PILLAR III DISCLOSURES REPORT

Allfunds Bank Group

Allfunds (UK) Limited

2019

1. GENERAL OVERVIEW

1. GENERAL OVERVIEW[1]

1.1 ABOUT ALLFUNDS BANK GROUP[2]

Allfunds Bank, S.A.U. (hereinafter, “the bank”, “the entity” or “Allfunds Bank”) 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 Padre de los Padres Dominicos 7, Madrid[3]. The bank is registered in the Bank of Spain's Official Register of financial institutions under code 0011.

In accordance with the bylaws and the business plan, the business model of Allfunds Bank S.A.U. focuses mainly on the provision of investment services and banking services related to the access and distribution of investment funds to different financial service providers in an open architecture environment, the main activities being:

- All types of activities, transactions and services of the banking activity in general, related to it or permitted under current legislation.
- The acquisition, holding, use, administration and disposal of Spanish and foreign marketable securities, shares and holdings in companies, in accordance with current legislation.
- The provision of investment services and any additional activity applicable under current legislation.

In addition to the operations carried out directly by Allfunds Bank, the entity is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Allfunds Bank 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. Allfunds is one of the world's leading wealthtech companies with a service offering which includes data & analytics, portfolio & reporting tools, research and regulatory services. Created in 2000, today Allfunds offers the largest fund distribution network globally and access to the world's largest universe of mutual fund and ETFs. With a presence on the ground in Spain, Italy, the United Kingdom, Chile, Colombia, Dubai, Luxembourg, Switzerland, Singapore and Brazil, it currently offers distribution services comprising +1,500 fund managers and over 87,000 funds, and an extensive network which includes more than 700 contracts with institutional clients, spread over more than 50 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). Allfunds Bank 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. Allfunds Bank is client demand driven, product-agnostic, continuously incorporating new managers and funds according to client demand. Allfunds Bank’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 Allfunds Bank. Through the platform, Allfunds Bank 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.

Nevertheless, 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 Allfund Bank’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 (Allfunds (UK) Limited) has been included in Annex 1.

[2] More information available in our web page https://allfunds.com/en/who-we-are/

[3] In January 2019, the Bank changed its registered office to calle de los Padres Dominicos 7, Madrid.

Regarding the history of Allfunds Bank since its inception, the Italian bank Sanpaolo (Intesa Sanpaolo as of 2007) acquired 50% of the company in 2003. 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 one of the most important global financial centers in the world.

In 2007 Allfunds Bank 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 Allfunds Bank expanded its reach with the establishment of its first representative office in Santiago de Chile to serve Latin American clients, especially in Chile and Colombia, interested in international funds.

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 criteria. Today, Allfunds Bank is the only investment fund platform within the Islamic open architecture space.

In 2013 Allfunds Switzerland, a subsidiary of AFBI, was established in Zurich with a Fund Distributor license to expand the business into the world's premier private banking center.

In 2014 AFBI obtained its banking license in Luxembourg authorized to render both banking and investment services by upgrading its previous PSF license.

In 2015 Allfunds Bank opened its first representative office in Bogota, reinforcing its position and commitment to Latin America.

In 2016 Allfunds Bank continued with its internationalization strategy with new local licenses in Singapore (branch) and Brazil (representative office).

In 2017 Allfunds Bank continued enhancing its technology with the launch of APIs and the expansion of its product range incorporating ETFs on the platform. It was also the year Allfunds Bank surpassed the level of EUR 350 billion in AuA and entered into a new shareholder structure. On the same year, Allfunds Bank announced plans to open an office in Brazil and Norway

On November 21st, 2017 Hellman & Friedman and GIC completed the acquisition of Allfunds from Intesa Sanpaolo Group and Santander Group and took majority ownership.

On 17th January 2018 Allfunds completed the first acquisition in the company's history by purchasing the Fintech Partners Group (Finametrix). With the acquisition Allfunds Bank Group aims to help its extensive network of institutional clients, both managers and distributors, becoming the ideal partner for the technological revolution that is facing the sector. It was also the year that it saw a tremendous amount of growth in teams across the globe with several senior hires and new offices in Singapore, Madrid and Sao Paulo, opening its representative office in Sao Paulo, reinforcing its commitment to the region and the confidence in the Brazilian market.

2019 brought several relevant corporate deals: Allfunds and BNP Paribas announced a strategic partnership to create one of the world's leading fund and wealthtech platforms; assets under distribution surpassed €600Bn with over 1,550 fund houses and more than 660 distributors in 50 countries; Credit Suisse InvestLab was acquired marking the largest combination in the platform space to date; Credit Suisse became minority shareholders in Allfunds. Allfunds acquired fundinfo's Zurich-based fund research business, strengthening its data management capabilities by taking advantage of fundinfo as fund data source; the deal with Nordic Fund Market was closed becoming the largest fund distribution network in the region. Allfunds reinforced its digital offering with the launch of three tools to enhance distributor and fund manager experience: Digital On-boarding for Fund Houses, Allfunds Connect and Telemetrics Market Intelligence.

In 2020 Allfunds has continued with the launch of several new and enhanced digital products: through the digital eco-system Connect, Allfunds launches Digital Selector and the Portfolio Optimisation tool to conduct sophisticated analysis and research of funds. Additionally, Allfunds has continued its global expansion with the opening of new offices in Hong Kong, Paris and Warsaw. Allfunds has also announced its plans to launch its new sub-advisory business and Allfunds Blockchain. In early Q4 Allfunds has successfully closed the transaction with BNP and amplified assets to over €1 trillion.

1.2 RESULTS

During 2019, Allfunds has continued with its recent strategy, summarized as follows:

- Achieve a solid consolidation in the industry with continued enhancement of the Bank's distribution capabilities, in order to ensure market leadership in terms of scale, growth, diversification, broad offering and global footprint.
- Develop new digital tools that will enhance Allfunds value proposition while generating revenues streams not correlated with financial markets.
- Reinforce key teams for the company.
- Keep growing organically, attracting new clients while opening and strengthening foreign offices.
- Maintain strong profitability and solvency levels to support future growth.

More specifically, Allfunds' objectives for 2019 have been:

- To boost commercial activity in those European markets where the Bank's presence is not that significant (UK, Switzerland, Central Europe and the Nordic markets). Regarding Nordic Markets, Allfunds acquired Nordic Fund Market ("NFM") from Nasdaq. With the integration of NFM, Allfunds has strengthened its global presence in wealth management. The Nasdaq Nordic Fund Market enables fund distributors and fund companies to leverage internal resources, reduce risk, lower transaction cost and communicate according to existing international standard. In addition, Allfunds entered into an agreement to combine Credit Suisse's open architecture investment fund activities, Credit Suisse InvestLab, with Allfunds. Credit Suisse InvestLab is the open architecture B2B investment fund platform of Credit Suisse Group. The platform offers distributors access to over 46,000 investment products from more than 170 providers worldwide, with AuA of over CHF 140bn.
- To strengthen its commercial presence in the Latin American area through various representative offices in the region (Brazil, Colombia and Chile); highlighting the consolidation of the new representative office in Brazil and the increase on its customer base in the region.
- To continue increasing the number of investment fund distribution agreements with customers in all the markets in which the Bank operates. The number of new commercial agreements entered into rose to 59 in 2019, giving a total of 709 at year end, taking into consideration new NFM and Credit Suisse commercial agreements. Currently, The Bank has customers operating in 51 different countries.
- 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. The platform now has a total of 87,000 investment funds.
- 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 2019 significant technology developments were undertaken aimed at developing new digital solutions for the Bank's customers. These new tools will help obtaining a different source of revenue which allows diversification.
- Highlight the acquisition of Fundinfo's Zurich-based fund research business. This agreement has strengthened Allfunds data management by sourcing additional dynamic and regulatory fund data from Fundinfo. Fundinfo is a leading international platform for information and mandatory publications of investment funds.

In 2019, assets under administration went up from EUR 348.61 billion by end of 2018 to EUR 425.70 billion by the end of 2019 representing an annual growth rate of 22.9% (EUR +77.09

billion), excluding new business integrated in the year.

In 2019 the Group obtained a net profit amounting to EUR 68,480 thousand, being 20.52% lower than at the end of the 2018 financial year.

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

Table 1. Net profit

Entity	Thousands Euros
Allfunds Bank, S.A.U.	55,370
Allfunds Bank International, S.A.	6,843
Allfunds International, Schweiz AG	24,854
Allfunds Bank Brasil Representações Ltda.	35
Fintech Partners, S.L.U.	197
Finametrix, S.L.U.	781
Nextportfolio, S.L.U.	(23)
Allfunds Investlab AG	22,262
Allfunds Sweden AB	4,069
Allfunds Hong Kong Limited	(348)

Source: Audited Financial Statements, 2019

Net interest income moved from EUR 591 thousand in 2018 to a negative amount of EUR 1,091 thousand, as a result of the lower returns obtained due to the reduction in interest rates.

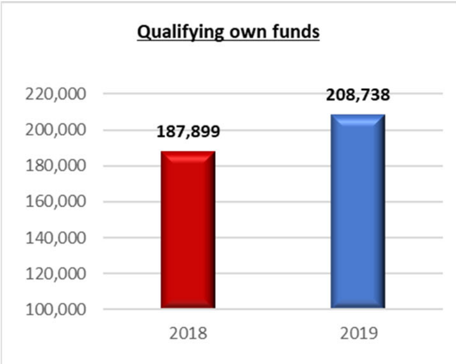
Net fee and commission income amounted to EUR 225,828 thousand, which represents an increase of 3.87% compared to 2018. The 82% in 2019 and 84% in 2018 of these fees and commissions are related to the intermediation in the distribution of shares and participations in international CIIs.

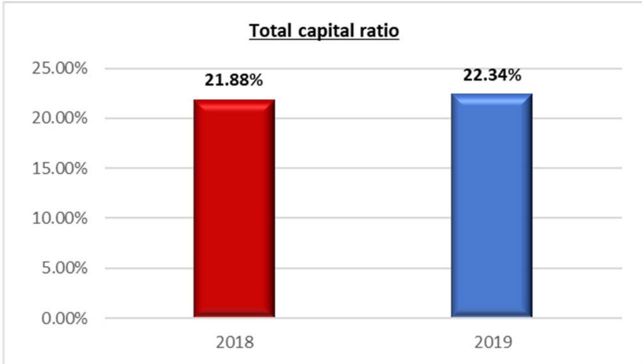
1.3 SOLVENCY

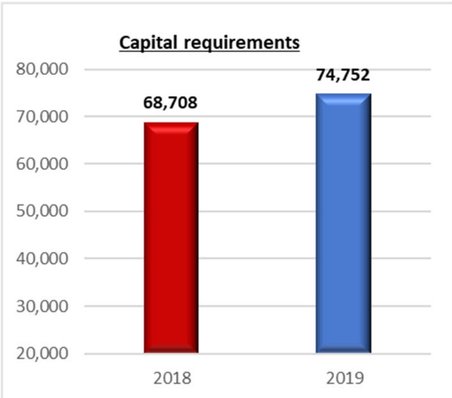
Regarding Solvency, and according to the CRR/CRD IV, the Bank shows comfortable levels above the regulatory requirements[4].

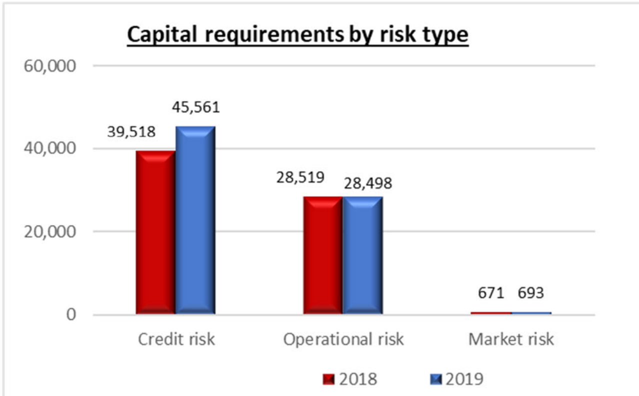
The following charts show the change in qualifying own funds, capital requirements and total capital ratio:

Figure 1. Solvency Allfunds Bank Group (Thousand Euros)

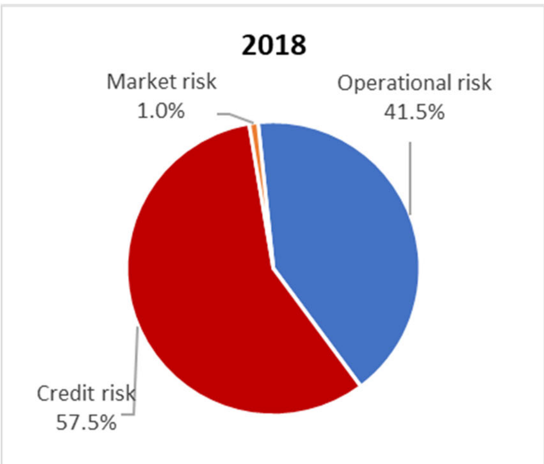


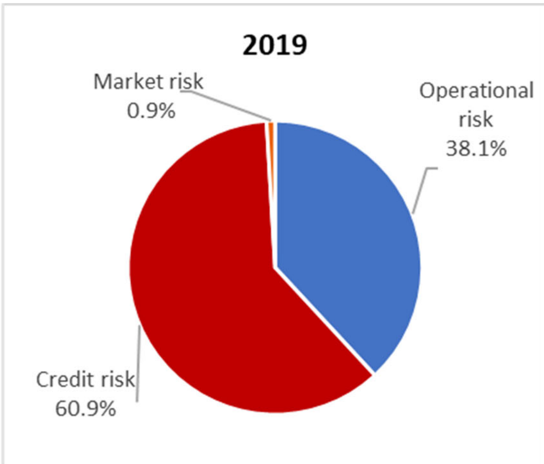






Distribution (%)





[4] 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 RECENT LEGISLATION.

During 2019, the most significant legislation issued at Spanish domestic level (Official Gazette – BOE, CNMV, BdE) and legislation/guidelines issued by international issuers (European Parliament, European Commission, EBA, ESMA, Financial Stability Board, ECB, EIOPA, IOSCO) which could have impact on the Company, have been analysed and consequently implemented when applicable. The following laws and guidelines were considered significant for the entity:

- **EBA Guidelines on Outsourcing (EBA/GL/2019/02).** EBA published on 2019 February 25th a new Outsourcing Guidelines coming into force on 2019 September 30th. Consequently, Allfunds has drafted and approved an updated Outsourcing Policy.

- **Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.** Approved on November 27th, 2019, this regulation establishes the disclosures to end investors for the integration of sustainability risks, on the consideration of adverse sustainability impacts, on sustainable investment objectives, or on the promotion of environmental or social characteristics, in investment decision-making and in advisory processes. This Regulation aims to reduce information asymmetries in principal-agent relationships with regard to the integration of sustainability risks. These disclosures will be ex ante (pre-contractual) information.

  This Regulation requires financial market participants and financial advisers to publish written policies on the integration of sustainability risks in their investment decision making processes. UCITS managers and AIF managers are included as market participants.

  EBA, EIOPA and ESMA should develop draft regulatory technical standards (ESG taxonomy regulation) to further specify the content, methodologies and presentation of information in relation to sustainability indicators with regard to climate and other environment-related adverse impacts, to social and employee matters, to respect for human rights, and to anti-corruption and anti-bribery matters, as well as to specify the presentation and content of the information with regard to the promotion of environmental or social characteristics and sustainable investment objectives to be disclosed in pre-contractual documents, annual reports and on websites of financial market participants. This ESG taxonomy regulation is still pending.

  This Regulation shall apply from March 10th, 2021.

- **Spanish Organic Law 1/2019, of the Penal Code, to transpose European Union Directives in the financial and terrorism fields, and address issues of an international nature.** This Organic Law modified the Organic Law 10/1995, of November 23rd, of the Penal Code, to transpose European Union Directives in the financial and terrorism fields, and address issues of an international nature. This reform expands the catalogue of offences for which legal persons can be held liable, directly affecting the criminal risk assessment processes as well as the prevention measures of the corporate defense models specially impacting on the following aspects: (i) Within the framework of the fight against corruption: It broadens the scope of the crime of corruption in business, typifies the fraud to the EU Treasury and the fraud of EU allowances, extends the liability of legal persons, for the first time, to the crime of embezzlement and therefore to those legal persons who for any reason manage public resources, or in any other way they are in charge of the public treasury. It broadens the concept of public official that should be taken into account in bribery and embezzlement crimes to any person who exercises public service functions based on the management of the European Union's financial interests and (ii) Modifies stock market crimes by incorporating the use of artifices and the use of information technologies for their alteration. As for the improper use of privileged information, it incorporates new forms of commission of the criminal act.

- **EBA and ESMA response to the European Commission's action plan on the regulatory status and authorisation of new fintech business models.** The ESMA and EBA published on 12th and 18th of July 2019 their reports entitled "LICENSING OF FINTECH BUSINESS MODELS" and "Regulatory perimeter, regulatory status and authorisation approaches in relation to FinTech activities", on the regulatory status and authorization criteria of business models in financial services with a significant technological component (FinTech models).

  Both reports respond to the lack of specific regulation in this area, which was already highlighted in the European Commission's March 2018 fintech action plan.

- **Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law.** The new Directive (EU) 2019/1937 of the European Parliament and of the Council of October 23rd, 2019 on the protection of individuals who report infringements of Union law, obliges legal entities with 50 or more employees - or those required to do so because of their activity and the corresponding level of risk - to incorporate internal reporting and monitoring channels.

  This Directive, commonly known as the Whistleblowers Directive, sets common minimum standards to protect people who report breaches of Union law. Therefore, the directive aims to encourage the reporting of breaches of European regulations and policies by establishing whistleblower protection measures and requiring the establishment and strengthening of internal and external reporting channels, without prejudice to the application of specific rules on reporting breaches such as those of MIFID II, UCITS V, AML IV and MAR, which already require these mechanisms. In particular, the new directive prohibits retaliation, understood as actions or omissions, direct or indirect, in an employment context, motivated by an internal or external reporting of breach or public disclosure and which cause or are likely to cause unjustified harm to the reporting person.

  The directive entered into force on December 16th, 2019, and the Member States are required to transpose it, although they have until December 17th, 2021 to transpose them effectively.

2.2 NEW COMING REGULATIONS.

- **ESMA consultation on Compliance function reinforcement in the MIFID II context.** The ESMA started last July 15th, 2019 a process of consultation to the Financial Industry about the requirements regulations for the strengthening of the Compliance Function in entities that provide investment services. The key aspects of the new guidelines are: (i) reinforcement of the Compliance function, (ii) compliance risk assessment, (iii) compliance control related functions, (iv) reporting performed by the Compliance function.

  ESMA expectations are to publish the updated guidelines in Q2 2020.

- **The Spanish Government approves the draft laws on financial transaction tax, sandbox and trusted electronics services.** The Spanish Council of Ministers approved, on February 18th, 2020, to initiate the parliamentary process of three draft laws about (i) the creation of a tax on financial transactions; (ii) the digital transformation of the financial system, which includes the creation of a regulatory sandbox or controlled testing space; and (iii) the use of trusted e-services.

  These proposals are currently under their parliamentary process, which requires the approval of the Spanish Parliament and the Senate.

- **The European Commission begins the MIFID 2 review process.** As foreseen in MiFID II, a review process on the effective implementation of the MIFID regulations in Europe has started. Accordingly, The European Commission will publish a consultation document to review the provisions that were included in the directive and the delegated directive

  The European Commission, after consulting with ESMA, will publish the before mentioned consultation document along March 2020.

- **EBA new consultation regarding AML/FT risks factors.** EBA opened a consultation period on new guidelines to assess risk factors criteria regarding AML and FT. Once approved, these guidelines will modify those approved in 2017.

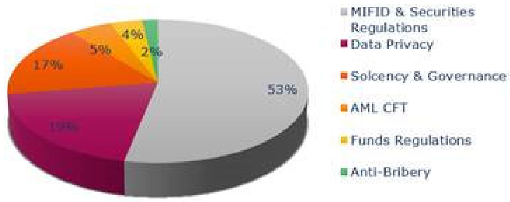
  The consultation period ends in May 2020 and is requesting industry and financial entities feedback over the following topics: (i) identification of risk factors and their evaluation; (ii) applicable due diligence measures; (iii) registry maintenance; (iv) employee training.

2.3 MONITORING PROGRAM BASED IN THE REGULATORY RISK ASSESSMENT.

The most important project for the Compliance function in 2019 has been the development of the Compliance Monitoring Programme based in the Regulatory Risk Assessment. With this project, the Compliance department fulfil the obligation established in different standards for conducting a risk assessment to ensure that compliance risks are comprehensively monitored. The compliance function shall establish a risk-based monitoring programme on the basis of this compliance risk assessment to determine its priorities and the focus of the monitoring, advisory and assistance activities[6].

The Risk Assessment process objective is to evaluate whether Allfunds activity is conducted in compliance with its regulatory obligations and whether its internal policies, procedures, standards, codes of conduct applicable to its activity, organisation and control measures remain effective and appropriate to prevent, detect, correct and minimize risk of breach that may cause sanctions, material or reputational financial loose. The scope of the Risk Assessment was global, starting with the European Union regulation and adding local regulations that impacts in Allfunds business.

The regulatory requirements included in the Risk Assessment referred to the following legislations:



Regulatory Radar

Allfunds performs its activity in a global and increasing regulatory environment which makes necessary the implementation of an enhanced regulatory management cycle whose priorities should be: (i) reinforcement of the regulatory identification according with the Regulatory Compliance Mission, and (ii) maintenance of the Risk Assessment under the appropriate measures which ensures its accuracy and update according the Company branches and subsidiaries structure (14 jurisdictions). In addition, it may lead to the detection of business opportunities.

Based on the above, on last 2019 quarter was initiated the "Regulatory Radar project" with the objective of obtaining a global approach through which the different Allfunds teams (Compliance, Legal, Tax….) and also having in scope the Allfunds geographical structure, could be leveraged on the regulatory radar services. After the selection process of an external provider, an implementation, training & follow up period will be executed along March and April 2020, going to "on live" mode from May 2020.

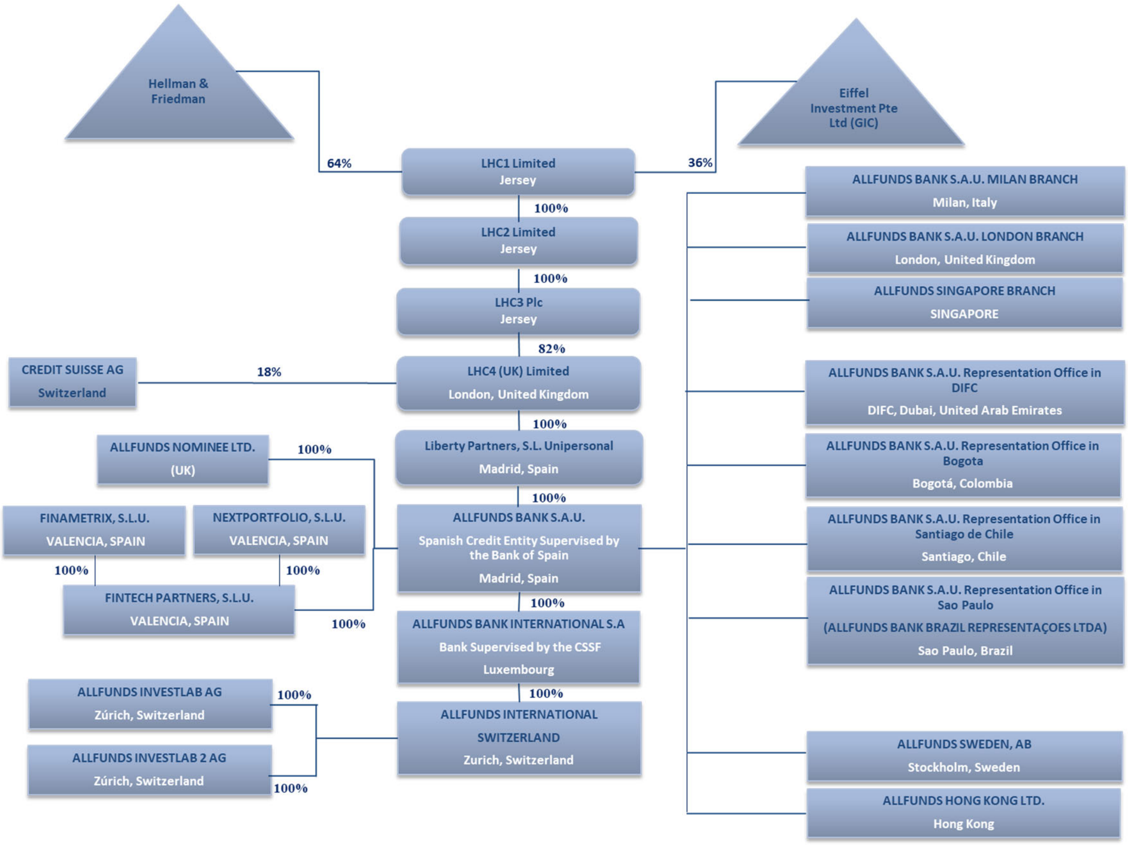
2.4 SCOPE OF THE REPORT

The scope of application is the company Allfunds (UK) Limited, which holds a 100% stake in the holding company Liberty Partners S.L.U., with a stake of 100% in Allfunds Bank S.A.U., entity acting as parent

[6] General guideline 1 of ESMA Guidelines on Compliance function requirements. Consultation Paper. 15 July 2019 ESMA35-43-2019.

company in the Allfunds Bank Group and with the following subsidiaries, representative offices and branches:

Figure 2. Structure of the entity



Source: Own elaboration, 2020

The entity's control is owned by Hellman & Friedman 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 82% ownership interest in Allfunds (UK) Limited being the other 18% held by Credit Suisse AG. The prudential supervision perimeter ends at Allfunds (UK) Limited.

Allfunds Bank S.A.U. is the main entity under the Allfunds Bank Group in both operating and business terms, providing support to the rest of the Group in most of the key global functions, including corporate management, technology, operations, finance, legal, commercial and compliance aspects. The commercial activities related to the Iberian Peninsula and Latin America are managed from this corporate center.

Allfunds Bank S.A.U., through its branches in Italy, the United Kingdom and Singapore, serves local institutional clients, offering its CII distribution business through a permanent establishment.

Allfunds Bank S.A.U., through its representative offices in Santiago de Chile, Dubai and Bogota, promotes its institutional solutions to local clients, offering its services in these jurisdictions.

Allfunds Bank S.A.U. has as subsidiaries:

- Allfunds Bank International S.A. (100% owned by Allfunds Bank S.A.U.), which started to operate in 2014 as a licensed bank in Luxembourg by upgrading its previous PSF license;
- Allfunds International Schweiz Ltd (100% owned by Allfunds Bank International S.A.);
- Fintech Partners S.L.U. (100% owned by Allfunds Bank S.A.U.), acquired on 17th January 2018;
- Allfunds Bank Brazil Representaçoes Ltda (participated through Allfunds Bank S.A.U. by

99.99% and Allfunds Bank International S.A. with 0.01%), performing representation services;

- Allfunds Hong Kong Limited (100% owned by Allfunds Bank S.A.U.), licensed by the Hong Kong Securities and Futures Commission (SFC);
- Allfunds Bank Nominee Ltd whose main activity is the holding of assets for UK clients.
- Allfunds Investlab AG (100% owned by Allfunds International Schweiz Ltd), acquired from Credit Suisse AG on September 30th, 2019;
- Allfunds Investlab 2 AG (100% owned by Allfunds International Schweiz Ltd), acquired from Credit Suisse AG on March 26th, 2020;
- Allfunds Sweden AB (100% owned by Allfunds Bank S.A.U.), acquired from the Nasdaq Group on October 31st, 2019.

All branches, representative offices and subsidiary companies are duly registered with the corresponding local authorities.

As of 31st December, 2019, no consolidated subsidiary of the Allfuns Bank Group held qualifying own funds below the established limit required under the applicable legislation.

2.5 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 credit risk exposure of EUR -1.429 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 114 thousand reported under the 'Corporates' label.
- Due to the specific business of the company, all exposures are subject to the credit risk framework.

2.6 APPROVAL AND PUBLICATION OF THE REPORT

In accordance with the guidelines of the EBA on disclosure requirements under Part Eight of the CRR and described in its articles 431 (3) and 434 (1), the entity has a policy for the verification of information with prudential relevance (Pillar III) to disclose by Allfunds Bank Group. In this sense, the information with prudential relevance have the same degree of verification that is applied to the information of the management report, as part of the financial report.

The Board of Directors, 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 defence 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 and its adaptation to the regulatory requirements, as well as the control structures implemented.

The Board of Directors also agreed to delegate the approval of the Pillar III Disclosures Report by the General Manager, after its verification by the Risk and Audit Committee, responding to the provisions of article 435 (e) (f) of the CRR.

The report was approved on October 30th, 2020 by the General Manager and it is available on the corporative web page.

2.7 GOVERNANCE FRAMEWORK

The entity has a corporate governance of risk 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 defence 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 defence 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 defence is formed by the Compliance and Risk Management teams, acting autonomously and independently between them and with respect to the first line of defence. These two units support the first line of defence 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 Directors.
- Finally, the third line of defence 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 defence 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 Manager the follow-up and supervision of the Bank's general policies and objectives.

In the field of control, it is the responsibility of the General Manager 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.

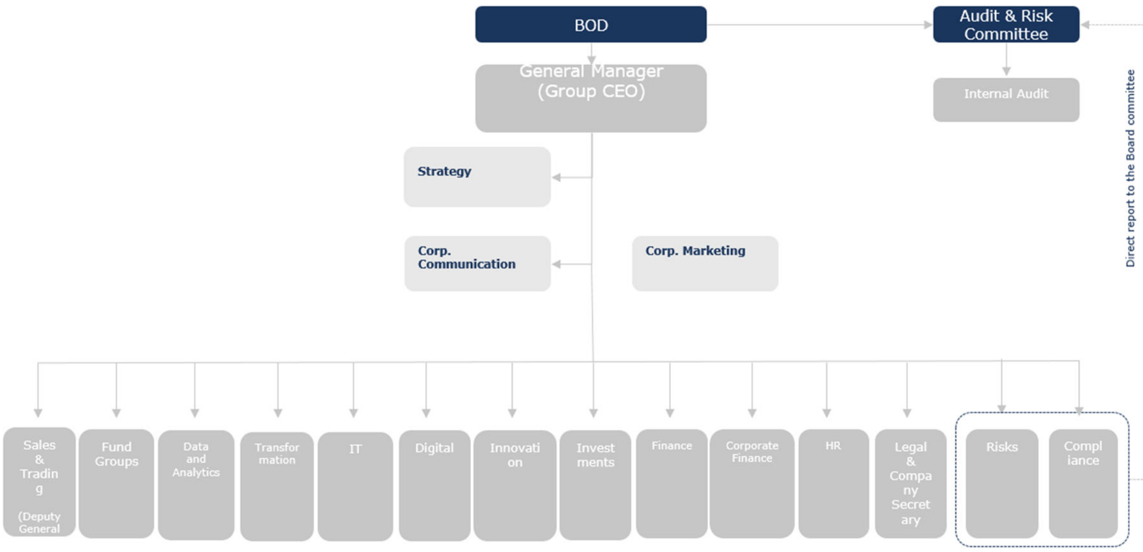
Therefore, the Board of Directors establishes the bank's risk strategy, which is led and supervised by the General Management.

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.

2.8 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 General Manager, through the Internal Risk and Audit Committee and another to the Board of Directors, through the Risk and Audit Board Committee:

Figure 3. Entity organization



Source: Own elaboration, 2020

2.9 BOARD OF DIRECTORS[7]

Except in matters for which the General Shareholders' Meeting is (sole shareholder), 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 Committees, 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.

As of December 31st 2019, the Board of Directors was made up of 5 non-executive directors, two of whom are independent, the Chairman and the Secretary (non-director):

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

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

- **Director:** Mr. Jayaprakasa Rangaswami (Independent)

The appointments of the General Manager and Deputy General Manager 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 Policy, 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 Risk 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.

2.10 GENERAL MANAGEMENT

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

- Propose risk policies for the entity, meaning identifying 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 Manager:

- 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.

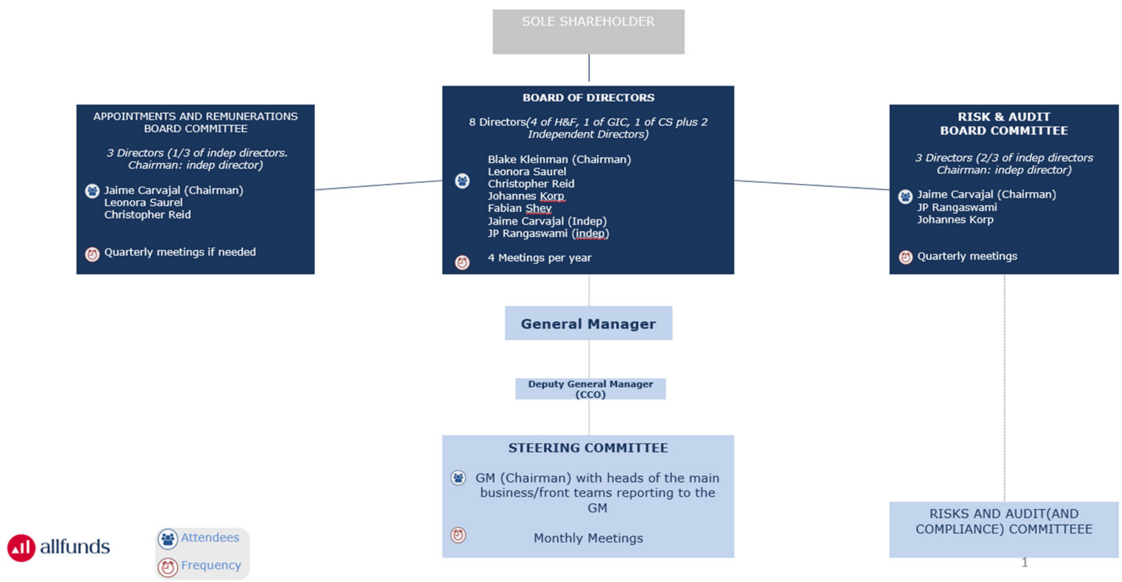
2.11 COMMITTEE BODIES AND FUNCTIONS

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:

1. Appointments and Remuneration Board Committee
2. Risk and Audit Board Committee
3. Internal Control Body for the Prevention of Money Laundering (AML)
4. Steering committee
5. Advisory Committee
6. Commercial Committee (COMCO)
7. Client Acceptance Committee (CAC)
8. ITOP Committee
9. Internal Risk and Audit Committee
10. Optimization and Monitoring of Costs Committee.
11. Revenues Committees
12. Strategic Product Portfolio Committee.
13. Digital Committee
14. Integration and Transformation Committee
15. Investments Committee
16. Business Continuity Committee
17. Crisis Management Committee

The illustration below shows the committees and their hierarchical dependence:

Figure 4. Committee structure



Appointments and Remuneration Board Committee

Attendees
Composed of a minimum of three and a maximum of five members of the Board of Directors who do not perform executive functions in the Company. At least one third of these members and, in any case, the chairman, must be independent directors. The committee currently is composed by: • Chairman: Mr. Jaime Carvajal (Independent). • Mrs. Zita Saurel. • Mr. Christopher Reid.
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 2019 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, general managers 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.
Committee secretary
• Mrs. Marta Oñoro.
Documentation
The committee shall draw up written minutes of the resolutions adopted at each of its meetings.

Source: Own elaboration, 2020

Risk and Audit Board Committee

Attendees
Composed of a minimum of three and a maximum of five members of the Board of Directors who do not perform executive functions in the Entity. At least one third of these members, or any other higher proportion resulting from the regulations applicable at any given time, and in any case the chairman must be an independent director. The committee currently is composed by: • Chairman: Mr. Jaime Carvajal (Independent). • Mr. Jayaprakasa Rangaswami (Independent). • Mr. Johannes Korp.
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 2019 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 Control 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 Control 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.
 	
Additionally:
• Assessment of the Compliance monitoring programme.
• Assessment of Regulatory Compliance and AML reports with the assessment of compliance risks and its management.
• To inform the Board of Directors the overall measures to be taken to ensure compliance with applicable laws, rules, regulations and standards (on the basis of the information received from the Compliance Unit)

Committee secretary
• Mrs. Marta Oñoro.
Documentation
The committee shall draw up written minutes of the resolutions adopted at each of its meetings.

Source: Own elaboration, 2020

Corporate Governance: Internal Committees

Committee	Objective	Frequency
4. Steering Committee	Define, monitor and review of Allfunds' key strategic goals and performance monitoring.	Monthly
5. Advisory Committee	Update of business and operational activities for the entire management team	Quarterly
6. Commercial Committee (COMCO)	Commercial initial approval of clients and countries	Monthly
7. Client Acceptance Committee (CAC)	Approval of new countries and clients from a risk, compliance and legal perspective	Monthly
8. ITOP Committee (Technology Committee)	Review of technology and operational issues	Monthly
9. Risks 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
10. Optimization Cost Committee	Review of all costs for their optimization and monitoring	Bi-weekly

11. Revenues Committee	Review of all revenues (asset driven and non-asset driven)	Monthly
12. Strategic Product Portfolio Committee	Review and approval of all new services and products	Monthly
13. Digital Committee	Review and update Digital Business. Including a monthly review of Finametrix	Monthly
14. Integration and Transformation Committee	Coordination & implementation of Allfunds acquisitions analysing all related risks	Bi-weekly
15. Investments Committee	Review and approval of all investment research and solutions initiatives	Monthly
16. Business Continuity Committee	Review of all business continuity plans and procedures	Quarterly
17. Crisis Management Committee	Management of any exceptional circumstances which may imply a crisis situation	Upon request

Source: Own elaboration, 2020

Additionally, Allfunds Bank has an Internal Control Body on AML/TF:

Attendees
Composed by Allfunds Bank, S.A.U.'s General Manager, the Global Compliance Officer, the head of the Anti-Money Laundering unit, the Deputy General Manager, representing the various business areas of the Allfunds Bank Group, all members of the AML/TF unit of Allfunds Bank, those responsible for AML/TF of the subsidiaries and/or branches and/or Allfunds Bank International S.A., provided that the agenda includes matters which directly or indirectly affect those subsidiaries and/or branches.
Frequency
The Committee shall meet regularly and at least quarterly.
Responsibilities
The main functions of this internal Committee are: • The drafting, approval and implementation of procedures through which policies to prevent money laundering and terrorist financing are implemented. • Communication of such policies and procedures to majority-owned branches and subsidiaries located in third countries. • The execution of control and supervision mechanisms over these branches and subsidiaries to ensure compliance with policies and procedures. • Approval of an annual training plan for the prevention of money laundering and terrorist financing, designed according to the risks of the business sector Allfunds Bank, S.A.U. • Deliver the training designed in the annual training plan to all employees. • The establishment of bidirectional communication channels, with precise instructions to managers, employees and agents on how to proceed in the event of detecting any facts or operations that may be related to money laundering or terrorist financing. • The examination and monitoring of transactions likely to be related to money laundering or terrorist financing, in order to decide whether or not to notify the Executive Service of the Commission, as well as the alerts detected by NORKOM in relation to our contractual counterparties, since they may affect the contractual relationship or the risk classification given to the client. • In cooperation with the Human Resources Department, review the recruitment processes of employees and managers so that they comply with the suitability criteria established by current legislation. As far as managers are concerned, these criteria cover at least the areas of knowledge and experience, good repute, conflicts of interest and independence of ideas, and dedication. • Any other matter, matter or problem, changes and/or modifications of procedures related to the implementation of national and international legislation on the prevention of money laundering and terrorist financing.
Committee secretary
The head of the AML/TF unit.
Documentation
The committee shall draw up written minutes of the resolutions adopted at each of its meetings.

Source: Own elaboration, 2020

2.12 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.

The Risk Management Department is responsible for preparing and updating 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 guidelines for implementing defined risk procedures are issued by the Risk Management Department together with the General Management.

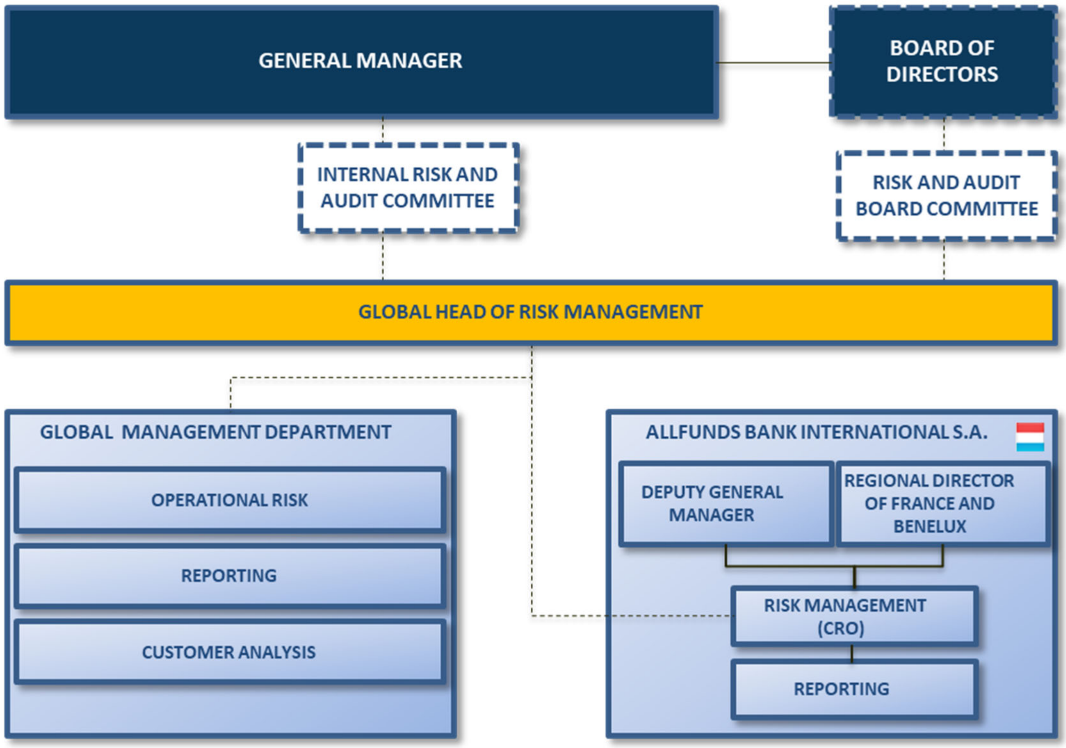
2.13 FUNCTIONS OF THE RISK DEPARTMENT

- Defining procedures and 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.

2.14 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, 2020

2.15 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 entity has general principles which serve as guidelines for the definition, monitoring and control of risks. These principles are listed in section 2.12 Risk profile

2.16 RISK APPETITE FRAMEWORK (RAF)

The bank has a Risk Appetite Framework, which was last revised by the Board of Directors in the first quarter of 2019 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.

2.17 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.

2.18 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 the level of global risk defined by RAF.

The review of the RAF includes both the risks identified as material in the capital and liquidity assessment processes (IACL) 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
Market Risk	Non-Material
Operational Risk (Conduct, ICT-systems and core)	Material
IRRBB Risk	Non-Material
Liquidity Risk	Material
Business Risk	Material
Liquidity Risk	Material

Given the type of activity of the entity, the main risk to which it is subject is operational 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.

2.19 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.
- 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 investments 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.
  - 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.
- Involvement of the organization in risk management philosophy.

Allfunds Bank Group makes a periodic assessment of the materiality of risks and identification of their profile. The risk relationship covered by the "*Guide to the Processes of Capital Self-Assessment (PAC) and Liquidity (PAL) for Credit Institutions*" is complemented by a series of additional risks, included in the Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA/GL/2014/13).

2.20 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 Allfunds (UK) Limited.

2.20.1 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 S.A.U. as well as other specialized services from within or outside.

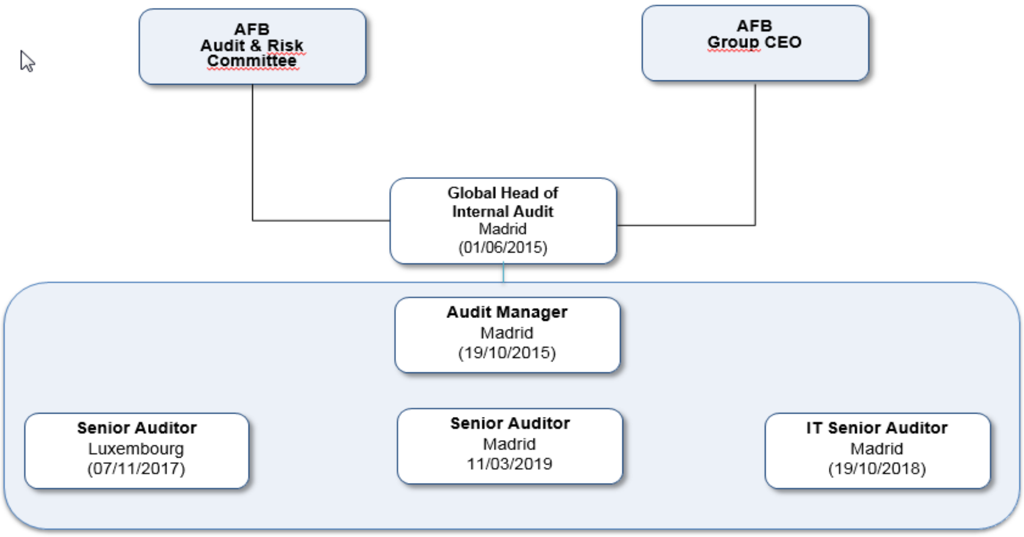
2.20.2 INTERNAL AUDIT DEPARTMENT RESOURCES

The Internal Audit team for the entity is a global function. The Global Head of Internal Audit reports functionally to the Chairman of the Risk & Audit Committee and administratively to the General Manager.

AIA has an approved headcount of five employees, of which four are based in Madrid and one in Luxembourg. The team currently includes a Head of Internal Audit, an Audit Manager and three Audit Seniors. The structure chart of the team is detailed below:

The structure chart of the team is detailed below:

Figure 6. Internal Audit organization



Source: Own elaboration, 2020

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

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

2.21 COMPLIANCE DEPARTMENT

The Compliance Department is responsible for identifying, evaluating, advising, supervising and reporting the Company's "Compliance Risk" which is the risk of legal or regulatory sanctions, material financial loss, or to the reputation damage a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities. The Compliance Department's scope is defined in the Company's Compliance Policy.

2.21.1 COMPLIANCE DEPARTMENT ORGANIZATION

The Compliance Department of Allfunds Bank, S.A.U. is 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 Department was formed by 17 professionals at the end of 2019, fifteen employees and two contractors. The Regulatory Compliance Unit was composed by 4 full-time employees and the AML/CTF Unit by 5 full-time employees in Spain. Furthermore, there was 2 full-time employees in the Milan Branch and another one in Singapore Branch. In the subsidiary in Luxembourg, Allfunds Bank International, there was 1 full-time employee as compliance officer and another full-time employee in the Zurich office. In the London Branch the department continued with a senior consultant as Compliance officer. In the new Allfunds Sweden office, the mandatory AML/CFT appointed officer and the compliance officer were covered by a senior consultant as a contractor.

The Compliance Department depends hierarchically on the General Manager of the entity and reports at least, on a quarterly basis to the Audit and Risk Committee and on an annual basis to the Board of Directors through the annual writing report.

2.21.2 MISION OF THE COMPLIANCE FUNCTION

The mission of the Allfunds Compliance function has been defined in accordance with the supervisory guidelines as stated below.

EBA guidelines5 requires that the compliance function possesses sufficient knowledge, skills and experience in relation to compliance and relevant procedures. The compliance function should be independent of the business lines and internal units it controls and have sufficient authority, stature and*resources.* It must have enough capacity to address the main tasks identified by EBA for the compliance function:

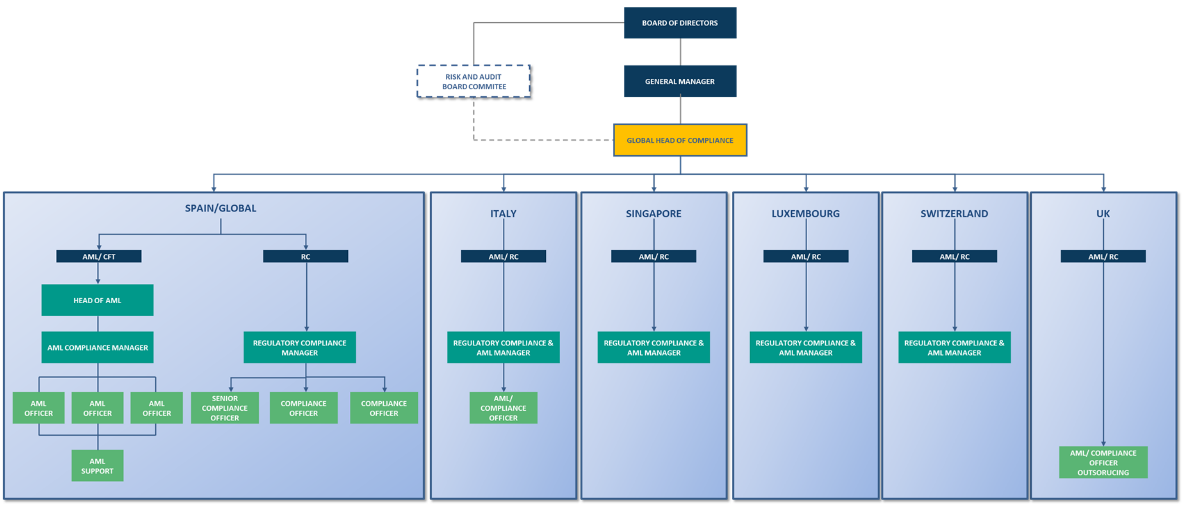
- It should advise the management body on measures to be taken to ensure compliance with applicable laws, rules, regulations and standards, and should assess the possible impact of any changes in the legal or regulatory environment on the institution's activities and compliance framework.
- It should ensure that compliance monitoring is carried out through a structured and well-defined compliance monitoring programme and that the compliance policy is observed.
- It should verify that new products and new procedures comply with the current legal framework and, where appropriate, with any known forthcoming changes to legislation, regulations and supervisory requirements

In July 2019 the European Security Markets Authority (hereinafter ESMA) launched a consultation regarding the Compliance Function where stated that "The compliance function is a crucial function within firms, responsible for identifying, assessing, monitoring and reporting on the firm's compliance risk." The document highlights the role of the compliance function in relation to certain specific topics, such as:

- new and specific responsibilities in relation to MiFID II's product governance;
- the complaints management function of the firm;
- to advise the management body of the firm on the firm's remuneration policy.

The Compliance department is part of the Company's second line of defense together with the Risk department.

Figure 7. Compliance Department organization



Source: Own elaboration, 2020

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

Part Two, Title I of the CRR defines the different levels of capital that will constitute the entity´s own funds under the solvency regulations, as well as those elements that comprise them.

The Bank has increased its own funds in comparision to the previous year thanks to the application to reserves of the previous year´s not distributed profit.

Table 3. Qualifying own funds. AFB Group

Amounts (Thousand Euros)	31.12.18	31.12.19
CET1	187,899	208,738
Tier 1 additional	-	-
TIER 1	187,899	208,738
TIER 2	-	0
CAPITAL TOTAL	187,899	208,738
RWAs	858,856	934, 400
***CET1 ratio*[9]**	***21.88%***	***22.34%***
Tier 1 ratio	***21.88%***	***22.34%***
Total Capital ratio	***21.88%***	***22.34%***
Leverage ratio	***13.49%***	***12.36%***

Source: AFB Group, 2019

Table 4. Details - Qualifying own funds. AFB Group

Amounts (Thousand Euros)	31.12.18	31.12.19
CET1 Instruments	**215,198**	**447,445**
Shareholders' equity	301,802	515,927
Capital	27,041	217,040
Profit	86,604	68,840
Reserves and others	188,157	230,407
Minority interests and unrealised gains/losses	-	-
Adjustments of comput. of minority int. and unrealised g/l	-	-
Other adjustments	(86,604)	(68,480)
Deductions from CET1	**(27,299)**	**(238,707)**
Goodwill	(6,704)	(202,392)
Intangible assets	(19,432)	(35,043)
Financial investments	-	-)
Deferred tax assets	-	-
Other CET1 deductions[10]	(1,163)	(1,272)
CET 1	**187,899**	**208,738**
AT1 Instruments	-	-
TIER 1	**187,899**	**208,738**
T2 instruments	**-**	**-**
Financing of subordinated issues	-	-
Generic provisions and excess of provisions IRB	-	-
T2 deductions	**-**	**-**
TIER 2	-	-
TOTAL CAPITAL	**187,899**	**208,738**

Source: AFB Group, 2019

3.2.2 INFORMATION ON CAPITAL REQUIREMENTS

Part Two, Title II to VI of CRR define capital requirements for credit risk, operational risk, market risk, settlement risk and credit valuation adjustment risk, respectively.

The following table shows the minimum amount of capital the supervisory authority requires the entity to hold in order to safeguard its solvency,

[9] CET1 ratio of 24.19% including the audited 2019 net profit

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

based on the amount of risk assumed in terms of the aforementioned risk.

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

Amounts (Thousand Euros)	Risk Weightet Assets (RWA) 31.12.18	31.12.19	Minimum capital requirements
Credit risk (excluding counterparty credit risk)	493,980	596,512	**45,561**
Standardised Approach (SA)	493,980	596,512	45,561
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	-	-	-
Settlement risk	-	-	-
Securitisation exposures in banking book	-	-	-
Market risk	**8,388**	8,663	**693**
Standardised Approach (SA)	8,388	8,663	693
Internal Model Approaches (IMM)	-	-	-
Operational risk	**356,488**	356,225	**28,498**
Basic Indicator Approach	356,488	356,225	28,498
Standardised Approach	-	-	-
Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total (1)	**858,856**	**934,400**	**74,752**

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

Source: AFB Group, 2019

3.2.3 CAPITAL BUFFER

An important innovation of Directive 2013/36/EU, which has been implemented progressively until 1st January 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.

As of 31st December 2019 the countercyclical buffer for Allfunds Bank Group[11] was at 0.1995% on RWA. This buffer has been built in terms of common equity tier 1 over total weighted assets. Most central banks still keep a 0%.

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

	Countercyclical buffer
Countries (*)	**0.1995%**
Andorra	0.0000%
Austria	0.0000%
Bahrain	0.0000%
Belgium	0.0000%
Bermuda Island	0.0000%
Brazil	0.0000%
Canada	0.0000%
Chile	0.0000%
Colombia	0.0000%
Denmark	0.0000%
Finland	0.0000%
France	**0.0079%**
Germany	0.0000%
Guernsey	0.0000%
Hong Kong	**0.0011%**
Ireland	**0.0701%**
Isle of Man	0.0000%
Italy	0.0000%
Japan	0.0000%
Jersey	0.0000%
Luxembourg	0.0000%
Malta	0.0000%
Mauricio	0.0000%
Mexico	0.0000%
Netherlands	0.0000%
Norway	**0.0026%**
Portugal	0.0000%
Saudi Arabia	0.0000%
Singapore	0.0000%
South Africa	0.0000%
Spain	0.0000%
Sweden	**0.0026%**
Switzerland	0.0000%
United Arab Emirates	0.0000%
United Kingdom	**0.1153%**
USA	0.0000%

Source: AFB Group, 2019

(*) Countries with a 0% contribution to the entity's due to the fact that these countries still keep their countercyclical buffer at 0% for exposures to those countries.

[11] As of 31 December, 2019, the countercyclical buffer for Allfunds (UK) Limited was at 0.1995% 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 have to notify the leverage ratio. The aim of this ratio is to ensure that banks do not 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, excluding derivatives and without elements considered as deduction in Tier 1.
- Off balance sheet accounts (mainly, guarantees, non-used credit limits, letters of credit) weighted by the conversion factors of the standard credit risk method.
- Net value of derivatives (capital gains are netted against impairment with the same counterparty) including surcharge for potential future exposure.
- A surcharge to cover the potential risk of security transactions.
- A surcharge to cover the potential 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 off-balance 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 2019 was as follows:

Table 7. Leverage ratio

Indicator	Current level
Leverage Ratio AFB Group	12.36%

Source: AFB Group, 2019

The following Tables show the relevant information as of 31st December 2019 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 31.12.2018	CRR leverage ratio exposures 31.12.2019
On-balance sheet items	1,413,422	1,725,387
- Asset amounts deducted in determining Tier 1 capital	-20,595	-36,315
Derivatives	353	609
Securities Financing Transactions (SFTs)	0	0
Off-balance sheet items	0	0
Leverage ratio		
Tier 1 capital (numerator)	187,899	208,728
Total exposure measure (denominator)	1,393,180	1,689,681
Leverage ratio	**13.49%**	**12.36%**
Minimum requirement	3.00%	3.00%

Source: AFB Group, 2019

Table 9. Leverage ratio pl. AFB Group

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)		
EU-1	**Total on-balance sheet exposures (exduding derivatives, SFTs, and exempted exposures), of which:**	**1,725,387**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1,725,387
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	544,885
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	773,849
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	468
EU-10	Corporate	36,915
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	369,270

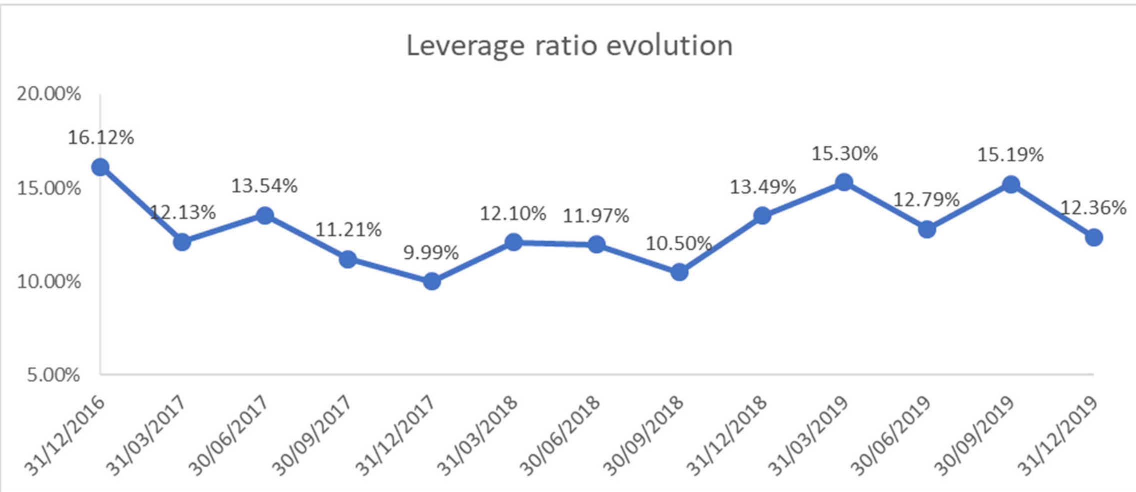
Source: AFB Group, 2019

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 Management Unit 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 slight decrease from 13.49% as of year-end 2018 to 12.36% as of year-end 2019. This movement is considered normal and comfortably above the risk apetite set at 7.50%.

Source: AFB Group, 2019

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



Source: AFB Group, 2019

The leverage ratio has remained above 12% during 2019, comfortably above the target level set in the Risk Appetite Statement (7.5%) and the regulatory requirement (3.0%).

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

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

The entity calculates Pillar II capital demand using 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**
- **Counterparty risk**
- **Operational risk**
- **Interest rate risk**
- **Liquidity risk.**
- **Market 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 Bank's operations and include contingency procedures, in accordance with the level and severity of the assumed risks.

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

Allfunds Bank only works with regulated financial institutional clients. Final approval requires that the client goes through a multistep approval process where the client is assigned a credit risk limit. The purpose of this limit is to set the maximum allowed overdraft in a cash account. This limit applies to all clients with a client's cash accounts 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 not 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 CREDIT RISK

The credit risk management function is managed by the Risk Management department whose main mission 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.

This 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 OWN FUNDS REQUIREMENTS FOR CREDIT RISK

As at 31st December 2019 Pillar I capital requirements for credit risk amounted to EUR 45,561 thousand, in accordance to the CRR.

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

Table 11. Total and average net amount of exposures (EBA Template CRB-B). AFB Group

Amounts (Thousand Euros)	Exposures before CCF and CRM				Average
	31.03.2019	31.06.2019	31.09.2019	31.12.2019	
Sovereigns and their central banks	414,357	742,309	484,881	544,688	546,559
Non-central government public sector entities	-	-	-	197	197
Multilateral development banks	-	-	-	-	-
Institutions/Banks	847,229	747,840	698,755	774,215	767,010
Corporates	9,192	20,563	26,339	37,158	23,313
Regulatory retail portfolios	457	427	490	468	461
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	8	8
Equity	384	384	385	384	384
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	336,288	351,275	378,903	368,878	358,836
Total Credit Risk - SA portfolio	**1,607,907**	**1,862,798**	**1,589,753**	**1,725,996**	**1,696,767**

Source: AFB Group, 2019

Geographical exposures

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

Table 12. Geographical breakdown of exposures (EBA Template CRB-C). AFB Group

Exposures	Sovereigns and their central banks	Non-central government public sector entities	Institutions	Corporates	Regulatory retail portfolios	Other assets	OIC	Equity	Total	RWA	Capital Requirements
Total	**544.688**	**197**	**774.215**	**37.158**	**468**	**368.878**	**8**	**384**	**1.725.996**	**569.512**	**45.561**
Luxembourg	244.216	0	1.523	6.112	0	224.878	0	0	476.729	231.295	18.504
Spain	3.994	197	409.638	2.552	446	22.354	8	0	439.189	107.563	8.605
Italy	296.412	0	68.447	2.482	0	9.074	0	0	376.415	32.698	2.616
France	0	0	130.027	888	0	12.043	0	0	142.958	38.936	3.115
UK	0	0	81.863	2.052	22	44.826	0	0	128.763	63.317	5.065
Switzerland	0	0	35.965	8.620	0	14.090	0	0	58.675	29.902	2.392
Ireland	0	0	0	1.426	0	27.076	0	0	28.502	28.502	2.280
Singapore	66	0	8.924	11.150	0	1.450	0	0	21.590	14.385	1.151
Sweden	0	0	11.020	200	0	221	0	0	11.441	2.625	210
Rest	0	0	26.808	1.676	0	12.866	0	384	41.734	20.289	1.623

Source: AFB Group, 2019

Concentration of exposures by industry or counterparty type

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

Maturity of exposures

Table 13. Maturity of exposures (EBA Template CRB-E). AFB Group

Amounts (Thousand Euros)	<1Y	1-5Y	>5Y	Total	Total %
Sovereigns and their central banks	544,688	-	-	544,688	**31.6%**
Non-central government public sector entities	197	-	-	197	**0.0%**
Multilateral development banks	-	-	-	-	**-**
Institutions/Banks	774,215	-	-	774,215	**44.9%**
Corporates	37,158	-	-	37,158	**2.1%**
Regulatory retail portfolios	167	284	17	468	**0.0%**
Secured by commercial real state	-	-	-	-	**-**
Collective Investment Undertakings (CII's)	-	-	8	8	**0.0%**
Equity	-	-	384	384	**0.0%**
Past-due loans	-	-	-	-	**-**
Higher-risk categories	-	-	-	-	**-**
Other assets	340,630	-	28,248	368,878	**21.4%**
Total Credit Risk - SA portfolio	**1,697,055**	**284**	**28,657**	**1,725,996**	**100.00%**
%	**98.3%**	**0.0%**	**1.7%**	**100.0%**	

Source: AFB Group, 2019

Methodology applied

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

Table 14. 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	544,688	-	544,688	0	0.00%
Non-central government public sector entities	197	-	197	0	0.00%
Multilateral development banks	-	-	-	-	-
Institutions/Banks	774,215	-	774,215	162,761	21.02%
Corporates	38,083	(925)	37,158	37,158	100.00%
Regulatory retail portfolios	487	(19)	468	351	75.00%
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CII's)	8	-	8	8	100.00%
Equity	384	-	384	384	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	368,878	-	368,878	368,850	99.99%
Total Credit Risk - SA portfolio	**1,726,940**	**(944)**	**1,725,996**	**569,512**	**33.00%**

Source: AFB Group, 2019

In accordance with Chapter2/Section 2 of the CRR, on credit exposures, various different risk- weightings 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.

When there are ratings by different ECAI for the same counterparty, the Entity follows the procedure set out in Articule 138 of the CRR, in which the order of preference to be employed is given.

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

Table 15. Standardised approach (EBA Template CR5). AFB Group

Amounts (Thousand Euros)	0%	10%	20%	35%	50%	75%	100%	Total
Sovereigns and their central banks	544,688	-	-	-	-	-	-	544,688
Non-central government public sector entities	197	-	-	-	-	-	-	197
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	764,318	-	-	-	9,897	774,215
Corporates	-	-	-	-	-	-	37,158	37,158
Regulatory retail portfolios	-	-	-	-	-	468	-	468
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-	-	8	8
Equity	-	-	-	-	-	-	384	384
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	28	-	-	-	-	-	368,850	368,878
Total Credit Risk - SA portfolio	**544,913**	**-**	**764,318**	**-**	**-**	**468**	**416,297**	**1,725,996**
%	**31.6%**	**-**	**44.3%**	**-**	**-**	**0.0%**	**24.1%**	**100.0%**

Source: AFB Group, 2019

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

Table 16. 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	0	-	-	-	-	-	-	0
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	152,864	-	-	-	9,897	162,761
Corporates	-	-	-	-	-	-	37,158	37,158
Regulatory retail portfolios	-	-	-	-	-	351	-	351
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-	-	8	8
Equity	-	-	-	-	-	-	384	384
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	0	-	-	-	-	-	368,850	368,850
Total Credit Risk - SA portfolio	**0**	**-**	**152,864**	**-**	**0**	**351**	**416,297**	**569,512**
Capital Requirements for Credit Risk (1)	**0**	**-**	**12,229**	**-**	**0**	**28**	**33,304**	**45,561**

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

Source: AFB Group, 2019

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, 2019 this liquidity was deposited in the following entities:

Entity	Rating
Kingdom of Spain	A-/Baa1/A-
Republic of Italy	BBB/Baa3/BBB-
Gran Duchy of Luxembourg	AAA/Aaa/AAA
Banco de Sabadell S.A.	BBB/Baa2/BBB
Bankinter S.A.	BBB+/A3/NR
BBVA S.A.	A-/A2/A-
Citibank Europe PLC	A+/Aa3/A+
Intesa Sanpaolo S.p.A.	BBB/Baa1/BBB-
Banco Santander Mexico S.A.	NR/Baa1/BBB+
Banco Santander S.A.	A/A2/A-
Bancolombia S.A.	BB+/Baa2/BBB-
Credit Agricole CIB	A+/Aa3/A+
BNP Paribas Securities Services	A+/Aa3/A+
Cecabank S.A.	BBB+/Baa2/BBB-
Citibank N.A.	A+/Aa3/A+
Danske Bank A/S	A/A2/A
Banque Internationale à Luxembourg	A-/A2/WD
JPMorgan Chase Bank N.A.	A+/Aa1/AA
First Abu Dhabi Bank PJSC	AA-/Aa3/AA-
Banco Santander Chile	A/A1/A
Santander UK PLC	A/Aa3/A+
State Street Bank International GmBH	AA-/NR/NR
Credit Suisse AG	A+/A1/A
UBS AG	A+/Aa2/AA-
DBS Bank Ltd	AA-/Aa1/AA-
Clearstream	AA/NR/AA
Santander Securities Services	NR/NR /NR
DBS Bank Ltd	AA-/Aa1/AA-
Bankia S.A.	BBB/Baa2/BBB
Banco Santander (Brasil) S.A.	BB-/Ba3/NR
Monethary Authority of Singapore	AAA/Aaa/AAA
SEB AB	A+/Aa2/AA-

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

Table 17. Credit 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'). In this sense, the following equivalences have been applied as of December 31st, 2019:

Table 18. 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-	150%	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: S&P Capital IQ, Moody's & Fitch Ratings and own elaboration, 2019

4.6 CREDIT RISK ADJUSTMENTS

A financial asset is considered to be impaired[12] when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), gives rise to an adverse impact on the future cash flows that were estimated at the transaction date; or
- In the case of equity instruments, means 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 recognized impairment losses is recognized in

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

the consolidated income statement for the year in which the impairment is reversed or reduced.

Impairment losses on debt instruments classified as loans and receivables are estimated and recognized as set forth in Annex IX of Bank of Spain Circular 4/2017. On 1 January 2018, came into force the Bank of Spain Circular 4/2017, of 27 November 2017. The main purpose of Circular 4/2017 is to adapt the accounting system of Spanish credit institutions to the changes in European accounting legislation stemming from the adoption of two new International Financial Reporting Standards (IFRSs) being:

(i) International Financial Reporting Standard 9 (IFRS 9), which will amend the methods of accounting for financial instruments; and

(ii) International Financial Reporting Standard 15 (IFRS 15), which will amend revenue recognition methods.

One the three most noteworthy changes introduced by this Circular that emanates directly from the amendments to IFRS 9 are as follows:

The change in the financial asset impairment model, which ceases to be based on incurred losses and is now based on expected losses. The purpose of this change is to obtain a more appropriate measurement of the assets and an earlier recognition of any impairment losses thereon.

Financial instruments are grouped into three categories based on the impairment method applied, in accordance with the following structure:

- Stage 1 – Normal risk: those transactions the credit risk of which has not significantly increased since initial recognition. Impairment hedging shall be equal to the twelve-month expected credit losses. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.
- Stage 2 – Normal risk under special surveillance: those transactions the credit risk of which has significantly increased since initial recognition, but without default. Impairment hedging shall be equal to the lifetime expected credit losses of the transaction. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.
- Stage 3 – Non-performing: credit-impaired transactions, i.e. there has been a default. Hedging shall be equal to the expected credit losses. Interest revenue shall be calculated by applying the effective interest rate at amortized cost (i.e. adjusted for an impairment allowance) of the financial instrument.

The measurement of whether or not there has been any significant increase in credit risk must be based on reasonable and supportable information that is freely available and obtained without an unreasonable amount of effort, which shall indicate the credit risk increases since initial recognition and must reflect historical, actual and forward-looking information.

The definitions established to measure the significant credit risk are in line with the following criteria:

- Drop in the credit rating given by credit rating agencies.
- Drop in the country rating where the counterparty operates.
- Increase in credit default swaps (CDS).
- Public information of results with losses.
- Threat of systemic risk.
- Merger, take-over or consolidation movements.
- Changes in shareholders.
- Significant increase in consumption limits and in customer payment experience.

Whatever the case, Stage 2 is considered with respect to instruments with defaults of over 30 days.

Allfunds Bank has decided to continue using the practical solutions to calculate its expected portfolio losses in accordance with the requirements set forth in Circular 4/2017.

The measurement process for possible impairment losses for those instruments that involve the risk of insolvency for debtors (credit risk) is done collectively, as there are no significant individual cases that exceed a particular threshold. The aforementioned estimate is performed by applying the alternative solutions contained in Appendix IX to Circular 4/2017, calculated on the basis of the parameters established by the Banco de España based on sector information and its accumulated experience.

The amount for impairment losses, estimated in accordance with the criteria set forth above, are entered in the headings "Impairment losses or reversals on financial assets not at fair value through profit or loss – Financial assets at amortised cost".

As a general criterion, the carrying amount allowance for financial instruments due to impairment is entered in the profit and loss account for the reporting year in which the impairment appears. Recoveries of previously entered impairment losses, where appropriate, are reflected in the profit and loss account for the reporting year in which the impairment is eliminated or reduced.

Whenever it is considered that the probability of recovery of any amount entered is remote, this is removed from the balance. The latter, without prejudice to the bank and its dependent companies attempting its collection until their rights have definitively lapsed; whether owing to the statutory limitation, having been written off or some other reason.

On the other hand, the methods used for calculating the allowances and provisions for non-performing exposures, and also for performing exposures and for exposures under special monitoring the criteria set forth below:

Allowances and provisions for non-performing exposures

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

- Over 3 months, but not exceeding 6 months: 50%.
- Over 6 months, but not exceeding 9 months: 60%.
- Over 9 months, but not exceeding 1 year: 70%.
- Over 1 year, but not exceeding 15 months: 85%.
- Over 15 months, but not exceeding 18 months: 90%.
- Over 18 months, but not exceeding 21 months: 100%.
- Over 21 months: 100%.

Allowances and provisions for performing exposures and exposures under special monitoring

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: 0.5%.
- Standard exposures under special monitoring: 7.5%.

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 in the name of deposit guarantee funds and resolution funds, provided their credit quality is such that they are equivalent to those of the European Union.
- Transactions in the name of credit institutions and specialized lending institutions from countries of the European Union and, in general, from countries classified in group 1 for the purpose of country risk.
- Transactions with 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 to in rule 66, paragraph 5.

- advances on the following month's pensions or wages, provided the paying entity is a government agency and the wage or pension is direct credited to the institution.
- Advances other than loans.

Since 1 January 2018 the bank has adjusted its accounting procedures to Circular 4/2017 regarding IFRS 15 and IFRS 9, entering into force on 1 January 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

The Group held **past-due but not impaired financial assets** in the balance sheets as at 31 December 2019 amounting to EUR 18,478 thousand, all of which had maturities of less than 30 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 those dates.

Financial assets classified as financial assets at amortised cost and collectively estimated to be **impaired due to credit risk** at 31 December 2019 amounted to EUR 1.806 thousand, relating entirely to the commissions of shares from Collective Investment Undertakings pending 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 -944 thousand, that could be split in "allowances for performing exposures and exposures under special monitoring" (Stage 1+2) estimated of EUR -23 thousand and "allowances for non-performing exposures" (Stage 3) amounting to EUR -921 thousand as at 31 December 2019.

Finally, at 31 December 2019, the Group did not hold any financial assets classified as loans and receivables and considered to be **written-off assets**.

Ageing of past-due exposures

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

Table 19. Ageing of past-due exposures (EBA Template CR1-D). AFB Group

Amounts (Thousand Euros)	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	18.478	-	-	935	402	469
Debt deposit		-	-	-	-	-
Total exposures	**18.478**	**-**	**-**	**935**	**402**	**469**

Source: AFB Group, 2019

4.7 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.

4.8 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 2019 no exposure was above the previous limit. The entity does not have significant exposures to clients, its principal exposures are with Spanish and Italian markets.

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 focused 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 market risk is practically non-existent and, therefore, aligned with the risk appetite.

5.3 STRUCTURE AND ORGANIZATION OF MARKET RISK

Market risk is managed by the Risk Management and Finance departments.

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 allowing 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 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, EUR-denominated and Euro-zone based sovereign references. As of December 31st 2019 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 2019 Pillar I capital requirements for market risk amounted to EUR 693 thousand, in accordance to the CRR.

6. OPERATIONAL RISK

6. OPERATIONAL RISK

6.1 DEFINITION

Allfunds Bank defines operational risk as the risk of loss resulting from deficiencies or failures of internal processes, human resources or systems, or derived from external circumstances. This definition includes legal risk but excludes reputational and strategic/business risk. Operational Risk is, therefore, inherent to all activities, processes and systems and is generated by all business and support areas. For that reason, all employees are responsible for the management and control of the operational risk generated in their own area.

6.2 LIMITS AND DIVERSIFICATION

Allfunds Bank has set limits for operational risk based on two indicators: operational risk net losses divided by gross margin and operational risk net losses divided by own funds. The limits for these indicators have been set up at 1% for the alert level and 2% for non-compliance level. Target level for both metrics is set at 0.50%.

6.3 STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK

Operational risk management is decentralized within the different process managers that cover the entire organization. The purely operative processes are identified in the International Standard for Assurance Engagements ISAE 3402 report. Additionally, during 2019 not only these operative processes but also non-operative are being identified on a corporate processes-and-risks map within the Risk and Control Self-Assessment exercise (RCSA) which facilitates the integration of information according to the organizational structure. Allfunds Bank Group has a global unit specialized in operational risk management, within the Risk Management area, whose main functions are coordinating, supervising and promoting both the identification and the assessment and management of risks carried out by the process managers according to the Operational Risk Framework (ORF) and the internal control model adopted by Allfunds Bankbased on three lines of defence.

At a higher level, the Board of Directors is the body that determines the risk policy of Allfunds Bank, including operational risk. It delegates its attributions in the Senior Management which serves as support for the fulfilment of the different functions through the Risk and Audit Board Committee and the internal Risk and Audit Committee.

- The Risk and Audit Board Committee (quarterly) aims at advising the BoD on the global propensity to current and future operational risk and its strategy, in order to determine the nature, quantity, format and frequency of operational risk information that should be received, identifying the exposure, risk appetite, action plans to mitigate the impact of the identified risks if they materialize and the information systems and internal controls that will be used to control and manage the aforementioned risks.
- The Internal Risk and Audit Committee (monthly), integrated by Senior Managers and those responsible for the different functional areas of the entity, aims at:
    - Ensuring that the risk exposure is under the tolerance limits approved by the BoD.
    - Permanently adapting the risk management procedures to the growing sophistication of the financial market and align them with the current capital requirements.
    - Permanently adapting the valuation methodology to the best market practices and to the needs of Allfunds Bank.
    - Monitoring general risks (financial and non-financial). In relation with operational risk, its management is addressed in all committee sessions.

Therefore, the Board of Directors and Senior Management are directly involved in the management of this risk through the approval of the operational risk framework and its implementation, as proposed by the Risk Management area and previously discussed in the Internal Risk and Audit Committee. Operational risk monitoring and control systems are also subject to an independent review and at the end of 2019 the Operational Risk Framework (ORF) was reviewed by the Internal Audit department.More specifically, the operational risk function is based on two axes of action:

- The first is based on the processes analysis, the identification of the risks linked to them that could cause losses (potential or real), the qualitative assessment of these risks and its associated controls, all in a joint way among the process managers (first line of defence) and the specialized unit of operational risk (second line of defence). The result is a valuation that allows to know the risk exposure as well as anticipate trends and plan mitigating actions. It is complemented with the detection, monitoring and active management of this exposure through the use of operational key indicators, encouraging the establishment of alerts to identify the exposure increase and its causes, measuring the effectiveness of controls and the improvements made. At the same time, it is verified that those processes identified as critical to the lack of service have defined and implemented specific business continuity plans.
- The second is based on experience. It consists in collecting in a database all the events that take place in Allfunds Bank, which provides operational risk information to which each business line has been exposed and the root causes that have originated it, in order to act on them with the aim of minimizing them. This information also allows to contrast the coherence between the estimates of potential losses and the reality, improving the estimates on risk exposure levels. There is a historical database of losses since 2008, which is continuously improved and updated as information on the events is received.

All this structure and organization of the operational risk function revolves around the definition of operational risk included at the beginning of this section.

Within this type of risk, the following subcategories are identified:

- ICT Risk: Risk associated to insufficient or faulty hardware and software of technical infrastructures that may compromise the availability, integrity, accessibility and security of infrastructures and data. It refers to any risk related to information and communication technologies.
- Conduct Risk: Risk associated to losses due to the inadequate provision 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 the Allfunds Bank Group's business, not related to clients (in which case it would be a conduct risk).
- Outsourcing risk: risk derived from a third party or from another group entity (intra-group outsourcing) negatively providing systems or services related to the impact on the entity's performance and risk management.

These non-financial risk subcategories are not managed and controlled directly and exclusively by the operational risk team, but together with other internal control departments (Information Security & IT Risk, Compliance and Legal departments).

Within this risk, Allfunds Bank considers not only financial impacts but also regulatory, reputational impacts as well as impacts on client and business.

The Group's overall objective in terms of management of operational risk comprises a number of specific objectives that form the methodology applicable to operational risk management. This objective is focused on the identification, measurement, assessment, management, monitoring, control and mitigation and reporting of this risk, maintaining a medium-low appetite.

The Operational Risk Framework (ORF) was last updated and approved by the Board of Directors in March 2019, complying with the operational risk management cycle defined that aims to achieve the following objectives:

- Defining the internal tools to identify and assess operational risk.
- Promoting a global risk culture and the involvement of all employees, through appropriate training to all areas and levels throughout the organization.

- Defining the internal policies and procedures to manage and control operational risk.
- Proposing the limits of risk tolerance that have been approved by the Board of Directors within the Risk Appetite Framework and monitoring the operational risk profile.
- Supervising the management and control of operational risk, questioning and challenging when appropriate, the approaches of the business and support areas.
- Reporting periodically on the operational risk profile both internally to the Senior Management and Board of Directors, and externally to regulatory bodies.

6.4 REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

Allfunds Bank has a control methodology that allows the quantification and management of exposure against operational risks according to their size and nature. Although the method of calculation of capital requirements by Pillar I is the basic indicator approach, the entity has developed a more evolved management model with quantitative and qualitative tools for other purposes, among others, stress tests and control; but in general, to enhance the entire operational risk management cycle in terms of identification and evaluation, mitigation, monitoring and communication.

This methodology combines the internal historical experience in operational risk and the qualitative assessments made by the owners of the processes and risks, which allow identifying and assessing current losses and the potential that could occur. The tools that the model incorporates are the following:

- Risk and Control Self-Assessment (RCSA): it is an internal exercise through which the inherent and residual risk of the process map of the entity is evaluated, identifying strengths and weaknesses of the operational risk environment. The map is drawn up from the input information of the process managers and the review of current manuals and/or internal procedures, thus enabling the identification of processes, sub-processes and their corresponding managers; and the evaluation is carried out using the risk matrices, constructed in terms of frequency and severity, and the control effectiveness determined in terms of design and performance. It is a continuous exercise with a vision “forward looking” that must be repeated at least once a year, and especially on these situations:
  - Launch of new services, activities, processes or systems whose operating environment may increase the risk exposure.
  - Relevant organizational changes.
  - Outsourcing of activities/processes.
- Operational risk events database: the different areas are responsible for identifying and reporting to the specialized operational risk unit the risk events and incidents that occur, ensuring the integrity of the information presented to analyze the causes that generated them and to establish the necessary preventive and corrective measures.
- Operational Key Indicators (OKIs): these are certain parameters that measure the behavior of the processes and activities of Allfunds Bank, allowing the identification of potential sources of operational risk.

The business continuity management has been another essential source of information and measurement in the management of operational risk. Allfunds Bank has a business continuity plan to ensure the continuity of the operative capacity in case of serious business interruptions due to internal or external events. Periodic verification of recovery and business continuity plans are done yearly, and the tests scheduled for 2019 have been successfully completed.

Additionally, during 2019 a new review of the Allfunds Bank’s outsourcing policy was carried out considering the main recommendations and new guidelines and including the new regulatory requirements. The process of outsourcing services follows a detailed and documented procedure for these decisions, including the notification to the regulator, if applicable.

Also, during 2019 the operational risk team has continued the optimization of its management and control processes through the GlobalSuite®

tool which integrates activities and functions of corporate governance, risk management and compliance (GRC tool).

This tool allows 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.

The adoption of other tools for the internal management and control of operational risk has been considered:

- External events database: the benefits of using external data 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 scenario exercises. During 2019, Allfunds Bank's participation in an international consortium has been valued.
- Scenario analysis: Despite only punctual scenarios have been carried out for stress testing purposes, the objective is the scenario analysis on a regular basis, using the opinion of business and support areas and other subject matter experts as well as the risk and control functions.

During 2019 Allfunds Bank has improved its responsibility to establish mitigation measures, by approving an internal Mitigation Measures Management Procedure. The identification and implementation of mitigation measures is considered an essential process within the management of operational risk, and it is activated when:

- Tolerance limits defined within the risk appetite are exceeded.
- The analysis of the operational OKIs shows trends of deterioration.
- The result of the RCSA shows a residual risk that exceeds the level of objective/target risk established.
- Relevant events of category R1 (Relevance 1) and R2 (Relevance 2) occur in accordance with the Procedure for the Communication and Escalation of Operational Risk Events.
- There are significant incidents on processes that reveal the need to review them.
- The business continuity and disaster recovery tests are not satisfactory.
- There are deviations from the budget when there are processes where the operational risk management is integrated within the business strategy.

Prior to the approval of this procedure, mitigation measures were already being considered and monitored in response to the main identification tools developed to integrate them within the operational risk framework (ORF). These 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. Now with the Mitigation Measures Management Procedure, the scope of measures monitored is expanded considering not only corrective actions but also preventive, tactical ans strategic.

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 Operation Center) and SIEM (Security Information and Event Management System), DoS protection services, malware protection, DLP (data loss 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, Allfunds Bank has been continuously improving, and subsequently implementing, corporate policies and procedures both in the first lines of defence areas and second line of defence areas, as well as the optimization of processes through the Transformation Office.

Moreover, within the mitigation process, business continuity plans are available and frequently improved to ensure the development of key functions in case of disasters or events that could suspend or disrupt the Group's activities. These continuity plans consider all the critical functions in the development of the processes, establishing the pertinent coordination mechanisms among the participants, as well as with other units or the Corporation when dealing with critical processes that affect the Group. More information about the Business Continuity Management (BCM) is collected in section 6.7.

As a further operational risk mitigation mechanism, Allfunds Bank has an insurance policy in order to transfer some risks that are not intended to be assumed. The insurance policy has a high level of coverage through several concepts, and a specific cybersecurity policy in addition. The frequency and severity of operational risk may change regardless of the stability of the operating processes. Therefore, the continuous application of operational risk management and control processes (i.e. a permanent review of indicators or execution of the self-assessment exercise at least once a year, among others) is considered essential to a proper management of this risk. Previously mentioned, there are three special circumstances in which Allfunds Bank control and monitor potential changes on the operational risk profile: the launching of new services, activities, processes or systems, relevant organizational changes and outsourcing of activities/processes.

As appropriate, the monitoring and control of operational risk is aimed at the recurrent analysis of the information available about the type and levels of risk assumed in the development of each activity or business, which includes:

- The collection of information, using the instruments detailed above and ensuring that the information flow to the responsible for each function (first lines of defence) who must be aware of it and, in any case, to the control functions (second lines of defence).
- The analysis of the information and the critical review of risks, their indicators and control mechanisms, to ensure their updating and improvement, especially the review of alerts born from previous analysis.
- The verification of compliance with policies and procedures regarding operational risk, as well as the proper use of the management tools.

Within the operational risk framework (ORF), the communication and reporting process at Allfunds comprises the generation, disclosure and making available to the relevant persons and bodies all the information needed to know and assess the status of operational risks and to be able to take the necessary decisions and actions.

The generation of management information on operational risk is, therefore, one of the axes on which the management and control of this risk is supported at Allfunds Bank. There are several management reporting practices implemented allowing:

- Report the Group's operational risk profile and exposure.
- Improve the level of interaction of both Senior Management and the different areas regarding the active management of operational risk.
- Elaborate management reports with different levels of aggregation, according to the purpose of each one and according to the levels to which they are intended.

In 2019, Allfunds Bank has held a group of independent (quantitative and qualitative) management reports for monitoring the operational risk. This group of reports allows to obtain a broad view of the operational risk profile with different aggregation criteria and thus be able to present them at different hierarchical levels:

- External reporting:
  - Public information.
  - Due diligences requested by third parties.
  - Regulatory reporting.
- Internal reporting:
  - Monthly information to the members of the Internal Risk & Audit Committee.
  - Ad-hoc periodic information to the Board of Directors through the Risk and Audit Committee (delegate of the Board of Directors).

6.5 OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

Capital requirements for Operational Risk at Allfunds Bank is calculated using the basic indicator approach according to Chapter 2 of Title III of the CRR.

The capital requirements for operational risk of Allfunds Bank at 31st December 2019 was EUR 28,498 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 & Loss Account, an additional 3% would be added on top of the basic indicator approach, to reach a weight of 18% up from the basic 15%.

At 31st December 2019 the operational net losses represent the 1.94% of Gross Margin and 2.10% of Own Funds; these levels triggered the activation of the escalation protocol for breaches due to 2 events of unexpected losses of high severity. A temporary approval was granted given the exceptional nature of what happened, although a set of action plans was required to be implemented in 2020 with the aim of reducing the risk exposure and return to the target appetite levels. At the time of elaboration of this report most of the action plans had been implemented and proved effective in the first months of 2020. Additionally, full recovery of both events is expected in the second half of 2020, being on the last stages of the claim procedures (insurance policy and legal claim). Due to these facts it has been assessed that there is no need to activate the additional 3% add-on for operational risk..

6.6 OPERATIONAL RISK PROFILE

The operational risk profile based on its distribution of losses by Basel-type event and in relation to the historical losses of the previous three years and the losses in the last year are reflected in figures 8 and 9, respectively:

Figure 9. Historical net losses AFB Group (% Basel-type)

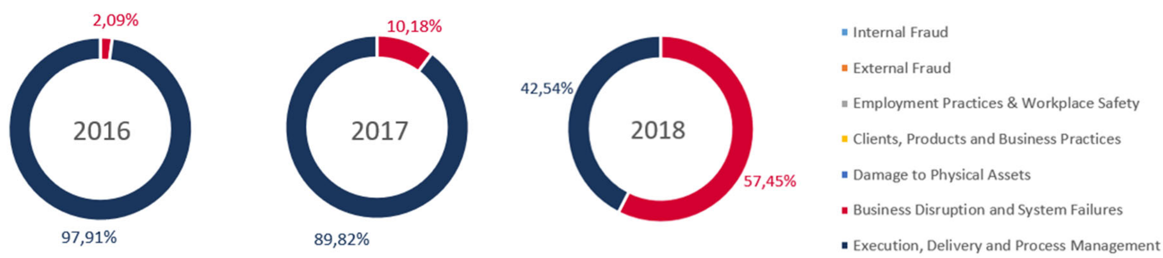
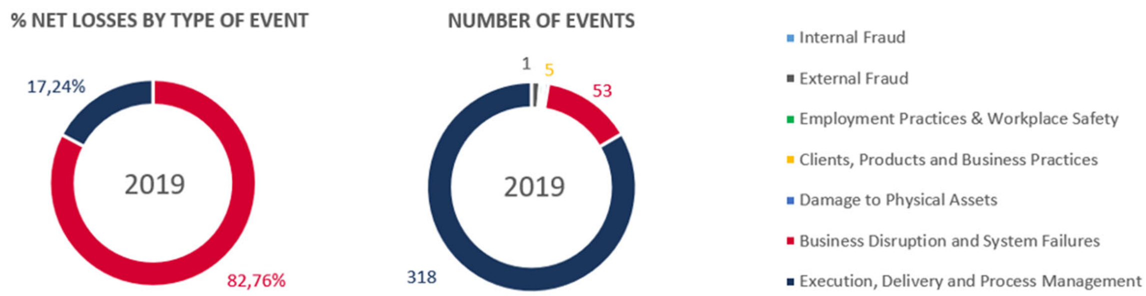


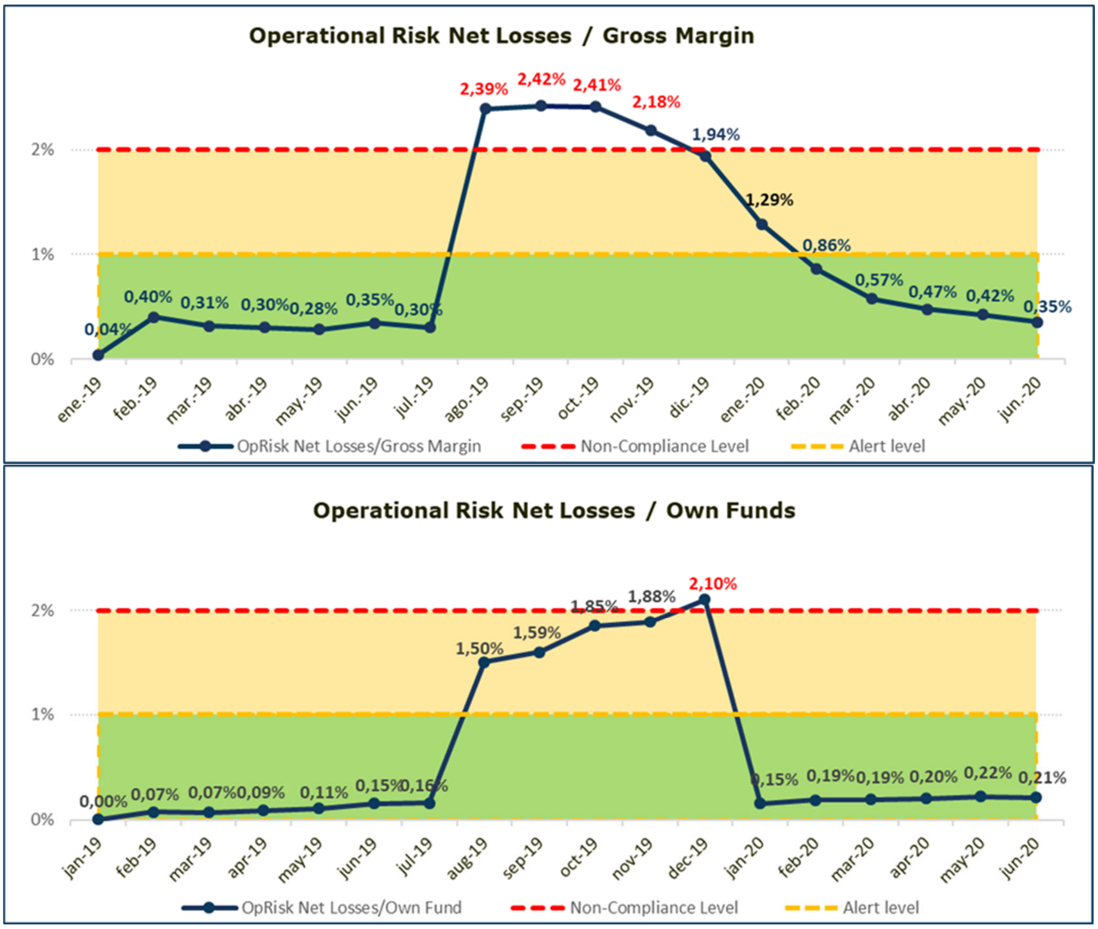
Figure 10. Distribution by type of event and number of events 2019. AFB Group



The evolution of losses by type of event shows that most of the operational losses are motivated by manual failures in processes (Execution, Delivery and Process Management: 17.24%) and systems failures (Business Disruption and System Failures: 82.76%) following the trend of previous years, where events for operational risk continue to be concentrated in these two categories. During 2019, the most relevant event was a loss of EUR 3,073 thousand due to a SWIFT outage affecting 1the order routing service.

Figure 10 reflects the evolution of the Operational RAS (Risk Appetite Statement) indicators during 2019; the RAS levels triggered the activation of the escalation protocol for breaches due to 2 events of unexpected losses of high severity. A temporary approval was granted given the exceptional nature of what happened, although a set of action plans was defined to be implemented in 2020 with the aim of reducing the risk exposure and return to the target appetite levels. At the time of elaboration of this report most of the action plans had been implemented and proved effective with levels of risk back to normal low levels. Additionally, full recovery of both events has been achieved in the second half of 2020 thanks to the operational risk insurance policy and a legal claim, respectively.

Figure 11. Operational RAS (Risk Appetite statement) 2019. AFB Group



6.7 BUSINESS CONTINUITY MANAGEMENT

Allfunds Bank 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 Allfunds Bank, 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 Allfunds Bank.
- To satisfy Allfunds Bank's obligations to its employees, clients, shareholders and other interested third parties.

Allfunds Bank has defined a framework for Business Continuity Management to identify risks of exposure to internal and external threats. Its main goal is to provide the entity with the ability to effectively respond to threats such as natural disasters, pandemic outbreaks, strikes, terrorist attacks or data breaches and protect the business interests.

- Business Continuity Plan: Based on its BIA, Allfunds Bank has defined (and tested) a business Continuity Plan that identifies the main contacts and the responsible to activate the plan, alternative locations, risk assessment and information to counterparties, critical business processes, functions and people and, finally, systems. Allfunds Bank has developed policies and procedures to mitigate the impact caused by an incident providing effective response to an internal or external significant business disruption (SBD).
- Disaster Recovery Plan: As part of the BCM, Allfunds Bank has defined a DRP (tested at least annually) In order to be prepared for the recovery of the technology platform after a natural or human-induced disaster and ensure the proper operation of critical applications and hardware within the shortest time so that the business is not affected. The recovery time objective (RTO) is 4 hours and the recovery point objective (RPO) is 0 because of the use of synchronous copies between Data Centers.

During 2019, BCP and DRP have been developed and tested, and the result was satisfactory.

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 fulfillment of objectives.
- 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 ASSOCIATION WITH THE RISK CATALOGUE

Other risk categories within the group's risk catalogue for which operational components have been identified are:

- **Legal and regulatory 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.

  Allfunds Bank's Legal department and Compliance department are responsible for managing this risk. The Legal deparment, as risk owner function andwith 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 authorized 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 also the Secretary of the Board of Directors and keeps the members of the Board informed about legal concerns.

Moreover, this risk is included within the operational risk definition as subcategory, so any type of event related to it will be taxonomized within the Basel categories of operational risk. This allows the entity to use the internal database of operational risk events to identify this type of risk in order to calibrate the possible capital requirements for the Capital Self-Assessment process.

- **Third-party risk (outsourcing):** is the risk that engaging a third party (vendor o supplies) or another group entity (intra-group outsourcng) to provide IT systems or related services adversely impacts the institution`s performance and risk management. The entity has a Supplier Procurement Procedure that includes due diligence controls and an Outsourcing Policy that complies with the recommendations of the EBA guidelines on outsourcing arrangements (EBA/GL/2019/02). The decision to outsource involves a risk and control assessment; therefore, the Compliance, Risk Management (Operational Risk team) and Information Security and IT Risk departments prepare their risk assessments reports according to this Policy. These reports are sent to the Legal department who consolidates the information and sends the information to the competent authorities, if applicable. Subsequent to these reports, the control areas carry out a second level monitoring to verify that the controls and mitigation measures are adequate and do not increase the exposure to the identified risks.

  The incidents derived from suppliers may be taxonomized in Basel Category 6 and 7; this allows the Entity to use the internal database of operational risk events to identify this type of risk and to be able to calibrate the possible capital requirements for the Capital Self-Assessment process.

- **Model risk:** is the risk of loss resulting from using insufficiently accurate model to make decisions originally and frequently in the context of valuing financial securities. However, model risk is more and more prevalent in other activities than financials securities valuation, such as assigning consumer credit scores, real time probability, prediction of fraudulent credit card transactions, etc. Therefore, it can also be defined as the risk of suffering losses as a result of failures in the design, implementation and/or use of models used for decision-making. This risk currently has a minimal impact on Allfunds Bank since the entity does not widely use internal models (either statistical algorithms or battery of rules) for decision-making. However, potential sub-types of model risk, such as errors in their design, use of unathorized models or their malfunction, are taxonomized in Basel Category 4: Clients, Products and Business Practices, and in Category 7: Execution, Delivery and Process Management, so that if required, the entity could use the internal database of operational risk events to identiy this type of risk and to be able to calibrate the possible capital requirements for the Capital Self-Assessment process.

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

In order to comply with the standards issued by the CRR/CRD IV, the impact of the yield curve on net interest income and the equity is calculated and reported every six months for the entity and its affiliates.

Although the entity has low sensitivity to movements in interest rate, the entity monitors it by assessing the impact on net economic value divided by own funds.

7.3 STRUCTURE AND ORGANIZATION OF INTEREST RATE RISK

Due to the low exposure to the interest rate risk, no specific structure has been defined for the individual management of this risk.

7.4 REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

Due to the reasons indicated above, the reporting is limited to biannual regulatory reporting about sensitivite on the net interest margin and on the bank economic value.

7.5 OWN FUNDS REQUIREMENTS FOR INTEREST RATE RISK

Most assets and liabilities are 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.

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

Reduction in economic value	Σ Recurrent profit (last 3 years)	20% Internal Capital
437	320,647	42,009

Source: AFB Group, 2019 (Thousand EUR)

8. LIQUIDITY AND FUNDING RISK

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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 to 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. Allfunds Bank has defined procedures and methodology in order to properly manage liquidity risk. The procedures also provide a full coverage of the liquidity standards required by the regulator.

Operating or short-term cash flow are managed by the "Banking Services Area" integrated in the Operations Department under the close monitoring of the Finance Department.

Due to the current business model and the low liquidity risk exposure established by the BoD the probability of incurring losses derived from 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.

In order to preserve the bank's liquidity, including its intraday liquidity, the following mitigating controls have been established:

- Monitoring and control of payments over 3 million euros derived from the settlement of subscription orders or redemption orders of units of CIIs.
- Liquidity withdrawals from balances held in current accounts are closely monitored.

Additionally, the LQs liquidity statements are monitored each month in order to identify possible gaps between short-term inflows and outflows in a normal market environment. If a risk of a liquidity gap is identified, the Risk Management Department is responsible for escalating it to the Risk and Audit Board Committee and, ultimately, to the Board of Directors through the Risk and Audit Committee (delegate of the Board of Directors).

Alaert and Non-compliance level are reviewed by the Board of Directors at least once a year.

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 defence 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, 2020

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 high-credit quality institutions 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 materialized in overnight demand accounts and interbank deposits.
- In addition, fees income also generates cash 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 receivable and payable fees 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 Management Policy that allows to:

- Establish internal measures to ensure that Allfunds Bank maintains a sufficient level of liquidity to meet its payment obligations, even under adverse liquidity scenarios;
- Define an efficient process to establish, monitor, report and change the necessary liquidity buffer to keep Allfunds Bank’s risk profile within the levels approved in the risk appetite framework;
- Define and delegate responsibilities to manage measurement and monitoring processes and internal controls to ensure that liquidity ratios are kept at adequate levels.

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	31.12.2019
LCR	Monthly	497.49%
NSFR	Quarterly	211.43%

Source: AFB Group, 2019

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 2019 being as follows:

Table 22. LCR

Thousand Euros

Components	Amount
Liquidity buffer	544,712
L1 excl. EHQCB liquidity buffer (value according to Article 9): unadjusted	544,712
NET LIQUIDTY OUTFLOW	109,491
Total Outflows	302,916
Reduction for Inflows Subject to 75% Cap	193,425
LIQUIDITY COVERAGE RATIO (%)	497.49%

Source: AFB Group, 2019

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). For this purpose, there is a continuous monitoring of these ratios and a monthly reporting in the internal Risk & Audit Committee.

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 2019 has the following composition:

Table 23. NSFR

Thousand Euros

Components	Exposure	Weight	Amount
• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year)	**515,927**	100%	**515,927**
• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**1,076,271**	90%	**968,644**
• 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)	**382,520**	0%	**0**
TOTAL AVAILABLE STABLE FUNDING	**1,974,718**		**1,484,571**
• Coins and banknotes	**28**	0%	**0**

• All central bank reserves	**544,688**	0%	**0**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**506,514**	15%	**75,977**
• Loans to financial institutions and central banks with residual maturities between six months and less than one year	**260,000**	50%	**130,000**
• Deposits held at other financial institutions for operational purposes	**0**	50%	**0**
• 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	**334,594**	50%	**167,297**
• NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	**0**	100%	**0**
• All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities	**328,894**	100%	**328,894**
TOTAL REQUIRED STABLE FUNDING	**1,974,718**		**702,168**
NSFR			**211.43%**

Source: AFB Group, 2019

The entity has defined other liquidity indicators to monitor liquidity (**ALMM - Additional Liquidity Monitoring Metrics**) 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 2019, the last available state about the encumbered assets of Allfunds Bank Group was as follows:

Table 24. Unencumbered assets. AFG Group[13]

Thousand Euros	Encumbered assets		Unencumbered assets	
	On-balance sheet amount	Fair value	On-balance sheet amount	Fair value
Assets	2,530	-	1,972,188	-
Demand loans	303	-	1,041,097	-
Equity instruments	-	-	393	393
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:	2,227	-	310,810	-
mortgage loans	-	-	-	
Other assets	-	-	619,888	-

Source: Own elaboration, 2019

[13] In 2019 Allfunds (UK) Limited presented the same data relating to the encumbered assets, being different the data relating to the unencumbered assets (furthermore details in annex 1. Quantitative information about Allfunds (UK) Limited.

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 is subject to a previous analysis performed by the Compliance and Risk departments of Allfunds Bank Group, supported by the Sales department. This analysis will determine the potential impact on the reputational and financial risks of the bank. An approval of new clients is overseen on the Customer Acceptance Committee (CAC), chaired by the General Manager and coordinated by the AML/CFT Unit of Compliance Department. For the medium risk and high-risk customers, the AML/CFT Unit reserves the right to apply enhanced due diligence measures prior to be presented to the Customer Acceptance Committee (CAC).

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).

During 2019, the Regulatory Compliance Unit (RCU) reviewed the activity carried out by the Marketing and Corporate Social Responsibility department (CSR) and in particular the events organized by the Company during 2018 with the aim to identify if all events fulfil the internal procedures in this regard. As result, it was recommended to update the "Fondo Solidario" policy in order to reflect a procedure regarding the reception of any donations from third parties. In particular, the Marketing and CSR team review the legal purpose of the entity receiving the support of the Fondo Solidario and screen it against AML/CTF lists, including its BoD, its beneficial owners and the senior management before proceeding in order to avoid any reputational risk for Allfunds Bank. Furthermore, the Marketing and CSR team will save as an evidence all the documentation analyzed. The recommendation has been implemented in 2018.

The RCU has updated the Gift and Entertainment policy in order to establish a clear procedure and to avoid any kind of misunderstanding.

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

Allfunds takes responsibility for the environmental impacts of its activities throughout their entire life cycles, and in each and every region in which it operates. Allfunds identifies its environmental aspects and the impacts associated with its service provision according to its environmental assessment procedure. The main environmental aspects identified, and their impacts include:

Table 25. Environmental aspects and impacts

Process/ Activity	Aspect	Impact
Lighting of the installations and supply of equipment	Electricity consumption (kWh)	Exhaustion of natural resources
Cleaning, human consumption and domestic use	Water consumption (m3)	Exhaustion of natural resources
Paper use in the office	Paper consumption (sheets)	Exhaustion of natural resources
Paper printing in the office	Toner consumption (units)	Resource depletion through consumption of raw materials
Bulb replacement or end of life of bulbs	Fluorescent waste generation (units)	Environmental pollution, land use
Paper use in the office	Paper and cardboard waste generation (kg) Toner waste generation (units)	Pollution from waste management, land use

Packaging waste, containers	Generation of plastic and packaging waste (kg)	Environmental pollution, land use
Obsolete or damaged equipment Kitchen, dinning-room and pruning waste Use of office equipment	Generation of WEEE waste (units) Generation of organic waste Alkaline battery generation (kg)	Environmental pollution, land use Pollution from waste management Landfill filling Environmental pollution, land use
Office activities	Noise emission to the atmosphere	Air pollution and health conditions
General office toilet use	Discharge of urban waste water or domestic water (m^3)	Water pollution

Allfunds commits to the environment in its General Code of Conduct and Corporate Social Responsibility Policy. Furthermore, in relation to its decision-making and activities, it applies a preventive approach so that it does not become involved in projects where there are indications of a threat of serious or irreversible damage to the environment or human health.

Allfunds has a General Services department that monitors environmental aspects and proper waste management, and a Marketing & CSR department and is responsible for coordinating the company’s social responsibility activities. The maintenance of the facilities, which has no significant impact on the environment, is subcontracted to external companies.

The principle of environmental precaution at Allfunds is articulated through its procedure for environmental aspects, its corporate social responsibility policy and the commitment to the environment in its General Code of Conduct. Since Allfunds considers the environmental impacts of its business lines to be insignificant, it has no provisions or guarantees to deal with the possible materialisation of its environmental risks.

Allfunds has not received any fines or environmental sanctions during 2019.

Additional information can be found in the Statement of Non-Financial Information (pages 20-25) at its public webpage:

https://allfunds.com/files/annual_finnancial_report/Annual_Financial_Report_2019_en.pdf

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.

9.5 COVID-19

The appearance of the Coronavirus (COVID-19) in China in January 2020 and its further global expansion to a large number of countries caused the viral outbreak to be classified as a pandemic by the World Health Organization on 11 March.

At the date of elaboration of this report, it is premature to make a detailed evaluation or quantification of the impacts that COVID-19 will have on the Allfunds Bank Group, as the pandemic has shifted from a potential short-term event to a medium/long term event. In this regard, there was an initial drop in the Allfunds Bank Group's activity in terms of assets under administration and the related fees, after having peaked at historical maximum levels in the last week of February, that extended to March but this initial shock was followed by a steady recovery immideatly afterwards and current business activity figures are already above the pre Covid-19 state. However, the directors and management of Allfunds Bank, S.A.U. have conducted a preliminary assessment of the current situation, based on the best available information. The following aspects of the results of this assessment are worthy of note:

- Liquidity risk: it is foreseeable that the general situation of the markets may lead to an overall increase in liquidity constraints in the economy, as well as a contraction in the credit market. In this connection, the Allfunds Bank Group has sufficient liquidity and the capacity to obtain financing from its sole shareholder, which, together with the implementation of specific plans for the improvement and efficient management of liquidity, will enable these constraints to be overcome.

- Operational risk: the changing and unpredictable nature of events could lead to a risk of temporary interruption of the off-balance sheet resources under administration at collective investment undertakings and of the relationship with management companies and distributors. Therefore, the Allfunds Bank Group has established specific working groups and procedures aimed at monitoring and managing the evolution of its operations at all times, in order to minimise the impact of this situation on its operations.

• Risk of changes in certain financial aggregates: the factors mentioned above, together with other specific factors, may lead to a decrease in the amounts of relevant headings for the Allfunds Bank Group in the next financial statements, such as "Fee and Commission Income" and "Fee and Commission Expenses", or of the off-balance sheet resources under administration, although after several months the impact seems to be limited with business figures already on track.

• Risk of measurement of assets and liabilities: a change in the future estimates of the off-balance sheet resources managed by the Allfunds Bank Group could have an adverse impact on the carrying amount of certain assets (goodwill, other assets, loans and advances - customers) and on the need to recognise certain provisions or other types of liabilities. As soon as sufficient and reliable information becomes available, the appropriate analyses and calculations will be made to allow, if necessary, the re-measurement of those assets and liabilities.

• Going concern risk: taking into account all the aforementioned factors, the directors consider that these factors do not raise doubts as to the viability of the Allfunds Bank Group and, consequently, the application of the going concern basis of accounting remains valid.

Lastly, it should be noted that Allfunds Bank S.A.U's directors and management are constantly monitoring the evolution of the situation in order to successfully address any possible impacts, both financial and non-financial, that may arise.

10. REMUNERATION POLICIES

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, S.A.U., 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 recognized 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

Allfunds' 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, in order to comply with the compliance requirements established by Pillar III in terms of recruitment polices.
- 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.
- According to those established in Law 10/2014 and Real Decreto 84/2015, in order to assess the suitability of Directors, General Directors or similar, those responsible for Internal Control functions and other key positions, as well as a mechanism to comply

with the rules on incompatibilities, issue a report on the suitability of the candidate at the time of the proposal.

- For the issuance of the report, among others, a honourability questionnaire filled out by the interested party and their detailed and updated professional history will be considered, which contain the necessary information for the correct evaluation of the commercial and professional honourability requirements and the adequate knowledge and experience of the candidate. The suitability assessment report will contain the proposed evaluation of the corresponding candidate and must be approved by the board of directors or the executive committee.

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: analyses 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. Additionally, it provides the Audit and Risk Commission and the Senior Management with a reliable finding about the effectiveness of controls aimed at mitigating significant risks that affect the business, both current and foreseeable in the future. Its primary objective is to ensure, independently, reliably and in a timely manner, the proper functioning of good governance, risk management and the controls implemented to mitigate current and incipient risks, considering the current and expected control environment in the future.

The degree of adequacy of the Policy in respect of the various requirements concerning remuneration at financial institutions was analysed by independent experts on June 2020, and the conclusion was that Allfunds' Remuneration Policy sufficiently complies with legislation in force at December 31st, 2019.

10.2 PRINCIPLES OF THE REMUNERATION POLICY

Allfunds 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 Allfunds it is vital to have a Remuneration Policy that, via the various elements of compensation, enables it to properly remunerate each position within the organization, 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.

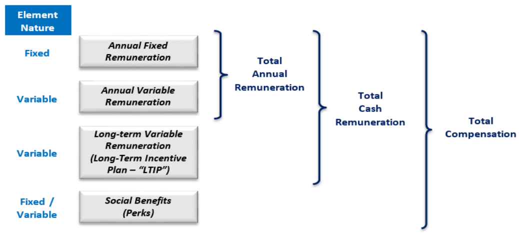
In general, Allfunds' Remuneration Policy is governed by the following principles:

- 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, Allfunds' 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 Allfunds.
- Allfunds' 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, 2020

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 Allfunds, 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 Allfunds' 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 entity 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, critical operational risk fault or because of a proven behaviour of not looking for clients' best interests according ESMA regulations.

Moreover, for the entity 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 Allfunds 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 entity'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 Allfunds 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, Allfunds Bank aims to create a culture of high performance focusing on ongoing improvement, achievement of goals and client services, where the employees are rewarded and recognized for their achievements and competencies (efforts, performance, engagement and commitment, etc.).

Hence, a reasonable part of the remuneration of Allfunds Bank'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.

Allfunds' 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 Allfunds' 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

Allfunds' 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. Allfunds' 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 Allfunds. 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, most of the 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.

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

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 joins the Company throughout January, the employee has the right to qualify for all his/her bonus of reference.
- If the employee joins the Company between February and September: the bonus of reference, when determining the base remuneration to which the employee can opt, will be the ratio between the worked months and the 12 months corresponding to the target annual bonus.
- If the employee joins the Company as of October 1st, the employee has no right to receive any Bonus for that current year, being fully eligible for the following year.

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 and considering the Company's capital base for this purpose.

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 Allfunds' risk profile.

10.3.5 LONG-TERM VARIABLE REMUNERATION

The Company does not have any long-term incentive plan in place. Nevertheless, Allfunds 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, Allfunds 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 Allfunds 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, Allfunds 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”).

According to the Identified Staff auto-evaluation process run by ALLFUNDS, with an independent expert collaboration, 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.

According to the same auto-evaluation process report, 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 Allfunds’ 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 Allfunds’ 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, 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 Retention Plan, once these are granted.
- 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, Allfunds 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[14] is updated periodically after each modification and validation by the Board and available through the public website of the company (www.allfunds.com).

As specified in the Annual Accounts, these are the general remuneration numbers[15] for the management team of the company:

[14] 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 2019, only two persons in the aforementioned group recipients of remuneration exceeding 1 million euros.

[15] 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

Table 26. Total Remuneration

Year	# Senior Managers	Thousand Euros Anual Remuneration		
		Fix	Variable	Total
2019	25	6.338	4.508	10.846

Source: audited financial statements, 2019

Table 27. Remuneration by activity area

Business Area	Investment Banking	Commercia l Banking	Asset Management	Others	Total
Number of employees included in the Identified Staff	-	-	-	25	25
Total Remuneration	-	-	-	10,918	10,918
Variable remuneración	-	-	-	4,605	4,605

Source: RM2 template for Bank of Spain, 2019

Table 28. Remuneration details

Identified Staff	Admin. Executives	Nonexecutive directors	Other senior managers	Other employees	Total
1. Identified Staff	-	**6**	**25**	-	**31**
1.1 Top management	-	-	22	-	22
1.2 Control functions	-	-	3	-	3
2. Total fixed remuneration	-	-	**6,312**	-	**6,312**
3. Total variable remuneration	-	-	**4,605**	-	**4,605**
3.1 In cash	-	-	4,605	-	4,605
3.2 In shares or related instruments	-	-	-	-	-
3.3 In other instruments	-	-	-	-	-
4. Deferred payment	-	-	**1,307**	-	**1,307**
4.1 In cash	-	-	1,307	-	1,307
4.2 In shares or related instruments	-	-	-	-	-
4.3 In other instruments	-	-	-	-	-
5. Explicit ex post adjustment for performance applied in 2019 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,	-	-	35	-	35
7.1 Number of beneficiaries	-	-	1	-	1
7.2 Total amount of severance payments associated with contract termination	-	-	35	-	35
8. Contributions to social benefits systems	-	-	-	-	-
9. Pension benefits	-	-	-	-	-
9.1 Number of beneficiaries	-	-	-	-	-
9.2 Total amount of pension discretionary benefits	-	-	-	-	-

Source: RM2 template for Bank of Spain, 2019

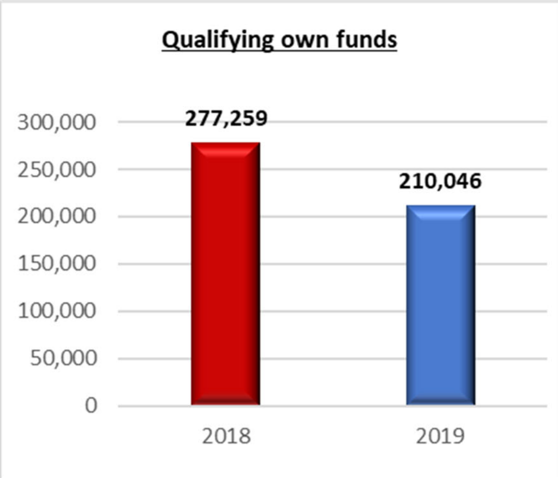
ANNEX 1

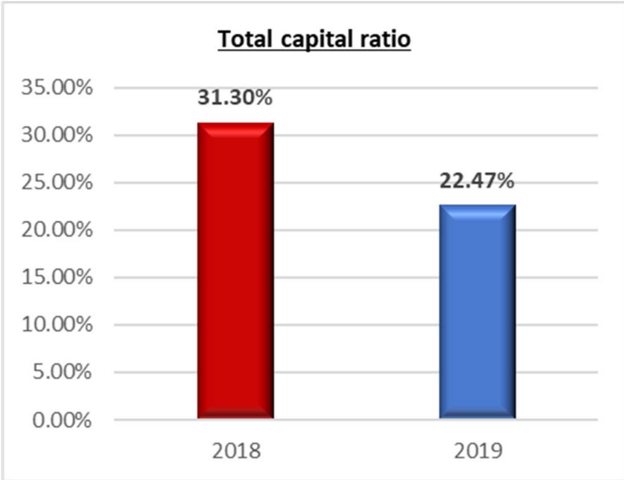
QUANTITATIVE INFORMATION ABOUT ALLFUNDS (UK) LIMITED

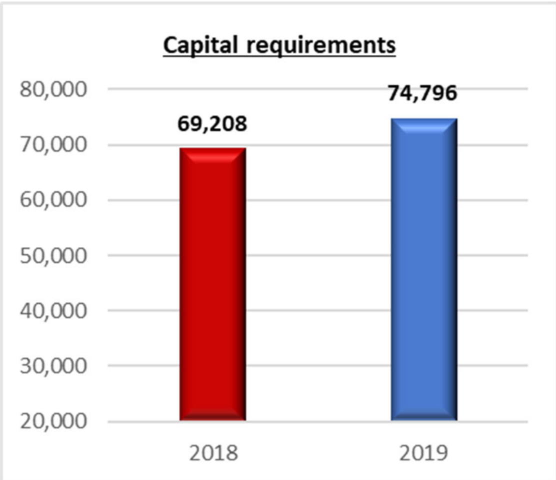
ANNEX 1. QUANTITATIVE INFORMATION ABOUT ALLFUNDS (UK) LIMITED

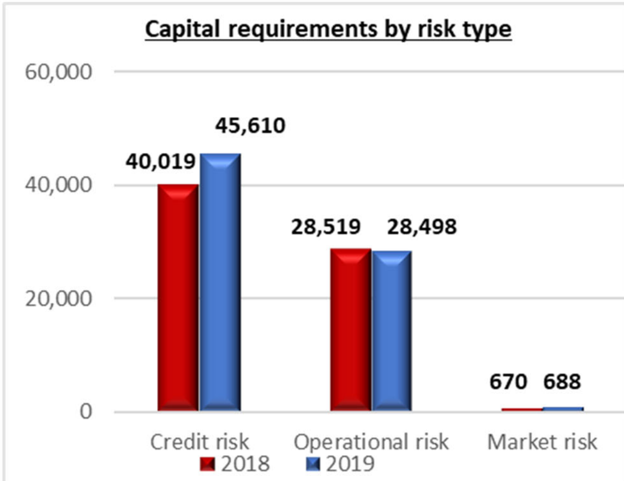
1. SOLVENCY

Figure 13. Solvency information. Allfunds (UK) Limited

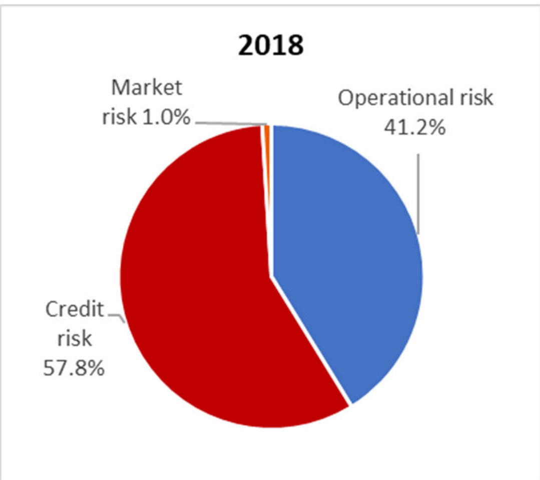


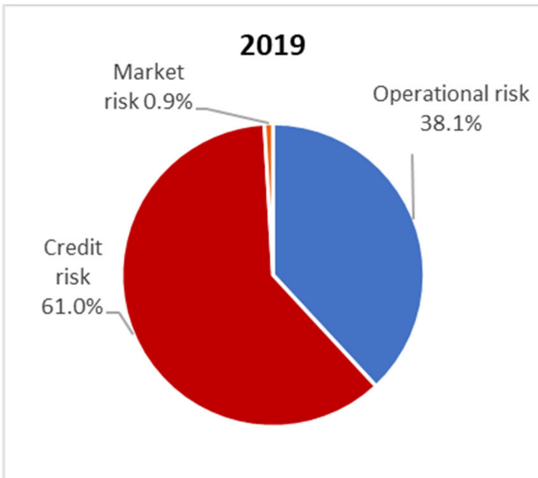






Distribution (%)





2. INFORMATION ON OWN FUNDS

Table 29. Qualifying own funds. Allfunds (UK) Limited

Amounts (Thousand Euros)	31.12.18	31.12.19
CET1	270,812	210,046
Tier 1 additional	-	-
TIER 1	270,812	210,046
TIER 2	-	-
TOTAL CAPITAL	270,812	210,046
RWA	865,097	934,950
CET1 ratio	***31.30%***	***22.47%***
Tier 1 ratio	***31.30%***	***22.47%***
Total Capital ratio	***31.30%***	***22.47%***
Leverage ratio	***19.07%***	***12.16%***

Source: Allfunds (UK) Limited, 2019

Table 30. Details. Qualifying own funds. Allfunds (UK) Limited

Amounts (Thousand Euros)	31.12.19
CET1 Instruments	**1,623,119**
Shareholders' equity	1,693,994
Capital	1,277,938
Profit	(11,313)
Reserves and others	427,369
Minority interests and unrealised gains/losses	-
Adjustments of comput. of minority int. and unrealised g/l	-
Other adjustments	(70,875)
Deductions from CET1	(1,413,073)
Goodwill	(802,802)
Other intangible assets	(608,999)
Financial investments	-
Deferred tax assets	-
Other CET1 deductions	(1,272)
CET 1	**210,046**
AT1 Instruments	-
TIER 1	**210,046**
T2 instruments	-
Financing of subordinated issues	-
Generic provisions and excess of provisions IRB	-
T2 deductions	
TIER 2	**-**
TOTAL CAPITAL	**210,046**

Source: Allfunds (UK) Limited, 2019

As of December 31st 2019 Allfunds (UK) Limited’s consolidated results amounted to a net loss of 11.3 million euros, as opposed to the net profit obtained by Allfunds Bank Group in the same period (68.4 million of euros).

3. INFORMATION ON CAPITAL REQUIREMENTS

Table 31. Overview of RWAs (EBA Template OV1). Allfunds (UK) Limited

Amounts (Thousand Euros)	RWA		Minimum capital requirements
	31.12.18	31.12.19	
Credit risk (excluding counterparty credit risk)	**500,234**	**570,125**	**45,610**
Standardised Approach (SA)	500,234	570,125	45,610
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	**8,375**	**8,600**	**688**
Standardised Approach (SA)	8,375	8,600	688
Internal Model Approaches (IMM)	-	-	-
Operational risk	**356,488**	**356,225**	**28,498**
Basic Indicator Approach	356,488	356,225	28,498
Standardised Approach	-	-	-
Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	**-**
Floor adjustment	-	-	**-**
Total (1)	**865,097**	**934,950**	**74,796**

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

Source: Allfunds (UK) Limited, 2019

CAPITAL BUFFER

Table 32. Geographical distribution of credit exposures relevant for the calculation of countercyclical capital buffer. Allfunds (UK) Limited.

	Countercyclical buffer
Countries (*)	**0.1995%**
Andorra	0.0000%
Austria	0.0000%
Bahrain	0.0000%
Belgium	0.0000%
Bermuda Island	0.0000%
Brasil	0.0000%
Canada	0.0000%
Chile	0.0000%
Colombia	0.0000%
Denmark	0.0000%
Finland	0.0000%
France	**0.0079%**
Germany	0.0000%
Guernsey	0.0000%
Hong Kong	**0.0011%**
Ireland	**0.0701%**
Isle of Man	0.0000%
Italy	0.0000%
Japan	0.0000%
Jersey	0.0000%
Luxembourg	0.0000%
Malta	0.0000%
Mauricio	0.0000%
Mexico	0.0000%
Netherlands	0.0000%
Norway	**0.0026%**
Portugal	0.0000%
Saudi Arabia	0.0000%
Singapore	0.0000%
South Africa	0.0000%
Spain	0.0000%
Sweden	**0.0026%**
Switzerland	0.0000%
United Arab Emirates	0.0000%
United Kingdom	**0.1153%**
USA	0.0000%

Source: Allfunds (UK) Limited, 2019

(*) Countries with a 0% contribution to the entity's due to the fact that these countries still keep their countercyclical buffer at 0% for exposures to those countries

4. LEVERAGE RATIO

Table 33. Leverage ratio. Details. Allfunds (UK) Limited

Leverage ratio. Breakdown (Thousand Euros)	CRR leverage ratio exposures 31.12.2018	CRR leverage ratio exposures 31.12.2019
On-balance sheet items	2,683,013	3,140,155
- Asset amounts deducted in determining Tier 1 capital	-1,262,892	-1,413,073
Derivatives	353	609
Securities Financing Transactions (SFTs)	0	0
Off-balance sheet items	0	0
Leverage ratio		
Tier 1 capital (numerator)	270,812	210,046
Total exposure measure (denominator)	1,420,474	1,727,691
Leverage ratio	**19.06%**	**12.16%**
Minimum requirement	3.00%	3.00%

Source: Allfunds (UK) Limited, 2019

Table 34. Leverage ratio pl. Allfunds (UK) Limited

Split-up of on balance sheet exposures (exduding derivatíves and SFTs)		
EU-1	**Total on-balance sheet exposures (exduding derivatives, SFTs, and exempted exposures), of which:**	**3,140,155**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	3,140,155
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	544,885
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	776,792
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	467
EU-10	Corporate	36,915
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1,781,096

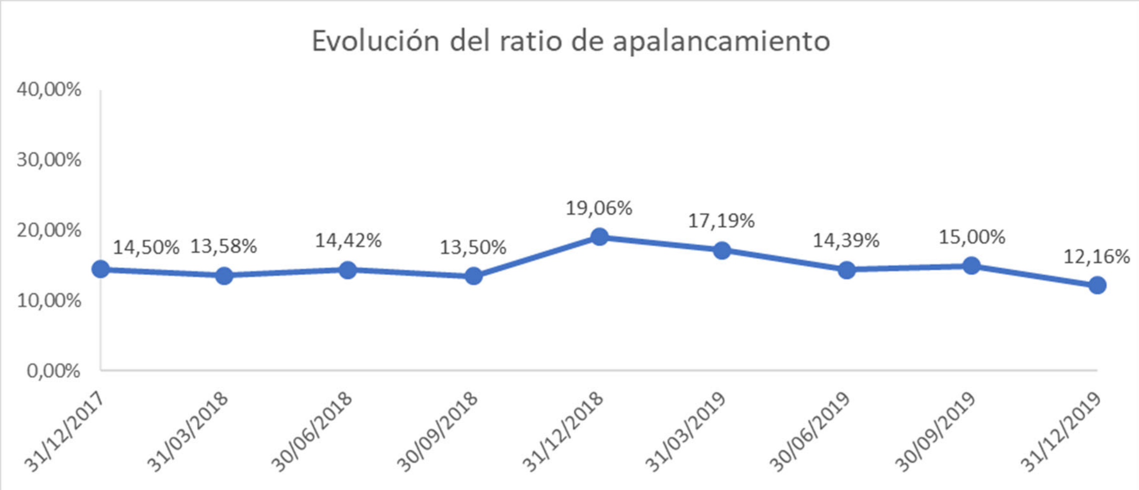
Source: Allfunds (UK) Limited, 2019

Table 35. Publication of information on qualitative aspects Allfunds (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 Unit 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 19.06% as of year-end 2018 to 12.16% as of year-end 2019, back at normal levels after a temporary peak at the end of 2018. Current levels are more aligned with the company’s risk appetite.

Source: Allfunds (UK) Limited, 2019

Figure 14. Evolution of the leverage ratio Allfunds (UK) Limited



Source: Allfunds (UK) Limited, 2019

5. CREDIT RISK. QUANTITATIVE INFORMATION : EXPOSURES DISTRIBUTION

Table 36. Total and average net amount of exposures (EBA Template CRB-B). Allfunds (UK) Limited

Amounts (Thousand Euros)	Exposures before CCF and CRM				Average
	31.03.2019	31.06.2019	31.09.2019	31.12.2019	
Sovereigns and their central banks	414,357	742,309	484,881	544,688	546,559
Non-central government public sector entities	-	-	-	197	197
Multilateral development banks	-	-	-	-	-
Institutions/Banks	850,536	751,016	700,847	777,158	769,889
Corporates	9,192	20,568	26.339	37,158	23,314
Regulatory retail portfolios	457	427	490	467	460,25
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CIU's)	-	-	-	8	8
Equity	384	384	385	385	384,5
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	336,953	351,913	378,903	368,902	359,168
Total Credit Risk - SA portfolio	**1,611,879**	**1,866,617**	**1,591,845**	**1,728,963**	**1,699,980**

Source: Allfunds (UK) Limited, 2019

Geographical exposures

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

Table 37. Geographical breakdown of exposures (EBA Template CRB-C). Allfunds (UK) Limited

Exposures	Sovereigns and their central banks	Non-central government public sector entities	Institutions	Corporates	Regulatory retail portfolios	Other assets	OIC	Equity	Total	RWA	Capital Requirements
Total	**544.688**	**197**	**777.158**	**37.158**	**467**	**368.902**	**8**	**385**	**1.728.963**	**570.124**	**45.610**
Luxembourg	244.216	0	1.523	6.112	0	224.878	0	0	476.729	231.295	18.504
Spain	3.994	197	409.818	2.552	445	22.378	8	0	439.392	107.623	8.610
Italy	296.412	0	68.447	2.482	0	9.075	0	0	376.416	32.698	2.616
France	0	0	130.027	888	0	12.043	0	0	142.958	38.936	3.115
UK	0	0	84.625	2.052	22	44.826	0	0	131.525	63.868	5.109
Switzerland	0	0	35.965	8.620	0	14.090	0	0	58.675	29.902	2.392
Ireland	0	0	0	1.426	0	27.076	0	0	28.502	28.502	2.280
Singapore	66	0	8.924	11.150	0	1.450	0	0	21.590	14.385	1.151
Sweden	0	0	11.020	200	0	221	0	0	11.441	2.625	210
Rest	0	0	26.809	1.676	0	12.865	0	385	41.735	20.290	1.623

Source: Allfunds (UK) Limited, 2019

Maturity of exposures

Table 38. Maturity of exposures (EBA Template CRB-E). Allfunds (UK) Limited

Amounts (Thousand Euros)	<1Y	1-5Y	>5Y	Total	Total %
Sovereigns and their central banks	544,688	-	-	544,688	**31.5%**
Non-central government public sector entities	197	-	-	197	**0.1%**
Multilateral development banks	-	-	-	-	**-**
Institutions/Banks	777,158	-	-	777,158	**44.9%**
Corporates	37,158	-	-	37,158	**2.1%**
Regulatory retail portfolios	167	284	17	468	**0.0%**
Secured by commercial real state	-	-	-	-	**-**
Collective Investment Undertakings (CIU's)	-	-	8	8	**0,0%**
Equity	-	-	384	384	**0.1%**
Past-due loans	-	-	-	-	**-**
Higher-risk categories	-	-	-	-	**-**
Other assets	340,654	-	28,248	368,902	**21.3%**
Total Credit Risk - SA portfolio	**1,700,022**	**284**	**28,657**	**1,728,963**	**100.0%**
%	**98.3%**	**0.0%**	**1.7%**	**100.0%**	

Source: Allfunds (UK) Limited, 2019

Methodology applied

Table 39. Standardised approach - CR exposure and CRM effects (EBA Template CR4). Allfunds (UK) Limited

Amounts (Thousand Euros)	Exposures before CCF and CRM			RWA	RWA density
	On-balance sheet amount	Adjustments	Total		
Sovereigns and their central banks	544,688	-	544,688	0	0.00%
Non-central government public sector entities	197	-	197	0	0.00%
Multilateral development banks	-	-	-	-	-
Institutions/Banks	777,158	-	777,158	163,350	21.02%
Corporates	38,083	(925)	37,158	37,158	100.00%
Regulatory retail portfolios	486	(19)	467	350	74.95%
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CIU's)	8	-	8	8	100.00%
Equity	385	-	385	385	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	368,902	-	368,902	368,874	99.99%
Total Credit Risk - SA portfolio	**1,729,907**	**(944)**	**1,728,963**	**570,125**	**32.97%**

Source: Allfunds (UK) Limited, 2019

Table 40. Standardised approach (EBA Template CR5). Allfunds (UK) Limited

Amounts (Thousand Euros)	0%	10%	20%	50%	75%	100%	Total
Sovereigns and their central banks	544,688	-	-	-	-	-	544,688
Non-central government public sector entities	197	-	-	-	-	-	197
Multilateral development banks	-	-	-	-	-	-	-
Institutions/Banks	-	-	767,261	-	-	9,897	777.158
Corporates	-	-	-	-	-	37,158	37,158
Regulatory retail portfolios	-	-	-	-	467	-	467
Secured by commercial real state	-	-	-	-	-	-	-
Collective Investment Undertakings (CIU's)	-	-	-	-	-	8	8
Equity	-	-	-	-	-	385	385
Past-due loans	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-
Other assets	28	-	-	-	-	368,874	368,902
Total Credit Risk - SA portfolio	**544,913**	**-**	**767,261**	**-**	**467**	**416,322**	**1,728,963**
%	**31.5%**	**-**	**44.4%**	**-**	**0.0%**	**24.1%**	**100.0%**

Source: Allfunds (UK) Limited, 2019

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

Table 41. Standardised Approach (SA): RWAs by asset class and risk weight. Allfunds (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	0	-	-	-	-	-	-	0
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	153,453	-	-	-	9,897	163,350
Corporates	-	-	-	-	-	-	37,158	37,158
Regulatory retail portfolios	-	-	-	-	-	350	-	350
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CIU's)	-	-	-	-	-	-	8	8
Equity	-	-	-	-	-	-	385	385
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	0	-	-	-	-	-	368.874	368,874
Total Credit Risk - SA	**0**	**-**	**153,453**	**-**	**0**	**350**	**416,322**	**570,125**
Capital Requirements for Credit Risk (1)	**0**	**-**	**12,276**	**-**	**0**	**28**	**33,306**	**45,610**

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

Source: Allfunds (UK) Limited, 2019

6. LIQUIDITY RISK: LCR AND NSFR.

Table 42. LCR. Allfunds (UK) Limited

Components	Amount
Liquidity buffer	544,712
L1 excl. EHQCB liquidity buffer (value according to Article 9): unadjusted	544,712
NET LIQUIDTY OUTFLOW	108,902
Total Outflows	302,916
Reduction for Inflows Subject to 75% Cap	194,014
LIQUIDITY COVERAGE RATIO (%)	**500.19%**

Table 43. NSFR. Allfunds (UK) Limited

Components	Exposure	Weight	Amount
• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year)	**1,693,994**	100%	**1,693,994**
• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**1,076,271**	90%	**968,644**
• 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)	**629,890**	0%	**0**
TOTAL AVAILABLE STABLE FUNDING	**3,400,155**		**2,662,638**
• Coins and banknotes	**28**	0%	**0**

• All central bank reserves	**544,688**	0%	**0**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**509,457**	15%	**76,419**
• Loans to financial institutions and central banks with residual maturities between six months and less than one year	**260,000**	50%	**130,000**
• Deposits held at other financial institutions for operational purposes	**0**	50%	**0**
• 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	**334,594**	50%	**167,297**
• NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	**0**	100%	**0**
• All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities	**1,751,387**	100%	**1,751,387**
TOTAL REQUIRED STABLE FUNDING	**3,400,155**		**2,125,103**
NSFR			**125.29%**

7. UNENCUMBERED ASSETS

Table 44. Unencumbered assets. Allfunds (UK) Limited

	Encumbered assets		Unencumbered assets	
Thousand Euros	On-balance sheet amount	Fair value	On-balance sheet amount	Fair value
Assets	2,530	-	3,395,776	-
Demand loans	303	-	1,042,196	-
Equity instruments	-	-	393	393
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:	2,227	-	310,810	-
mortgage loans	-	-	-	-
Other assets	-	-	2,042,377	-

Source: Allfunds (UK) Limited, 2019

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

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

As of December 31st 2019 the following members composed Allfunds Bank's Board of Directors.

Blake C. Kleinman

Chairman

Managing Director Hellman & Friedman

Location: London

- Blake Kleinman joined H&F in 2001 and focuses on the software, internet & media, and financial services sectors.
- He is currently Partner at Hellman & Friedman
- 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

Zita Saurel

Director

Managing Director Hellman & Friedman

Location: London

- Zita Saurel is currently Partner at Hellman & Friedman.
- 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.

Jayaprakasa Rangaswami

Director (Independent)

Independent non- executive director, Daily Mail and General Trust plc

Location: London

- JP Rangaswami has over 30 years of technology experience with large multinational companies.
- From 2015 until 2018 he worked at Deutsche Bank as Chief Data Officer
- JP Rangaswami started his career at Dresdner Kleinwort Wasserstein.
- He holds a B.A in Economics and Statistics by St Xavier’s College (University of Calculta)

ANNEX 3.
LIST OF TABLES AND FIGURES

ANNEX 3. LIST OF TABLES AND FIGURES

ANNEX 4.
ACRONYMS

ANNEX 4. ACRONYMS

AFB	Allfunds Bank, S.A.U.
AFBI	Allfunds Bank International, S.A.
AIA	Allfunds Internal Audit
ALMM	Additional Liquidity Monitoring Metrics
AML	Anti-Money Laundering
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BoD	Board of Directors
BoS	Bank of Spain
B2B	Business to Business
B2C	Business to Client
B2B2C	Business to Business to Client
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1
CIIs	Collective Investment Institutions
CNMV	National Securities Market Commission
CRD IV	Capital Requirements Directive 2013/36/UE
CRR	Capital Requirements Regulation 575/2013
CSSF	Commission de Surveillance du Secteur Financier
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
EC	Economic Capital
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRRBB	Interest Rate Risk in Investment Portfolio
IT	Information and Technology
OKIs	Operational Key Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
NSFR	Net Stable Funding Ratio
PSF	Professionnel du Secteur Financier
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
RWA	Risk Weighted Assets
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