PILLAR III DISCLOSURES REPORT

Allfunds Bank Group

LHC4 (UK) Limited

2017

allfunds BANK

Leaders in Open Architecture

1. GENERAL OVERVIEW

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1.1 ABOUT ALLFUNDS BANK GROUP[2]

Allfunds Bank, S.A.U. (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:

- 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.
- The acquisition, holding, use, administration and disposal of Spanish and foreign marketable securities, shares and equity interests in companies, in accordance with current legislation.
- The provision of investment services and any applicable supplementary activities under current legislation.

In addition to the operations carried on directly by AFB, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Allfunds Group (“the Group”).

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 17 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 1,200 fund managers and over 64,400 funds, and an extensive network which includes more than 595 contracts with institutional clients, spread over more than 42 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.

In 2017, AFB experienced an outstanding growth in assets, going from €253.1 Bn by end of 2016 to €358.7 Bn by the end of 2017 representing an annual growth rate of +41.7% (+€105.68Bn). 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 been partly 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.

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[1] In order to ensure that AFB’s disclosures adhere to the principles set by the Guidelines on disclosure requirements under Part Eight of Regulation 575 2013 (EBA-GL-2016-11) (Clarity, Meaningfulness, Consistency over time and Comparability across institution) the report has been elaborated at Allfunds Bank Group level and all relevant information related to the consolidated group (LHC4 (UK) Limited) has been included in Annex 1.

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

Regarding the history of AFB since its inception, in 2003, the Italian bank Sanpaolo (now Intesa Sanpaolo) acquired 50% of the company. In addition, 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 to provide local 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 internationalisation strategy, Allfunds Bank obtained local licenses in Singapore (branch) and Brazil (representative office).

In 2017, Allfunds continued its investment in technology with the launch of APIs and the addition of ETFs on the platform. It was also the year AFB announced plans to open an office in Brazil and Norway as well as achieved €350Bn in AuA and entered into a new shareholder structure.

On November 21st 2017, Adubala ITG, S.L.U. (a company belonging to the Hellman & Friedman Group) acquired all the shares of the Bank from AFB SAM Holdings, S.L. and Eurizon Capital SGR S.p.A. As a result of the foregoing, at 31 December 2017, the Bank's share capital consisted of 901,354 fully subscribed and paid registered shares of EUR 30 par value each, all with the same voting and dividend rights and the Bank's sole shareholder is Adubala ITG, S.L.U. (31 December 2016: AFB SAM Holding, S.L. (50%) and Eurizon Capital SGR S.p.A. (50%)).

On the 27th February 2018, Adubala ITG, S.L.U. was renamed to Liberty Partners S.L.U.

1.2 RESULTS

In 2017, the focus remained on the objectives set in previous years:

- To support Allfunds Bank International, S.A. in its objective to complement the Bank in countries where it does not have a permanent establishment.
- To boost commercial activity in those European markets where the Bank's presence is not significant (the UK, Switzerland, Central Europe and the Nordic markets).
- To strengthen its commercial presence in the Latin American area through the new representative office in Bogotá, and increase its customer base in the region.
- To commence operating and commercial activity in the Asian region after receiving the operating licence from the Monetary Authority of Singapore in 2016.
- To continue to increase the number of investment fund distribution agreements entered into with customers in all the markets in which the Bank operates. The number of new commercial agreements entered into rose to 68 in 2017, giving a total of 592 at year end, with the Bank now having customers operating in 42 different countries.
- To extend the range of financial products available to the Bank's customers, including the development of a new ETF platform to be made available to institutional customers.
- To continue to enter into agreements with the world's foremost management companies in order to be able to offer customers a wide range of products. A further 630 management companies obtained fully automated access to the Bank's platform in 2017, and the platform now has a total of 64,400 investment funds.
- To make constant improvements in the Bank's platform by investing resources in augmenting the levels of automation and reliability of the services provided to customers.
- Allfunds is also working on digital solutions and tools with a view to assisting its institutional customers with the challenges of the new digital era. In 2017 significant technology developments were undertaken aimed at developing new digital solutions for the Bank's customers.

In 2017 the Group obtained a net profit amounting to EUR 75,258 thousand, up 8.95% on the previous year. Fee and commission income was the largest revenue item.

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

Table 1. Net profit

	Thousands of Euros
Allfunds Bank, S.A.U.	69,798
Allfunds Bank International, S.A.	5,125
Allfunds International, Schweiz AG	382
Allfunds Bank Brasil Representações Ltda.	(48)

Source: Own elaboration, 2017

Net interest income declined 75.23% on 2016 to EUR 245 thousand, as a result of the lower return earned due to the sharp drop in interest rates.

Net fee and commission income amounted to EUR 189,230 thousand, which represents an increase of 22.47% on 2016. 82.98% of these fees and commissions in 2017 (86.88% in 2016) related to brokerage in the sale of shares and units in international CIUs.

Considering that the acquisition of Allfunds Bank by its current shareholder was completed on November 21st 2017, LHC4's financial statements refer to the period spanning from November 21st 2017 to December 31st 2017, being led by the financial costs related to the acquisition. This has led to a consolidated net loss for LHC4 of EUR -22,382 thousand in the period.

1.3 SOLVENCY

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 Group is already applying a 100% deduction due to the low impact on its solvency levels.

Regarding Solvency, and according to the CRR/CRD IV, the Bank shows comforTable levels above the regulatory requirements[3].

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

Distribution (%)

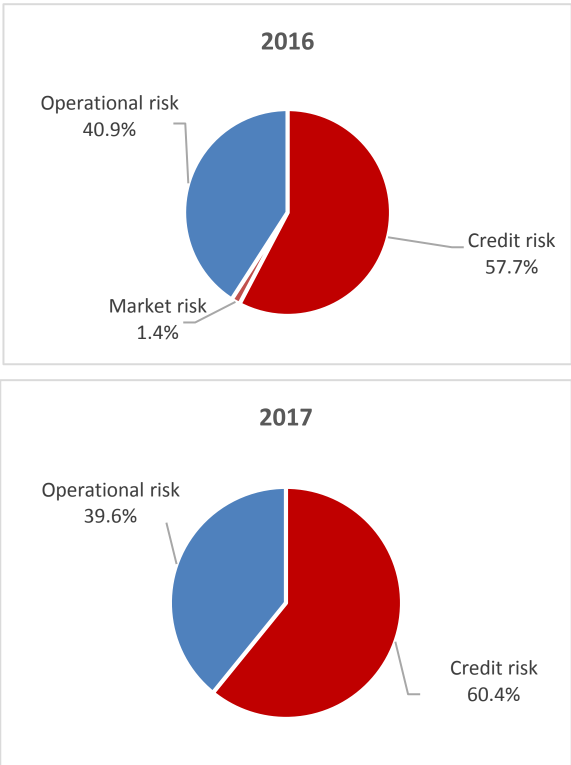

Figure 1. Solvency AFB Group

[3] 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.

2. INFORMATION ON GENERAL REQUIREMENTS

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2.1 LEGAL FRAMEWORK

In 2010, in the wake of the international financial crisis, the Basel Committee on Banking Supervision (BCBS) approved the reform of the regulatory framework on bank capital adequacy, known as Basel III. Basel III was transposed into EU law by a legislative package, applicable from 1 January 2014, made up of:

- The Regulation 575/2013 (CRR) of the European Parliament and the Council of 26 June 2013 on the prudential requirements of credit institutions and investment firms that modifies the former EU regulation.
- The Directive 2013/36/UE (CRD IV) of the European Parliament and the Council of 26 June 2013 on 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.

The objective of the modifications introduced was to improve the banking sector's capacity to absorb the impacts of economic and financial crisis, reinforce risk management and governance, transparency and disclosure of information. In particular, these improvements translate into greater requirements in the quantity and quality of capital and the introduction of liquidity and leverage measures.

CRD IV was introduced into Spanish law through Law 10/2014 on regulation, supervision and solvency of credit institutions, and its subsequent regulatory implementation via Royal Decree 84/2015 and Circular 2/2016 of the Bank of Spain, which completes its adaptation to Spanish law. This Circular largely repeals Circular 3/2008, on the calculation and monitoring of minimum capital (though, in the aspects covered by Circular 5/2008, on minimum capital and other mandatory reporting of information for mutual guarantee societies, the latter will remain in effect); and a section of Circular 2/2014, on the exercise of various regulatory options contained in the CRR. The CRR is directly applicable in Member States from 1 January 2014, and repeals all subordinate acts that entail additional capital requirements.

The CRR provides for a phased-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phased-in arrangements have been introduced into Spanish law through Circular 2/2014 of the Bank of Spain affecting both the new deductions from capital and the instruments and elements of capital that cease to be eligible as capital under the new regulation. In March 2016, the European Central Bank published the Regulation 2016/445/EU, adjusting certain timelines established in Circular 2/2014, especially the calendar for Deferred Tax Assets (DTAs). The capital conservation buffers provided for in CRD IV will also be phased in gradually, starting in 2016 and reaching full implementation in 2019.

Nowadays, the Capital regulatory framework (CRR/CRD IV) in force is being reviewed in order to reduce risk in the banking sector, introducing different Basel standards and integrating the loss absorption requirement into the European framework. Thus, on 23 November 2016, the European Commission released a draft of the new CRR and CRD IV incorporating different Basel standards, such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio (NSFR) for liquidity risk or the SA-CCR for calculation of the Exposure At Default (EAD) by counterparty risk, interest rate risk in the banking book, as well as modifications related to the treatment of central counterparty entities, the Maximum DistribuTable Amount (MDA), the Pillar II, the leverage ratio and the Pillar III, among others. These reforms addresses the size, complexity and business profile of the banks. They also include measures that aim to support financing for SMEs and support investment in infrastructure.

In January 2015, the BCBS released a revised version of the Pillar III framework with the aim of addressing those shortcomings in the comparability and consistency of regulatory disclosures that negatively impact the ability of market participants to compare institutions' levels of risk. In particular, the revised framework focuses on improving the transparency surrounding the use of internal models for calculating risk-weighted assets (RWAs) by introducing more granular disclosure requirements under a tabular format (for qualitative information) and a template format (for quantitative information). These Tables and templates are intended to improve the comparability of institutions' disclosures across jurisdictions and over time. The Pillar III disclosure requirements from the Basel framework have been implemented in EU law via Part Eight of the CRR.

In this regard, as is stipulated in Part Eight of the CRR, 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.

Under this regulatory context, Allfunds Bank Group has prepared the Pillar III Disclosures Report, in accordance with the final Guidelines EBA/GL/2016/11 of the European Banking Authority (EBA) on disclosure requirements under Part Eight of the CRR, published in December 2016 and which apply from 31 December 2017, providing guidance to financial institutions on how to comply with applicable regulations.

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.

During 2017, among the regulatory novelties, it should be noted that the Basel Committee on Banking Supervision published the second phase of the document called "Revised Pillar III Disclosure Requirements" in March 2017, which will be transposed by the EBA during 2018.

The Bank of Spain approved Circular 4/2017 to credit institutions, on rules of public and reserved financial information, and models of financial statements: standard in which the accounting regime of Spanish credit institutions is adapted to the accounting standards IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Ordinary Activities from Contracts with Customers) adopted in the EU in 2016, and which will be applicable for the purposes of formulating the annual accounts in the accounting periods beginning as of 1 January 2018.

In December 2017, the Basel III revision ended after almost three years of negotiation, when the Basel Committee on Banking Supervision published "Basel III: finalization of post-crisis reform". This document includes the review of the current framework of Basel III, with the dual objective of reducing the excessive variability of risk-weighted assets (RWAs) between financial institutions and facilitating greater comparability between the capital ratios of banks.

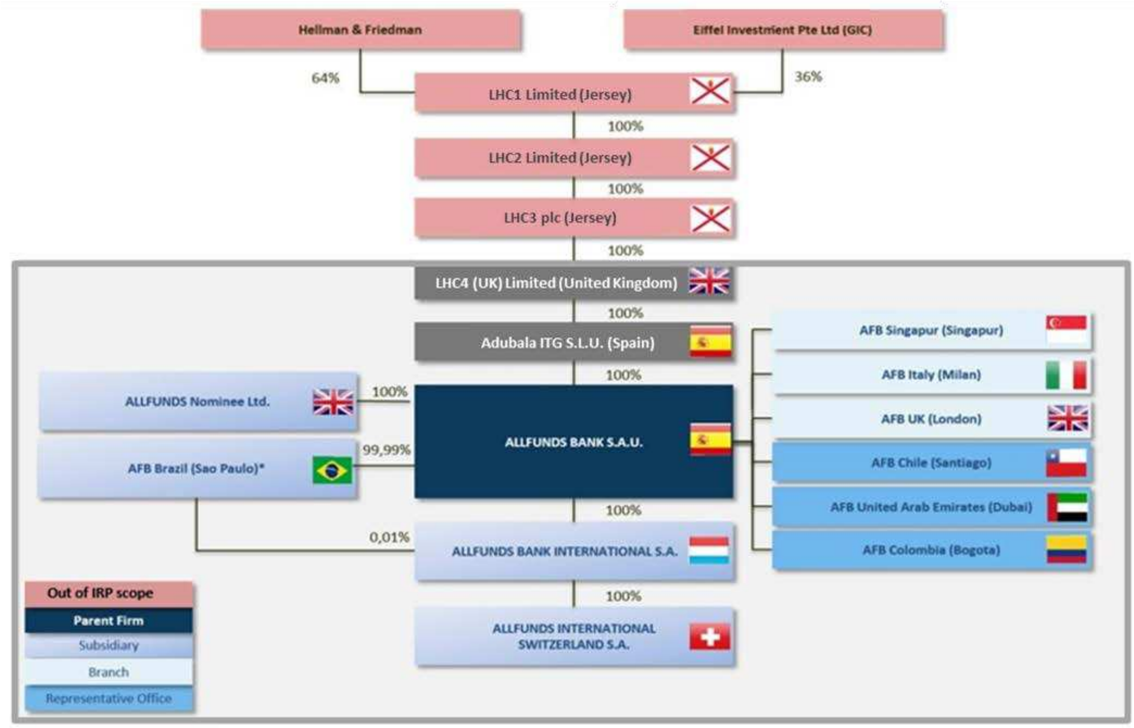
The amendments proposed by this reform include:

- Adoption of an aggregate floor calibrated at 72.5% for all risks, subject to a maximum impact cap of 25% on RWAs by institution.
- A review of the standardised approach to calculating capital for credit risk.
- A review of the advanced approaches to calculating capital for credit risk for low default portfolio.
- A new standardised approach to calculating capital for operational risk.
- A review of the credit valuation adjustment (CVA), which eliminates internal models and reviews standardised approaches to bring them in line with the updated framework for market risk.
- The final calibration of the leverage ratio.

2.2 SCOPE OF THE REPORT

The scope of application is the holding LHC4 (UK) Limited, which holds a 100% stake in the holding company ADUBALA ITG S.L.U., with a stake of 100% in Allfunds Bank S.A.U, entity acting as parent company in the Allfunds Bank Group and with the following subsidiaries, representative offices and branches:

Figure 2. Structure of the Entity



Source: Own elaboration, 2017

- Allfunds Bank S.A.U. 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.

- 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.

The entity's control is owned by Hellman & Friendman and Eiffel Investment Pte Ltd (GIC) which have a 64% and 36% ownership interest respectively in LHC1 Limited which holds a 100% ownership interest in LHC2 Limited, which holds a 100% ownership interest in LHC3 Plc and a 100% ownership interest in LHC4 (UK) Limited. The prudential supervision perimeter ends at LHC4 (UK) Limited.

As of 31st December 2017, no consolidated subsidiary of the AFB Group held qualifying own funds below the established limit required under the applicable legislation.

2.3 DISCREPANCIES BETWEEN THE REGULATORY AND THE ACCOUNTING INFORMATION

Regarding the differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories, template EU LI1 has not been included due to the lack of relevant information that would provide, mainly due to the following:

- The only items not subject to capital requirements or subject to deduction from capital are goodwill and other intangible assets (deducted from own funds calculation) and tax assets (not subject to capital requirements).
- A small credit risk exposure of EUR 5,772 thousand is considered according to article 379 of the CRR (free deliveries), which is out of the scope of the accounting consolidation. This exposure creates capital requirements of EUR 462 thousand reported under 'Corporates' label.
- Due to the specific business of the company, all exposures are subject to the credit risk framework.

2.4 APPROVAL AND PUBLICATION OF THE REPORT

In May 2018 the Board of Directors approved the review of the Policy on disclosure of the information with prudential relevance (Pillar III Disclosures Policy), which makes explicit the policy of verification of information to disclose by Allfunds Bank Group. In this sense, the information with prudential relevance will have the same degree of verification that is applied to the information of the management report, as part of the financial report. This, in accordance with the guidelines of the EBA on disclosure requirements under the eighth part of the CRR and described in its articles 431 (3) and 434 (1).

At its meeting of May 17th 2018, the Board of Directors also agreed to delegate the approval of the Pillar III Disclosures Report by the Chief Executive Officer (CEO), after its verification by the Risk and Audit Committee, responding to the provisions of article 435 (e) (f) of the CRR.

The Board, in its supervisory role, states that:

- The Pillar III Disclosures Report is prepared in accordance with the Policy on disclosure of the information with prudential relevance (Pillar III Disclosures Policy) approved by the Board.
- The published information and the risk management systems implemented are adequate in relation to the Bank's profile and strategy.

The functions of the second line of defense have participated in the review and verification of the information presented, as well as in ensuring that said information complies with the control and / or verification procedures established in the aforementioned Policy.

Prior to the approval of this concise declaration by the governing bodies, the Internal Audit function has reviewed the content of the Pillar III Disclosures Report 2017 and its adaptation to the regulatory requirements, as well as the control structures implemented.

The report was approved last June 30th, 2018 and it is available on the corporative web page (www.allfundsbank.com).

2.5 GOVERNANCE FRAMEWORK

The Entity has a Corporate Governance of Risks appropriate to the nature of the activity it develops and which is adapted to international recommendations and trends, through a structure based on the three lines of defence that ensure the non-existence of conflicts of interest. According to this model:

- The first line of defense is formed by the different business and support departments in charge of the relationship with clients/fund houses and support functions. The first line of defense implements and manages the risk indicators or first level controls in order to identify potential risks and ensure an effective answer to mitigate them. Thus, the role of the first line is to identify and manage risks.

- The second line of defense is formed by the Compliance and Risk Management teams, acting autonomously and independently between them and with respect to the first line of defense. These two units support the first line of defense in defining and monitoring the controls, that is to say, they set and monitor compliance with the rules and limits needed to stay within the risk appetite defined by the Board of Director.

- Finally, the third line of defense is represented by the Internal Audit function, which has the maximum level of independence and objectivity within the entity and ensures the effectiveness of the control systems. At the same time, it carries out an independent review of the first two lines of defense and verifies there is compliance with the model, providing assurance to the Risk and Audit Committee on the effectiveness of risk management.

The general principles of Corporate Governance indicate that the overall direction and management of the Entity is the responsibility of the Board of Directors, which assigns to the General Management the follow-up and supervision of the Bank's general policies and objectives.

In the field of control, it is the responsibility of the Chief Executive Officer to submit a proposal to the Board of Directors with the definition of the mechanisms and means necessary to supervise management processes and ensure compliance with internal policies.

Therefore, the Board of Directors establishes the Bank's risk strategy, which is led and supervised by the General Management.

The Group's risk procedures are managed by the Risk Management Department, whose main mission is to control, monitor and manage the risks arising during the Group's activity. This mission is developed as a continuous process that takes into account the size, complexity and typology of the Entity's activity.

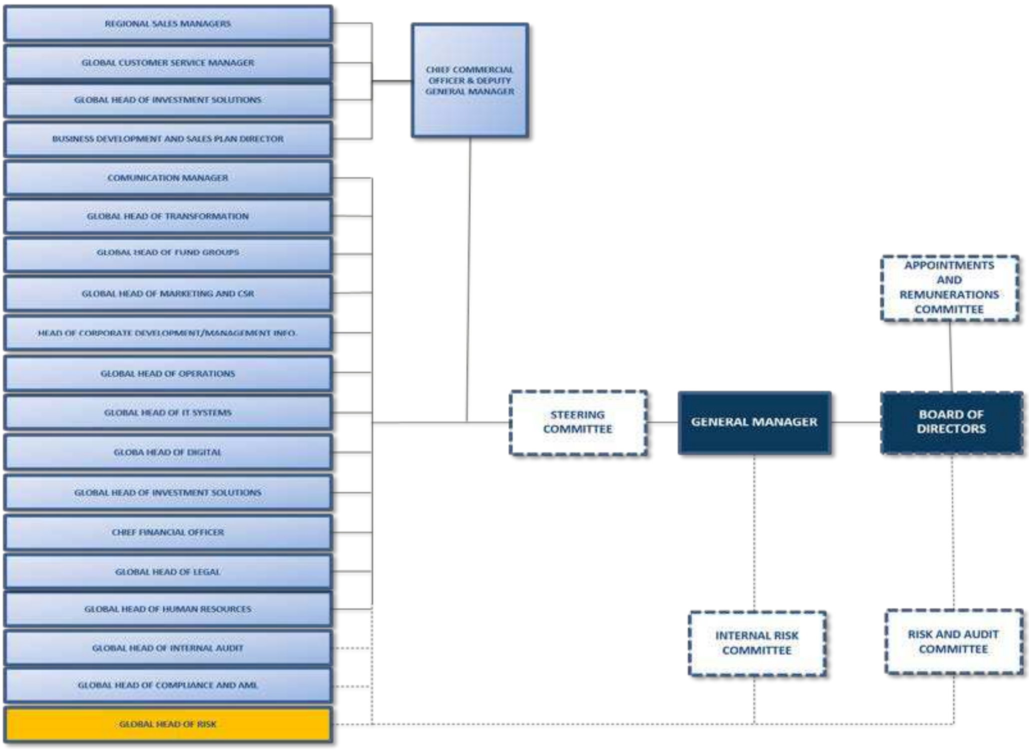
Figure 3. Lines of defense. Functions

Source: Own elaboration, 2017

2.6 ORGANIZATION OF THE ENTITY

Allfunds Bank Group has defined the following Organizational Structure in which the Risk Management Unit has a double reporting line: one to the Chief Executive Officer, through the Internal Risk Committee and another to the Board of Directors, through the Risk and Audit Committee:

Figure 4. Entity organization



Source: Own elaboration, 2017

2.6.1 BOARD OF DIRECTORS[4]

Except in matters for which the General Shareholders' Meeting is responsible, the Board of Directors is the highest decision-making body of Allfunds Bank Group and its subsidiaries.

The rules of operation and internal regime of the Board of Directors, as well as its positions and Commissions, in the development of the applicable legal and statutory provisions, its principles of action and the rules of conduct of its members, are established in the Regulations of the Board of Directors of Allfunds Bank Group.

The number of Directors in the Board is determined by the General Shareholders' Meeting within the limits set by article 30 of the Company's Bylaws. To this end, the General Shareholders' Meeting proceeds directly through the establishment of said number by explicit or indirect resolution, either by filling vacancies or by appointing new directors, within the maximum limit established in the Bylaws.

The company has a Board of Directors formed by directors with appropriate educational and professional background, age, gender and geographical provenance in order to ensure there is a broad range of experience, knowledge, skills and values and who can understand the bank’s activities and risks. Also, the Board includes independent directors who help to ensure that the interests of all internal and external stakeholders are considered and that independent judgement is exercised.

Currently, the Board of Directors is made up of 5 non-executive directors, two of whom are independent, the Chairman and the Secretary (non-director):

[4] A brief biography on members of AFB’s Board of Directors is included in Annex 2.

- **Chairman:** Mr. Blake Kleinman
- **Director:** Ms. Zita Saurel
- **Director:** Mr. Chris Reid
- **Director:** Mr. Johannes Korp
- **Director:** Mr. Jaime Carvajal (Independent)
- **Director:** Mr. Mario Cuccia (Independent)

The appointments of the Board of Directors and the Chief Executive Officer and equivalent roles have been made with the positive report of the Appointments and Remunerations Committee.

The Board of Directors generally meets every two months and at least once a quarter. The Board draws up an annual calendar of ordinary meetings on the basis of the matters within its competence. In addition, a Board of Directors may be appointed whenever it is called by the chairman, on his own initiative or at the request of at least one third of its members, indicating the agenda of the meeting.

The main functions of the Board of Directors are delegated with respect to the Entity's risk management:

- Approve the Entity's strategy and Risk Manual, ensuring that they are adequate to guarantee and reflect the Entity's internal capital and risk appetite objectives.
- Manage all substantial risks covered by the solvency regulations, ensure that adequate resources are allocated for risk management and intervene in the valuation of assets, the use of external credit ratings and internal models relating to these risks.
- Approve and periodically review the risk culture and risk appetite of the Entity, including the strategies and policies for assuming, managing, supervising and reducing the risks to which the Entity is or may be exposed

To this end, the Board of Directors, together with the Risks and Audit Committee, shall determine the nature, quantity, format and frequency of the risk information to be received by it and the Board of Directors itself, and may access any risk information it deems appropriate, including requiring the presence of any director or employee.

2.6.2 GENERAL MANAGEMENT

The Entity's overall administration and management is competence of the Board of Directors, which assigns to the General Management the monitoring and supervision of risk management. The General Management, with the support of the Risk Department, has the following delegated roles:

- Propose risk policies for the Entity, meaning identify the different types of risks (credit, market, interest, operational, technological, legal and reputational, among others), define methodologies, processes, procedures and the internal control systems and measures appropriate for the level of risk that the Entity considers in its Risk Appetite.
- Authorize, where appropriate, potential technical exceedances that may occur within the assigned limits.
- Define the responsibilities and functions of persons involved in risk management.
- Validate and therefore authorise internal and external risk reporting.
- Supervise that the level of assumable risk is in line with the strategic objectives set.
- To direct and lead the internal Risk and Audit committee, which, among other functions, will review and approve the limits structure established by the Entity for each risk factor.
- Evaluate and follow the indications issued by regulatory authorities.
- Monitor that risk levels are in line with the Risk Appetite.

The Board of Directors also guarantees the following commitments through the General Management:

- The activity is carried out in authorized markets and geographical areas.
- Capital consumption on the basis of risks and exposures is at all times in line with the minimum levels required by regulation.
- The set of scenarios for executing the solvency/equity stress testing process, as well as the liquidity stress tests, are appropriate and comply with both the

complexity of the Entity's business and the approved risk management policies.

2.6.3 COMMITTEE BODIES AND FUNCTIONS

As part of its overall management, Allfunds Bank Group has specialized committees in key functions, two of them with direct dependence of the Board of Directors and others are internal at Management level:

- Appointments and Remuneration Committee
- Risk and Audit Committee
- Internal Control Body for the Prevention of Money Laundering (AML)
- Steering committee
- Commercial Committee
- Client Acceptance Committee
- ITOP Committee
- Internal Risk and Audit Committee
- Fund Groups Committee
- Approval and Monitoring of Costs Committee
- Digital Committee
- Innovation Committee
- Business Continuity Committee
- Crisis Management Committee

The main Committees and the frecuency and responsabilities of each one are described below:

Appointments and remuneration Committee

Frequency
The Committee shall meet as many times as may be called by agreement of the committee itself or its chairman, as deemed appropriate. During 2017 the meetings were convened quarterly. The Committee shall also meet whenever the Board of Directors or its chairman requests a report or the adoption of proposals.
Responsibilities
Regarding Appointments: • Identify and recommend, with the aim to their approval by the Board of Directors or the General Shareholders' Meeting, candidates to fill vacancies on the Board of Directors. • Any director may request the Appointments and Remuneration Committee to take into consideration potential candidates for filling vacancies on the Board of Directors. • Establish a goal of representation for the underrepresented gender in the Governing Body and develop guidance on how to increase the number of underrepresented gender persons in pursuit of achieving this goal. • Assess the balance of knowledge, capacity, diversity and experience of the Board of Directors and develop a description of the functions and skills required for a specific appointment, assessing the time dedicated to the performance of the position. • Evaluate periodically and at least once a year the structure, size, composition and performance of the Board of Directors, making recommendations regarding possible changes. • Assess periodically and at least once a year the suitability of the various members of the Board of Directors and of the Board as a whole, and report to the Board of Directors accordingly. • Review periodically the Board of Directors' policy regarding the selection and appointment of senior management members and provide recommendations to that end. • Report on proposals for appointment and separation of senior management members and the basic conditions of their contracts. **Regarding remuneration:**

• To propose to the Board of Directors decisions regarding remuneration, including those that have an impact on the Company's risk and risk management. In particular, it shall report on the general remuneration policy for members of the Board of Directors, Chief Executive Officer or similar and other members of the identified group (as defined by applicable legislation), as well as the individual remuneration and other contractual conditions of the members of the Board of Directors performing executive functions, ensuring that they comply with it. • Evaluate, at least once a year, the remuneration policies in order to check whether the remuneration guidelines and procedures adopted by the Board of Directors are being complied with.
Members
• Members until 21st November 2017: Juan Manuel San Román, Laura Febbraro and Carlos Diaz Nuñez until June 2017 and Juan Manuel San Román, Tomasso Corcos and Mario Cuccia since June 2017/Meetings held in 2017– 3 meetings • Members after 21st November 2017: Jaime Carvajal, Zita Saurel, Chris Reid / Meetings held in 2017 – None

Source: Own elaboration, 2017

Risk and Audit Committee

Frequency
The Committee meets as many times as it may be called by agreement of the Committee itself or its chairman, as deemed necessary. During 2017 the meetings were convened quarterly. It shall also meet whenever the Board of Directors or its chairman requests the issuance of a report.
Responsibilities

Regarding risks:
• To advise the Board of Directors on the overall risk appetite, current and future, of the Entity and its strategy in this area, and to assist it in monitoring the implementation of this strategy.
• To ensure that the pricing policy for services offered to customers takes full account of the company's business model and risk strategy. If this is not the case, the Commission shall submit to the Management Board a plan to remedy it.
• To determine, together with the Board of Directors, the nature, quantity, format and frequency of the risk information to be received by the Committee and the Board of Directors.
• Collaborate in establishing sound remuneration policies and practices. To this end, the Committee will examine, without prejudice to the functions of the Appointments and Remuneration Committee, whether the incentive policy provided for in the remuneration system takes into account risk, capital, liquidity and the probability and timeliness of profits.
• Requesting and monitoring new limits, and credit internal ratings.
• Validating credit ratings proposed by the Risk Management Unit, including the creation of new ones and changes to existing ones.
• Reviewing and approving, at least annually, the effective limit structure, in order to ensure suitability for current market conditions.
• Coordinating the Entity's areas for risk management
• Defining the investments necessary for better monitoring, controlling, and managing the Entity's risks.
• Monitoring and controlling risk management activities and procedures.
• As proposed by the Risk Management Unit:
    • Approving and defining risk report contents.
    • Approving communication channels.
    • Approving operating procedures for risk monitoring, control, calculation, and follow-up.
Regarding audit:
• Monitor the effectiveness of the internal control, internal audit and risk management systems.
• Supervise the external auditor of the Company.
• Propose the appointment, remuneration and removal of the external auditor.
• Review and approve the scope and frequency of audits and review audit reports.
• Ensure that the Board of Directors adopts, in due course, the necessary corrective measures to remedy internal control deficiencies, non-compliance with laws, regulations and policies and other problems identified by the auditors.
• Monitor the establishment of accounting policies by the Company.

Members
• Members until 21st November 2017: Andrea Beltratti, Mario Cuccia and Theodora Zemek / Meetings held in 2017 – 1 meeting in September 2017

• Members after 21st November 2017: Jaime Carvajal, Johannes Korp and Mario Cuccia / Meetings held in 2017 – 1 meeting December 2017

Source: Own elaboration, 2017

Corporate Governance: Internal Committees

Committee	Responsibilities	Frequency
Commercial Committee (ComCo)	Commercial initial approval of clients and countries	Monthly
Client Acceptance Committee (CAC)	Approval of new countries and clients from a risk, compliance and legal perspective	Monthly
Fund Groups Committee	Review of fund managers incorporation, client migration status and any problems with fund houses	Monthly
ITOP Committee	Review of technology and operational issues	Monthly
Risk and Audit Committee	Monitoring of all type of risks, monitoring and ratification of credit ratings of clients, monitoring of reporting obligations, approval of new reporting	Monthly
Approval and Monitoring of Costs Committee	Approval of new costs Monitoring of all costs	Quarterly Upon request
Digital Committee	Review and update Digital Business. Including a monthly review of Finametrix	Monthly
Innovation Committee	Forum to discuss, approve and follow key innovation ideas.	Monthly
Business Continuity Committee	Review of all business continuity plans and procedures	Quarterly
Crisis Management Committee	Management of any exceptional circumstances which may imply a crisis situation	Upon request
Internal Control Body on AML/TF	Define, manage and control compliance with the entity's risk management policies	Quarterly

Source: Own elaboration, 2017

2.7 GENERAL PRINCIPLES OF RISK MANAGEMENT AND CONTROL

Risk management is one of the main pillars of the Entity's strategy. Senior Management acknowledges and supports the proper and efficient definition, assessment, control, and monitoring of risks the Entity assumes during the course of its activities. The key principles are as follows:

- The control function shall be independent from functions that generate risk.
- There shall be a common risk culture, extended and shared throughout the organization.
- Conservative control and assessment criteria shall be defined and applied.
- The risk team shall be qualified and competent.

The Entity has a global area of Risk Management designed according to its size, complexity and type of activity. This control function is integrated into the supervisory functions of the Risk Department.

The Global Risk Management Department is responsible for preparing and updating the Internal Risk Manual, which includes quantitative and qualitative procedures for monitoring, controlling and mitigating the potential risk resulting from the Entity's activity. Emphasis is placed on the nature and origin of risks, as well as on the procedures and methodologies governing management and control activities for each risk factor. The Manual also reflects the Entity's Risk Policy, which has been approved by the Board of Directors as part of its responsibilities. The guidelines for implementing defined risk procedures are issued by the Global Risk Management Department together with the General Management.

2.8 FUNCTIONS OF THE RISK DEPARTMENT

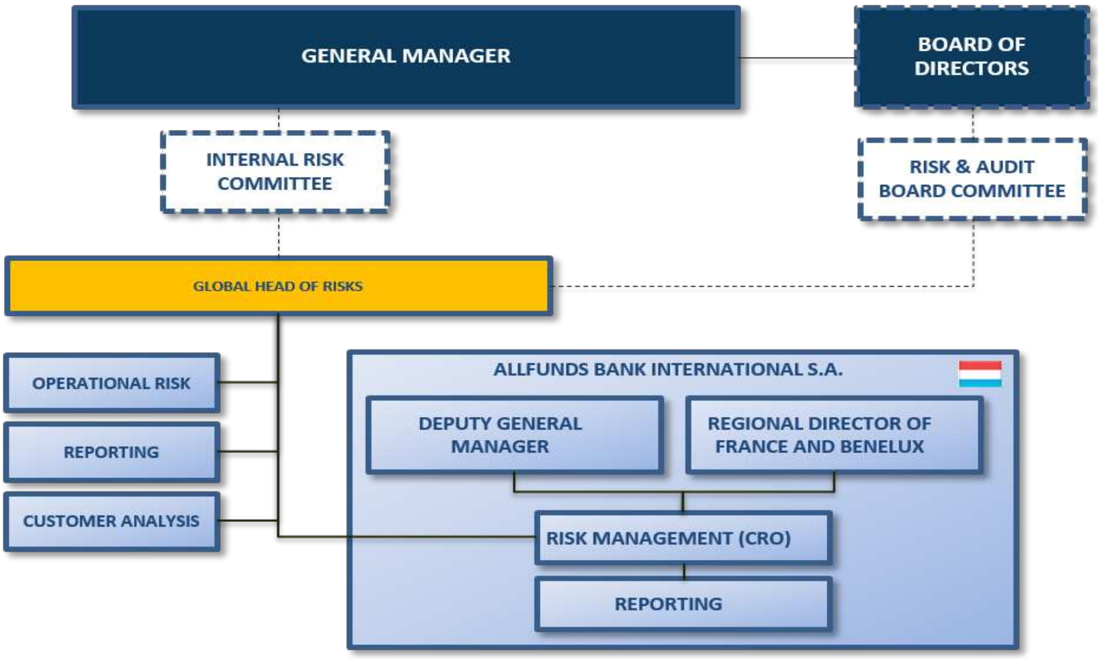
- Defining procedures & methodologies to measure, control and monitor the risks incurred by the Entity.
- Propose the limit structure and ratings to be assigned for each counterparty.
- Monitoring the limits usage.

- Preparing periodic risk-related information for local supervisory bodies (BoS, CSSF, ECB, etc.).
- Defining and preparing the necessary reports to monitor risk management.
- Preparing and updating the risk management manual as well as calibrating internal procedures.
- Defining the investments required for a better monitoring, control & management of the risks.

2.9 ORGANIZATIONAL STRUCTURE OF THE RISK DEPARTMENT

Allfunds Bank Group's Risk Management Department has the following organizational structure, with a global scope and encompassing all the Entity's subsidiaries, branches and representative offices:

Figure 5. Risk management department organization



Source: Own elaboration, 2017

2.10 RISK MANAGEMENT FRAMEWORK

Prudence applied to risk management constitutes a pillar of the Entity´s 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 shareholders.

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 the Entity, in accordance with the objective level of solvency. In this sense, the Entity has a commitment to maintain levels of solvency above 17.5%.
- 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 Entity 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.

- o 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 Entity 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.

2.11 RISK APPETITE FRAMEWORK (RAF)

The Entity has a Risk Appetite Framework, which was revised by the Board of Directors in the first quarter of 2018 with the aim of adapting it to the organizational structure of the Entity.

The Risk Appetite Framework is an integral and prospective tool which determines the type and risk thresholds that it is willing to accept in order to achieve the Group's strategic and profitability objectives.

2.11.1 PROCESS OF MANAGEMENT AND GOVERNMENT OF THE RISK APPETITE FRAMEWORK

The Risk Appetite Framework of Allfunds Bank Group is structured according to the following management processes:

- Development and approval of the framework.
- Regular updating.
- Regular follow-up.
- Non-compliance protocol.
- Review.
- Transmission.

The Risk Appetite Framework is used by the Board of Directors as a management tool to:

- Formalize the Entity's declaration of risk appetite;
- Formalize the mechanism for supervision and surveillance of risks, in order to ensure compliance with risk appetite.
- Reinforce the Entity’s risk culture.

Currently, the Board of Directors is responsible for defining risk management guidelines, including the levels of tolerance that the Entity is willing to assume and its governance.

The General Management is responsible for transferring the Board's guidelines through a clear and segregated organizational model, qualitative principles, indicators and thresholds and limits on risks established by the Board of Directors.

2.11.2 DECLARATION OF APPETITE AND MATERIAL RISKS

In order to establish reasonable capital targets for the group, Allfunds Bank Group identifies the risks to which it is exposed and assesses the control measures used.

The main objective of the declaration of appetite is to obtain recurring and stable results over time, maintaining a low level of global risk by:

- Maintaining the distribution activity, avoiding the incorporation of positions on the balance sheet held on its own account that generate risks that the Bank is not willing to assume.
- The search for a high degree of diversification of structural risks, establishing limits to concentrations by customers, sectors, markets and / or geographies that may imply a threat to the solvency, liquidity and recurrence of results objectives.
- Continuous attention to the tasks of identification and monitoring of risks, so as to provide all areas with adequate and dynamic systems that result in an optimal management and control of the risks assumed.

The review of the RAF includes both the risks identified as material in the capital and liquidity assessment processes (ICAAP/ILAAP) and the risks considered relevant for management purposes to which the Entity is exposed in the exercise of its activity.

Table 2. Material risks

Risk Type	Material/Non-material
Credit Risk	Material
Concentration Risk	Material
Operational Risk	Material
Market Risk	Non-Material
IRRBB Risk	Non-Material
Liquidity Risk	Material
Business Risk	Material

Given the type of activity of the Entity, the main risks to which it is subject are operational risk and technological risk.

In order to measure the level of risk and contrast it with the levels of tolerance and capacity, a series of indicators are established, which are subject to periodic monitoring in order to ensure that the levels reached are acceptable to the Entity, and if exceeded, define an action plan.

Allfunds Bank Group has established a monthly process to monitor the indicators and thresholds in order to assess the coherence and representativeness with the Entity's activity and business. They will also be reviewed in the event that a relevant event is identified, either by assessing new business opportunities or by continuously exceeding a threshold.

In this context, the Entity has defined indicators related to: credit, liquidity, solvency/capital, concentration, markets, operational, settlement and business.

2.12 RISK PROFILE

Allfunds Bank Group has established a series of principles under which the entity's risk management is based, and where the procedures for assessing the materiality of the risks and the risk profile of the Entity are established:

- Independent and global risk function, which ensures adequate information for decision making at all levels.
- Objectivity in decision-making, incorporating all the relevant Risk factors (both quantitative and qualitative).
- Active management of the entire life of the Risk, from the analysis prior to approval until the risk is extinguished.
- Clear processes and procedures, periodically revised according to the new needs, and with well-defined lines of responsibility.
- Integrated management of all risks through their identification and quantification, and homogeneous management.
- Inclusion of the variable risk in business decisions in all areas, strategic, tactical and operational.
- Alignment of the objectives of the risk function and of the individuals that compose it with those of the Entity, in order to maximize the creation of value.
- Establish a taxonomy for all risks to which the Entity is exposed.
- Have a Risk Appetite Declaration approved by the Board that includes all material risks for monitoring and management.

Allfunds Bank Group makes a periodic assessment of the materiality of risks and identification of their profile. The risk relationship covered by the ICAAP/ILAAP Guide is complemented by a series of additional risks, previously not considered and included in the Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA/GL/2014/13).

2.13 INTERNAL AUDIT

The internal audit team of Allfunds Bank Group (also known as Internal Audit Allfunds - AIA) has its headquarters in Madrid. The scope of AIA's work includes all the activities and functions of LHC4 (UK) Limited.

2.13.1 OBJECTIVES AND FUNCTIONS ASSIGNED TO THE INTERNAL AUDIT DEPARTMENT

The objective of AIA is to provide independent, reliable, valued, insightful and timely assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current and evolving risks.

As a global function, AIA is responsible for the management of internal audit across the Group.

The Global Head of Internal Audit and staff of AIA are authorized to:

- Have unrestricted access to all information, functions, records, property and staff anywhere within the Group, relevant to their role.
- Have uninhibited right of access to the Board of Directors, the Chief Executive Officer and the appointed external auditors.
- Allocate resources, set frequencies, select subjects, determine scopes of work, assess audit need and coverage and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of staff in Allfunds Bank Group as well as other specialized services from within or outside.

2.13.2 INTERNAL AUDIT DEPARTMENT RESOURCES

The internal audit team for the Entity (also known as Allfunds Internal Audit – AIA) is a global function with a headcount for six people.

The Global Head of Internal Audit reports functionally to the Chairman of the Risk and Audit Committee and administratively to the Chief Executive Officer.

AIA has an approved headcount of six employees and though the global team is located in Madrid (Spain), since November 2017 a new auditor joined the team in Luxembourg to ensure constant local representation and alignment with local regulation. The team currently includes a Head of Internal Audit, an Audit Manager and four Audit Seniors.

The structure chart of the team is detailed below:

Figure 6. Internal Audit organization

Source: own elaboration, 2017

Members of the Internal Audit team have a diverse background in financial services with relevant international experience in internal and external audit, in financial institutions covering retail, corporate and private banking, asset management and technology. Average audit experience of the team amounts to 9 years.

Regarding the tools used by AIA, the following are used on a day to day basis:

- Audit work is stored in a shared drive that is available to all members of the team. A new database management tool (AutoAudit) is being implemented which will allow the team to manage audit work more efficiently.
- AIA uses Arbutus Analytics to perform tests over large sets of data which are extracted by the IT team mainly. This testing approach, also known as Computer Aided Audit Tools & Techniques (CAATTs), allows AIA to increase significantly the level of assurance it provides.
- AIA has read-only access to the Dealing platform, SWIFT messages and the external web sites used by clients to obtain information on funds distributed by the Entity

2.14 COMPLIANCE DEPARTMENT

The Compliance Department reports to the Bank's General Management and is divided into two Units, both under the guidance of the Global Compliance Director. One of the units is specialized in Compliance matters and the other is specialized in Prevention of Money Laundering and Terrorist Financing.

2.14.1 COMPLIANCE DEPARTMENT RESOURCES

By the end of 2015, the Compliance Department of Allfunds Bank Group was divided into two separate units both under the direction of the Global Head of Compliance. One of the units is specialized in Compliance matters (the Regulatory Compliance Unit) and the other is specialized in Anti-Money Laundering and Countering Financing of Terrorism matters (AML/TF Unit). The Compliance & AML/CFT Units of Allfunds Group is formed by 14 professionals with a background of at least 10 years of experience in Compliance duties. This team is based in different locations covering every delegation of Allfunds Group: Spain, Italy, Luxembourg and Singapore.

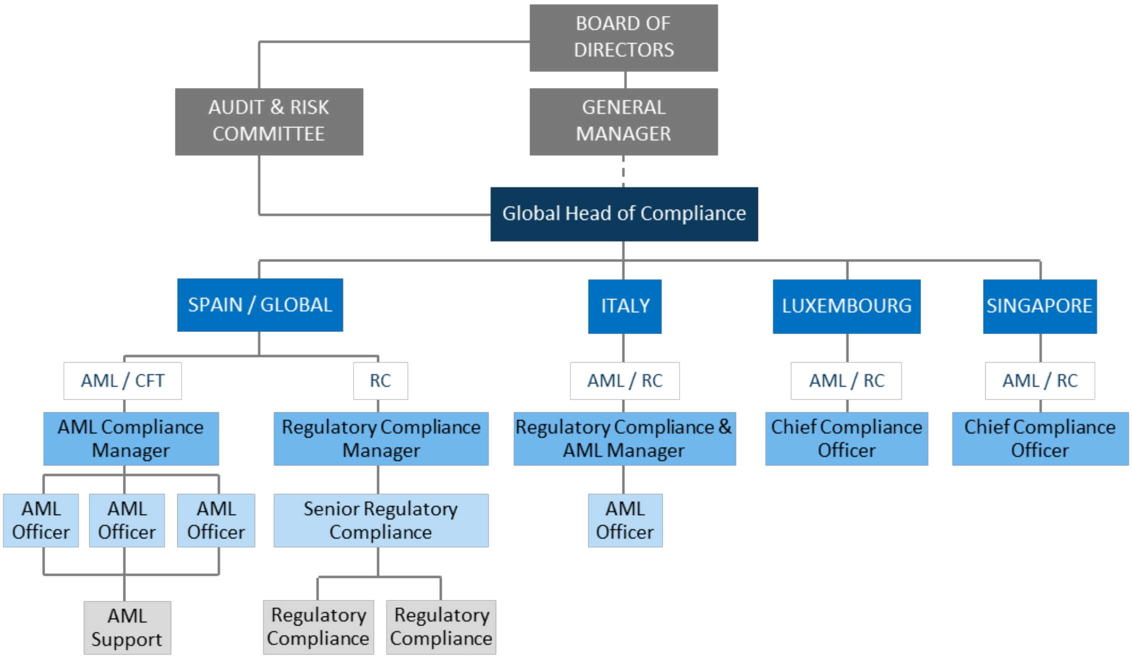
The Compliance Department depends hierarchically on the Chief Executive Officer of the Entity and reports at least, on a quarterly basis to the Risk and Audit Committee and on an annual basis to the Board of Directors.

2.14.2 OBJECTIVES AND FUNCTIONS ASSIGNED TO COMPLIANCE DEPARTMENT

The main purpose of the Regulatory Compliance Unit is to ensure the proper and independent implementation of regulatory compliance, fostering a culture of compliance within the Company, drawing up policies or preparing procedural manuals for the various business areas, as well as communications and training actions necessary for an adequate knowledge and awareness among employees according to the business strategy.

The unit is configured as both a unit of advice to senior management and to staff and as a monitoring and control unit being independent of the units whose activities supervises.

Figure 7. Compliance Department organzation



3. CAPITAL

3. CAPITAL

3.1 CAPITAL MANAGEMENT AND ADEQUACY

The objective in managing the bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory and stress-test related requirements.

3.2 PILLAR I REGULATORY CAPITAL

3.2.1 INFORMATION ON OWN FUNDS

In Title I of the Second Part of the CRR, the different levels of capital that will constitute the Entity's own funds under the solvency regulations are defined, as well as those items that comprise them.

Regulation 2016/445 of the European Central Bank establishes the options and powers that, in relation to the prudential requirements of credit institutions, the supervisor exercises, specifying among other measures the schedules of progressive application to be used at the time of compute certain items as own funds.

There are no impediments to the rapid transfer of own funds between the parent company and its subsidiaries, having into account that such transfers shall be approved by the BoD.

Table 3. Qualifying own funds. AFB Group

Amounts (Thousand Euros)	31.12.16	31.12.17
CET1	149,943	144,964
Tier 1 additional	-	-
TIER 1	149,943	144,964
TIER 2	12	10
CAPITAL TOTAL	149,955	144,974
APRs	661,070	801,520
CET1 ratio	***22.68%***	***18.09%***
Tier 1 ratio	***22.68%***	***18.09%***[5]
Total Capital ratio	***22.68%***	***18.09%***
Leverage ratio	***16.12%***	***9.99%***

Source: AFB Group, 2017

Table 4. Details - Qualifying own funds. AFB Group

Amounts (Thousand Euros)	31.12.16	31.12.17
CET1 Instruments	**156,771**	**156,450**
Shareholders' equity	220,689	231,708
Capital	27,041	27,041
Profit	69,074	75,258
Reserves and others	124,574	129,409
Minority interests and unrealised gains/losses	-	-
Adjustments of comput. of minority int. and unrealised g/l	-	-
Other adjustments	(63,918)	(75,258)
Deductions from CET1	**(6,828)**	**(11,486)**
Intangible assets	(5,099)	(7,541)
Financial investments	-	-
Deferred tax assets	-	-
Other CET1 deductions[6]	(1,729)	(3,945)
CET 1	**149,943**	**144,964**
AT1 Instruments	-	-
TIER 1	**149,943**	**144,964**
T2 instruments	**12**	**10**
Financing of subordinated issues	-	-
Generic provisions and excess of provisions IRB	12	10
T2 deductions		
TIER 2	**12**	**10**
TOTAL CAPITAL	**149,955**	**144,974**

Source: AFB Group, 2017

[5] CET1 ratio of 25.45% including the audited 2017 net profit

[6] Free deliveries, in accordance with Art. 379(3) of the CRR

3.2.2 INFORMATION ON CAPITAL REQUIREMENTS

Title II of the Second Part of the CRR defines the capital requirements for credit risk, Title III refers to the requirements of own funds for operational risk and Title IV to the requirements of equity for market risk. In the following Titles the requirements of own funds for settlement risk and for credit adjustment risk are specified.

The minimum amount of capital the supervisory authority requires the entity to hold to safeguard its solvency, based on the amount of risk assumed, in terms of credit, market and operational risk.

Table 5. Overview of RWAs (EBA Template OV1). AFB Group

Amounts (Thousand Euros)	RWA 31.12.16	RWA 31.12.17	Minimum capital requirements
Credit risk (excluding counterparty credit risk)	**381,445**	**484,182**	**38,735**
Standardised Approach (SA)	381,445	484,182	38,735
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	**9,150**	**0**	**0**
Standardised Approach (SA)	9,150	0	0
Internal Model Approaches (IMM)	-	-	-
Operational risk	**270,475**	**317,338**	**25,387**
Basic Indicator Approach	270,475	317,338	25,387
Standardised Approach	-	-	-
Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	**-**	**-**
Floor adjustment	**-**	**-**	**-**
Total (1)	**661,070**	**801,520**	**64,122**

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

Source: AFB Group, 2017

3.2.3 CAPITAL BUFFER

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:

- From 1st January 2016 to 31st December 2016: 0.625%.
- From 1st January 2017 to 31st December 2017: 1.250%.
- From 1st January 2018 to 31st December 2018: 1.875%

As of 31 December 2017 the countercyclical buffer for AFB Group[7] was at 0.00145% 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.

Table 6. Geographical distribution of credit exposures relevant for the calculation of countercyclical capital buffer. AFB Group

Exposures	Specific buffer
Total	**0.00145%**
Spain	0.00000%
Italy	0.00000%
United Kingdom	0.00000%
Germany	0.00000%
Andorra	0.00000%
Saudi Arabia	0.00000%
Austria	0.00000%
Belgium	0.00000%
Canada	0.00000%
Chile	0.00000%
Denmark	0.00000%
United Arab Emirates	0.00000%
France	0.00000%
India	0.00000%
Ireland	0.00000%
Luxembourg	0.00000%
Mauricio	0.00000%
Netherlands	0.00000%
Portugal	0.00000%
Singapore	0.00000%
Sweden	**0.00079%**
Switzerland	0.00000%
Usa	0.00000%
Hong Kong	**0.00005%**
Guernsey	0.00000%
Colombia	0.00000%
Mexico	0.00000%
Isle Of Man	0.00000%
Brasil	0.00000%
Finland	0.00000%
Japan	0.00000%
Bahrain	0.00000%
Uruguay	0.00000%
Estonia	0.00000%
Malta	0.00000%
Norway	**0.00055%**
Argentina	0.00000%
Australia	0.00000%
Panama	0.00000%
Qatar	0.00000%
Cayman Islands	0.00000%
Iceland	**0.00005%**
Kuwait	0.00000%

Source: AFB Group, 2017

[7] As of 31 December 2017 the countercyclical buffer for LHC4 (UK) Limited was at 0.00142% on RWA. The Geographical distribution of relevant credit exposures for the calculation of the countercyclical capital buffer is included in Annex 1.

3.2.4 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 Regulation 2015/62) 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.

BCBS revised the definition of the leverage ratio in 2017. In particular, a series of technical adjustments were made to the method for calculating total exposure (the denominator of the leverage ratio), mainly relating to exposure to derivatives and the treatment of offbalance sheet exposure. The final calibration of the leverage ratio was set at 3% for all institutions.

Banks must implement the final definition of the leverage ratio and comply with the new calibration of the ratio (the additional surcharge for G-SIBs) from January 2022.

The leverage ratio as of 31 December 2017 was as follows:

Table 7. Leverage ratio

Indicator	Current level
Leverage Ratio AFB Group	9.99%

The following Tables show the relevant information as of 31st December 2017 required by the Commission Implementing Regulation (EU) 2016/200 of 15th February 2016.

Table 8. Leverage ratio. Details. AFB Group

Leverage ratio. Breakdown (Thousand Euros)	CRR leverage ratio exposures 31.12.2016	CRR leverage ratio exposures 31.12.2017
On-balance sheet items	936,389	1,461,883
- Asset amounts deducted in determining Tier 1 capital	-6,828	-11,486
Derivatives	639	479
Securities Financing Transactions (SFTs)	0	0
Off-balance sheet items	0	0
Leverage ratio		
Tier 1 capital (numerator)	149,943	144,964
Total exposure measure (denominator)	930,200	1,450,876
Leverage ratio	**16.12%**	**9.99%**
Minimum requirement	3.00%	3.00%

Source: AFB Group, 2017

Table 9. Leverage ratio pl. AFB Group

Table LRSpl: Split-up of on balance sheet exposures (exduding derivatíves and SFTs)		
EU-1	**Total on-balance sheet exposures (exduding derivatrves, SFTs, and exempted exposures), of which:**	**1,461,883**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1,461,883
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	348,348
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	791,590
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	358
EU-10	Corporate	8,264
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	313,322

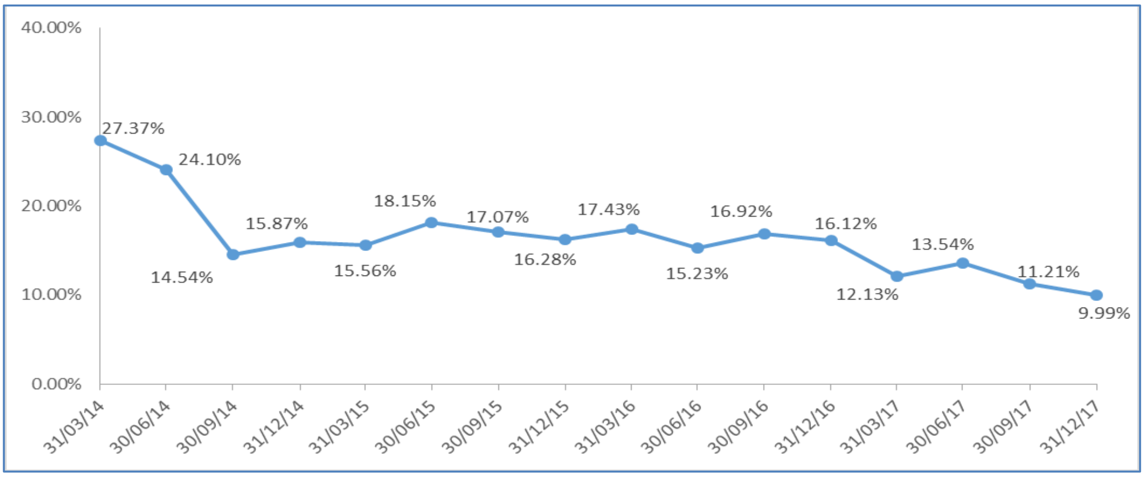
Source: AFB Group, 2017

Table 10. Publication of information on qualitative aspects. AFB Group

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 department and the management. The monitoring of this ratio is performed within the wider monitoring of the entity's solvency levels and includes 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	The leverage ratio shows a decrease from 16.12% as of year-end 2016 to 9.99% as of year-end 2017. The main reason is the high increase of the balance sheet, mainly due to higher balances from clients' balances at the bank. The higher exposure has not generated a higher credit risk profile, because the money is held in liquid assets at sight. However there is a dilution effect due to the fact that regulatory own funds remained close to the level of the previous year.

Source: AFB Group, 2017

Figure 8. Evolution of the leverage ratio (AFB Group)



Source: AFB Group, 2017

In spite of the decreasing pattern of the leverage ratio shown in the chart, this ratio has been closely monitored in order to align it with the target level set in the risk appetite statement of the company, around 10%.

3.3 PILLAR II ECONOMIC CAPITAL. CAPITAL PLANNING & STRESS TEST.

Economic capital is the capital needed to support all business risks with a certain level of capital adequacy.

The Entity calculates Pillar II capital demand using Economic Capital (EC) on a going concern methodology based on an internal estimate of capital requirements based on its risk profile

Capital planning

The implemented capital planning process aims at guaranteeing the adequacy of current and future capital, including under very adverse economic scenarios. To accomplish this, based on the Entity and affiliates' initial status (Financial Statements, their capital base and their regulatory ratios), and plugging in the estimated results, a three-year solvency projection for the Entity and its affiliates is obtained.

Stress test

Allfunds Bank Group has stress tests as part of ordinary risk management to assess the impact on capital and profitability of hypothetical stress scenarios. The programme analyses the types of risk collectively assumed by the Entity during its activities and analyses risk factors separately. In particular, emphasis is set in the following material risks:

- **Credit risk**
- **Market risk**
- **Operational risk**
- **Interest rate risk**
- **Liquidity and funding risk.**

This programme takes into consideration the relations between different types of risk.

The Stress Tests Programme includes both stress tests based on a disaggregate approach (risk factors are considered independently) and an aggregate approach (scenarios that combine different risk factors are applied). It also includes a reverse stress test based on the impairment of the Entity's solvency ratios.

Lastly, the Programme includes a series of interventions to easily adjust the assumptions. Thus, the definitions of the scenarios are adapted to the complexity of the Entity's operations and include contingency procedures, in accordance with the level and severity of the assumed risks.

3.4 RECOVERY AND RESOLUTION PLANS

Following the divestiture of Allfunds Bank Group from Banco Santander S.A., Allfunds Bank Group is working on the elaboration of the Recovery Plan, which is planned to be presented to the Bank of Spain no later than 30th September 2018.

Regarding the Resolution Plan, Allfunds Bank Group has already sent the information package requested by the Bank of Spain with the aim of elaborating its Resolution Plan.

4. CREDIT RISK AND COUNTERPARTY CREDIT RISK

4. CREDIT RISK AND COUNTERPARTY CREDIT RISK

4.1 DEFINITION

Credit Risk quantifies the losses derived from the potential breach of financial obligations by the borrowers. Said quantification is performed based on the expected and unexpected loss.

Credit risk arises from the possibility of losses stemming from the failure of customers or counterparties to meet their financial obligations.

4.2 LIMITS AND DIVERSIFICATION

Two types of limits are defined for each client:

- A settlement risk limit, based on the calculation of credit exposure (risk position) applied to each and every client that has executed an intermediation contract with the Entity. The definition of the credit exposure limit is based on the internal rating assigned to the counterparty.
- A credit risk limit, in addition to the previous one, whose purpose is to control the maximum allowed overdraft in a cash account. This limit applies to all clients with a cash account with the Bank and has effective procedures as defined by Allfunds Bank's Department of Operations. For clients settling transactions through "omnibus" accounts the maximum overdraft limit is zero. The overdraft procedures to be applied are analogous to those applied to cash accounts.

The Entity can´t accept as customers those without an acceptable rating, within a scale from Tier 1 (best) to Tier 4 (worst).

4.3 STRUCTURE AND ORGANIZATION OF THE CREDIT RISK

The credit risk management function will be managed within the Entity by the Risk Management department.

The main mission of the Risk Management department is to control, monitor and manage the risks arising from the business activity of the Entity.

4.4 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 Management department to know at any time the credit limits consumption by counterparty.

Besides, on a daily basis the Risk Management Department 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.

4.5 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 activity 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 BoD subject to a limited risk acceptance framework, is deposited in deposits in central banks, current accounts at sight, "overnight" deposits or long and short term deposits (with no penalty for early cancellation) with entities of high credit quality.

At December 31st 2017 this liquidity was deposited in the following entities:

Table 11. Credit ratings

Entity	Rating
Kingdom of Spain	BBB+/Baa2/BBB+
Republic of Italy	BBB/Baa2/BBB
Grand Duchy of Luxembourg	AAA/Aaa/AAA
Banco Santander S.A.	A-/A3/A-
BBVA S.A.	BBB+/Baa1/A-
Caixabank S.A.	BBB/Baa2/BBB
Banco Sabadell S.A.	BBB-/Baa3/NR
Bankinter S.A.	BBB/Baa2/NR
JP Morgan Chase Bank N.A.	A+/Aa3/AA-
Citibank N.A.	A+/A1/A+
DBS Bank Ltd.	AA-/Aa1/AA-
State Street Bank International GmbH	AA-/NR/NR
UBS Group AG	A-/NR/A+
Banque Internationale à Luxembourg	A-/A2/BBB+
Intesa Sanpaolo S.p.A.	BBB/Baa1/BBB
Bancolombia	BB+/Baa2/BBB

Source: S&P Capital IQ, Moody's & Fitch Ratings

Capital requirements, with the standardized approach, have been calculated according to the CRR, Section 2 Risk Weights.

Exposures to Central Banks (Bank of Italy, Bank of Spain and Central Bank of Luxembourg have been assigned a 0% risk weight).

The Bank has used credit ratings from nominated ECAIs (S&P and Moody's). Thus, Article 120 (1) (2) and Articule 131 have been applied for exposures to rated institutions.

Article 136 refers to the EBA, EIOPA and ESMA implementing technical standards in order to identify the credit quality steps with the relevant credit assessments of the ECAI ('mapping').

Table 12. Mapping of external rating to credit quality steps

	CQS	S&P	Moody's	Fitch	Maturity < 3 months	Maturity > 3 months
LONG-TERM CREDIT RATING	1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%
	2	A+ to A-	A1 to A3	A+ to A-	20%	50%
	3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	20%	50%
	4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	50%	100%
	5	B+ to B-	B1 to B3	B+ to B-	50%	100%
	6	Lower than B-	Lower than B3	Lower than B-	100%	150%
SHORT-TERM CREDIT RATING	1	A-1+, A-1	P-1	F-1+, F-1	20%	
	2	A-2	P-2	F-2	50%	
	3	A-3	P-3	F-3	100%	
	4	Lower than A-3	NP	Lower than F-3	150%	
	5				150%	
	6				150%	

Source: own elaboration, 2017

4.6 CREDIT RISK ADJUSTMENTS

A financial asset is considered to be impaired[8] when there is objective evidence that events have occurred which:

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

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

Impairment losses on debt instruments classified as loans and receivables, and available-for-sale financial assets are estimated and recognised as set forth in Annex IX of Bank of Spain Circular 4/2004. In order to estimate specific allowances for doubtful exposures and general allowances for standard exposures, the Group uses the alternative solutions (allowance percentages that depend on the risk characteristics of the various transactions) included in Annex IX, which were calculated by the Bank of Spain based on industry information and its accumulated experience and updated in 2016 following the publication of Bank of Spain Circular 4/2016.

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

In accordance with Circular 4/2016 of the Bank of Spain, the Entity 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 due to the holder's default: this includes the amount of debt instruments, regardless of their holder and guarantee, that have any amount due for principal, interest or contractually agreed expenses, that are more than 90 days old, unless it is appropriate to classify them as writte-off. Also included in this category are guarantees granted when the guarantor is in default on the guaranteed transaction.
- This category shall include the amounts of all the operations of a holder when the operations with amounts past due more than 90 days old are greater than 20% of the amounts pending collection.
- 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 holder's default: debt instruments, past due or not, which are not classifiable as write-off or doubtful due to holder's default, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. This category also

[8] Therefore its carrying amount is adjusted to reflect the effect of impairment.

includes off-balance-sheet exposures not classified as doubtful due to holder's default whose payment by the entity is likely but whose recovery is doubtful.

- Write-off: this category shall include debt instruments, past 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 holder. 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:

Specific provision (for doubtful exposures).

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

- Over 90 days, but not exceeding 6 months: 30%
- Over 6 months, but not exceeding 9 months: 70%
- Over 9 months, but not exceeding 1 year: 80%
- Over 1 year, but not exceeding 15 months: 90%
- Over 15 months, but not exceeding 18 months: 95%
- Over 18 months, but not exceeding 21 months: 100%
- Over 21 months: 100%

Generic provision (for standard exposures)

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

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

The percentages stated below are applicable to the amount of the exposure not covered by the recoverable amount 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. As negligible risks shall be considered the following transactions:

- Transactions with central banks;
- Transactions with governments of EU countries, including those from reverse-repurchase agreements on government debt securities;
- Transactions with general governments of countries classified in group 1 for the purpose of country risk;
- Transactions on behalf of deposit guarantee funds and resolution funds, provided their credit quality is equivalent to those of the European Union;
- Transactions on behalf of credit institutions and specialized lending institutions from countries of the European Union and, in general, from countries classified as country risk group 1;
- Transactions with Spanish reciprocal guarantee companies and government agencies or enterprises from other countries classified in group 1, whose main activity is credit insurance or guarantees;
- Transactions with non-financial corporations considered to belong to the public sector as referred in rule sixty-six, paragraph 7;
- Advances on pensions or wages , provided the paying entity is a government agency and the wage or persion is direct credited to the entity:
- Advances other than loans.

Since January 1st 2018 the Bank has adjusted its accounting procedures to Circular 4/2017 regarding IFRS 15 and IFRS 9, entering into force on January 1st 2018. The new regulatory regime has a very limited impact on the Bank's financial statements, which has been estimated around EUR 200 thousand

Adjustments and impairments

As of December 31st 2017 "Receivables on demand and other" included EUR 252 thousand in respect of fees and commissions for the marketing of units in collective investment undertakings receivable at that date. This amount corresponds to **past-due but not impaired financial assets**, all of which had maturities of less than 90 days, were held with other financial companies and arose from uncollected fees from the marketing of units in collective investment undertakings and demand deposit overdrafts at that date.

Impaired assets due to credit risk amounted to EUR 327 thousand, corresponding, entirely, to the commissions of shares from Collective Investment Undertakings pending of collection at that date, all of which had maturities of more than 90 days. Considering this small amount impaired assets are residual.

Valuations adjustments to impaired assets amounted to EUR -211 thousand, that could be split in "Specific allowances for financial assets, collectively" estimated of EUR -202 thousand and "Collective allowances for incurred but not reported losses on financial assets" or "generic provision" amounting to EUR -9 thousand as at 31st December 2017.

Finally, at 31st December 2017, the Group did not hold any financial assets classified as loans and receivables and considered to be **written-off assets**, and there were no changes in this connection in those years.

Ageing of past-due exposures

The following table shows the ageing of the exposures susceptible to impairment when said exposures are past due:

Table 13. Ageing of past-due exposures (EBA Template CR1-D). AFB Group

	Gross carrying values					
Amounts (Thousand Euros)	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	252	-	-	150	65	112
Debt deposit		-	-	-	-	-
Total exposures	**252**	-	-	150	65	112

Source: AFB Group, 2017

4.7 QUANTITATIVE INFORMATION. EXPOSURE DISTRIBUTION

This section contains information on the exposures to credit risk that are broken down as follows:

Table 14. Total and average net amount of exposures (EBA Template CRB-B). AFB Group

	Exposures before CCF and CRM		
Amounts (Thousand Euros)	31.03.2017	31.12.2017	Average
Sovereigns and their central banks	322,677	348,348	379,055
Non-central government public sector entities	-	-	-
Multilateral development banks	-	-	-
Institutions/Banks	681,225	791,889	623,901
Corporates	15,381	8,444	15,410
Regulatory retail portfolios	406	358	362
Secured by commercial real state	-	-	-
Equity	193	193	193
Past-due loans	-	-	-
Higher-risk categories	-	-	-
Other assets	199,439	313,129	251,915
Total Credit Risk - SA portfolio	**1,219,321**	**1,462,361**	**1,270,835**

Source: AFB Group, 2017

Geographical exposures

The following table shows the distribution, by geographical area, of AFB Group's exposure to credit risk:

Tabla 15. Geographical breakdown of exposures (EBA Template CRB-C). AFB Group

Exposures	Corporates	Regulatory retail portfolios	Institutions Banks	Sovereigns and their central banks	Other assets	Non-central government public sector entities	Equity	Total	RWA	Capital Requirements
Total	**8,444**	**358**	**791,889**	**348,348**	**313,129**	**-**	**193**	**1,462,361**	**484,182**	**38,735**
Spain	409	341	422,707	3,904	7,010	-	-	434,371	92,364	7,389
Italy	458	-	51,931	300,631	6,263	-	-	359,283	18,100	1,448
Luxembourg	6,061	-	779	43,751	187,572	-	-	238,163	193,790	15,503
United Kingdom	372	17	100,322	-	63,251	-	-	163,962	84,040	6,723
France	102	-	130,001	-	15,119	-	-	145,222	41,221	3,298
Usa	17	-	68,847	-	226	-	-	69,090	14,012	1,121
Ireland	313	-	-	-	18,673	-	-	18,986	18,986	1,519
Germany	148	-	5,187	-	7,913	-	-	13,248	11,390	911
Switzerland	82	-	3,737	-	4,702	-	-	8,521	5,531	442
Rest	482	-	8,378	62	2,400	-	193	11,515	4,748	381

Source: AFB Group, 2017

Concentration of exposures by industry or counterparty types

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

Maturity of exposures

Table 16. Maturity of exposures (EBA Template CRB-E). AFB Group

Amounts (Thousand Euros)	<1Y	1-5Y	>5Y	Total	Total %
Sovereigns and their central banks	348,348	-	-	348,348	**23.8%**
Non-central government public sector entities	-	-	-	-	
Multilateral development banks	-	-	-	-	
Institutions/Banks	661,889	130,000	-	791,889	**54.2%**
Corporates	8,444	-	-	8,444	**0.6%**
Regulatory retail portfolios	115	234	9	358	**0.0%**
Secured by commercial real state	-	-	-	-	
Equity	-	-	193	193	**0.0%**
Past-due loans	-	-	-	-	
Higher-risk categories	-	-	-	-	
Other assets	306,168	-	6,961	313,129	**21.4%**
Total Credit Risk - SA portfolio	**1,324,964**	**130,234**	**7,163**	**1,462,361**	**100.00%**
%	**90.6%**	**8.9%**	**0.5%**	**100.0%**	

Source: AFB Group, 2017

Methodology applied

Exposures before and after the application of the risk reduction techniques are shown below:

Table 17. Standardised approach – CR exposure and CRM effects (EBA Template CR4). AFB Group

Amounts (Thousand Euros)	Exposures before CCF and CRM			RWA	RWA density
	On-balance sheet amount	Adjustments	Total		
Sovereigns and their central banks	348,348	-	348,348	0	0.00%
Non-central government public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Institutions/Banks	791,889	-	791,889	162,168	20.48%
Corporates	8,646	(202)	8,444	8,444	100.00%
Regulatory retail portfolios	368	(10)	358	268	74.86%
Secured by commercial real state	-	-	-	-	-
Equity	193	-	193	193	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	313,129	-	313,129	313,109	99.99%
Total Credit Risk - SA portfolio	**1,462,573**	**(212)**	**1,462,361**	**484,182**	**33.11%**

Source: AFB Group, 2017

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 Tables show total exposures by activity sector, following the ECAI´s criterion.

Table 18. Standardised approach (EBA Template CR5). AFB Group

Amounts (Thousand Euros)	0%	10%	20%	35%	50%	75%	100%	Total
Sovereigns and their central banks	348,348	-	-	-	-	-	-	348,348
Non-central government public sector entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	787,152	-	-	-	4,737	791,889
Corporates	-	-	-	-	-	-	8,444	8,444
Regulatory retail portfolios	-	-	-	-	-	358	-	358
Secured by commercial real state	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	193	193
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	20	-	-	-	-	-	313,109	313,129
Total Credit Risk - SA portfolio	**348,368**	**-**	**787,152**	**-**	**-**	**358**	**326,483**	**1,462,361**
%	**23.8%**	**-**	**53.8%**	**-**	**-**	**0.0%**	**22.3%**	**100.0%**

Source: AFB Group, 2017

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

Table 19. Standardised Approach: RWAs by asset classes and risk weights. AFB Group

Amounts (Thousand Euros)	0%	10%	20%	35%	50%	75%	100%	RWA
Sovereigns and their central banks	0	-	-	-	-	-	-	0
Non-central government public sector entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	157,431	-	-	-	4,737	162,168
Corporates	-	-	-	-	-	-	8,444	8,444
Regulatory retail portfolios	-	-	-	-	-	268	-	268
Secured by commercial real state	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	193	193
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	0	-	-	-	-	-	313,109	313,109
Total Credit Risk - SA portfolio	**0**	**-**	**157,431**	**-**	**-**	**268**	**326,483**	**484,182**
Capital Requirements for Credit Risk (1)	**0**	**-**	**12,594**	**-**	**-**	**21**	**26,120**	**38,735**

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

Source: AFB Group, 2017

4.8 COUNTERPARTY CREDIT RISK

The CRR describes counterparty credit risk as the risk a counterparty to a transaction could default before the final settlement of the transaction's cash flows. It includes the following transaction types: derivative instruments, repurchase agreements, securities or commodities lending, long settlement transactions and margin lending transactions.

Having into account the definition stated above, counterparty risk is not considered material for the Entity. Capital is not provided.

4.9 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 offbalance 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 excess liquidity of the Entity is deposited in current accounts in entities of high credit quality. The only exposure, therefore, is the financial sector, specifically in highly solvent entities. The Entity follows a criterion of reducing the exposure to concentration risk, diversifying the counterparts so as not to incur additional capital needs for this risk. For the grouping and calculation of the concentration indices, the entity is subject to the guidelines established by the EEC under the fourth "large exposures". Non-individual exposures, including all types of credits and variable investments, may not exceed the smallest amount between 100% of regulatory own funds or 150 million.

At 31st December 2017 no exposure was above the previous limit. According to the activity the Bank carries out (fundamentally CIIs distribution and subcustodian 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.

5. MARKET RISK

5. MARKET RISK

5.1 DEFINITION

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

5.2 LIMITS AND DIVERSIFICATION

The Entity has not set limits due to the fact that it does not allow investments and the market risk is practically non-existent and, therefore, aligned with the risk appetite.

5.3 STRUCTURE AND ORGANIZATION OF MARKET RISK

Market risk will be managed within the Risk Management department and treasury.

The Board has established an investment policy for which no financial investments can be made, to avoid market risk.

5.4 REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

On a daily basis the Risk Management department reports the Finance department about the exposure to foreign currency, requiring measures, if applied, to mitigate the risk. Decisions are adopted by the Finance Department, with notification to the Chief Executive Officer only if exposures are over the limit.

Monitoring and control of the Balance Sheet exposure to currency risk is carried out daily whereby the Entity´s software “Equation” is used which allows monitoring risk levels continuously in order to assure adequate decision-making always before acquiring undesirable risk exposures.

5.5 OWN FUNDS REQUIREMENTS FOR MARKET RISK

There are no positions on- or off-balance sensitive to be affected by variations in interest rates or prices. As an exception to this principle, the Entity keeps a HQLA portfolio to comply with the Liquidity Coverage Requirements. The Board of Directors approved the acquisition of short-term and liquid sovereign debt for this purpose (keeping this portfolio at maturity). The exposure of this HQLA portfolio to interest rate or market price changes is considered low as they are short-termed, euro denominated and Euro-zone based sovereign references. As of December 31st 2017 no exposure to sovereign debt was kept, all exposures being with central banks.

As a complementary activity to the CIIs intermediation/distribution, foreign currency exchange services are offered to those clients who wish to acquire CIIs shares (subscriptions) or receive the reimbursement product of CIIs shares (redemptions) in a currency distinct to the CII.

In addition, operations of an opposite nature will be closed in pairs of foreign currency and maturity in front of the treasury desk (front office) of Banco de Santander S.A., JP Securities Plc or Goldman Sachs International. Therefore, the exchange rate risk is hedged.

The Entity has assets and liabilities on the balance sheet in foreign currency other than the euro, being these positions inherent to its activity. The General Management, as proposed by the Risk department, has established a maximum exposure limit ("short" or "long") to this risk that is renewed annually.

As at 31st December 2017 there were no capital requirments against market risk, in accordance to the CRR.

6. OPERATIONAL RISK

allfunds BANK

Leaders in Open Architecture

6. OPERATIONAL RISK

6.1 DEFINITION AND OBJECTIVES

AFB defines operational risk as the "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events". Operational Risk is inherent to all activities, processes and systems and generated by all business and support areas. For that reason, all employees are responsible for the management and control of operational risks generated in their area. Within this type of risk, at least the following subcategories are identified:

- Conduct Risk: Risk derived from suffering losses due to inadequate delivery of financial services to clients, including cases of inappropriate or negligent behavior.
- Legal and Compliance Risk: Risk associated to the possibility of legal contingencies that affect AFB's business, as long as they are not related to clients (in which case they would fall within the Conduct Risk).
- ICT Risk: Any risk related to information technology (availability and continuity risks, security risk, change risk, data integrity risk, etc.)
- Outsourcing Risk: Risk derived from a third party or another Group entity (intra-group outsourcing), providing IT systems or related services adversely with impact on AFB's performance and risk management.

Within this risk, AFB considers not only financial impacts but also regulatory, reputational, on client and business impacts.

The objective of AFB in the control and management of operational risk is focused on the identification, assessment, monitoring, control, mitigation and communication/reporting of this risk. The priority of AFB is, therefore, to identify and mitigate sources and root-causes of operational risk regardless of whether they have caused losses or not. Then, integrating the management of this risk within the AFB's business strategy is a key priority.

During the 2017 exercise, AFB has promoted the improvement and evolution of the operational risk management model through different iniciatives mainly drived from the Corporate Risk Management area, among which the most important is the creation of a dedicated corporate operational risk unit within Risk Management unit.

6.2 OPERATIONAL RISK MANAGEMENT AND CONTROL MODEL

6.2.1 OPERATIONAL RISK MANAGEMENT CYCLE

The different stages of the operational risk management and control model seek:

- To identify the inherent risk to all the AFB's activities, services, processes and systems.
- To define the target profile and the strategies per unit and time horizon by establishing the operational risk appetite and tolerance, the annual projection of operational risk losses and their follow up.
- To promote the operational risk culture and the involvement of all employees, through appropriate training to all areas and levels throughout the organization.
- To measure and assess the operational risk in an objective, continuous and consistent manner with regulatory standards (Bank of Spain, Basel, EBA, etc.) and industry.
- To perform a continuous monitoring of operational risk exposures, to implement control procedures, improve the internal control environment and mitigate losses.
- To establish mitigation measures to eliminate or minimize the operational risk.
- To prepare periodic reports on the operational risk exposure and control level to the BoD and Senior Management, as well as Regulatory bodies.
- To define and implement the necessary methodology to estimate the internal capital requirements in terms of expected and unexpected losses.

For each key process previously described, it is necessary:

- To define and implement tools to monitor and control the operational risk exposures, which are integrated into the daily management at AFB, taking advantage of existing technology and seeking the maximum automation of processes.

- To define and document the policies and procedures for the management and control of operational risk, and implement internal methodologies and toold to manage this risk according to regulations and best practices.

The operational risk management and control model implemented by AFB provides the following capabilities:

- It promotes the development of an operational risk culture.
- It allows an integral and effective management of operational risk (identification, evaluation, control /mitigation and information).
- It improves the knowledge about both potential and effective operational risks, and their allocation to the business and support units.
- Operational risk information contributes to the improvement of processes and controls, reducing losses.
- It facilitates the definition of the operational risk appetite limits.

6.2.2 IDENTIFICATION, MEASUREMENT AND RISK ASSESSMENT MODEL

In order to carry out the identification, measurement and evaluation of operational risk, a set of corporate tools /methodologies have been defined within the operational risk framework, both quantitative and qualitative, to be combined in order to make a diagnosis based on risks identified and to get an assessment through the evaluation of every area.

The quantitative analysis is mainly carried out through tools that record and quantify the potential level of losses associated to operational risk events:

- Internal database of operational risk events: its objective is to capture all the operational risk events at AFB with no exclusions regarding the amount, and it contains both events with economic/financial impact (including positive impacts) and non-economic/non-financial impact. In addition, there is an accounting reconciliation process to guarantee the completeness and quality of the information collected in the database. Most relevant events of AFB are specially documented and reviewed.
- Analysis of operational risk scenarios: the objective is the evaluation of the impact of potential events with a very low probability of occurrence but which, in turn, could suppose a very high loss at AFB, using the opinion of business/support areas and other subject matter experts, as well as the risk and control functions. This analysis also identifies additional controls and mitigation measures that could reduce the ocurrence of a high economic impact. In 2017 only punctual scenarios have been carried out exclusively within the Risk Management area.
- External database of operational risk events: the benefits of using external databases that provide quantitative and qualitative information about operational risk events in banking services has been raised in order to get a better analysis of relevant events and help to carry out an adequate preparation of scenarios exercise. During 2018, AFB's participation in an international consortium will be valued.
- Capital requirements calculation for operational risk: AFB uses the basic indicator method.

The tools defined for qualitative analysis try to evaluate aspecs (in terms of coverage/exposure) linked to the risk profile, capturing the existing control environment. These tools are fundamentally:

- Risk and Control Self-Assessment (RCSA): this exercise is defined as the qualitative process that allows, through the criteria and experience of a set of experts in each function, to determine the main operational risks in every unit and assign them to the different functions. The purpose of the RCSA is to identify and evaluate material operational risks that could prevent the business or support areas from achieving their objectives, it means, to evaluate these risks in inherent and residual terms, evaluate the design and performance of controls and define mitigation measures in case the risk levels are not acceptable by the Senior Management.

The RCSA exercise is new at AFB and evolves the previous self-assessments campaigns that were mainly focused on completing the ISAE 3402 Report (assurance standard). It was started in October 2017 and it is estimated to be completed during 2018. In addition to comply with *best practices* recommendations in operational risk management, the objective is to establish a continuous process of self-assessment of this risk, so that material risks are evaluated at least once a year. This process combines expert judgment and participation in workshops, in which all interested parties participate, especially the first lines of defense responsible for the risks and controls, as well as the Risk Management area that acts as facilitator with a neutral and challenging role supporting and supervising the entity to get the expected results. Moreover, the Operational Risk function is promoting the RCSA exercise within the control areas: second lines of defense (Risk Management, IT Risk and Compliance) and third line of defense (Internal Audit).

- Corporate key risk indicators (KRIs): set of metrics and alerts of different nature which provide information on the risk exposure and the internal control environment. These indicators are reviewed periodically to alert about changes that may be revealing potential threats. During 2017, AFB has reviewed the existing indicators and due to the recent organizational changes, has identified the need to define new corporate indicators in all areas and functions, from the first lines of risk management, in order to monitor the main risk sources at AFB. Those indicators more representative of risk level will be part of the metrics on which the operational risk appetite is defined.
- Regulators and internal audit recommendations: it provides relevant information on inherent risk and allows the identification of weaknesses in controls.
- Client complaints: the follow-up of the claims and, above all, the detection of its root-causes will provide relevant information to identify and measure the level of risk at AFB.

Other specific tools that allow a more detailded analysis of technological risk (e.g. critic incidents and cybersecurity events, etc.) and the evaluation of risks associated to the management processes of technological infrastructure, the acquisition and development of solutions, control on information security and IT governance. During 2017, the Operational Risk function has defined the *Terms of Reference* with IT Risk to formalize the communication channel between both areas since they are separated, and where the needs/requirements on ICT management are listed within the operational risk framework.

6.2.3 IMPLEMENTATION OF THE OPERATIONAL RISK MODEL AND INITIATIVES

At the end of 2017 some units were still pending to be incorporated into the operational risk model mainly due to the recent changes in the organizational structure, the appearance of new corporate areas and new developments introduced in the operational risk framework. Additionally, the pace of implementation of the model is not being homogeneous between the different countries, with the fastest progress taking place in the corporation where most of the units are global functions. During 2017 AFB has promoted and improved its approach to operational risk management as part of its transformation process. The objective is, on the one hand, to consolidate the operational risk management framework and, on the other hand, to achieve the best market prectices and leverage the monitoring of an integrated and consolidated operational risk profile to direct, proactively, the business strategy and the tactical decisions. The framework has been structured in key work-lines and new iniciatives (appetite, RCSA, metrics, etc.) to focus the improvements, which are estimated to be concluded during 2018, and thus extend the global framework to the local units later. For an adequate monitoring of the framework progress, a governance has been established at the highest level of the organization.

The main activities and global iniciatives that have been adopted in order to ensure the effective management of operational risk are:

- Implementation and development of the new operational risk framework, policies and procedures both in the global unit and local units (countries).
- Designation of coordinators responsible for operational risk within the different areas of first line of defense.
- New definition of a set of operational risk taxonomies (risks, controls, root cause) that allow a more granular, complete and homogeneous risk management throughout the whole organization.
- Definition of a new operational risk appetite scheme which allows a greater granularity in the risk tolerance of AFB's top risks.
- Establishment of an incident escalation process that sets the criteria for the communication and escalation of operational risk events based on their relevance, which is defined according to different internal relevance thresholds depending on the nature of the impact.
- Implementation of a risk culture and training program at all levels ("tone from the top").
- With IT Risk area, promotion of mitigation plans on aspects of special relevance (information security, cybersecurity, control of suppliers, etc.), improvements in contingency and business continuity plans and, in general, in crisis management.

In the particular case of control on suppliers mentioned above, an AFB's outsourcing policy has been approved in 2017. AFB's Legal, Compliance, IT Risk and Risk Management areas worked on its definition in order to adapt the current processes to the new requierements, putting a special attention on:

- Identification, assignment and communication of roles and responsibilities.
- Training and awareness of risks associated with suppliers and third parties.
- Definition and monitoring of indicators.
- Development and maintenance of updated inventories of critical service suppliers.

AFB continues working on the implementation of an outsourcing model, reinforcing and homogenizing the activities to be developed throughout the suppliers and third parties management cycle.

Another new iniciative considered in 2017, at second line of defense level, is the implementation of a GRC (Governance, Risk and Compliance) tool for global risk management. During 2018, AFB will evaluate the best provider according to its size and needs.

6.2.4 OPERATIONAL RISK INFORMATION AND REPORTING

AFB supports operacional risk information through:

- Internal data collection of operational risk events (both global and local)
- Set of taxonomies (operational risks, root-causes and controls)
- Corporate template (risk map) of processes, risks and controls by area currently being updated by the RCSA exercise.
- Set of operational risk appetite indicators and KRIs.
- Policies, procedures and guidelines describing the internal methodology at AFB.
- Different formats of internal reporting information depending on the destination: BoD, Risk Committee, ExCo, etc.
- Official external reporting templates (regulatory information)

As mentioned in the previous section, AFB is moving on the implementation of a GRC tool for global risk management which will automate the operational risk information system (events registration module, RCSA module, metrics module, mitigations plans module, etc.) and reporting system with the purpose of improving decision making in the operational risk management process thoughout the organization. This objective is achieved by ensuring that those responsible for risks have a complete view of its own risk and have the necessary support information in a timely manner. This complete and timely view is obtained as a result of the integration of several risks and control programs, such as risk assessment, events, control evaluation and metrics with a common set of taxonomies and methodological standards. The result of this integration is a more precise risk profile and a significant improvement in efficiency avoiding redundant efforts and duplications. In addition, this tool will allow the interaction of people interest in operational risk management and system information but with specific needs or limited to a certain area. It also allows the existence of a single source of information for the different functions/areas involved in risk management.

6.2.5 TRAINING ACTIONS

AFB promotes the knowledge and awareness of operational risk within the organization at all levels, defining the most appropriate training according to AFB's needs (online courses, face-to-face courses, specific executive training, etc.).

6.3 EVOLUTION OF OPERATIONAL RISK LOSSES AND RISK APPETITE STATEMENT

Regarding the internal database of operational risk events and its consolidated infotmation, the evolution of net losses during the last three years and also during 2017 is reflected as follows:

Figure 9. Historical or net losses AFB Group (figures in EUR)

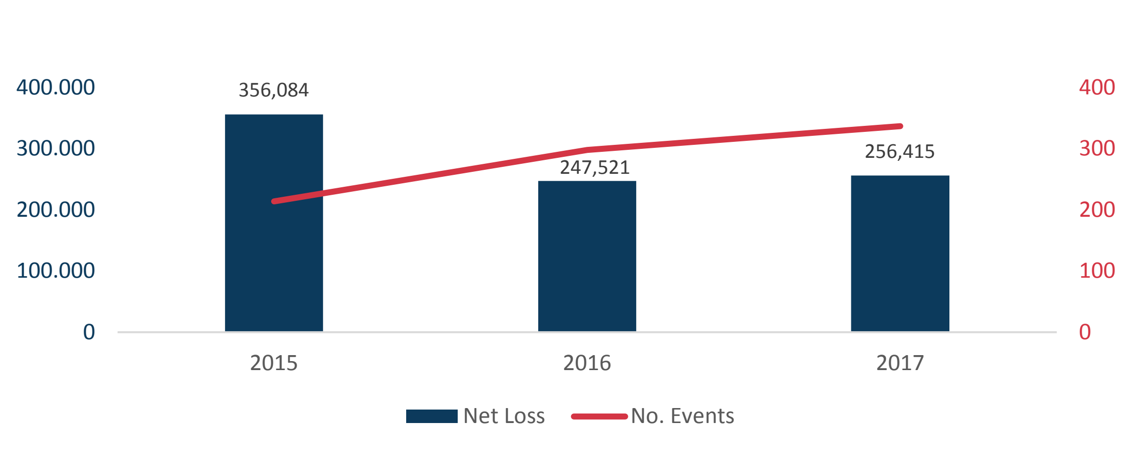
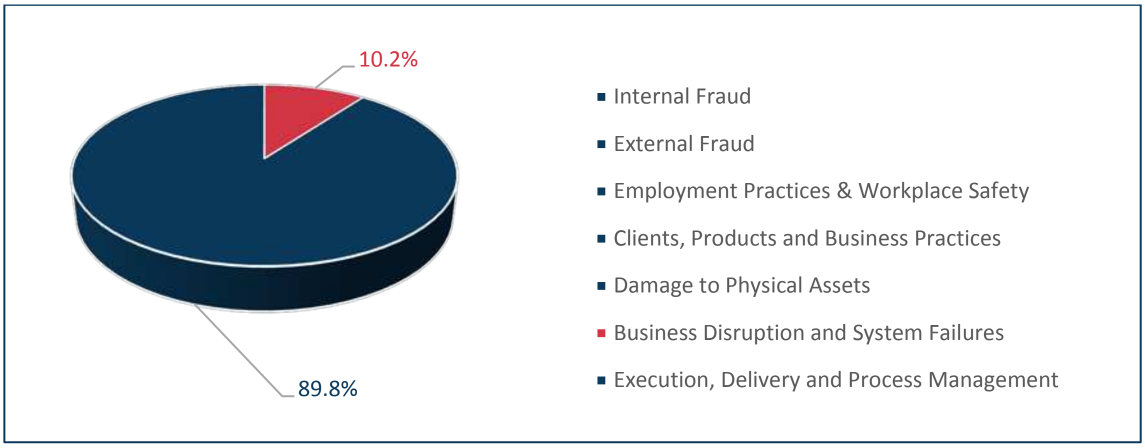


Figure 10. Distribution by type of event 2017. AFG Group

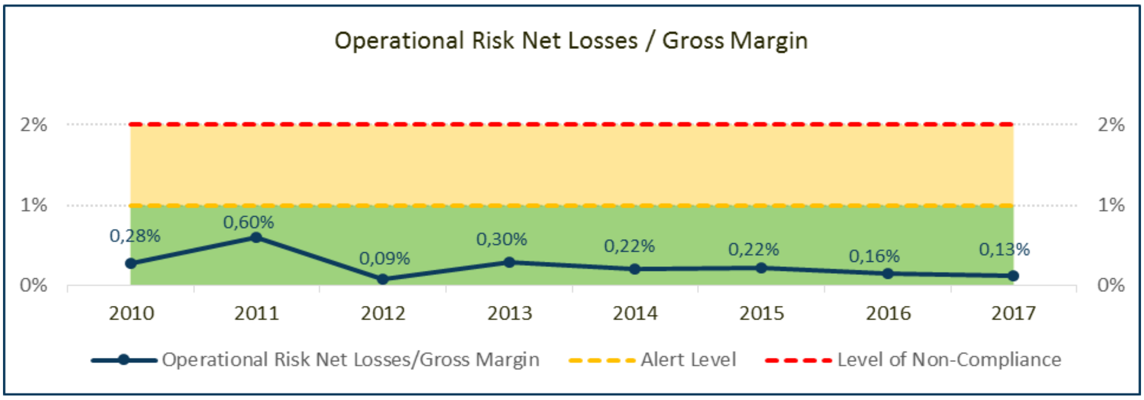


The evolution of losses by type of event shows that most of the operational losses are motivated by manual failures in processes (89, 8%) and systems failures (10, 2%) following the trend of previous years. During 2017, the most relevant event was a loss of € 65 thousand due to an incorrect parametrization of a fund calendar.

AFB has analyzed the historical evolution of the number of internal events produced and accounted and has defined a new procedure for communication and escalation of relevant events (not only due to the financial impact but also the client, business, regulatory or reputational impact) that allows a more effective channel of corrective actions. The level of concentration of relevant events over the total number of events has remained at low level.

The evolution of RAS (Risk Appetite Statement) - 'Operational Risk Net Losses to Gross Income' has remained constrained within a very narrow range of low values, supporting AFB's low risk appetite:

Figure 11. Operational risk net losses/gross margin. AFB Group



6.4 MITIGATION MEASURES AND ACTION PLANS

The operational risk control model assumes that AFB monitors the mitigation measures established in response to the main sources of risk, which have been identified through the analysis of the different tools previously described as well as the organizational model and the preventive implementation of policies and procedures for operational risk management. AFB's model integrates these mitigation measures into the internal database of operational risk events.

During 2017, the most relevant mitigation measures were focused on immediate corrective actions as well as on the improvement of systems security, the management of external fraud and the continuous improvement of processes and technology for an adequate provision of services.

Specifically, in terms of system security and fraud management, the most relevant measures have been aimed at mitigating the risk of cyber-attacks by starting the Cybersecurity Management Program, that will include measures such as: SOC (Security Opeartion Center) and SIEM (Security Information and Event Management System), DoS protection services, malware protection, DLP (data loss prevention) prevention, third party program, cyber risk surveillance, penetration tests and cybersecurity. Other measures aimed at preventing fraud refer to the application of specific rules in the tools for monitoring and detecting suspicious transactions in terms of AML. Regarding to processes and technology, AFB has been continuously improving, and subsequently implementing, corporate policies and procedures both in the first lines of defense areas and second line of defense areas, as well as the optimization of processes through the Transformation Office.

At execution level, it has been identified the need to define not only corrective actions but also preventive actions.

6.5 BUSINESS CONTINUITY PLAN

AFB has a business continuity management system to guarantee the continuity of business processes in the case of a disaster or critical incident. This objective is specified in:

- To minimize the potential damages to people and adverse financial and business impacts for AFB, arising from a disruption of normal business transactions.
- To reduce the operational effects of a disaster, providing a well predefined and flexible guidelines and procedures for its use in the resumption and recovery of processes.
- To resume business operations and associated support functions, sensitive to time, in order to achieve business continuity, profit stability and continuous planned growth.
- To protect the public image and confidence in AFB.
- To satisfy AFB's obligations to its employees, clients, shareholders and other interested third parties.

During 2017, AFB has continued to make progress in the implementation and continuous improvement of its business continuity management system. The implementation of the three lines of defense in relation to the BCP has been consolidated and new business and areas have been included in its management scope.

Furthermore, a new integral model of crisis management has been defined that implies a reinforcement of the communication protocols between the different functions involved in the decision for last escalation.

6.6 OTHER ASPECTS OF CONTROL AND MONITORING OF OPERATIONAL RISK

During 2017 the operational risk function identified the need to develop a global information system to manage this risk globally, providing data on the main risk elements at AFB and consolidating the available operational risk information from all the AFB's units (countries) with the following characteristics:

- Two levels of information: one corporate with consolidated information, and another one local individualized for each unit/country.
- Dissemination of best practices among the AFB's units/countries obtained through the combined study of the results derived from the qualitative and quantitative analysis.

Specifically, it is intended to report information on the following aspects:

- Operational risk management model both at AFB level and unit/country level.
- Scope of operational risk management.
- Monitoring the operational risk appetite metrics.
- Operational risk profile by country and by risk category.
- Operational risk capital requirements.
- Actions plans associated to the top risks.
- Distribution of losses by country and risk category.
- Evolution of losses (annual accumulated, deviation from previous years, etc.) by detection date and accounting date.
- Analysis of the internal databases and relevant events.
- Analysis of the most relevant risks identified through different sources of information, such as RCSA exercise or scenarios.
- Evaluation and analysis of key risk indicators.
- Mitigation measures and its active management.
- Business Continuity Plans and Contingency Plans.

This information serves as a basis to meet the needs on reporting to the Risk Committee and BoD, regulation and compliance, senior management, supervisors, etc.

Aditionally, AFB considers insurance management as a key element to transfer/mitigate the operational risk. During

2017, coordination between the different functions involved in the insurance management cycle that mitigate the operational risk has been strengthened, mainly Legal, Finance, IT Risk and Risk Management areas:

- Identification of all AFB's risks that can be covered by insurance, including new insurance cover for risks already identify in the industry.
- Establishment and implementation of criteria to quantify insurable risk, based on losses and scenarios analysis to determine the level of exposure at AFB.
- Analysis of the coverage available in the insurance industry as well as a preliminary design of the conditions thay best suit the needs previously identified and evaluated.
- Technical assessment of protection provided by the policy, cost and retention levels that AFB will assume in order to decide its hiring.
- Negotiation with suppliers and adjudication, according to the procedures established by AFB.
- Monitoring of incidents declared in the policies as well as those not declared or not recovered due to an incorrect declaration, establishing action protocols and specific follow up meetings.
- Analysis of the adequacy of AFB's policies to the risks covered, taking the appropriate corrective measures to the deficiencies detected.

In 2017 AFB has contracted a cyber risk policy to respond to potencial consequences derived form cyber-attacks.

6.7 OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

The capital requirements for operational risk of AFB at 31st December 2017 was € 25,387 thousand.

The Bank aims towards maximum automation of CIIs subscription and reimbursement orders management on behalf of its institutional clients. There is an ever-changing and improving environment. Defined alerts are in place which indicate the Bank areas which monitor the operations and the sending and reception of files with orders if these contain the required information and if they are sent on time and in form.

In order to assess if additional capital is required for this risk the Bank performs an estimation of future losses from operational errors with historical data back from 2009. If this amount represents more than 2% of Gross Margin in the Consolidated Profit and Loss Account, an additional 3% would be added on top of the basic indicator method requirement, to reach a weight of 18% up from the basic 15%.

As mentioned above, at 31st December 2017 the net economic impact amounted to € -256,415 represented 0.13% of Gross Margin, therefore deeming unnecessary the application of additional capital requirements to hedge this risk.

6.8 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.

6.9 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.

6.10 MODEL RISK

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

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.

7. INTEREST RATE RISK

7. INTEREST RATE RISK

7.1 DEFINITION

Interest rate risk is the possibility of losses due to the potential impact of changes in interest rates on the entity's profits or on the net value of its assets.

7.2 LIMITS AND DIVERSIFICATION

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.

7.3 OWN FUNDS REQUIREMENTS FOR INTEREST RATE RISK

Most assets and liabilities are mainly positions at sight, with a small presence of financial instruments subject to interest rate risk, which brings the Entity to affirm that there is not relevant exposure to this risk.

All accounts at sight (both assets and liabilities) are referred to a floating interest rate, applying the same reference interest to all accounts in the same currency, establishing a spread by currency among assets & liabilities at sight.

Due to the low remuneration paid on deposits in recent years (especially at sight and short term), the Entity has opted for longer terms in its euro denominated deposit investments. Nonetheless, these deposits can be cancelled at any time without additional costs. Because of short term maturities, increases on interest risks would be positive for the income statement, due to reinvestment at higher rates.

The Entity does not set internal limits to mitigate this risk due to the residual impact on its balance sheet.

On the other hand, the impact of interest rate fluctuations on its income statement (via the net interest income margin) and net equity is very low, mainly because the main source of the Entity's income comes from commissions stemming from the resulting margin between the collection of rebates from the CIIs funds management companies and the payment of part of these rebates to the institutional clients.

According to the states reported by interest rate:

Table 20. IRRBB information

IRRBB (EUR thousand)	Reduction in economic value (EUR thousands)	Σ Recurrent profit (last 3 years)	20 % Internal Capital
	464	321,904	42,597

Source: AFB Group, 2017

8. LIQUIDITY AND FUNDING RISK

8. LIQUIDITY AND FUNDING RISK

8.1 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.

8.2 LIMITS AND DIVERSIFICATION

Due the current business model of the Entity, and the low exposure to liquidity risk, the Entity 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 Entity can assure that there are no maturity gaps between assets and liabilities.

8.3 STRUCTURE AND ORGANIZATION OF THE LIQUIDITY RISK MANAGEMENT FUNCTION

The Entity follows conservative criteria in the management and dilution of losses for this risk. The liquidity risk management procedures and methodologies have been defined and diligently documented in the risk procedures manual. The procedures also provide a full coverage of the liquidity standards required by the regulator.

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 Chief Executive Officer the probability of incurring losses through not having sufficient liquid resources available to meet the obligations assumed is low.

8.4 REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

Liquidity risk management and monitoring principles assumed by Allfunds Bank Group respond to the guidelines established by the European Banking Authorities and the principles and requirements set up by the CRR through the Liquidity Coverage Ratio. In particular, the main processes implemented by the Bank include the following items:

- Liquidity ratios (LCR, NSFR and ALMM).
- Liquidity stress testing.
- Definition of a minimum level of liquid assets or liquidity buffer.
- Construction of a High Quality Liquid Assets Portfolio.

With the previous mitigation measures in place to face this risk and with the diversified buffer of liquid assets the Bank considers it is well positioned to cover any liquidity needs in a short term liquidity stress. As a result, due to the conservative liquidity management policy established by General Management, the risk of losses from not availability of sufficient cash resources to comply with the assumed obligations is quite limited.

8.5 OWN FUNDS REQUIREMENTS FOR LIQUIDITY RISK

No additional capital is deemed necessary for liquidity risk since current measures are considered adequate to prevent possible losses resulting from adverse liquidity scenarios.

Additionally, in order to face 'extraordinary' stressed scenarios, the Entity keeps a prudential buffer of liquidity in the context of the LCR, having established a target LCR ratio of 40% above the regulatory requirement, mainly allocated to central banks.

8.6 MEASUREMENT OF LIQUIDITY NEEDS

8.6.1 LIQUIDITY AND FINANCING MANAGEMENT FRAMEWORK

Allfunds Bank Group has a governance framework for liquidity and financing management approved by the Board of Directors and aimed at meeting the objectives defined by the Board, using short-term indicators such as the LCR, long in the case of the NSFR and the ALMMs which provide specific related information on the concentration of financing by counterparty, and by product type, prices according to various durations of financing and refinancing, as well as the concentration by issuer and counterparty.

This framework is articulated through an organizational structure with three lines of defense aimed at the adequate admission, monitoring, control and review of liquidity risk; with roles and responsibilities distributed among them, and among each of the different teams and people that make up them, in order to ensure proper risk management and avoid potential conflicts of interest.

In order to ensure the proper supervision of liquidity and financing risk management, the Steering Committee of the Entity is established as the delegated body by the Board of Directors of the Entity to supervise risk management on a regular basis.

8.6.2 ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible, among others, for the following aspects related to the management of the Entity's liquidity and financing, which are scaled up through the General Management:

- Approve the strategy for liquidity and funding management.
- Approve the appetite for liquidity and funding risk.
- Approve the Entity's Liquidity Risk Management and Policy Framework.

8.6.3 LINES OF DEFENCE

Liquidity and financing is managed through an organisational structure with a clear segregation of the roles and responsibilities for each of the lines of defence, with the aim of avoiding conflicts of interest and managing risk in order to comply with the risk appetite approved by the Board of Directors, as shown below:

Table 21. Lines of defence. Liquidity needs.

	1ª line of defence	2ª line of defence	3ª line of defence
Main functions	*Execution*	*Identification, measurement and control*	*Assessment, valuation and review*
Areas	**Business**	**Risks**	**Audit**
Roles & Responsibilities	-To assume day-to-day responsibility for the entity's liquidity management Managing the entity's pool of assets and daily liquidity position -To make profiTable the excess liquidity of the Entity and find the best option in the market to maintain the amount of liquid assets of high quality, thus maintaining the liquidity ratio in line with risk appetite. -Ensure compliance with the limits and indices in the operation related to the application of funds	-Analysing the liquidity position through indicators used by the Bank -Reporting to the Board of Directors in the event that the established thresholds are exceeded and analysing and advising on action plans related to liquidity and financing -Analysing the mismatches in the flows of the financing structure and the application of funds, which may arise due to their maturities -Control that there are no financing gaps by analysing the maturities of asset and liability flows. -Generate the metrics and statements required by the Bank of Spain	-Review the adequacy and relevance of controls which, inter alia, should ensure the accuracy and completeness of data and information, including the capability of the tools necessary to perform this function. -Lead the periodic review of liquidity and financing management processes in the Entity. -Ensure compliance with the policies, liquidity and financing processes and report on non-compliance with them to the Risk and Audit Committee and the Internal Risk Committee.
Cross-sectional areas	**Technology**		**Accounting**
Roles and Responsibilities	Provide disaggregated information from the source of data (Host) located on the Bank's servers, to the system that generates the accounting information.(SIC)		Generate the accounting information required by the Bank of Spain to evaluate liquidity management.

Source: Own elaboration, 2017

8.6.4 FINANCING PLAN AND LIQUIDITY INDICATORS

The Entity has a Liquidity Financing and Management Plan integrated into the Entity's Strategic and Business Plan. The principles defined in particular are the principles of liquidity risk management and monitoring applied by Allfunds Bank Group which comply with the guidelines established by the European banking authorities and the principles and requirements established by the CRR through the calculation of the LCR, NSFR and ALMM.

Liquidity risk management procedures and methodologies have been defined and diligently documented in the liquidity risk procedures manual, providing full coverage of liquidity standards required by the regulator and following conservative criteria in liquidity risk management:

- Allfunds Bank Group does not collect deposits from its customers and does not make funds applications with the customer's balance.
- Excessive liquidity is invested in interbank deposits with institutions of high credit quality, in order to mitigate concentration risk.
- The liquidity excess of the subsidiaries is sent to the parent company in Spain by means of interbank deposits with a maturity of one day (overnight) to mitigate the concentration risk, complying with the requirements established by the CRR and thus being able to have immediate availability of funds if necessary.
- The excess liquidity of the branch in Italy is placed through the parent company in Spain in overnight deposits.
- The liquidity that comes from the Entity's equity and from the flows from the Entity's business through the settlement of the orders received from customers for subscription and redemption of IICs (Distribution Portfolio) received from customers is materialised in overnight demand accounts and interbank deposits.
- In addition, fees income is also generated to funds in relation to the distribution activity of the IICs, as well as to intermediation services.
- Balances held in customers' current accounts are not intended to be fixed, but to cover the need to underwrite the subscription orders of IIC units. The Entity is prudentially stable, with maximum overdraft limits allowed in these accounts, thus minimizing the impact on the bank's liquidity risk.
- In addition, there are other balance sheet accounts (accrued and deferred income) arising from the fees receivable and payable for retrocession of the management fees of the aforementioned IICs. Commissions are charged on a quarterly basis and are payable (liabilities) after the date of collection. Therefore, the liquidity risk arising from this concept is very low. The Bank is well positioned to meet any short-term liquidity needs due to the mitigation techniques used and the diversification of its liquidity buffer.

Due to the Entity's current business model and low exposure to liquidity risk, the Entity has decided not to set limits to cover potential risks arising from operational liquidity (derived from not being able to close or close a position over time), as well as liquidity limits to hedge structural liquidity risk to maintain a minimum level of liquid assets, ensuring that there is no funding gap between the asset and liability flows.

Short-term or operating cash flow is managed by the "Banking Services" area integrated into the Operations Department and monitored by the Finance Department.

8.6.5 LIQUIDITY AND FINANCING POLICIES

The Entity has a Liquidity Risk Manual approved and updated by the Board of Administration that allows to:

- Establish the internal rules of the Entity in relation to the functions, responsibilities and committees of the various departments that are directly involved in the management or maintenance of liquidity and financing risk.
- Cover the general criteria for identifying, quantifying, monitoring, reporting and managing liquidity risk to ensure consistency between business activities,

stability of methodologies and transparency of risk.

- Define the indicators used by the Bank to monitor liquidity and financing, as well as those required by the regulators.
- Define the entity's appetite for this risk.
- Establish the principles and criteria that will shape the asset pool management.

8.6.6 MAIN LIQUIDITY INDICATORS

Liquidity risk strategy is integrated into the Entity's commercial strategy. The main indicators and thresholds defined by the Entity are shown below

Ratio	Frequency	31.12.2017
LCR	Monthly	204.31%
NSFR	Quarterly	245.23%

Source: AFB Group, 2017

Liquidity Coverage Ratio (LCR)

The LCR is the basic indicator used for liquidity management which is defined as high quality liquid assets (HQLA) to cover liquidity needs in a liquidity stress scenario of 30 calendar days, the composition at 31st December 2017 being as follows:

Table 22. LRC € thousand

Components	Amount
Liquidity buffer	342,300
L1 excl. EHQCB liquidity buffer (value according to Article 9): unadjusted	342,300
NET LIQUIDTY OUTFLOW	167,537
Total Outflows	226,483
Reduction for Inflows Subject to 75% Cap	58,946
LIQUIDITY COVERAGE RATIO (%)	**204.31%**

Source: AFB Group, 2017

Allfunds Bank fulfils both the obligation to report the index on a monthly basis and the obligation to maintain a HQLA liquidity buffer, in the form of liquidity at EU-central banks (Bank of Italy, Bank of Luxembourg and Bank of Spain).

Net Stable Funding Ratio (NSFR)

The NSFR is the core indicator used for the management of financing, which is defined as the amount of stable financing available over the amount of stable financing, which as of 31st December 2017 has the following composition:

Table 23. NSFR € thousand

Components	Esposure	Weight	Amount
• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year)	**231,698**	100%	**231,698**
• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**796,308**	90%	**716,677**

• 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)	**436,610**	0%	**0**
TOTAL AVAILABLE STABLE FUNDING	**1,464,616**		**948,375**
• Coins and banknotes	**20**	0%	**0**
• All central bank reserves	**348,348**	0%	**0**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**526,064**	15%	**78,910**
• 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	**130,000**	50%	**65,000**
• 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	**304,721**	50%	**152,360**
• NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	**139**	100%	**139**
• 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	**25,325**	100%	**25,325**
TOTAL REQUIRED STABLE FUNDING	**1,464,616**		**386,734**
NSFR			**245.23%**

Source: AFB Group, 2017

The Entity has defined other liquidity metrics to monitor liquidity (ALMM - Additional Liquidity Monitoring Indicators) that are introduced to increase effective liquidity supervision, providing a more complete picture of the Bank's liquidity position, in proportion to the nature, scale and complexity of an institution's activities.

The metrics calculated are the concentration of financing by counterparty and by product type, the prices according to different durations of financing and refinancing, as well as the concentration of countervailing capacity by issuer and counterparty.

8.7 UNENCUMBERED ASSETS

At the end of December 2017, the last available state about the encumbered assests of AFB Group was as follows:

Table 24. Unencumbered assets. AFG Group[9]

Thousand Euros	Encumbered assests		Unencumbered assests	
	On-balance sheet amount	Fair value	On-balance sheet amount	Fair value
Assets	573	-	1,464,043	-
Demand loans	303	-	737,568	-
Equity instruments	-	-	193	193
Representative values of debt:	-	-	-	-
guaranteed bonds				
asset securitization bonds				
issued by Public Administrations				
issued by financial companies				
issued by non-financial corporations				
Loans and advances other than demand loans:	270	-	404,405	-
mortgage loans	-	-	-	
Other assets	-	-	321,877	-

Source: own elaboration, 2017

[9] In 2017 LHC4 (UK) Limited presented the same data relating to the unencumbered assets.

9. OTHER RISKS

9. OTHER RISKS

9.1 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 (Risk Management, Compliance, Legal, IT, Operations and the Finance departments).

In the case of new clients, the approval of the Chief Executive Officer 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).

9.2 BUSINESS RISK

Business risk is considered a main risk for the bank, for this reason the Entity has integrated into its Risk Appetite the indicator called profitability of the managed assets, which measures how the commissions according to the volume of assets that are managed. This indicator is the one used by the Entity to know the evolution of the business.

9.3 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.

9.4 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.

10. REMUNERATION POLICIES

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10. REMUNERATION POLICIES

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.

10.1 THE REMUNERATION POLICY OF ALLFUNDS BANK

The policy has been drafted considering the international corporate structure of Allfunds Bank, via its management team, 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 (knowledges, abilities and attitudes) and setting goals, that enable it to capture, manage and retain talented professionals.

10.1.1 CORPORATE GOVERNANCE

10.1.2 BOARD OF DIRECTORS

The Board of Directors has set up an Appointments and Remuneration Board 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.

Responsibilities of the Board, in the frame of remuneration, includes the following elements:

- Ensure of the proper elaboration and will ensure of the periodically reviews the general principles of the remuneration policy.
- Responsible in the determination and oversight of the remuneration of the members of the Management functions.
- Ensure that the Remuneration Policy and practices are appropriately implemented and aligned with the institution's overall corporate governance framework, corporate culture, risk appetite and related governance processes.
- Approve the Remuneration Policy of the company and 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.

10.1.3 APPOINMENTS AND REMUNERATION COMMITTEE

AFB's Appointments and Remuneration Board Committee is composed according current regulations by non-executive roles and with all, or at least the majority of them, being considered independent.

The Appointments and Remuneration Board 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.
- Members of the board of directors responsible for remuneration policy and members of the remuneration committees and staff members who are involved in the design and implementation of the remuneration policy shall have relevant expertise and functional independence from the business units they control and thus be capable of forming an independent judgment on the suitability of the remuneration policy.

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.

10.1.4 AUDIT AND RISK COMMITTEE

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

- Cooperation with the Appointments and Remuneration Board 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.

- Ensure that established policies comply with the applicable regulatory framework.

10.1.5 CONTROL FUNCTIONS

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

10.1.6 SPECIFIC FUNCTIONS

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

- Human Resources:
    - Propose to the Appointments and Remuneration Board Committee the Remuneration Policy and its subsequent amendments;
    - Coordinate and oversee, as a complement of the BoD, 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 the Bank of Spain.
- Risk Management: assess how the variable remuneration policy affects the risk profile of the entity and entity’s culture.
- Compliance: analyse how the remuneration policy affects to compliance and internal policies by the Bank.
- Internal Audit: provides the Risks and Audit Committee and Senior Management with a reliable observation about the effectiveness of the controls designed to mitigate the significant risks affecting the business, both current and foreseeable in the future. Its main objective is to ensure the proper functioning of good governance, risk management and controls implemented to mitigate current and incipient risks, considering the current and expected control environment in the future, in an independent, reliable and timely manner.

The degree of adequacy of the Policy in respect of the various requirements concerning remuneration at financial institutions was analysed by independent experts, and the conclusion was that AFB's Remuneration Policy sufficiently complies with legislation in force at May 31st, 2018.

10.2 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 attract, manage and retain talented professionals.

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

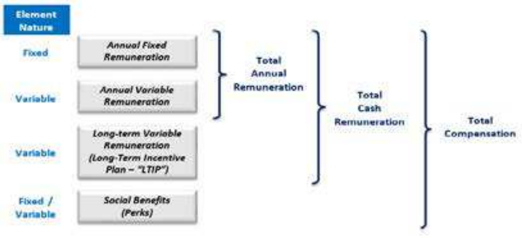
- Remuneration must foster the adequate and efficient management of risks, and must be aligned with the interests of shareholders, fostering the creation of value in the long term and avoiding conduct aimed at the short term, reducing and curbing excessive risks actions.
- The global remuneration package 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. In this sense, in line with ESMA and EBA Guidelines, in the frame of the application of the proportionality principle, AFB’s Remuneration Policy takes into account the rights and interests of clients. In particular, the Remuneration Policy does not introduce incentives whereby employees favour their own interests, or the institution’s interests, to the detriment of clients, as long as:
    - Variable remuneration includes qualitative criteria to ensure that the

  rights and interests of clients are adequately considered.
  - There is no direct link between the remuneration and the sale to consumers of certain financial instruments or specific product categories.
  - The Remuneration Policy is flexible so that its application allows for the possibility of not paying variable remuneration.
- 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.
- The Company keeps the right to pay, or not, a variable remuneration to the employees.
- The allocation of the variable remuneration components within the Bank shall also take into account all types of current and future risks.

10.3 ELEMENTS OF THE REMUNERATION POLICY

10.3.1 GENERAL ELEMENTS OF COMPENSATION

Figure 12. Elements of compensation



Source: Own elaboration, 2017

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. Furthermore, the remuneration policy is consistent with the principles relating to the protection of clients and investors in the course of services provided.

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 (Knowledges, 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 (Knowledges, 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.

10.3.2 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 (Knowledges, 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.

10.3.3 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, meaning level of Knowledges, abilities, attitudes, responsibility, experience and contribution.

10.3.4 SHORT-TERM VARIABLE REMUNERATION

With regard to Short-Term Variable Remuneration / Target 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:

10.3.4.1 SETTING THE BASIC BONUS

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

Generally, the ranges of the Target 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 Target bonus established must always uphold a fair and efficient ratio between the fixed and variable components of the total remuneration.

The benchmark Target 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 Target 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. Knowledges, abilities, attitudes, responsibility, experience and contribution) or in accordance with interventions (promotions, increases in responsibility or outstanding development by the employee).

Guaranteed variable remuneration is exceptional, and must be expressly approved by the Company's Chief Executive Officer. 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.

10.3.4.2 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:

- Job Performance
- Human Factor
- Skills

The aforementioned capabilities are measured using 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.

10.3.4.3 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. AFB Human Resources department coordinates all the process centrally.

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

Depending on performance (top-down approach) 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. Additionally, if the Capital Ratio does not exceed the minimum established by the regulator, the Bonus payable will be revised so that the Bank does not aggravate the regulatory breach. So, in the event of budgetary compliance and capital ratio accomplishment, the majority of variable remuneration is based on the manager's assessment (top-down) of the employee.

In exceptional cases, subject to the approval of Chief Executive Officer, an extra-bonus may be paid (higher than the established Target bonus) to those employees considered to deserve a reward for their extraordinary effort or contribution, always respecting the Principles of the Policy. In case of members of identified staff and/or significant amount, the extra-bonus should be approved by the Board of Directors.

10.3.4.4 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 able to be consolidated nor must it necessarily be repeated over time. The Retention Plan comply with the requirements set by the EBA on sound Remuneration Policy and will be subject to the provisions on variable remuneration as described in the 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.

10.3.4.5 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. The target bonus yearly target will be prorated accordingly by the hiring date according the following specifications:

- If the employee joined the Company during the natural year: the Target bonus for consideration, when determining the variable remuneration to be received by the employee, shall be the ratio between the worked months (on a fortnight basis) and the 12 months corresponding to the annual Target bonus.
- If the employee joined the Company on December, the employee is not 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 Chief Executive Officer and subject to consultation with the Remuneration Board Committee in case of Identified Staff members.

10.3.4.6 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.

10.3.4.7 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.

10.3.5 LONG-TERM VARIABLE REMUNERATION

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.

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

10.3.6 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:

	Remuneration Nature
Subsidised meals	Fixed
Life insurance	Fixed
Medical insurance	Fixed

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.

10.3.7 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.

10.4 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 GROUP, and the specifics of application of the Remuneration Policy to members of the Identified Staff based on the requirements pursuant to regulations on remuneration.

10.4.1 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:

- Members of the Board of Directors.
- The Chief Executive Officer.
- The overall Senior Management.
- Persons in charge of risk control, compliance and internal auditing, reporting directly to the “Management Body”.
- Directors of material Business Units.
- Persons in charge of risk management at material business and employees with management responsibility in the functions of Risk Control, Regulatory Compliance, Internal Audit and material Business Units, and reporting directly to the person in charge of said functions.
- Employees with management responsibilities in material Business Units and reporting directly to the director of said unit.
- Employees responsible for the duties of Legal Counsel, Human Resources, Information Technology, Finance, etc.
- 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.

10.4.2 REMUNERATION PRINCIPLES APPLICABLE TO CONTROL FUNCTIONS

- 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 Board Committee.
- The ratio between fixed and variable remuneration of the control functions staff must be weighted in favour of the fixed remuneration.
- 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.
- Staff engaged in control functions are independent from the business units they oversee, in order to have the appropriate authority.
- The remuneration of managers of the control function units will be overseen by the Appointments and Remuneration Board Committee.

10.4.3 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.

Nevertheless, all the elements of the Variable Remuneration (according to the legislation in force) will not exceed, in any case, 200% of the fixed components of the member of the Identified Staff Collective. This ratio, increased from 100% to 200% for all members of the Identified Staff Collective, has been approved by the Shareholders Meeting, following the legal procedure established by law (according to paragraph 42 of the EBA Guidelines). The above mentioned limit will not apply for the rest of AFB employees not included in the Identified Staff Collective.

To be noted that variable remuneration is not paid through vehicles or methods that facilitate the non-compliance with this Law or Regulation (EU) No 575/2013 and their implementing measures.

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 and business cycle, 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 considering the regulatory requirements as stated by the EBA guidelines.

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.

10.4.4 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. Furthermore, payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct.

Amounts of severance payments are considered variable remuneration and therefore their settlement will be subject to the requirements established in the legislation in force and EBA Guidelines.

10.4.5 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 the 2017 Retention Plan, in the sixty days immediately following the "Closing Date" ("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 (1/3), in the thirty days immediately following the first anniversary of the First Payment Date;
  - one-third (1/3), in the thirty days immediately following the second anniversary of the First Payment Date;

- one-third (1/3), in the thirty days immediately following the third anniversary of the First Payment Date;

Currently, AFB defers Variable Remuneration of all Identified Staff in case of variable remuneration exceeding EUR 75,000.

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.

10.4.6 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.

10.5 DISCLOSURE

The Remuneration Policy[10] is updated periodically after each modification and validation by the Board and available through the public website of the company (www.allfundsbank.com).

As specified in the Annual Accounts, these are the general remuneration numbers[11] for the management team of the company:

Table 25. Total Remuneration

Year	# Senior Managers	Thousand Euros		
		Anual Remuneration		
		Fix	Variable	Total
2017	31	4,744	3,236	7,981

Source: own elaboration, 2017.

Table 26. Remuneration by activity area

Business Area	Investment Banking	Commercial Banking	Asset Management	Others	Total
Number of employees included in the Identified Staff	-	-	-	22	22
Total Remuneration	-	-	-	6,264	6,264
Variable remuneración	-	-	-	2,069	2,069

Source: own elaboration, 2017

Table 27. Remuneration details

Identified Staff	Admin. Executives	Nonexecutive directors	Other senior managers	Other employees	Total
1. Identified Staff	-	**6**	**22**	-	**28**
1.1 Top management	-	-	19	-	19
1.2 Control functions	-	-	3	-	3
2. Total fixed remuneration	-	-	**4,195**	-	**4,195**
3. Total variable remuneration	-	-	**2,069**	-	**2,069**
3.1 In cash	-	-	2,069	-	2,069
3.2 In shares or related instruments	-	-	-	-	-

[10] Appendix IV of the Remuneration Policy contains aggregate quantitative information on the remunerations, broken down by scope of activity as well as by senior managers and employees, of personnel whose professional activities affect the Entity's risk profile.
It is also pointed out that during the year 2017 there was not in the aforementioned group recipients of remuneration exceeding 1 million euros.

[11] 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

3.3 In other instruments	-	-	-	-	-
4. Deferred payment	-	-	**583**	-	**583**
4.1 In cash	-	-	583	-	583
4.2 In shares or related instruments	-	-	-	-	-
4.3 In other instruments	-	-	-	-	-
5. Explicit ex post adjustment for performance applied in 2017 for the remunerations accrued in previous years	-	-	-	-	-
6. Guaranteed variable remuneration	-	-	-	-	-
6.1 Number of beneficiaries	-	-	-	-	-
6.2 Total amount of guaranteed variable remuneration	-	-	-	-	-
7. Severance payments associated with contract termination,	-	-	-	-	-
7.1 Number of beneficiaries	-	-	-	-	-
7.2 Total amount of severance payments associated with contract termination	-	-	-	-	-
8. Contributions to social benefits systems	-	-	-	-	-
9. Pension benefits	-	-	-	-	-
9.1 Number of beneficiaries	-	-	-	-	-
9.2 Total amount of pension discretionary benefits	-	-	-	-	-

Source: own elaboration, 2017

ANNEX 1.

QUANTITATIVE INFORMATION ABOUT LHC4 (UK) LIMITED

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ANNEX 1. QUANTITATIVE INFORMATION ABOUT LHC4 (UK) LIMITED[12]

1. SOLVENCY

Figure 13. Solvency information. LHC4 (UK) Limited

2. INFORMATION ON OWN FUNDS

Table 28. Qualifying own funds. LHC4 (UK) Limited

Amounts (Thousand Euros)	31.12.16	31.12.17
CET1	-	212,976
Tier 1 additional	-	-
TIER 1	-	212,976
TIER 2	-	10
TOTAL CAPITAL	-	212,986
RWA	-	810,703
CET1 ratio	-	***26.27%***
Tier 1 ratio	-	***26.27%***
Total Capital ratio	-	***26.27%***
Leverage ratio	-	***14.50%***

Source: LHC4 (UK) Limited, 2017

[12] LHC4 started to operate on the 21st November 2017.

Table 29. Details. Qualifying own funds. LHC4 (UK) Limited

Amounts (Thousand Euros)	31.12.17
CET1 Instruments	**1,884,331**
Shareholders' equity	1,884,331
Capital	1,906,730
Profit	(22,382)
Reserves and others	(17)
Minority interests and unrealised gains/losses	-
Adjustments of comput. of minority int. and unrealised g/l	-
Other adjustments	
Deductions from CET1	**(1,671,355)**
Goodwill	(932,423)
Other intangible assets	(734,987)
Financial investments	-
Deferred tax assets	-
Other CET1 deductions	(3,945)
CET 1	**212,976**
AT1 Instruments	-
TIER 1	**212,976**
T2 instruments	**10**
Financing of subordinated issues	-
Generic provisions and excess of provisions IRB	10
T2 deductions	
TIER 2	**10**
TOTAL CAPITAL	**212,986**

Source: LHC4 (UK) Limited, 2017

3. INFORMATION ON CAPITAL REQUIREMENTS

Table 30. Overview of RWAs (EBA Template OV1). LHC4 (UK) Limited

Amounts (Thousand Euros)	RWA 31.12.17	Minimum Capital requirements
Credit risk (excluding counterparty credit risk)	**493,365**	**39,469**
Standardised Approach (SA)	493,365	39,469
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	**0**	**0**
Standardised Approach (SA)	0	0
Internal Model Method (IMM)	-	-
Operational risk	**317,338**	**25,387**
Basic Indicator Approach	317,338	25,387
Standardised Approach	-	-
Advanced Measurement Approach	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	**-**
Floor adjustment	**-**	**-**
Total (1)	**810,703**	**64,856**

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

Source: LHC4 (UK) Limited, 2017

CAPITAL BUFFER

Table 31. Geographical distribution of credit exposures relevant for the calculation of countercyclical capital buffer. LHC4 (UK) Limited.

	Colchón específico
Total	0.00142%
Spain	0.00000%
Italy	0.00000%
United Kingdom	0.00000%
Germany	0.00000%
Andorra	0.00000%
Saudi Arabia	0.00000%
Austria	0.00000%
Belgium	0.00000%
Canada	0.00000%
Chile	0.00000%
Denmark	0.00000%
United Arab Emirates	0.00000%
France	0.00000%
India	0.00000%
Ireland	0.00000%
Luxembourg	0.00000%
Mauricio	0.00000%
Netherlands	0.00000%
Portugal	0.00000%
Singapore	0.00000%
Sweden	**0.00077%**
Switzerland	0.00000%
Usa	0.00000%
Hong Kong	**0.00005%**
Guernsey	0.00000%
Colombia	0.00000%
Mexico	0.00000%
Isle Of Man	0.00000%
Brasil	0.00000%
Finland	0.00000%
Japan	0.00000%
Bahrain	0.00000%
Uruguay	0.00000%
Estonia	0.00000%
Malta	0.00000%
Norway	**0.00054%**
Argentina	0.00000%
Australia	0.00000%
Panama	0.00000%
Qatar	0.00000%
Cayman Islands	0.00000%
Iceland	**0.00005%**
Kuwait	0.00000%

Source: LHC4 (UK) Limited, 2017

4. LEVERAGE RATIO

Table 32. Leverage ratio. Details. LHC4 (UK) Limited

Leverage ratio. Breakdown (Thousand Euros)	CRR leverage ratio exposures 31.12.2017
On-balance sheet items	1,479,789
- Asset amounts deducted in determining Tier 1 capital	-11,486
Derivatives	479
Securities Financing Transactions (SFTs)	0
Off-balance sheet items	0
Leverage ratio	
Tier 1 capital (numerator)	212.976
Total exposure measure (denominator)	1,468,781
Leverage ratio	**14.50%**
Minimum requirement	3.00%

Source: LHC4 (UK) Limited, 2017

Table 33. Leverage ratio pl. LHC4 (UK) Limited

Split-up of on balance sheet exposures (exduding derivatíves and SFTs)		
EU-1	**Total on-balance sheet exposures (exduding derivatrves, SFTs, and exempted exposures), of which:**	**1,479,789**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1,479,789
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	348,348
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	802,494
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	358
EU-10	Corporate	8,264
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	320,325

Source: LHC4 (UK) Limited, 2017

Table 34. Publication of information on qualitative aspects LHC4 (UK) Limited

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 Management department and the general management. The monitoring of this ratio is performed within the wider monitoring of the entity's solvency levels and includes 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	The first reporting period of LHC4's leverage ratio corresponds to 31st December 2017. Thus, no relevant comparison can be made in regards to previous reference dates.

Source: LHC4 (UK) Limited, 2017

5. CREDIT RISK. QUANTITATIVE INFORMATION: EXPOSURES DISTRIBUTION

Table 35. Total and average net amount of exposures (EBA Template CRB-B). LHC4 (UK) Limited

	31.12.2017	
Amounts (Thousand Euros)	**Net exposure at the end of the period**	**Average net exposure over the period**
Sovereigns and their central banks	348,348	348,348
Non-central government public sector entities	-	-

Multilateral development banks	-	-
Institutions/Banks	802,792	802,792
Corporates	8,444	8,444
Regulatory retail portfolios	358	358
Secured by commercial real state	-	-
Equity	193	193
Past-due loans	-	-
Higher-risk categories	-	-
Other assets	320,131	320,131
Total Credit Risk - SA portfolio	**1,480,266**	**1,480,266**

Source: LHC4 (UK) Limited, 2017

Geographical exposures

The following table shows the distribution, by geographical area, of LHC4's exposure to credit risk:

Table 36. Geographical breakdown of exposures (EBA Template CRB-C). LHC4 (UK) Limited

Exposures	Corporates	Regulatory retail portfolios	Institutions/Banks	Sovereigns and their central banks	Other assets	Non-central government public sector entities	Equity	Total	RWA	Capital Requirements
Total	**8,444**	**358**	**802,792**	**348,348**	**320,131**	**0**	**193**	**1,480,266**	**493,365**	**39,469**
SPAIN	409	341	422,709	3,904	13,740	-	-	441,103	99,094	7,928
ITALY	458	-	51,931	300,631	6,263	-	-	359,283	18,100	1,448
LUXEMBOURG	6,061	-	779	43,751	187,572	-	-	238,163	193,790	15,503
UNITED KINGDOM	372	17	111,223	0	63,523	-	-	175,135	86,492	6,919
FRANCE	102	-	130,001	0	15,119	-	-	145,222	41,221	3,298
USA	17	-	68,847	0	226	-	-	69,090	14,012	1,121
IRELAND	313	-	0	0	18,673	-	-	18,986	18,986	1,519
GERMANY	148	-	5,187	0	7,913	-	-	13,248	11,390	911
SWITZERLAND	82	-	3,737	0	4,702	-	-	8,521	5,531	442
REST	482	-	8,378	62	2,400	-	193	11,515	4,749	380

Source: LHC4 (UK) Limited, 2017

Maturity of exposures

Table 37. Maturity of exposures (EBA Template CRB-E). LHC4 (UK) Limited

Amounts (Thousand Euros)	<1Y	1-5Y	>5Y	Total	Total %
Sovereigns and their central banks	348,348	-	-	348,348	**23.5%**
Non-central government public sector entities	-	-	-	-	
Multilateral development banks	-	-	-	-	
Institutions/Banks	672,792	130,000	-	802,792	**54.2%**
Corporates	8,444	-	-	8,444	**0.6%**
Regulatory retail portfolios	115	234	9	358	**0.0%**
Secured by commercial real state	-	-	-	-	
Equity	-	-	193	193	**0.0%**
Past-due loans	-	-	-	-	
Higher-risk categories	-	-	-	-	
Other assets	313,170	-	6,961	320,131	**21.7%**
Total Credit Risk - SA portfolio	**1,342,869**	**130,234**	**7,163**	**1,480,266**	**100.00%**
%	**90.7%**	**8.8%**	**0.5%**	**100.0%**	

Source: LHC4 (UK) Limited, 2017

Methodology applied

Table 38. Standardised approach – CR exposure and CRM effects (EBA Template CR4). LHC4 (UK) Limited

Amounts (Thousand Euros)	Exposures before CCF and CRM			RWA	RWA density
	On-balance sheet amount	Adjustments	Total		
Sovereigns and their central banks	348,348	-	348,348	0	0.00%
Non-central government public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Institutions/Banks	802,792	-	802,792	164,349	20.47%
Corporates	8,646	(202)	8,444	8,444	100.00%
Regulatory retail portfolios	368	(10)	358	268	74.86%
Secured by commercial real state	-	-	-	-	-
Equity	193	-	193	193	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	320,131	-	320,131	320,111	99.99%
Total Credit Risk - SA portfolio	**1,480,478**	**(212)**	**1,480,266**	**493,365**	**33.33%**

Source: LHC4 (UK) Limited, 2017

Table 39. Standardised approach (EBA Template CR5). LHC4 (UK) Limited

Amounts (Thousand Euros)	0%	10%	20%	35%	50%	75%	100%	Total
Sovereigns and their central banks	348,348	-	-	-	-	-	-	348,348
Non-central government public sector entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	798,055	-	-	-	4,737	802,792
Corporates	-	-	-	-	-	-	8,444	8,444
Regulatory retail portfolios	-	-	-	-	-	358	-	358
Secured by commercial real state	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	193	193
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	20	-	-	-	-	-	320,111	320,131
Total Credit Risk - SA portfolio	**348,368**	**-**	**798,055**	**-**	**-**	**358**	**333,485**	**1,480,266**
%	**23.5%**	**-**	**54.0%**	**-**	**-**	**0.0%**	**22.5%**	**100.0%**

Source: LHC4, 2017

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

Table 40. Standardised Approach (SA): RWAs by asset class and risk weight. LHC4 (UK) Limited

Amounts (Thousand Euros)	0%	10%	20%	35%	50%	75%	100%	RWA
Sovereigns and their central banks	0	-	-	-	-	-	-	0
Non-central government public sector entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	159,612	-	-	-	4,737	164,349
Corporates	-	-	-	-	-	-	8,444	8,444

Regulatory retail portfolios	-	-	-	-	-	268	-	268
Secured by commercial real state	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	193	193
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	0	-	-	-	-	-	320,111	320,111
Total Credit Risk - SA	**0**	**-**	**159,612**	**-**	**-**	**268**	**333,485**	**493,365**
Capital Requirements for Credit Risk (1)	**0**	**-**	**12,769**	**-**	**-**	**21**	**26,680**	**39,469**

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

Source: LHC4 (UK) Limited, 2017

ANNEX 2.
BRIEF BIOGRAPHY ON MEMBERS OF AFB'S BOARD OF DIRECTORS

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ANNEX 2. BRIEF BIOGRAPHY ON MEMBERS OF AFB'S BOARD OF DIRECTORS

Blake C. Kleinman

Chairman

Managing Director Hellman & Friedman

Location: San Francisco/London

- Blake Kleinman joined H&F in 2001 and focuses on the software, internet & media, and financial services sectors.
- He is currently director of Scout24 and TeamSystem.
- Formerly, Mr. Kleinman was a director of Gartmore, IRIS, SSP, and Wood Mackenzie was active in the Firm´s investments in Arch Capital, Axel Springer, Mondrian, ProSieben and Nielsen.
- Prior to H&F, he worked in the Mergers, Acquisitions and Restructurings Department at Morgan Stanley & Co. in New York.
- Mr. Kleinman holds an A.B. with Honors in Economics, magna cum laude, Phi Beta Kappa from Harvard University.

Zita Saurel

Director

Managing Director Hellman & Friedman

Location: London

- Zita Saurel is currently Managing Director at Hellman & Friedmam.
- She joined H&F in 2005 and is active in the Firm´s investment in Scout24.
- Ms. Saurel also has responsibility for the Firm's capital markets activities in Europe related to new investments and for portfolio companies.
- She was formerly a director of Wood Mackenzie and Web Reservations and was active in the Firm´s investments in IRIS, Nielsen and Gartmore. Ms. Saurel also worked at Investcorp in London and the Leveraged Finance department of Lehman Brothers in London.
- She holds a Bachelor of Science in International Relations from Georgetown University and is fluent in Spanish, English and French.

Christopher Reid

Director

Senior Vice President GIC Private Equity
Location: London

- Chris Reid is based in GIC´s London office and Heads the Financial Services sector in the Direct Investments Group across Europe.
- Mr. Reid has 16 years of experience and joined GIC in July 2012, having previously worked at Arle Capital and 3i Group Plc in their private equity investment business.
- He trained at Arthur Andersen and then Deloitte in the Financial Services practices.
- Mr. Reid is a qualified accountant with the Institute of Chartered Accountants England and Wales, and graduated from the University of Southampton with a Msc in International Financial Markets.

Johannes Korp

Director

Director Hellman & Friedman

Location: London

- Johannes Korp joined Hellman & Friedman in 2014.
- Prior to H&F, Mr. Korp worked in the financial services and retail investment groups at Warburg Pincus and in the financial services M&A group at Goldman Sachs in London.
- He holds a BA in Business Administration from University of St. Gallen in Switzerland and an MBA from Stanford University.

Jaime Carvajal

Director (Independent)

Partner and CEO, Grupo Arcano

Location: Madrid

- Jaime Carvajal is Partner and CEO at Grupo Arcano in Madrid.
- From 2001 until 2004 he worked at Banco de Sabadell in Barcelona and from 1997 until 2001 he was based in Washington DC at The World Bank. Prior to that he was Co-founder and Managing Director at Iberaccion.
- Mr. Carvajal started his career at Shearson Lehman Brothers in New York.
- He holds a B.A. in Physics from Princeton University.

Mario Cuccia

Director (Independent)

Location: Rome

- Mario Cuccia is currently Investitori SGR SPA – Director Member of Audit Committee at Allianz SPA in Milan. He also serves as Agricola San Felice SPA/Borgo San Felice SRL – Chairman.
- He began his career at Ardito Law Firm in Milan and later moved to Continental Illinois National Bank & Trust Company of Chicago based in their Milan and Rome offices.
- From 1988 until 1992 Mr. Cuccia was a Manager in the Financial Institution Group at McKinsey & Co and from 1992 until 2004 he held several key roles at Banca Fideuram Spa including General Manager.
- Mr. Cuccia earned a Juris Doctor from University of Rome and Master of Comparative Law from University of Michigan.

ANNEX 3.
LIST OF TABLES AND FIGURES

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ANNEX 4.

ACRONYMS

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AIA	Allfunds Internal Audit
ALMM	Additional Liquidity Monitoring Indicators
AML	Anti-Money Laundering
APR	Activos Ponderados por Riesgo
BCBS	Basel Committee on Banking Supervision
BCE	European Central Bank
BIS	Bank for International Settlements
BoE	Bank of Spain
CAATTs	Computer Aided Audit Tools & Techniques
CDS	Credit Default Swap
CET1	Common Equity Tier 1
CIIs	Collective Investment Institutions
CNMV	Comisión Nacional del Mercado de Valores
CRD IV	Directive 2013/36/UE
CRR	Regulation 575/2013
CSSF	Commission de Surveillance du Secteur Financier
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
FSB	Financial Stability Board
G-SIBs	Global Systemically Important Banks
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMM	Internal Model Method
IRRBB	Interest Rate Risk in Investment Portfolio
IT	Information and Technology
KRIs	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
NSFR	Net Stable Funding Ratio
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
SA	Standardised Approach
SA-CCR	Standardised Approach for counterparty credit risk
SEPBLAC	Commission for the Prevention of Money Laundering and Monetary Infractions
SFTs	Securities Financing Transactions
SREP	Supervisory Review and Evaluation Process
TLAC	Total Loss-Absorbing Capacity
VAR	Value at Risk