturity

The following table shows the distribution of the credit risk exposures of the Group by residual maturity.

Amounts in Thousand Euros	<1Y	1-5Y	>5Y	Total
Sovereigns and their central banks	192,918	-	-	192,918
Non-central government public sector entities	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions/Banks	500,021	40,000	-	540,021
Corporates	15,801	-	-	15,801
Regulatory retail portfolios	104	278	23	405
Secured by commercial real state	-	-	-	-
Equity	-	-	193	193
Past-due loans	-	-	-	-
Higher-risk categories	-	-	-	-
Other assets	181,074	-	6,616	187,690
Total Credit Risk - SA portfolio	**889,918**	**40,278**	**6,832**	**937,028**

5.3. Methodology applied.

5.3.1. Standardised Approach

In accordance with Chapter2/Section 2 of the CRR, on credit exposures, various different weightings of risk are applied, which vary depending on the classification assigned, by the various classification agencies ("ECAI") designated by the Bank of Spain as being acceptable (Fitch, Moody's and Standard & Poor's). These classifications are used to calculate the exposures corresponding to the wholesale portfolio. For the Financial Institutions and Public Institutions categories, the credit ratings employed are the ones assigned to the country where the exposure is held, as is provided in the Solvency Circular.

In those cases in which there are ratings by different ECAI for the same counterparty, the AFB Group follows the procedure set out in Rule Twenty-One of the Solvency Circular, in which the order of preference to be employed in assigning ratings is given. On the one hand, when two different credit ratings made by designated ECAIs are available for a classified exposure, the higher risk weighting will be applied to the exposure. On the other hand, when there are more than two credit ratings for one and the same classified risk, the two credit ratings which produce the lowest risk weightings will be employed. If the lowest risk weightings coincide, that weighting will be employed; if they do not coincide, the higher of the two will be applied.

The following table shows total exposures by activity sector, following the ECAI´s criterion.

Amounts in Thousand Euros	0%	10%	20%	35%	50%	75%	100%	Total
Sovereigns and their central banks	192,918	-	-	-	-	-	-	192,918
Non-central government public sector entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	340,682	-	180,000	-	19,339	540,021
Corporates	-	-	-	-	-	-	15,801	15,801
Regulatory retail portfolios	-	-	-	-	-	405	-	405
Secured by commercial real state	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	193	193
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	18	-	-	-	-	-	187,672	187,690
Total Credit Risk - SA portfolio	**192,936**	**-**	**340,682**	**-**	**180,000**	**405**	**223,005**	**937,028**

After applying the weightings to the total credit risk exposures (Pillar I), capital requirements for credit risk were:

Amounts in Thousand Euros	0%	10%	20%	35%	50%	75%	100%	RWA
Sovereigns and their central banks	-	-	-	-	-	-	-	-
Non-central government public sector entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	68,136	-	90,000	-	19,339	177,475
Corporates	-	-	-	-	-	-	15,801	15,801
Regulatory retail portfolios	-	-	-	-	-	304	-	304
Secured by commercial real state	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	193	193
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	187,672	187,672
Total Credit Risk - SA portfolio	**-**	**-**	**68,136**	**-**	**90,000**	**304**	**223,005**	**381,445**
Capital Requirements for Credit Risk (8% for Pillar I)	**-**	**-**	**5,451**	**-**	**7,200**	**24**	**17,841**	**30,516**

6. Information on Operational Risk

AFB Group follows the Basic Indicator Approach in accordance with the terms of Article 315 of the CRR for determining the capital requirements for operational risk. The capital needs are determined by the average of the product of the relevant indicators of the income statement for the last three financial years, multiplied by the weighting coefficient of 15%.

The application of the Basic Indicator Approach demands recording the gross losses per operating risk which exceed one million Euros or 0.5% of the eligible funds of the company, identifying, among other characteristics, the type of loss produced by an operational event.

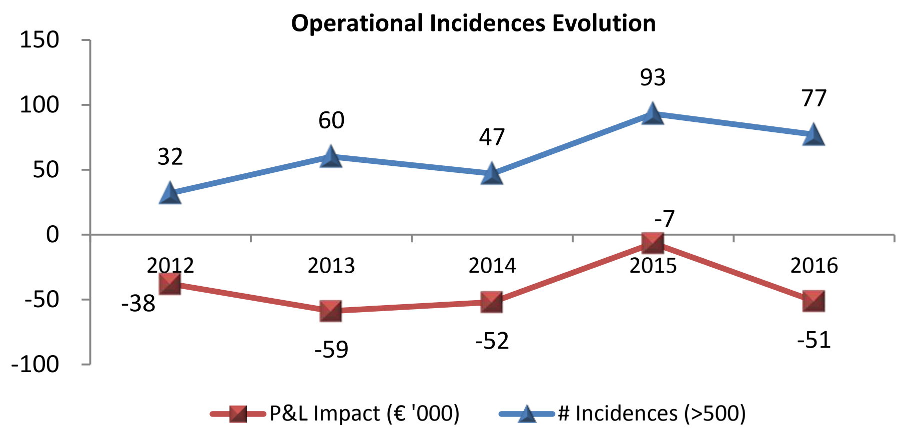
At 31st December 2016, capital requirements for operational risk are as following:

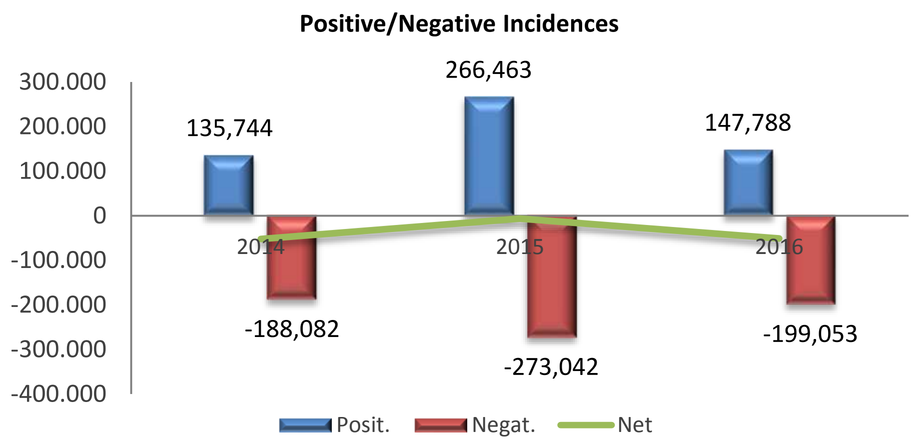
Thousand Euros	DEC-14	DEC-15	DEC-16
Interest receivable and similar incomes (+)	4,804	3,989	1,284
Interest payable and similar charges (-)	67	138	295
Income from shares and other variable/fixed-yield securities (+)	0	0	0
Commissions/fess receivable (+)	533,584	742,732	732,521
Commissions/fees payable (-)	423,640	586,863	578,008
Net Profit/Loss on Financial Operations	-78	139	173
Net Currency Profit	299	72	319
Other Operating Expenses (+)	399	834	708
Relevant Indicator	**115,301**	**160,765**	**156,702**
Relevant Indicator Average (last three years)	**144,256**		
Capital Requirements for Operational Risk	**21,638**		
Total Operational Risk Exposures (Pillar I)	**270,475**		

In 2016, operational risk has continued to produce positive figures: a decrease in the number of operational incidences above 500 euros in spite of the growth of the business, from 93 to 77. This indicator shows a very low level in relation to the total number of transactions. Considering the economic effect of these operational incidences, the Bank has accounted a net loss of -51 thousand Euros (-7 thousand Euros in 2015) or 0.04% of the gross margin. However, the split by profits and losses associated to these 77 incidences, shows a lower impact in 2016 than in 2015.

The Bank also performs exercises of stress test related to operational risk events to assess its additional capital needs to cover unexpected events.

The following charts show the evolution of operational incidences and the profit/loss impact for the last five years (considering amounts above EUR 500).





7. Information on Market Risk (Position and Interest Rate)

The AFB Group follows the standard approach in accordance with the terms of the article 351 and 352 of the CRR for determining the capital requirements for market risk. These articles state "if the sum of net FX position exceeds 2% of its own total funds, the entity shall calculate a capital requirement for foreign exchange risk".

At 31st December 2016 the requirements for operational risk were as following:

Thousand Euros	
Total Market Risk Exposures (Pillar I)	9,150
Capital Requirements for Market Risk (8%)	732

On the other hand, regarding structural interest rate risk, although AFB Group has no relevant exposure to interest rate risk from positions in trading portfolio, it is mandatory to notify the impact of interest rate fluctuations on the market value of equity and the net interest margin.

At 2016 year-end, the 1-year sensitivity on the net interest margin for the main currencies to parallel increases of 250 basis points as well as to parallel decreases (limit of 0%) are listed below. The sensitivity of the margin for other convertible currencies was immaterial.

Net Interest Margin (Thousand Euros) 31/12/2016	↑ +250bps	↓ To 0 bp
EUR	3,979	0
USD	32	-71
GBP	-44	-19

An analogous yield-curve scenario showed the following impact on the economic value of the Bank's equity:

Interest rate risk Net effect:	
Amount (Thousand Euros)	76
% Own Funds	0.05%
% on Economic Value	0.04%

8. Leverage Ratio & Net Stable Funding Ratio

8.1. Leverage Ratio

The Basel III agreement introduced a regulatory financial leverage ratio. In January 2014, the Basel Committee published the definitive calculation of the leverage ratio, together with an obligation to publish certain information to the market, applicable from 1 January 2015. In October 2014, the European Commission modified the CRR (via delegated act) in order to adapt the new form of the calculation. In accordance with Article 451 of the CRR, entities will notify the leverage ratio. The aim of this ratio is to ensure that banks don't circumvent requirements for secure and long-term forms of capital. The leverage ratio is defined as Tier 1 capital divided by a measure of non-risk weighted assets (the leverage exposure). This exposure is calculated as the sum of the following components:

- Asset value, without derivatives and without elements considered as deduction in Tier 1.
- Off balance sheet accounts (primarily, guarantees, non-used credit limits, letters of credit) weighted by the conversion factors of the standard credit risk method.
- Inclusion of the net value of derivatives (gains and losses against a single counterparty are netted, less collateral - provided criteria are met) plus a surcharge for potential future exposure.
- A surcharge for the potential risk of security financing transactions.
- A surcharge for the risk of credit derivatives (CDS) in the uncovered part.

This ratio shall be calibrated for a transitional period (1st January 2014 - 1st January 2018) and will be binding on 1st January, 2018. However, during this period institutions must disclose it to the market. Currently a 3% reference level has been established. The final requirement will be published in 2017 and will be binding in 1st January 2018.

The Bank complies with all requirements for submission and reporting to Bank of Spain, as mentioned in Article 511 of the CRR.

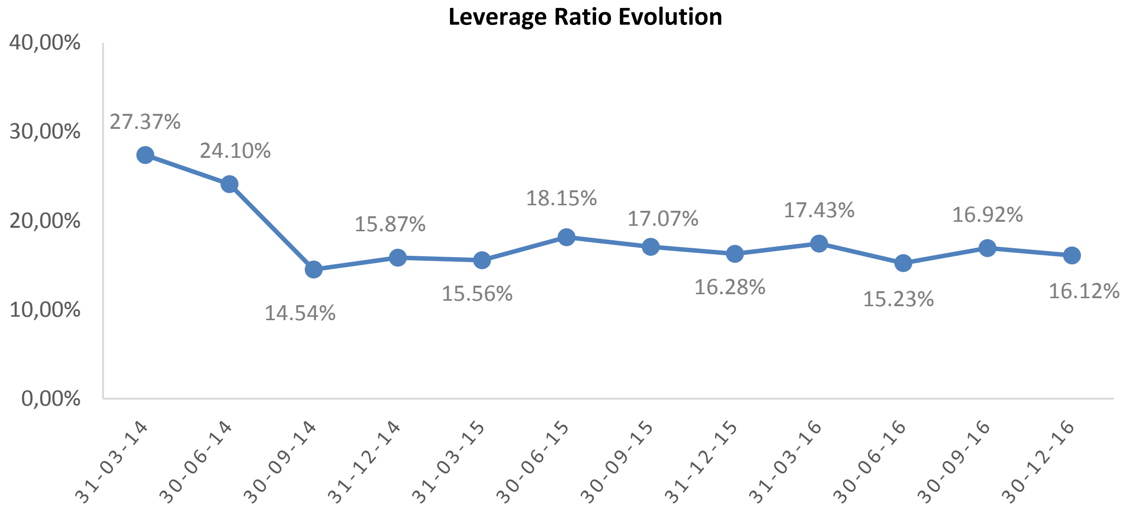
The following tables show the relevant information as of 31st December 2016 required by the Commission Implementing Regulation (EU) 2016/200 of 15th February 2016.

Leverage ratio. Breakdown (Thousand Euros)	CRR leverage ratio exposures 31.12.2015	CRR leverage ratio exposures 31.12.2016
On-balance sheet items	895,292	936,389
- Asset amounts deducted in determining Tier 1 capital	-6,892	-6,828
Derivatives	444	639
Securities Financing Transactions (SFTs)	0	0
Off-balance sheet items	0	0
Leverage ratio		
Tier 1 capital (numerator)	144,724	149,943
Total exposure measure (denominator)	888,844	930,200
Leverage ratio	**16.28%**	**16.12%**
Minimum Recommended	3.00%	3.00%

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)		
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**936,389**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	936,389
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	192,918
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	539,690
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	0
EU-10	Corporate	15,493
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	187,883

Publication of information on qualitative aspects		
1	Description of the processes used to manage the risk of excessive leverage	• The leverage ratio is one of the metrics periodically monitored by the Risk Unit. • The monitoring of this ratio is performed within a wider monitoring of the entity's solvency levels, including an evaluation of the exposure and the entity's own funds.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	• There has not been record of any factor with impact on the leverage ratio during the reference period. The ratio has been comfortably above 15% every quarter.

As it can be observed the Bank's ratio is comfortably above the minimum recommended level and has been very stable since it was first reported and above 15%.



The leverage risk control is incorporated to the usual monitoring of the risk parameters. There is a limit whose monitoring, with the objective that the ratio surpasses the level that, pending final calibration for 2017, is currently considered as a reference value (3%).

The follow-up is carried out in parallel with the solvency levels and includes an assessment of both the exposure and the entity's available own funds.

8.2. Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is one of the Basel Committee's key reforms to promote a more resilient banking sector. The ratio requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "*Available stable funding*" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

Some elements remain subject to national discretion to reflect jurisdiction-specific conditions.

The following tables contain the NSFR for AFB, comfortably above the required 100%.

NET STABLE FUNDING RATIO as of 31.12.2016 (Available amount of stable funding / Required amount of stable funding)	183.76%		
Components of ASF category	**Exposure**	**ASF Factor**	**Amount**
• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year)	**220,677**	100%	**220,677**
• Other capital instruments and liabilities with effective residual maturity of one year or more	**0**	100%	**0**
• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**0**	95%	**0**
• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**466,824**	90%	**420,142**
• Funding with residual maturity of less than one year provided by non-financial corporate customers	**0**	50%	**0**
• Operational deposits	**0**	50%	**0**
• Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	**0**	50%	**0**
• Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions	**0**	50%	**0**
• All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	**277,768**	0%	**0**
• NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets	**0**	0%	**0**
• "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities	**0**	0%	**0**
TOTAL AVAILABLE STABLE FUNDING	**965,269**		**640,819**

Components of RSF category	Exposure	ASF Factor	Amount
• Coins and banknotes	**18**	0%	**0**
• All central bank reserves	**182,900**	0%	**0**
• All claims on central banks with residual maturities of less than six months	**0**	0%	**0**
• "Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities.	**0**	0%	**0**
• Unencumbered Level 1 assets, excluding coins, banknotes and central bank reserves	**9,991**	5%	**500**
• Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in LCR paragraph 50, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan	**0**	10%	**0**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**209,343**	15%	**31,401**
• Unencumbered Level 2A assets	**0**	15%	**0**
• Unencumbered Level 2B assets	**0**	50%	**0**
• HQLA encumbered for a period of six months or more and less than one year	**0**	50%	**0**
• Loans to financial institutions and central banks with residual maturities between six months and less than one year	**130,000**	50%	**65,000**
• Deposits held at other financial institutions for operational purposes	**180,000**	50%	**90,000**
• All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	**182,398**	50%	**91,199**
• Unencumbered residential mortgages with a residual maturity of 1 year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	**0**	65%	**0**
• Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the standardised approach	**0**	65%	**0**
• Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP	**0**	85%	**0**
• Other unencumbered performing loans with risk weights greater than 35% under the standardised approach and residual maturities of one year or more, excluding loans to financial institutions	**0**	85%	**0**
• Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities	**0**	85%	**0**
• Physical traded commodities, including gold	**0**	85%	**0**
• All assets that are encumbered for a period of one year or more	**0**	100%	**0**
• NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	**173**	100%	**173**
• 20% of derivative liabilities as calculated according to paragraph 19	**0**	100%	**0**
• All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities	**70,447**	100%	**70,447**
TOTAL REQUIRED STABLE FUNDING	**965,269**		**348,720**

9. Information on Compensation Policy

The following appendix includes the information with regards compensation and remuneration policies as required by Banco de España and according to article 74 of the CRR.

9.1. The Remuneration Policy of Allfunds Bank

The policy has been drafted considering the international corporate structure of AFB, via its management team, and aspires to create a culture of high performance focusing on ongoing improvement, achievement of goals and client services, where the employees are rewarded and recognised for their achievements, efforts, performance, engagement and commitment, measured through competencies (knowledge's, abilities and attitudes) and setting goals, that enable it to capture, manage and retain talented professionals.

9.2. Corporate Governance

9.2.1. Board of Directors

The Board of Directors has set up an Appointments and Remuneration Committee made up of a minimum of three and a maximum of five members of the Board of Directors who do not perform executive duties within the Company. The Board of Directors will approve the Remuneration Policy of the company and also the "Identified Staff" List.

The remuneration of the Board will be established by the Articles of Association of the entity at all times and through a specific remuneration policy approved by the General Meeting.

9.2.2. Appointments and Remuneration Committee

The Appointments and Remuneration Committee main duties with regards to remuneration are the following:

- Propose to the Board of Directors decisions regarding remuneration, including those that have repercussions on the risk and risk management of the Company. In particular, it shall report on the general remuneration policy for members of the Board of Directors, senior executive vice presidents or similar positions and other members of the identified group (as this term is defined in applicable legal provisions), as well as individual remuneration and the other contractual terms of the members of the Board of Directors with executive duties, ensuring the observance thereof.
- Periodically, and at least once per year, evaluate the remuneration policies in order to verify that remuneration standards and procedures approved by the board of directors are complied with.

9.2.3. Audit and Risk Committee

The Audit and Risk Committee is the body responsible for the risk management and audit function of the entity. On remuneration issues its main duties are the following:

- Cooperation with the Appointments and Remuneration Committee in the establishment of the remuneration policy.
- To examine if the policy of incentives provided for in the remuneration policy takes into consideration risk, capital, liquidity and the likelihood and opportunity benefits.

9.2.4. Control functions

9.2.4.1. Common Functions

It corresponds to the control functions to assist the Appointments and Remuneration Committee, when required, in determining the overall strategy of the Bank applicable to remuneration, taking into account the promotion of effective risk management.

9.2.4.2. Specific Functions

The control units and management will assume the following specific functions:

a) Human Resources:
   - Propose to the Appointments and Remuneration Committee the Remuneration Policy and its subsequent amendments;
   - Coordinate the monitoring of the implementation of the Policy and evaluate its performance;
   - To safeguard employment contracts;
   - Prepare the annual remuneration report;
   - Disclosure of the List of the Identified Staff to Bank of Spain.

b) Chief Risk Officer: assess how the variable remuneration policy affects the risk profile of the entity.

c) Head of Compliance: Analyze how the remuneration policy affects to compliance and internal policies by the Bank.

The degree of adequacy of the Policy in respect of the various requirements concerning remuneration at financial institutions was analyzed by PwC concluding that AFB's Remuneration Policy sufficiently complies with legislation in force at 31 December 2016.

9.3. Principles of the Remuneration Policy

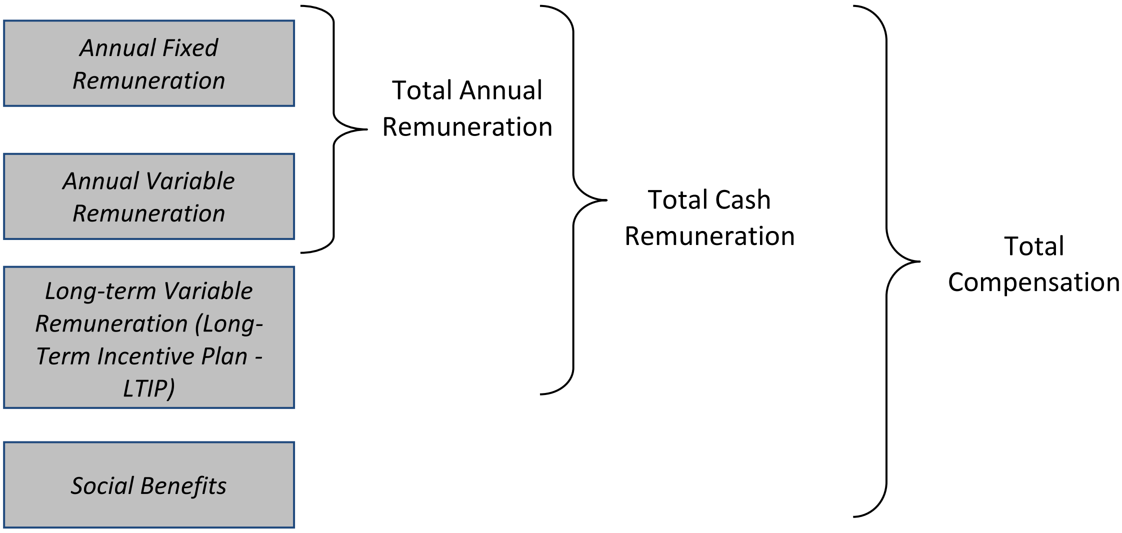
AFB considers the proper remuneration of its professionals to be a fundamental factor for achieving its goals and, accordingly, for unlocking value for shareholders. In this regard, for AFB it is vital to have a Remuneration Policy that, via the various elements of compensation, enables it to properly remunerate each position within the organisation, based on the position's level of responsibility and contribution, and to adequately reward exceptional results and performances, thus, as we have mentioned, allowing the Bank to capture, manage and retain talented professionals.

In general, AFB's Remuneration Policy is governed by the following principles:

- Remuneration must foster the adequate and efficient management of risks, and must be aligned with the interests of shareholders, fostering the creation of value in the long term and avoiding conduct aimed at the short term, reducing and curbing excessive risks actions.
- The global remuneration package and its structure should be competitive, making it easier to capture, retain and adequately remunerate employees and directors.
- The remuneration practices derived from the Policy should be in keeping with an effective management of conflicts of interest.
- Remuneration should be in accordance with a base sound and solid capital of the entity.
- Fixed remuneration should represent a significant portion of total compensation.
- Variable remuneration should reward performance, based, among other factors, on achieving the Group's goals, thereby modulating its payment, to avoid overpayment in the event of insufficient performance at AFB.
- AFB's Remuneration Policy should be highly respectful of the principle of non-discrimination for reasons of gender, age, culture, religion and race.
- The Policy should promote internal fairness between similar levels of responsibility and performance.

9.4. ELEMENTS OF THE REMUNERATION POLICY

9.4.1. General elements of compensation



Determining the various elements of remuneration of which the Policy is comprised implies being coherent with the degree of responsibility, experience and know-how inherent to each position, and providing incentives for the achievement of the best results at the Company, with the utmost respect for the principles governing it.

Accordingly, when it comes to determining the remuneration of a specific position at AFB, the following factors are taken into account:

- Internal Balance: comparison with the remuneration of an employee whom the Company is paying for a position with a comparable profile (Knowledge's, abilities, attitudes, responsibility, experience and contribution).
- External Balance: comparison with the remuneration of an employee whom the market is paying for a position with a comparable profile (Knowledge's, abilities, attitudes, responsibility, experience and contribution).

In accordance with the above, the increasingly international scale of AFB's operations makes it necessary to continually monitor the practices and tendencies of the various markets where it operates, in order to guarantee that the Remuneration Policy is adequately competitive externally.

9.4.2. Fixed Remuneration

Fixed Remuneration is the annual gross fixed cash compensation received by each employee, for which purpose the Company uses as a reference in the various markets where it operates (Spain, Italy, UK, Chile, Luxembourg, etc.), the principles of both External and Internal Fairness.

Fixed Remuneration fundamentally achieves two goals:

- To remunerate the level of responsibility and complexity of the functions assigned to each position. In relation to this objective the Internal Fairness of remuneration is especially important, establishing and maintaining a fair remuneration structure that is coherent with the relative importance of each post, so that the greater the responsibility and/or complexity the higher the benchmark level of Fixed Remuneration.
- To guarantee sufficient remuneration so that there is a fair and efficient ratio between the fixed and variable components of total remuneration, enabling variable remuneration to be modulated to the extent that it is even possible to completely remove it in the event of a deficient performance.

Moreover, for the Company to be able to attract, retain and motivate talented professionals, Fixed Remuneration, considered in combination with the remaining Elements of Remuneration, must make a competitive package that allows AFB to attract and retain the best professionals in the financial sector, and to be an attractive employer in the market where talented employees want to develop their professional career.

As a result, the Company's intention is that, generally-speaking, fixed remuneration should be in market average ranges for a position with a comparable profile (Knowledge’s, abilities, attitudes, responsibility, experience and contribution).

Since Fixed Remuneration is established in terms of agreed annual amounts, any increase by law, covenant or agreement will be duly absorbed. The Fixed Remuneration may include benefits, as regulated here-after, under the paragraph 5.4.

9.4.2.1. Salary Review Policy

Salary reviews at AFB are conducted annually, at the end of the year immediately prior to the year in which the potential review would take effect, or at the beginning of this latter year.

During this process, the potential increase in employees' Fixed Remuneration is decided, and so is the previous year's bonus to be paid, in the first few months of the year in which the salary review, in the event, would take effect.

The aim of the reviews is that the employees' Fixed Remuneration is adequately aligned with the market and, internally, with their profile, i.e. level of knowledge, abilities, attitudes, responsibility, experience and contribution).

9.4.2.2. Intervention Policy

Interventions, in other words, substantial changes in fixed remuneration, will be implemented in those cases in which the fixed remuneration of an employee considered a Top Performer is significantly unaligned (-20% difference) with average market benchmarks or the Company's own internal salary structure, in accordance with their profile.

These cases may arise due to promotions, increases in responsibility or outstanding development by the employee.

Changes in fixed remuneration may comprise also roles or function based allowance defined in line with the following principles:

- Are based on predetermined criteria
- Reflect the professional experience and seniority, cannot be reduced, suspended or cancelled and are maintained over a period tied to the specific role or function responsibilities
- Are transparent
- Do not provide incentives for risk assumption and do not depend on performance

Generally speaking, these changes will be implemented to coincide with salary reviews, although they might be implemented at any time if there is considered to be a risk of talent drain from the Company.

9.4.3. Short-Term Variable Remuneration

With regard to Short-Term Variable Remuneration/Basic Bonus, as we have said, AFB aims to create a culture of high performance focusing on ongoing improvement, achievement of goals and client services, where the employees are rewarded and recognised for their achievements and competencies (efforts, performance, engagement and commitment, etc.).

Hence, a reasonable part of the remuneration of AFB's employees is variable and is aimed primarily at achieving the following goals:

- Providing an incentive to create value for the Company in the short, medium and long term
- Rewarding distinguished performance and achievements
- Motivating people to improve their performance
- Retaining talented professionals in the short, medium and long term

AFB's Variable Remuneration system was designed to align employees' performance with the shareholders' interests, prudent risk management and the generation of value for the Company in the long term. The pivotal aspects of this system are as follows:

9.4.3.1. Setting the Basic Bonus

All AFB's employees are eligible to take part in the Discretionary Basic Bonus System. Remuneration under this scheme is neither consolidable nor must it necessarily be repeated over time.

Generally, the ranges of the Basic Bonus vary and are established for each employee in accordance with their responsibility, so that the economic proposal for the employee must be competitive considering the fixed and variable components of remuneration jointly. Notwithstanding the above, in any event, the Basic Bonus established must always uphold a fair and efficient ratio between the fixed and variable components of the total remuneration.

The benchmark Basic Bonus for each employee is set during the hiring process, and this will be the maximum Bonus that the employee may achieve within the discretionary scheme.

As a general rule, this Basic Bonus is maintained over time, although it is subject to changes, as is Fixed Remuneration, during the annual salary review, to adapt it to the given profile, (i.e. Knowledge's, abilities, attitudes, responsibility, experience and contribution) or in accordance with interventions (promotions, increases in responsibility or outstanding development by the employee).

In no case shall the established Basic Bonus exceed 100% of the fixed component of each employee's total remuneration.

The Shareholders Meeting approval has been requested for a selected number of roles, following the legal procedure established by law. The short term variable remuneration will not exceed 200% of the fixed component of each employee's total remuneration.

Guaranteed variable remuneration is exceptional, and must be expressly approved by the Company's General Manager. In any case shall be confined to the first year of employment and should be performed only when the entity has a base sound and solid capital.

The amount each employee will definitively receive under the short-term variable remuneration scheme will be linked, as established below, to a proper balance between the employee's individual performance, the corresponding business unit performance and that of the Company.

9.4.3.2. Assessments

AFB's assessment system shapes the variable remuneration effectively received (Bonus payable) by employees. The Company conducts assessments every year, covering capabilities classified into three blocks of content, measuring the employee's individual performance and their contribution to their department:

1) Work Performance
2) Personal profile
3) Potential

The aforementioned capabilities are measured using the following an internal questionnaire. This questionnaire has been slightly adapted and used during the last few years in the company, the employees are used to it and it provides useful information to reinforce the possible areas of improvement for each employee and they understand its implications.

9.4.3.3. Setting the Bonus payout

The Bonus payable to employees is set in accordance with their individual performance, their contribution to the relevant area and the results of the Company.

With regard to the employees' performance and their contribution to their area, this is determined in accordance with the results of the annual assessment, taking into special consideration the individual areas for improvement established in the previous year's assessment, where applicable.

Depending on performance and, in the event, evolution during the year under assessment, mainly in competencies necessary for adequately discharging their duties and on the effort and commitment shown, the person responsible will submit a proposal of the amount payable to the employee.

Nevertheless, the Bonus payable will always be modulated by the corresponding business unit as well as by the Company's financial results, and will generally be reduced, proportionately, and may even be cancelled, in the event of a deficient performance by AFB. In the event of budgetary compliance, the majority of variable remuneration is based on the manager's assessment of the employee.

In exceptional cases, subject to the approval of General Manager, an Extrabonus may be paid (higher than the established Basic Bonus) to those employees considered to deserve a reward for their extraordinary effort or contribution, always respecting the Principles of the Policy and without exceeding the aforementioned maximum limit of 100% or the applicable exceptions, in line with shareholders resolution. In case of members of identified staff and/or significant amount, the extra-bonus should be approved by the Board of Directors.

In no case shall obtaining Variable Remuneration be linked solely to incentives connected with sales and no incentives linked solely to sales of a specific type of financial asset are established, thereby preventing potential conflicts of interest and improper conduct.

9.4.3.4. Bonus payable in relation to retention plans

In exceptional cases, a retention plan may be launched in order to retain the key employees and to secure the value of the Company in exceptional circumstances. Remuneration under this scheme is neither consolidable nor must it necessarily be repeated over time. The Retention Plan comply with the requirements set by the European Banking Authority (EBA) on sound Remuneration Policy and will be subject to the provisions on variable remuneration as described in this policy. The Award will be based on the circumstances that the beneficiaries stay in the Bank for a predetermined time until and after the change of control or during the year 2017. The activation of the plan and, in case of identified staff, the individual eligibility and award, is subject to the Board of Directors approval.

9.4.3.5. Bonus payable in relation to new hirings

The Bonus payable to newly-hired employees may be modulated, as well as by the generally applicable criteria, by the date the employee joined the Company:

- If the employee joined the Company in the first quarter of the year: the Basic Bonus for consideration when determining the variable remuneration to be received by the employee shall be 100% of the corresponding annual Basic Bonus.
- If the employee joined the Company in the second quarter of the year: the Basic Bonus for consideration when determining the variable remuneration to be received by the employee shall be at most 75% of the corresponding annual Basic Bonus.
- If the employee joined the Company in the third quarter of the year: the Basic Bonus for consideration when determining the variable remuneration to be received by the employee shall be at most 50% of the corresponding annual Basic Bonus.
- If the employee joined the Company in the fourth quarter of the year, and without prejudice to the provisions of the next paragraph: the Basic Bonus for consideration when determining the variable remuneration to be received by the employee shall be at most 25% of the corresponding annual Basic Bonus.
- If the employee joined the Company in December: the employee shall not be entitled to receive any Bonus.

Only in the case of new hirings might receipt of annual variable remuneration be guaranteed, and in any case limited to the first year of employment and subject to approval by General Manager, taking into account the Company's capital base for this purpose.

9.4.3.6. Prerequisite for payment

To receive any variable remuneration, employees must remain at the Company at the time of payment, the employee must not be in his notice period on that date, and the amount received will, in all cases, be proportionate to the part of the year worked.

9.4.3.7. Payment date

Generally, the Bonus is paid in a single instalment in the first few months of the year immediately following its accrual, although it is expressly approved that the Variable Remuneration is subject to deferral if the Company deems it fit at any given time.

The above should be understood without prejudice to the principles applicable to the categories of personnel whose activities significantly impact on AFB's risk profile in accordance with section 3 below.

9.4.4. Long-Term Variable Remuneration

At present, the Company does not have any long-term incentive plan in place. Nevertheless, AFB considers this kind of incentive to be an important element of its remuneration structure, and identifies such plans as an adequate measure to link the interests of its employees and directors with those of the Company in the long term, so it does not rule out implementing an incentive of this kind in the future.

Accordingly, in no case do the variable components of remuneration account for more than 100% (or 200% when applicable) of the fixed component of the total remuneration of each employee.

Depending on long-term incentive plan complexity, nature and design, it could be subject to deferral, payment in instruments, reductions, and reimbursements applicable for Identified Staff members attending to the provisions detailed in the Policy.

9.4.5. Benefits

When it comes to establishing benefits, as in regard to other items, AFB refers to Company policy and market practices. Generally speaking, the most common benefits are:

- Subsidised meals
- Life insurance
- Medical insurance

Some of the Company's senior executives, in terms of both responsibility and business, are also given a corporate vehicle in accordance with the applicable Group's policy.

9.4.6. Confidentiality

The individual remuneration conditions of each employee are STRICTLY CONFIDENTIAL, and must not be divulged under any circumstances to other employees or directors, except for direct supervisors or the human resources department.

9.5. Application of the Remuneration Policy to Identified Staff

Current legislation imposes certain requirements on financial institutions in regard to remuneration, in respect of the categories of personnel whose activities significantly impact on the institution's risk profile (“Identified Staff”). There follows a list of Identified Staff at AFB, and the specifics of application of the Remuneration Policy to members of the Identified Staff based on the requirements pursuant to regulations on remuneration.

9.5.1. Members of the Identified Staff

To determine the members of its Identified Staff, AFB has taken into account both (i) qualitative and (ii) quantitative criteria, established under Commission Delegated Regulation (EU) No. 604/2014, supplementing Directive 2013/36/EU of the European Parliament and the Council, with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (the "Regulation").

The following positions were identified in accordance with the qualitative criteria established pursuant to the Regulation:

1. Members of the Board of Directors
2. The General Manager
3. The overall Senior Management
4. Persons in charge of risk control, compliance and internal auditing, reporting directly to the "Management Body".
5. Directors of material business units
6. Persons in charge of risk management at material business and employees with management responsibility in the functions of risk control, regulatory compliance, internal auditing and material business units, and reporting directly to the person in charge of said function.
7. Employees with management responsibilities in material business units and reporting directly to the director of said unit.
8. Employees responsible for the duties of legal counsel, human resources, information technology, finance, etc.
9. Employees responsible for or members of a committee in charge of managing any of the risk categories such as securitization, liquidity, concentration, residual, interest rate, etc.

No other personnel to be included in Identified Staff has been identified, in accordance with the quantitative criteria established in the Regulation, in addition to those already included pursuant to the qualitative criteria.

Each person providing service to and belonging to the so-called Identified Staff will be understood to be an "Identified Person".

The Policy includes details of each of the identified positions in accordance with each of the aforementioned criteria.

9.5.2. Remuneration principles applicable to Control Functions

a) The method for determining the remuneration of the relevant persons of the management and control functions must not compromise their objectivity and independence or create conflicts of interest in its advisory role to the Appointments and Remuneration Committee.

b) The ratio between fixed and variable remuneration of the control functions staff must be weighted in favor of the fixed remuneration.

c) Their variable remuneration should be based on specific objectives of the unit and should not be determined on the basis of individual financial performance of the business area subject to control or supervision.

d) The remuneration of managers of the control function units will be overseen by the Appointments and Remuneration Committee.

9.5.3. Variable Remuneration

On the whole, the Variable Remuneration Scheme applicable to Identified Staff is governed by the same criteria and principles applicable to AFB employees in general.

Notwithstanding the above, in order to comply with the new requirements concerning remuneration, and in order to achieve a better alignment between remuneration and the shareholders' long-term interests, the generation of value for the Company in the medium and long term and the prudent the risk management befitting Allfunds Bank, the Group has agreed to establish measures for deferral, payment in instruments, reduction ("malus conditions") and reimbursement ("clawback conditions") in respect of the Variable Remuneration of Identified Staff.

Appendix I and II of the Policy contain details of the measures applicable to identified staff according to the proportionality principles.

Furthermore, the failure by any member of the Identified Staff to explicitly accept and adhere to the deferral, payment in instruments, reduction ("malus conditions") and, reimbursement measures ("clawback conditions") in respect of the Variable Remuneration, that are applicable to that member based on the Company's criteria for ensuring prudent risk management pursuant to the applicable regulation at any given time, will imply the loss of their right as an Identified Person to receive any Variable Remuneration.

For this purpose, "Variable Remuneration" shall be understood to refer to all the variable components of remuneration, including: Short-Term Variable Remuneration, and Long-Term Variable Remuneration, in the event, regardless of the form and periods established for the payment thereof.

9.5.3.1. Early termination of contracts of Identified Staff

The amounts of severance compensation pursuant to the contracts of the members of the Identified Staff are those established by law and applicable in each specific case.

9.5.3.2. Pension commitments

In no case shall the Company undertake pension commitments on behalf of its employees that are not compatible with the Company's business strategy, goals, values and long-term interests.

As specified in the Annual Accounts, these are the general remuneration numbers for the management team of the company.

Year	# Senior Managers	Thousand Euros		
		Annual Remuneration		
		Fix	Variable	Total
2016	29	4,658	2.004	6.662

Note: Regarding the quantitative information about remunerations, the Company complies with all legal requirements stablished by the applicable regulation in the Remuneration Reports sent and available for the competent authorities and, following the principle of proportionality, the Company does not consider necessary to include additional information.

Appendix I

N°	QUALITATIVE CRITERIA	POSITION	Malus	Clawback
1	Members of the "Management Body" in regard to their management duties	General Manager	√	√
2	Members of the "Management Body" in regard to their supervisory duties	Members of the Board of Directors	Not eligible for variable remuneration	
3	Senior Management	General Manager (*)	√	√
		Chief Commercial Officer & Deputy General Manager	√	√
		Global Head of Operations	√	√
		Global Head of IT Systems	√	√
		Global Head of Funds Group	√	√
		Business Development and Sales Plan Director	√	√
		Chief Financial Officer (Finance & Risk Control)	√	√
4	Persons in charge of risk control, compliance & internal auditing, reporting directly to the "Management Body"	Chief Financial Officer (Finance and Risk Control)	√	√
		Global Head of Compliance	√	
		Internal Auditing	√	
5	Directors of material business units	UK Branch Country Head	√	
		Central Europe General Manager	√	
		Italy Branch Country Head	√	
		Luxemburg Joint General Managers	√	
		Regional Manager Iberia and LATAM	√	
		Switzerland Joint General Manager	√	
6	Employees with management responsibility in the functions of risk control, regulatory compliance, internal auditing & material business units, and reporting directly to the person in charge of said function	Finance Manager Luxemburg	√	
		Compliance and Anti-Money Laundering Italy	√	
		Chief Financial Officer (Finance and Risk Control) (*)	√	√
7	Employees with management responsibilities in material business units and reporting directly to the director of said units	IT Project Manager Luxembourg	√	
		Head of Operations AFBI	√	
8	Employees responsible for the duties of legal counsel, human resources, information technology, finance, etc.	Global Head of Legal	√	
		Global Head of Human Resources	√	
		Global Head of IT Systems (*)	√	√
		Chief Financial Officer (Finance and Risk Control) (*)	√	√
9	Employees responsible for or members of a committee in charge of managing any of the risk categories such as securitization, liquidity, concentration, residual, interest rate, reputational, etc.	Chief Financial Officer (Finance and Risk Control) (*)	√	√

The application of quantitative criteria confirms the above perimeter.
(*) Position identified pursuant to another qualitative criteria.
The Variable Remuneration of the General Manager and of those role whose awarded variable remuneration exceeds the 100% of fixed remuneration is subject to deferral.

The Appendix II contains details of how principal's remuneration requirements are incorporated to AFB remuneration policy in application of proportionality principles.

Appendix II

When designing the Remuneration Policy, AFB has considered the proportionality principle explained in the recital (4) of the Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies Text with EEA relevance. This recital states that credit institutions may apply the legal provisions in different ways according to their size, internal organization and the nature, scope and complexity of their activities. Such Directive is transposed to the Spanish legal system through Law 10/2014, of June 26, on access to the activity of credit institutions and the prudential supervision of credits institutions and investment firms, which continues the approach of proportionality. In this sense, due to AFB nature, scope and low complexity in terms of risk, the entity has decided to apply the proportionality principle to neutralize certain regulatory requirements, in accordance with the provisions described in this Appendix.

DEFERRAL POLICY

The settlement and payment of Annual Variable Remuneration to which, in the event, any member of the Identified Staff to whom the deferral and reduction measures of Variable Remuneration ("Deferral Policy") are applicable, is entitled, must be in keeping with the following schedule:

- 60% of Variable Remuneration, during the first quarter of the year following the year to which the annual variable remuneration relates ("First Payment Date") or, in case of retention plan, in the sixty days immediately following the "closing date" or the 31st December 2017 ("First Payment Date")..
- The remaining 40% of variable remuneration ("Deferred Variable Remuneration"), to be received, if applicable, in deferred payments in accordance with the following schedule:
  - one-third, in the thirty days immediately following the first anniversary of the First Payment Date;
  - one-third, in the thirty days immediately following the second anniversary of the First Payment Date;
  - one-third, in the thirty days immediately following the third anniversary of the First Payment Date;

According to the proportionality principle abovementioned, AFB currently defers Variable Remuneration of the General Manager and, where applicable, in case of variable remuneration exceeding the 100% of the fixed compensation. Deferral of Variable Remuneration of other Identified Staff can be neutralised due to AFB nature, scope and low complexity of their activities.

In the event that Variable Remuneration of any Identified Person exceeds a reasonable limit and prior approval of the Board of Directors, the Deferral Policy could be applicable.

Any Long-Term Variable Remuneration that might be established, and which any member of Identified Staff affected by these measures might be entitled to receive, will be subject to this Deferral Policy, in accordance with a deferral schedule similar to that of Short-Term Variable Remuneration in relation to the significant accrual dates and first payment date established in connection thereto.

PAYMENT IN INSTRUMENTS POLICY

As supervisory bodies Guidelines and rest of Laws applicable have not yet clarified the adequate instruments for a non-listed company and attending to the proportionality principle, AFB is not paying part of the Variable Remuneration of any member of the Identified Staff in instruments.

In spite of the abovementioned, the settlement and payment of Annual Variable Remuneration to which, in the event, any member of the Identified Staff to whom payment in instruments measures of Variable Remuneration ("PAYMENT IN INSTRUMENTS POLICY") are applicable, must be in keeping with the following scheme:

- At least 50% of total variable remuneration shall consist of a balance of the capital instruments specifically established by Bank of Spain for a non-listed company as AFB.

REMUNERATION REDUCTION / CANCELLATION POLICY

AFB has design different remuneration clauses described below in accordance with regulatory requirements. These remuneration clauses will be applicable for any member of the Identified Staff.

Deferred Variable Remuneration pending payment or any Variable Remuneration payment will not be payable ("Malus") or may be reduced to any Identified Person in the event of any of the following circumstances:

a) A restatement of the annual financial statements of AFB, when so considered by external auditors, and provided that, in accordance with said restatement, a lesser amount of Variable Remuneration were to be payable than that initially determined or no Variable Remuneration should be paid in accordance with the Variable Remuneration Scheme of Allfunds Bank.

b) The Identified Person has been sanctioned for serious and negligent breach of any of the internal rules of Allfunds Bank that, in the event, are applicable, and in particular for any action that might affect the Company's risk profile.

c) Significant variations in the economic capital or risk profile of the Group that make the payment of Deferred Variable Remuneration unadvisable.

d) A fraudulent action by the Identified Person.

e) The Identified Person has caused, by action or omission, serious damage to Allfunds Bank, involving culpability or negligence.

f) Due to termination of the relationship linking the Identified Person with the Company, except in the event of retirement, death or any degree of incapacity. In these cases the right to receive payment will be maintained in the same terms as if the employee continued to be linked to Allfunds Bank.

The terms and conditions of the Deferral Policy will apply to all payments of Variable Remuneration to Identified Persons from 2015 onwards.

The Identified Persons subject to the Deferral Policy in accordance with what the Company establishes at any given time must express their acceptance of the content of this Deferral Policy by completing and signing the form attached thereto. By signing the form, the Identified Person acknowledges that they have received, read, understood and accepted all the terms, conditions and restrictions included in the Deferral Policy and the procedure for its application.

Failure by any member of Identified Staff to explicitly accept and adhere to the deferral and reduction ("malus conditions"), and if applicable, reimbursement, measures in respect of the Variable Remuneration, as established by the Company at any given time, will imply the loss of the Identified Person's right to receive any Variable Remuneration.

<u>Procedure to determine the amount of remuneration to be reduced</u>

1. The Appointments and Remuneration Committee will be in charge of the setting of circumstances that might result in the application of measures to reduce Deferred Variable Remuneration or any Variable Remuneration payment, and will make a judgement in this respect. For this purpose, the aforementioned Committee will count on with such internal or external means as it deems necessary.
2. In case it is necessary, the Appointments and Remuneration Committee's will submit a report to the Board of Directors of the Company (hereinafter, the Board) for ratification.
3. In light of the Appointments and Remuneration Committee's report, where appropriate, the Board will notify the Identified Persons affected, giving them no less than five (5) calendar days' notice to appear before the Board, in order to explain any issues considered relevant in the assessment of whether the circumstances at play derive directly from their management.
4. After the hearing, the Board will conclude whether or not any of the circumstances should dictate the non-payment of the Deferred Variable Remuneration pursuant to the Deferral Policy or any Variable Remuneration, and which Identified Persons are affected by said circumstances.
5. For this purpose, the Chairman of the Board will have a casting vote and those Board directors who might have a conflict of interest must abstain.

   In the event that any of the scenarios that determine the reduction of Deferred Variable Remuneration or any Variable Remuneration payment should occur, the Board will agree the amount of Variable Remuneration that must be reduced, calculated as the difference between the following amounts:

- Amount of Variable Remuneration initially established in relation to the Identified Person/s affected in the year in which the event that triggered application of the measures contained in this Policy takes place.
- Amount of Variable Remuneration resulting from the new calculation as a result of the occurrence of the event that triggered application of the measures contained in the Deferral Policy.
- If any of the events listed in points b) to f) above should occur, no Deferred Variable remuneration pending payment will be paid.

REMUNERATION REIMBURSEMENT POLICY

In accordance with regulatory requirements, AFB has designed some reimbursement ("clawback") clauses in its Remuneration Policy. Considering the AFB nature, scope and low complexity of their activities in terms of risk and also taken into account the market practice of other credit institutions, these reimbursement clauses will only be applicable for Members of the Senior Management.

Any member of the Senior Management must repay to the Company part or all of the variable remuneration received in the following circumstances:

- If Allfunds Bank restates its annual financial statements, provided that, in accordance with said restatement, a lesser amount of Variable Remuneration were to be payable than that actually paid or no Variable Remuneration should have been paid in accordance with the Variable Remuneration Scheme of Allfunds Bank.
- If Variable Remuneration is paid in relation to a period of accrual in which it is subsequently shown that the following took place:
  a) A serious and negligent breach of any of the internal rules of Allfunds Bank that, in the event, are applicable, and in particular for any action that might affect the Company's risk profile.
  b) A fraudulent action by the Senior Management member.
  c) The Senior Management member has caused, by action or omission, serious damage to Allfunds Bank, involving culpability or negligence.
  d) Should circumstances occur that determine the disciplinary dismissal of the Senior Management members in accordance with applicable labour legislation or, in the case of a Board director, should circumstances occur that lead to that person's termination as an administrator due to breach of duty, or to any action or omission causing damage to Allfunds Bank, or should circumstances occur that entitle the Company to take action against that person;

The terms and conditions of the Remuneration Reimbursement Policy will apply to all payments of Variable Remuneration to Senior Management members from 2015 onwards and will remain in force for a period of five (5) years from the date of payment of each instalment of Variable Remuneration.

The Senior Management members subject to the Remuneration Reimbursement Policy in accordance with what the Company establishes at any given time must express their acceptance of the content of said Remuneration Reimbursement Policy by completing and signing the form attached thereto. By signing the form, the Identified Person acknowledges that they have received, read, understood and accepted all the terms, conditions and restrictions included in the Remuneration Reimbursement Policy and the procedure for its application.

Failure by any member of Senior Management to explicitly accept and adhere to the reimbursement measures in respect of the Variable Remuneration, as established by the Company at any given time, will imply the loss of the Identified Person's right to receive any Variable Remuneration.

In case future recommendations of supervisory bodies or new regulations suggest reimbursement clauses must be applicable for all the Identified Staff, AFB would readjust its “Reimbursement Policy” in this sense.

Procedure to determine the amount of remuneration to be reduced or reimbursed

Annually, Allfunds Bank's Appointments and Remuneration Committee will perform an analysis of the set of circumstances that might result in the application of measures under the Variable Remuneration Reimbursement Policy, and will issue a report in this connection. For this purpose, the aforementioned Committee will be provided with such internal or external means as it deems necessary.

The Appointments and Remuneration Committee's report will be submitted to the Board of Directors of the Company (hereinafter, the Board) for ratification.

In light of the Appointments and Remuneration Committee's report, where appropriate, the Board will notify the Senior Management member affected, giving them no less than five (5) calendar days' notice to appear before the Board, in order to explain any issues considered relevant in order to assess whether the circumstances at play derive directly from their management.

After the hearing, the Board will conclude whether or not any of the circumstances exist that determine reimbursement of the Variable Remuneration received pursuant to the Remuneration Reimbursement Policy, and which Senior Management members are affected by said circumstances.

For this purpose, the Chairman of the Board will have a casting vote and those Board members who might have a conflict of interest must abstain.

In the event that any of the scenarios that determine the reimbursement of Variable Remuneration received should occur, the Board will agree the amount of Variable Remuneration that must be reimbursed, calculated as the difference between the following amounts:

- Amount of Variable Remuneration effectively received in relation to the Senior Management member affected in the year in which the event that triggered application of the measures contained in this Policy takes place.

- Amount of Variable Remuneration resulting from the new calculation as a result of the occurrence of the event that triggered application of the measures contained in the Remuneration Reimbursement Policy.
- If any of the events listed in points a) to e) above should occur, in no case may the percentage of Variable Remuneration corresponding to the year/s in which the circumstances that trigger the reimbursement prevail, be less than 75%.

The above agreement having been adopted, the Board will notify the Senior Management member in writing to inform him/her of the gross amount[6] of Variable Remuneration which must be reimbursed and the reimbursement procedure applicable in his/her specific case, in accordance with the following scheme:

- Firstly, the Variable Remuneration that must be reimbursed will be offset against any item of variable cash remuneration accrued by the Identified Person and pending payment.
- If there are no items of Variable Remuneration pending payment, or if such items are insufficient, the amount to be reimbursed will be offset against any other non-variable items of remuneration, net of taxes and Social Security contributions, pending payment to the Senior Management member (i.e. fixed salary, in the event, final balance and severance payment resulting from the termination of the Person's employment or mercantile relationship with the Company, etc.).
- If the aforementioned compensation is not possible or is insufficient, the Senior Management member will be obliged to pay the remainder to be reimbursed via bank transfer or payment into the account indicated by Allfunds Bank. Said amount must be delivered within thirty (30) business days from receipt by the Identified Person of the notification of the amount to be reimbursed.

It is up to the Senior Management member to request the repayment of (i) undue payments resulting from Income Tax or other similar tax withholdings by Allfunds Bank and, in the event, (ii) Social Security Contributions made on their behalf in relation to the remuneration to be reimbursed pursuant to this Policy.

The Group will take such actions as are available to it to claim, either judicially or otherwise, the amount to be reimbursed plus any interest for arrears that may have been accrued, and all expenses and legal costs that may be incurred will be payable by the Senior Management member.

Madrid, March 30th 2017

[6] For this purpose, gross compensation is understood to be the salary paid by Allfunds Bank to the Senior Management member without deducting any Income Tax or similar tax withholdings or payments, or Social Security contributions.