PILLAR III DISCLOSURES REPORT

AFB Banking Group

2021

1. GENERAL OVERVIEW

1. GENERAL OVERVIEW

1.1. ABOUT THE AFB BANKING GROUP[1]

The scope of this report is the **AFB Banking Group**, that is to say Allfunds Bank, S.A.U. and each of its subsidiaries, together with Liberty Partners, S.L.U., which is the EU parent financial holding company of the AFB Banking Group.

- **Liberty Partners, S.L.U.** (hereinafter called '**Liberty Partners**') is a limited, single shareholder owned commercial company incorporated for an indefinite period on 17 January 2017, in accordance with the Spanish Companies Act, with its registered office in Calle Padre Dominicos 7, Madrid, and NIF B87734760. Liberty Partners owns 100% of the share capital in Allfunds Bank S.A.U. and it is wholly owned by Allfunds Group Plc, a UK-based company listed on Euronext Amsterdam since 23 April 2021.
- **Allfunds Bank, S.A.U.** (hereinafter called the '**Bank**', the '**Entity'**, the '**Company', 'Allfunds'** or '**AFB'**) was incorporated on 14 December 2000 and is subject to the rules and regulations governing banking institutions operating in Spain, holder of registration no. 0011 at the Bank of Spain, with its registered office in Calle Padre Dominicos 7, Madrid, and NIF A41001371. The Bank is the main entity under the AFB Banking Group in both operating and business terms, providing support to the rest of the units in most of the key global functions, including corporate management, technology, operations, finance, legal, commercial and compliance aspects. Through its branches in Italy, the United Kingdom, Luxembourg, Switzerland, Sweden, France, Poland and Singapore, the Bank serves local distributors, offering its UCITS distribution business through a permanent establishment. Additionally, through its representative offices in Brazil, Colombia, Chile, Miami, and Dubai, it promotes its institutional solutions to local clients, offering its services in these jurisdictions.

In accordance with the Entity's bylaws and business plan, its business model mainly focuses on providing investment services and banking services related to the access and distribution of investment funds to different financial service providers in an open architecture environment. Its corporate purpose includes the following main activities:

- 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.

Allfunds main business lines are divided into two main categories:

1. **<u>Platform Revenues</u>** include those directly related to the volume of administrated assets (Assets under Administration or AuA). Platform Revenues can be divided into Asset-Based Revenues and Transaction-Based Revenues.
    - ***Asset-Based Revenues:*** Where platform revenues are driven by commissions, generated based on a daily fee calculated based on the amount of each Fund House's outstanding AuA in UCIs on the Allfunds Platform, according to two models, described below:
        - **Non-Rebate Model:** Under the Non-Rebate Model, a Platform Service Fee is charged to the Fund House as a fee margin on the volume of the Fund House's AuA on the Allfunds Platform in exchange for bundled services provided by Allfunds to the Fund House, comprising of, but not limited to, intermediation and execution services, distribution channel access and the provision of digital services.
        - **Rebate Model:** Under the Rebate Model (applicable primarily for retail share classes), Allfunds similarly receives a Platform Service Fee for the services it provides, in line with the Non-Rebate Model. In addition, Allfunds, in certain circumstances, retains a percentage of the gross rebate paid to the Distributor, based on agreements in place

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

with each Fund House and individual Distributor. The gross rebate is calculated based on the Fund House's annual management charge for each UCI.

The Platform Service Fee revenue that the Group receives varies based on, among others, the relevant Fund House, the type of UCIs, the volume of associated AuA and geographic market dynamics. In the Non-Rebate Model, distribution and intermediation-related service fees are negotiated exclusively between the Group and the Fund House. In both the Rebate Model and the Non-Rebate Model, the Group charges fees on a quarterly basis for all the services it provides. The Group calculates and accrues these fees daily based on daily AuA.

- ***Transaction-Based Revenues:*** consists of transaction charges related to number of transactions. While correlated with AuA, these fees are charged on a transactional basis and are driven by both the volume and the value of the transactions. Transaction-based net platform revenue includes, but is not limited to, fees earned from the Group's local paying agent services, its foreign exchange services, and ETF services.

The Group earns revenue on its foreign exchange services based on the spread in the prices of the relevant currencies involved in the trade and the value of the assets subject to the currency exchange. In exchange for the local paying agent services it provides to Distributors, Allfunds receives various transaction-related fees paid as a margin on a per transaction basis, as well as fees calculated based on a fixed margin on the volume of AuA on the Allfunds Platform.

2. ***Subscription Revenues*** comprise those solutions and services are not linked to AuA and generate subscription revenue. The Group's subscription services include Allfunds Connect (including both annual licence fees and annual membership fees) and digital add-ons, as well as the Group's Fund Research and Investment services as well as Legal and Compliance services. Subscription and other services will also include Allfunds Blockchain services once commercialised.

The Company seeks to obtain a different source of revenue which allows diversification in order to reduce market exposure as well as expand its value-added fund platform offering to their clients.

1.2. A QUICK LOOK OVER 2021

Allfunds 2021

AuA stood at EUR 1.49 trillion at 31 December 2021, a 29% increase since 2020.

The new business entity, Allfunds Blockchain, announces its partnership with ConsenSys accelerating the revolution of blockchain in the fund distribution industry.

On 23 April 2021, Allfunds Group Plc's shares were admitted to listing on Euronext Amsterdam (ticker: ALLFG) at a price of EUR 11.50 per share, giving entry to new institutional shareholders. It was the second largest IPO in Europe that year and it has been awarded as EMEA IPO of the year by IFR ('International Financing Review') as well as Equity Capital Markets Deal of the Year by GlobalCapital (Euromoney Institutional Investor) in 2021 Free float stands at 38.64% as of 31 December 2021.

The Company continued to capitalise on new business initiatives and continued digital product enhancements to meet evolving needs of clients and their end customers. During the period, Allfunds has strengthened its customer proposition with continued investments to develop its proprietary technologies through its digital ecosystem, Allfunds Connect:

- Continued evolution of Telemetrics tool, to deliver comprehensive market data and intelligence resources to support clients' new business growth and meet the increasingly data-driven needs of clients in the current market environment.
- Upgrade of Nextportfolio, the only portfolio monitoring and reporting tool in the market with the capacity to deliver discretionary portfolios at scale, to facilitate optimisation by asset allocation and the analysis of fund performance contribution.

Additionally, Allfunds has further extended its product offering:

- The launch of Allsolutions, a B2B sub-advisory platform providing fund of fund managers and discretionary portfolio managers with solutions to optimise their portfolios and deliver greater efficiencies for fund transfers.
- Unique access to private capital markets, where Allfunds´ clients will have a one-stop-shop offering for both liquid and illiquid investment solutions.
- Relevant progress with Allfunds Blockchain through i) the successful execution of the first orders of a new tokenized fund on the Spanish Regulatory Sandbox initiative and ii) launching "FAST" in Spain and Italy, the innovative solution to deliver efficiencies in investment fund transfers using Allfunds' unique blockchain technology.
- ESG value-added rating at fund and portfolio level, with SFDR4 fund categorisation.

The Bank as the sole shareholder of Allfunds Bank International, S.A. ('AFBI') and Allfunds Sweden AB ('AFS') has carried out an upstream merger with both entities. The Bank has allocated AFBI's assets and liabilities to its newly created branches in Luxembourg and Switzerland ('Allfunds Bank S.A.U., Luxembourg Branch' and 'Allfunds Bank S.A., Madrid, Zurich Branch') and those of AFS to its newly created branch in Sweden ('Allfunds Bank S.A. Stockholm Branch Sweden, filial') respectively.

Allfunds 2022

On 4 May 2022 Allfunds completed the acquisition of the entire share capital of instiHub Analytics Limited, a specialist in actionable management tools and unique data insight solutions for stakeholders of the asset management industry.

On 31 May 2022 Allfunds completed the acquisition of Web Financial Group ('WebFG'), a leading European WealthTech company providing bespoke software data and analytics solutions to some of the largest retail banks, wealth managers, investment platforms and private banks in Europe. WebFG will continue operating under its existing brand within the Allfunds ecosystem. The acquisition will help Allfunds to further bolster its tailor-made solutions available for the wealth management industry and progress towards an even more streamlined, efficient fund distribution ecosystem.

1.3. ADDITIONAL INFORMATION

This section includes a series of highlights to help better understand the nature of Allfunds and its business without getting into complex technical aspects.

1. A leading large-scale WealthTech, with global reach and local presence

Allfunds is one of the largest B2B WealthTech platforms, with over EUR 1.4 trillion of AuA, matching fragmented demand for asset management products from Distributors with fragmented supply of those products from Fund Houses. With presence in four continents, Allfunds has a leading market share positions in Europe, the Middle East, Latin America and Singapore. Strong AuA growth has been experienced in recent years across all geographies.

Allfunds believes in the importance of being close to its clients to understand their needs. The Allfunds platform of global services supported through 16 local offices (in Madrid, Valencia, Paris, Milan, London, Zurich, Luxembourg, Warsaw, Stockholm, Dubai, Hong Kong, Singapore, Miami, Bogotá, São Paulo and Santiago de Chile) creates powerful network effects that benefit both Fund Houses and Distributors.

The need for lower cost of access to third-party funds and increasing regulatory pressure for transparency and end investor demand will lead to increased penetration of open architecture platforms. As Distributors expand their offering to new client pools, open architecture will make it easier to attract new clients, permitting easy relationship management with end investors and an expansion of other capabilities.

Increasing levels of administrative, compliance and data requirements together with cost pressure on asset managers and Distributors will lead to increased outsourcing. The economics of outsourced platforms and the increasing strength of external fund value propositions compared with in-house offers also make the trend towards outsourcing compelling. Outsourced AuA levels are still low in Allfunds's key markets but are expected to continue to increase, further supporting market growth.

2. A one-stop shop with a unique value proposition

Allfunds has integrated large parts of the wealth management value chain into a simple and easy to use one-stop shop platform across distribution, dealing, custody and administration services, and have expanded our offer into other value-add areas like data & analytics.

A key driver of Allfunds's competitive differentiation and growth is the compelling value proposition it delivers to both sides of its marketplace. Fund Houses and Distributors gain access to industryleading functionality through Allfunds Connect, a subscription-based SaaS-enabled offering of data-centric services. Through different application programming interfaces, Allfunds Connect is able to develop bespoke solutions that are fully integrated into Fund Houses' and Distributors' IT systems, providing them with an end-toend solution to suit their needs.

As a fully invested, scalable platform, Allfunds onboards new clients at very low marginal costs and therefore at highly competitive rates. Its proprietary technology is designed to guarantee seamless integration of solutions into the Allfunds platform to provide the best possible client experience. To minimize costs, Allfunds will continue to leverage its technology and operations infrastructure as the business grows and to invest in its platform to maintain operational efficiency and high-quality service.

3. Allfunds offers a simple and attractive pricing model

Allfunds believes that it has a unique and attractive revenue business model. Distributors benefit from a buy-free model in core services such as trading, dealing, settlement and administration while paying a subscription fee for value-added services. The comprehensive suite of services attracts new Distributors to join Allfunds's platform. This provides incremental flows to Fund Houses, which incentivises more Fund Houses to join, to capture the increased sales from a growing base of Distributors. We refer to this as the 'flywheel' effect.

Furthermore, Allfunds believes that its innovative Allfunds Connect offering accelerates the flywheel effect by creating additional incentives for Distributors and Fund Houses to continue using and increasing their use of our services and solutions.

4. Allfunds's financial profile is underpinned by best-in-class growth, high margin and cash flow conversion and proven M&A track record

Allfunds's financial profile is the result of a compelling combination of strong top-line growth, profitability and high cash conversion at scale.

There are several compelling elements to Allfunds's growth: double-digit AuA growth, net revenue growth and Adjusted EBITDA growth. On top of this and reflecting efficiency as a business, its adjusted EBITDA of EUR 367.2m (IFRS EBITDA of EUR 253.6m) implies an adjusted EBITDA margin of a remarkable 72.6%. This high margin allows to also benefit from high cash conversion.

Allfunds is able to translate this strong growth in AuA into high top-line growth, with net revenues growing at a CAGR of 28% from 2017 to 2021. The business model has proven resilience to economic cycles and Allfunds continues to improve operating efficiencies, leveraging its technology and operations infrastructure as the business grows.

Allfunds has materially increased its scale, capabilities, and geographical footprint through a number of value-accretive acquisitions in recent years, pursuing a strategy focused on both opportunistic bolt-on acquisitions and transformative M&A.

Allfunds trusts in increasing penetration in France and Germany and consolidating its presence in Europe. It is very likely that strong growth will continue in markets such as Asia, where open architecture is ever-growing, and that the US offshore market will represent a very interesting opportunity with growth potential. Allfunds expects further consolidation in the wealth management market and wil continue to focus on selected value-accretive M&A opportunities, which are expected to drive additional growth and margin resilience.

1.4. RESULTS

As of 31 December 2021, the Group held off-balance-sheet funds under administration relating to units in collective investment undertakings (CIUs) amounting to EUR 1,494.46 billion, representing an annual growth rate of 29.01% (EUR +336.01 billion) compared to EUR 1,158.45 billion as of 31 December 2020, partly by the new business integrated on 2 October 2020. These off-balance-sheet funds are split in EUR 1,312.21 billion from AuA and EUR 182.26 billion from AuD as of 31 December 2021.

In 2021 the Group obtained a net profit of EUR 201,100 thousand, being 180.06% higher than end-2020. The detail by company, without taking intra-Group transactions into consideration, is as follows:

Entity	EUR ('000s)
Allfunds Bank, S.A.U.	163,612
Allfunds Digital, S.L.U.	1,041
Allfunds Bank Brasil Representações Ltda.	(33)
Myfundmatch	(259)
Allfunds Blockchain, S.L.U.	(627)
Allfunds Hong Kong Limited	(1,438)

Net interest income moved from EUR (2,548) thousand in 2020 to EUR (5,847) thousand in 2021, as a result of the lower returns obtained due to the reduction in interest rates and deposits in central banks. Net fee and commission income amounted to EUR 502,981 thousand, which represents an increase of 64.02% compared to 2020. 62% in 2021 and 68% in 2020 of these fees and commissions are related to the intermediation in the distribution of shares and participations in international UCIs.

1.5. SOLVENCY

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

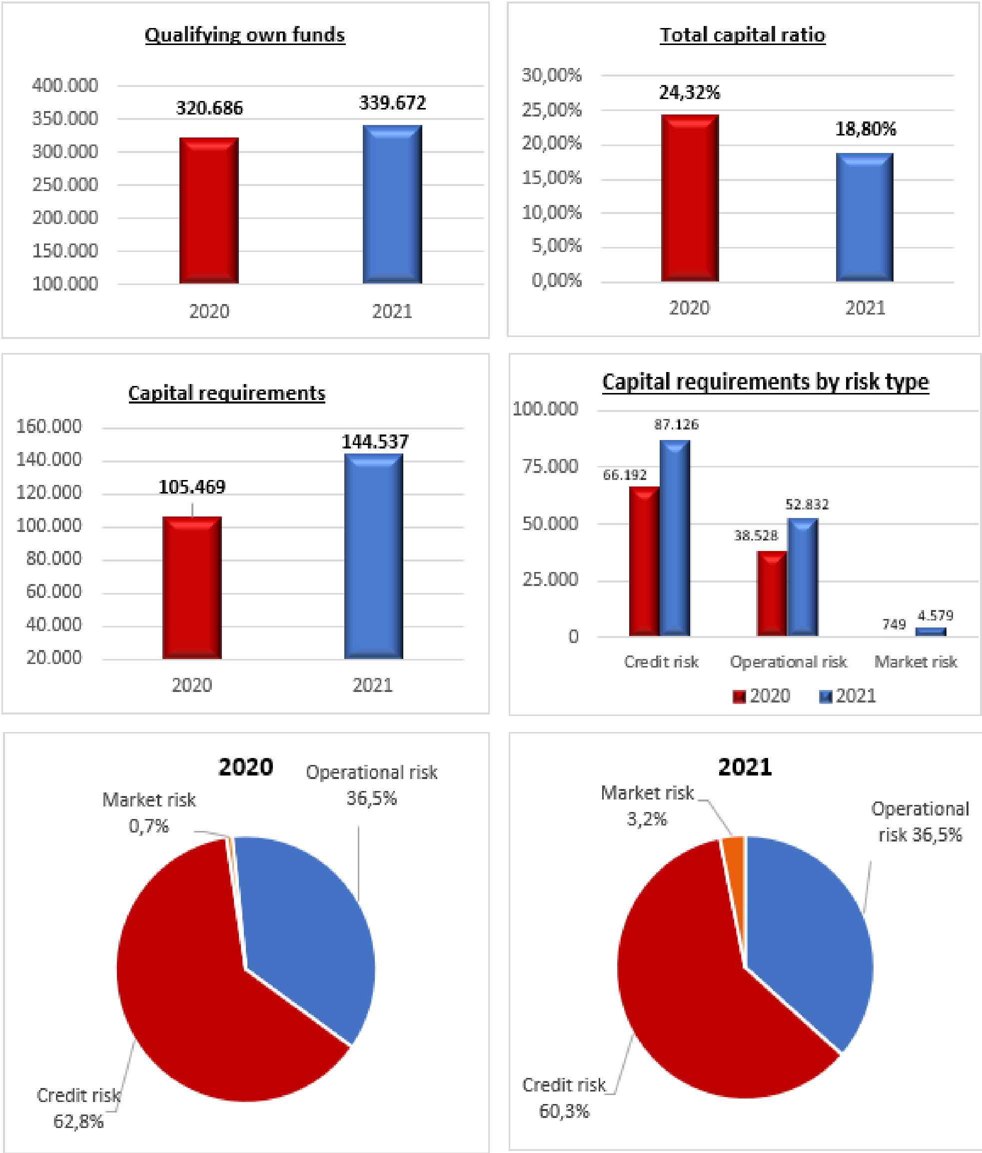
In 2021 own funds increased due to the retention of profits and capital requirements or Risk Weighted Assets (RWAs) increased mainly driven by two factors:

- RWAs for Credit risk: the significant increase of business volumes thanks to the integration of different business acquisitions specially the BNPP acquisition in the last quarter of 2020, has led to higher income generation that is shown as accruals related to commissions in the balance sheet. These are mainly short-termed exposures to fund houses.
- RWAs for Operational risk: related to the previous driver, as the profits of the company have increased significantly in 2021, the Basic Indicator[3] approach used by the Bank to estimate its capital requirements for operational risk captures this fact and leads to additional RWAs.

Finally, RWAs for Market Risk remain at very low levels as the Bank is not exposed to significant foreign exchange or interest rate risk exposure and no proprietary portfolio is held in the balance sheet.

[2] By virtue of Art. 92 of the CRR institutions shall apply the following own funds requirements: a) Common Equity Tier 1 (CET1) capital ratio of 4.5%; b) Tier 1 capital ratio of 6%; c) Total capital ratio of 8%; additionally, a capital conservation buffer, a countercyclical capital buffer and a systemic risk buffer. The capital conservation buffer of CET1 is 2.5 % of the total risk exposure amount.
[3] Based on a 3-year movinig average.

Figure 1. Solvency Allfunds Bank (consolidated)[4]



[4]In order to ensure that Allfunds' 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 subconsolidated level (Allfunds Bank (consolidated), which includes Allfunds Bank S.A.U. and each of its subsidiaries, excluding Liberty Partners S.L.U.) whereas Annex 1 includes the consolidated level (AFB Banking Group).

2. INFORMATION ON GENERAL REQUIREMENTS

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2.1. RECENT LEGISLATION

During 2021, the relevant legislation/guidelines issued by European Authorities, publications issued at Spanish domestic level and other international authorities which could have impact on the AFB Banking Group, have been analysed and consequently implemented when applicable. Below are summarized the publications with most relevant impact in the Company. Where these publications are not yet applicable, the date on which they will become applicable is also mentioned:

- **EBA Guidelines on money laundering and terrorist financing risk factors EBA/GL/2021/02.**

  On 1 March 2021, the European Banking Authority (EBA) published final revised guidelines on money laundering and terrorist financing risk factors. The Guidelines are addressed to both financial institutions and supervisory authorities. In this revised version, the EBA strengthens the requirements on individual and business-wide risk assessments and customer due diligence (CDD) measures, adding new guidance on the identification of beneficial owners, the use of innovative solutions to identify and verify customers' identities, and how financial institutions should comply with legal provisions on enhanced customer due diligence related to high-risk third countries.

- **Environmental change and Energy transition Law 7/2021.**

  This law aims to ensure Spain's compliance with the objectives of the Paris Agreement of 12 December 2015. For Allfunds, this Law entails additional non-financial reporting obligations through an annual report assessing the financial impact of the risks associated with climate change generated by the exposure of their activity, including the risks of the transition to a sustainable economy and the measures taken to address these financial risks. From 2023, along with reporting obligations, credit institutions must publish specific decarbonisation targets for their lending and investment portfolio in line with the Paris Agreement. Spanish supervisors are expected to prepare a report on the assessment of the risk to the financial system arising from climate change. This Law is pending supplementary development along the next two years. It shall not apply until then.

- **Legislative Resolution on the proposal for a regulation of the European Parliament and of the Council on digital operational resilience (DORA) for the financial sector and amending Regulations 1060/2009, 648/2012, 600/2014 and 909/2014.**

  This Legislative Resolution is a robust, ambitious, and timely initiative for a sector becoming increasingly digitalised and intertwined with ICT third-party providers (ICT TPP). This Resolution is based in three principles: (i) proportionality between ICT risk and digitalisation of financial services; (ii) preserving competitiveness of the EU on the digital stage; and (iii) futureproof, the framework must not hamper innovation. Besides their attachment to the abovementioned principles, the main content of such regulation can be summarized as follows: (i) Proportionality scope; (ii) ICT risk reporting; (iii) Testing; (iv) ICT risk management framework; (v) Sound management of ICT third-party risk; (vi) Oversight framework for critical TPPs;(vii) Competent authorities; (viii) Interaction with existing financial services and cyber security frameworks. DORA is pending supplementary development expected within Q1 2022.

- **Directive amending MiFID2 as regards information requirements, product governance and position limits (MiFID2 Quick Fix).**

  The MiFID II rules have been amended to simplify information requirements in a targeted manner, while safeguarding investor protection. The changes reduce the information on costs and charges which should be provided to professional investors and eligible counterparties. Paper-based investment information will also be phased out, except for retail clients if they ask to continue to receive it. The new rules will also allow banks and financial firms to bundle research and execution costs in case of research on small and mid-cap issuers, to increase research on such issuers and their access to funding. This Directive has to be transposed in each EU member state. It will be applicable from 28 February 2022.

- **Delegated regulation - environmentally sustainable economic activities – Taxonomy Regulation.**

  On 10 December 2021, it was published the Commission Delegated Regulation (EU) 2021/2178 supplementing Regulation (EU) 2020/852 (known as the Taxonomy Regulation) by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU (CRD) concerning environmentally sustainable economic activities and specifying the methodology to comply with that disclosure obligation. This Regulation specifies information disclosures, between others the GAR (Green Asset Ratio) to reflect the extent to which credit institutions finance Taxonomy-aligned activities, and the proportion of their fees and commission income is derived from commercial services and activities that are associated with Taxonomy-aligned economic activities of their clients.

  The application of this Regulation in 2022 should be limited to certain elements and qualitative reporting, with the remaining provisions starting to apply from 1 January 2023, for non-financial undertakings and from 1 January 2024 for financial undertakings. Moreover, the key performance indicators of credit institutions related to their trading book and commission and fees for other commercial services and activities than the provision of financing should apply from 1 January 2026.

- **RTS SFDR - final report.**

  On 22 October 2021, the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) have delivered to the European Commission (EC) their Final Report with draft Regulatory Technical Standards (RTS) regarding disclosures under the Sustainable Finance Disclosure Regulation (SFDR) as amended by the Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation). The main changes are the following: (i) Assessment by an auditor or a third party; (ii) for Article 9 products, adjustments to treat products with an environmental objective as a subset of a larger Article 9 SFDR category, and about the description of the sustainable investment objective in pre-contractual transparency requirement and the periodic disclosure description; (iii) the extent to which investments are taxonomy-aligned. On 9 July the European Commission (EC) reported the delay of SFDR's RTS to 1 July 2022.

- **KID PRIIPs and KIID UCITS.**

  On 7 September 2021, the European Commission (EC) published the Delegated Regulation (EU) 2021/2268 amending the regulatory technical standards implementing the content of Key Information Document (KID) required by PRIIPs (Delegated Regulation (EU) 2017/653) and extending the exemption for UCITS from applying the PRIIPs KID. In particular, the new regulation sets out new methodology for performance scenarios and its presentation and review the cost indicators for its better understand. It also lays down regulatory technical standards for information on past performance, which is to be provided by certain types of undertakings for Collective Investment in Transferable Securities (UCITS), retail Alternative Investment Funds (AIFs), and insurance-based investment products. UCITS Directive and PRIIPs Regulation are also modified to ensure that a key information document drawn up, provided, revised and translated for a given UCITS in accordance with PRIIPs Regulation is considered as satisfying the key investor information requirements of UCITS Directive, avoiding a situation where retail investors receive two different pre-contractual disclosure documents in respect of the same UCITS. The application of this Regulation has been delayed until 1 January 2023.

- **CSSF Circular 21/769 (Governance and security requirements for Supervised Entities to perform tasks or activities through Telework).**

  The CSSF Circular defines the governance and security requirements to be met in relation to the implementation and use by a CSSF supervised entity (in our case, Luxembourg branch and the ManCo) when using telework solutions. The Circular aims those entities to have defined a governance framework in which the telework situation has the appropriate procedures and the necessary control measures (impact on Human Resources, IT, Risks, Audit and Compliance), all captured in a Telework Policy.

- **Circular CSSF 21/7.**

  This circular was published for the adoption of the EBA revised guidelines on money laundering and terrorist financing risk factors. These requirements impose more strong approach regarding individual and business-wide risk assessments and customer due diligence (CDD) measures. It adds guidance on the identification of beneficial owners, the use of innovative solutions to identify and verify customers' identities, and how financial institutions should comply with provisions on enhanced CDD related to high-risk third countries.

- **Circular CSSF 21/788&789.**

  Although these circulars were published for investment fund managers, AIFMs and all Luxembourg investment funds, they have an impact on Allfunds' business due to the activities in relation with fund sector. The aforementioned entities are under the obligation to present an AML/CFT external report by appointing this responsibility to an AML/CFT expert. Moreover, management companies have to submit the self-assessment AML/CFT questionnaire an annual basis.

- **CSSF Circular 21/785 on IT outsourcing.**

  CSSF published a circular (21/785) about IT outsourcing in October 2021. The prior authorisation by CSSF was replaced by prior notification in case of material IT outsourcing. This notification should be done at least 3 months before the planned outsourcing comes into effect.

  In the absence of a reaction from the CSSF (additional information request, partial or total refusal of the project), the institution may implement the material IT outsourcing upon expiry of 3 months. In case of reaction by the CSSF (additional information request, partial or total refusal the time limit may be suspended.

2.2. MONITORING PROGRAMME BASED IN THE REGULATORY RISK ASSESSMENT

During the year 2021, the Compliance department continued to work on and keep updated the Compliance Monitoring Programme based on a risk-based approach as required by the European financial authorities.

The Compliance Monitoring Programme's 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 losses.

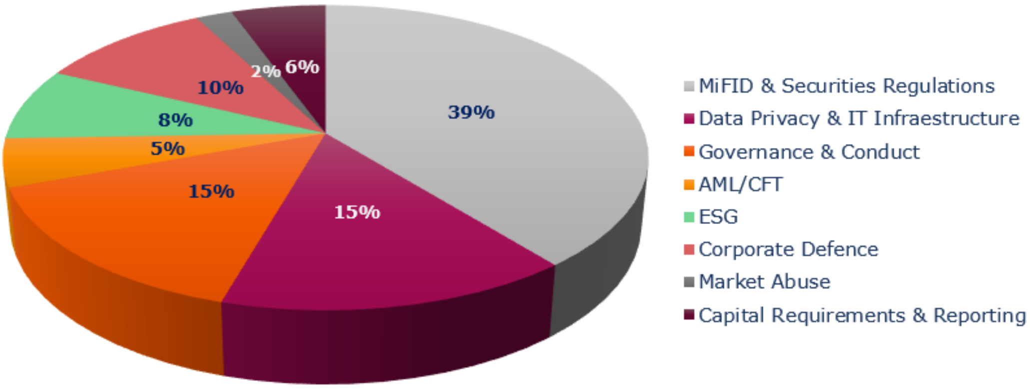
Likewise, the goal of the Compliance Monitoring Programme is to reinforce the compliance culture in the Allfunds Group, and to ensure that Allfunds Compliance area becomes an active player of its organizational culture in order to avoid any potential regulatory and reputational risk, as well as criminal risks, with a high ethical behaviour. Through the Monitoring Programme, the Regulatory Compliance Unit manages the Company's risks in the field of Compliance with an integrated vision, to prevent and identify possible regulatory non-compliance and to mitigate them.

To achieve the programme's goal, it is essential to keep the register of regulations and requirements applicable to Allfunds up to date. In 2021, more than 40 new regulatory risks were identified and uploaded to the Programme. At Allfunds group level, the main new regulatory risks are related to:

- ESG: (i) Taxonomy Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment. (ii) Spanish Environmental change and Energy transition Law 7/2021.
- IT security: EBA Guidelines on control information technology (ITC) and security risk management. EBA/GL/2019/04.
- AML/CFT: EBA Guidelines Customer Due Diligence EBA/GL/2021/02.
- Market Abuse regulation, reinforced after the IPO of Allfunds Group Plc. Regulation No 596/2014 (Market Abuse regulation), Prevention and detection of Market Abuse.

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

Figure 2. Regulatory requirements included in the Risk Assessment



Regulatory Radar

Allfunds performs its activity in a global and increasing regulatory environment. In 2020 a Regulatory Radar was implemented with KPMG as provider, in order to: (i) reinforce 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 to the Company structure (16 jurisdictions). In 2021 there were identified through the Regulatory Radar Service 4.447 publications for the jurisdictions where the Company has a Branch, Subsidiary or Representative Office. From those publications, 248 were analysed on the basis of their potential impact, of which 11 publications had high relevant impact in 2021 on the Company´s activity and consequently have been implemented (mentioned above in section 2.1).

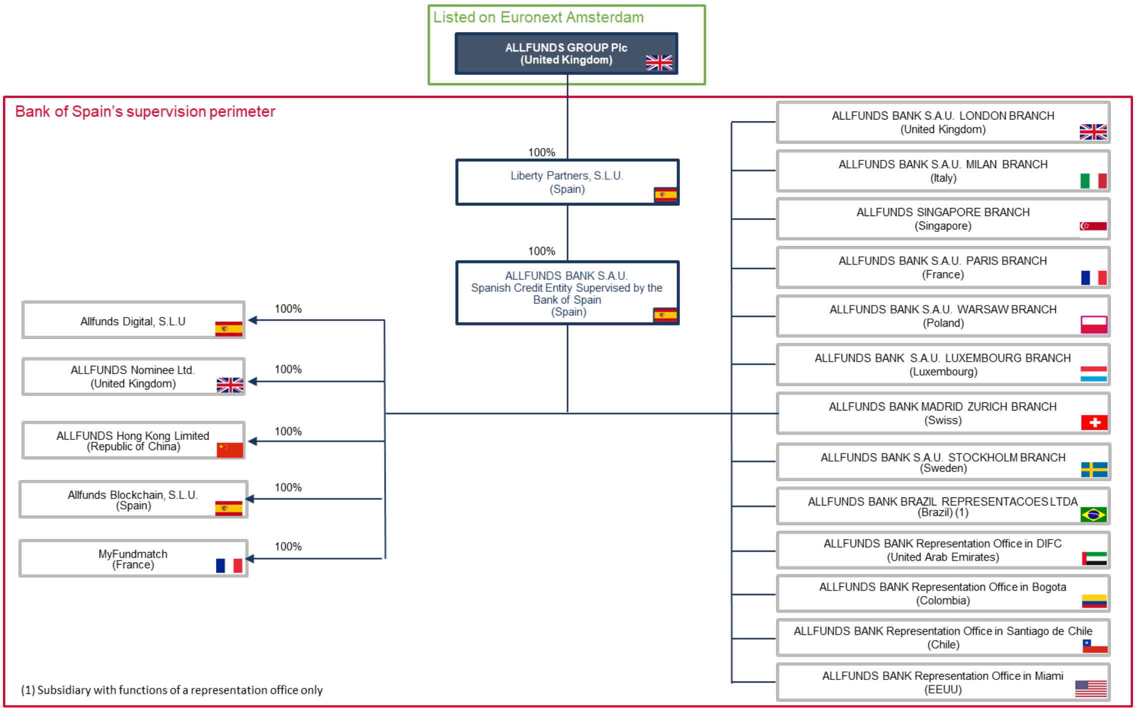
The number of jurisdictions covered by the regulatory radar was increased in March 2021 with the inclusion of the Rep. Office in the USA. Likewise, as a consequence of the April´s 2021 IPO, Allfunds Group Plc has become a listed Company on Euronext Amsterdam stock exchange and the Dutch jurisdiction has been also included in the Regulatory Radar framework.

The goal of the Regulatory Radar is to make a global tool available to Allfunds through which the different teams (Compliance, Legal, Tax, Finance, Risk, IT, Internal Audit, etc…) could be leveraged from the radar information. From the Compliance perspective, the implementation of the Regulatory Radar will allow the department to fulfill its role, to provide advice for new regulation to the business departments and ensure that the Compliance Monitoring Programme based on the risk assessment is accurate and updated according to the international Company structure.

2.3. SCOPE OF THE REPORT

The prudential supervision perimeter covers the AFB Banking Group. Its structure as of 31 December 2021 is shown in the figure below.

Figure 3. Structure of the Allfunds Bank (consolidated) as of 31 December 2021



The scope of supervision ends at Liberty Partners because its sole shareholder, Allfunds Group Plc, is a UK-based company.

The shares of Allfunds Group Plc were admitted to trading on Euronext Amsterdam on 23 April 2021. As of 31 December 2021, its significant shareholders according to information publicly available pursuant to applicable Transparency Regulations were:

Shareholder	Country	%
LHC3 Limited[5]	**Jersey**	**39.00%**
Credit Suisse AG	**Switzerland**	**8.56%**
BNP Paribas Securities Services	**France**	**7.51%**
BNP Paribas Asset Management Holding	**France**	**6.30%**
Free float	**-**	**38.64%**
TOTAL		**100.00%**

2.4. DISCREPANCIES BETWEEN THE REGULATORY AND THE ACCOUNTING INFORMATION

There are no significant differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories, mainly due to the following reasons:

[5] LHC3 Plc is indirectly owned by Hellman & Friedman (64%) and Eiffel Investment Pte Ltd, owned by GIC (36%).

- 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).
- A credit risk exposure of EUR 13,708 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 1,097 thousand reported under the 'Corporates' label.
- Due to the specific business of the company, all exposures are subject to the credit risk framework.

2.5. APPROVAL AND PUBLICATION OF THE REPORT

In accordance with the guidelines of the EBA on disclosure requirements under Part Eight of the CRR2 and described in its articles 431 (3) and 434 (1), the Entity has a policy for the verification of the Pilar III Disclosure Report. In this sense, the aforementioned report has the same degree of verification that is applied to the information of the management report, as part of financial reporting.

The Board of Directors, in its supervisory role, states that:

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

The areas within 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 to the CEO, after its verification by the Risk and Audit Committee, in accordance with the provisions of article 435.1 (e) (f) of the CRR2.

No ommission has been made for disclosure of non-material, propietary or confidential information.

2.6. GOVERNANCE FRAMEWORK

The Entity has a corporate risk governance framework adequate 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 an effective and independent oversight of the Group's activities and the non-existence of conflicts of interest.

First line of defence Business and support functions (other than control functions)	Providing day-to-day risk management and control for the Group Implements and manages the risk indicators or first level controls in order to identify potential risks and ensure an effective answer to mitigate them
Second line of defence Compliance and risk management teams Act autonomously and independently of each other and with respect to the first line of defence	Providing independent oversight of and challenges to the risk management of the business Supports the first line of defence by defining and monitoring compliance with rules and limits needed for the business to stay within the overall Risk Appetite defined by the Allfunds Bank Board
Third line of defence Internal audit function Has the maximum level of independence and objectivity within the Group	Ensuring the effectiveness of the Group's control systems Carries out independent reviews of the first two lines of defence and in order to verify compliance with the Group's risk management framework, providing assurance to the Risk and Audit Committee of Allfunds Bank on the effectiveness of the Group's risk management

The Board of Directors, supported by its Risk and Audit Committee, is responsible for defining the risk strategy, risk appetite and the risk policy as well as any material changes to these.

The CEO and the senior management team are responsible for the implementation of 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.

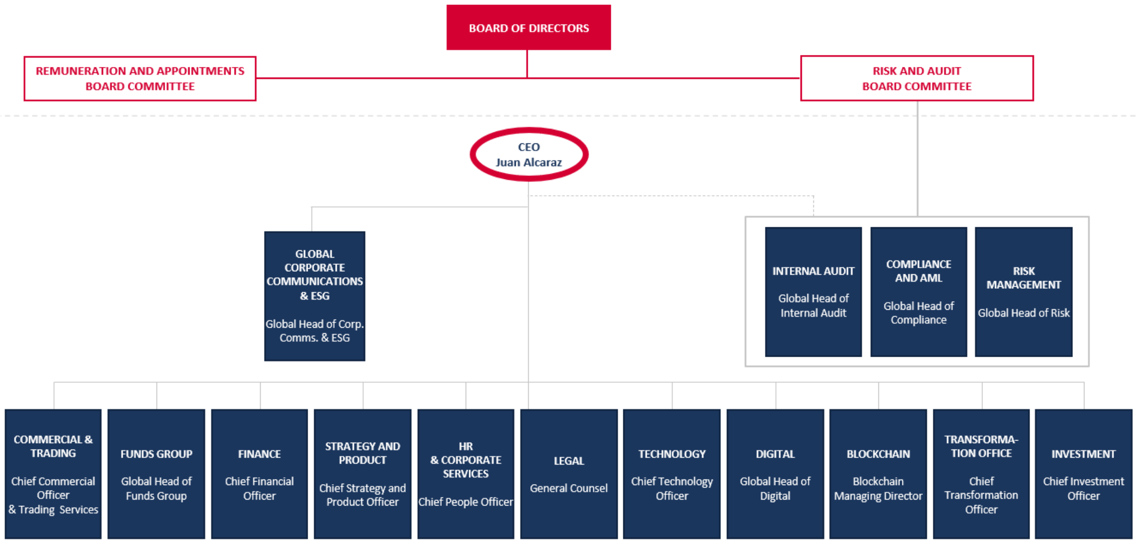
Therefore, the Board of Directors establishes the bank's risk strategy, which is led and supervised by the General Management.

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.

2.7. ORGANIZATIONAL STRUCTURE OF THE ENTITY

Allfunds Bank works under the organisational structure shown in the figure below:

Figure 4. Organisational structure as of 31 December 2021



<u>Information flow on risk management to the Board of Directors</u>

As shown in the chart, the internal control units, that is the Risk Management unit, the Compliance and AML unit, and the Internal Audit unit report functionally to the Board of Directors through the Risk and Audit Board Committee and to the CEO through the Risk and Audit Management Committee.

The Board of Directors, assisted by its Risk and Audit Board Committee, determines the nature, the amount, the format and the frequency of information on risks that should be received by the Committee and by the Board. The Heads of the Risk Management, Compliance and Internal Audit units attend the meetings of the Risk and Audit Board Committee in order to present their periodic reports, and they have direct access to the Board of Directors as they may deem appropriate. The Committee Chair periodically reports to the Board on the activities of the Committee, including on the reports received from internal control functions.

2.8. MANAGEMENT BODY OF LIBERTY PARTNERS

Liberty Partners is currently managed by two joint directors (*administradores mancomunados*), Ms Marta Oñoro Carrascal and Mr Iñigo Díez Bartolomé, who were appointed by its sole shareholder. Directors are responsible for managing and representing Liberty Partners in accordance with applicable laws and internal regulations. They constitute the highest decision-making body except for the matters reserved to the sole shareholder.

2.9. BOARD OF DIRECTORS AND BOARD COMMITTEES OF ALLFUNDS BANK

The management body of Allfunds Bank consists in a Board of Directors with 14 members appointed by its sole shareholder.

The Board of Directors is the highest decision-making body of the Entity except for the matters reserved to shareholders. It is responsible for the overall administration and management of the Bank. It delegates the day-to-day management to the CEO and its management team and focuses its activities on the general duty of supervision and on the adoption of the decisions that are most significant for the administration of the Entity and its group.

Its main duties include, among others, approving and overseeing the implementation of the overall business strategy and key policies, including the overall risk strategy, and monitoring and periodically evaluating the effectiveness of the internal governance system and internal control framework. The Board is also entrusted with the supervision and control of the effective operation of the Board Committees it has created and of the executive management it has appointed.

The composition of the Entity's Board of Directors as of 31 December 2021 is shown in the table below. Their profiles, including their relevant external directorships, are available on Annex 2.

Table 2. Board of Directors of Allfunds Bank as of 31 December 2021

Name	Board role	Last appointment	Team
Blake Kleinman[6]	Chairman & Non-Exec. Director	21/11/2017	5 years
Johannes Korp	Non-Executive Director	21/11/2017	5 years
Chris Reid	Non-Executive Director	21/11/2017	5 years
Zita Saurel	Non-Executive Director	21/11/2017	5 years
Alessandro Gioffreda	Non-Executive Director	02/10/2020	5 years
Fabian Shey	Non-Executive Director	26/03/2020	5 years
Lisa Dolly	Independent Non-Execcutive Director	02/10/2020	5 years
Sofia Mendes	Independent Non-Execcutive Director	08/01/2021	5 years
David Pérez Renovales	Independent Non-Execcutive Director	08/01/2021	5 years
JP Rangaswami	Independent Non-Execcutive Director	05/11/2018	5 years
Delfin Rueda	Independent Non-Execcutive Director	08/01/2021	5 years
Ursula Schliessler	Independent Non-Execcutive Director	04/02/2021	5 years
Juan Alcaraz	Executive Director (CEO)	19/03/2021	5 years
Amaury Dauge[7]	Executive Director (CFO)	19/03/2021	5 years
Marta Oñoro	Secretary (non-member)	N/A	N/A

Directors are appointed by the sole shareholder for a five-year term and may serve any number of consecutive terms. Their appointment is subject to the approval of the Bank of Spain and must be made following a favourable suitability assessment conducted by the Remuneration and Appointments Committee of the Board in accordance with applicable regulations, including Bank of Spain regulations and Joint EBA and ESMA Guidelines on suitability assessment of key function holders. This process aims to assess each candidate's business and professional repute, knowledge, skills and experience, and time availability, to confirm their ability to properly govern the Entity and to contribute meaningfully to the effectiveness of the Board.

When recruiting Board members, the Remuneration and Appointments Committee seeks to ensure that the Board composition is sufficiently diverse in terms of gender, age, knowledge, skills, experience, and international background so as to avoid groupthink. In 2021 a Board Diversity Policy was approved at the level of Allfunds Group Plc that sets specific targets in terms of gender and ethnic diversity in the boardroom. So was approved a Non-Executive Directors' Profile that sets out the main features that are sought in non-executive directors. Although these policies concern Allfunds Group Plc, to the extent the

[6] Mr Kleinman has been replaced as Board Chair by Mr David Bennett on 17 May 2021, but he remains in his position as a Board member.
[7] Mr Dauge submitted his resignation in November 2021. It became effective on 31 March 2022. On the date of this report, it is not foreseen to appoint his successor as member of the Board.

Entity tries to keep the composition of both companies' Board of Directors aligned, these are also considered when recruiting the Entity's directors.

Directors' suitability is further assessed on an annual basis as well as before their re-election and when circumstances so advise in order to confirm that they have the business and professional repute, knowledge, skills and experience, and time availability, required to properly govern the Entity in accordance with applicable regulations. Directors' suitability is assessed at an individual and collective level.

The Board of Directors generally meets every 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 meeting may take place whenever it is called by its Chair, on his own initiative or at the request of at least one third of its members, indicating the agenda of the meeting.

Board Committees

The Board of Directors has created two Board Committees that assist them in the performance of its duties: the Remuneration and Appointments Committee and the Risk and Audit Committee.

Remuneration & Appointments Board Committee

The Remuneration and Appointments Committee is composed of a minimum of three and a maximum of five non-executive directors. At least one third of its members and, in any event, its Chair must be independent.

As of 31 December 2021 and as of the date of this Report, the Remuneration and Appointments Committee was composed by Ms Lisa Dolly (independent Chair), Ms Zita Saurel (non-executive) and Mr JP Rangaswami (independent). Its Secretary is Ms Marta Oñoro (Board Secretary).

The Remuneration and Appointments Committee shall meet as many times as called by the Committee itself or its Chair, as deemed necessary. It shall also meet whenever the Board of Directors or its Chair requests the issuance of a report or the adoption of proposals. In 2021 the Committee met seven times. The Committee draws up minutes of its meetings.

The Remuneration and Appointments Committee's main role is to support the Board of Directors in its duties to define and monitor the balance of skills and experience and the diversity of its members, to ensure and assess its effectiveness and organise its succession, and to design appropriate remuneration schemes. Its key responsibilities include:

(i) assisting in the design and periodic review of the Board desired profile, including its composition, skills, experience and diversity targets, and in the development of succession plans;
(ii) participating in selection and appointment processes, identifying suitable candidates and making proposals for appointments or re-elections of directors;
(iii) assisting in the Board and Committees' effectiveness review, as well as each director's individual contribution, and overseeing directors' training and development programmes;
(iv) advising on the design of the remuneration policy for directors, ensuring its contribution to long-term value creation and monitoring its implementation; supervising performance metrics linked to variable remuneration; and assessing beneficiaries' performance considering those metrics.

The responsibilities of the Remuneration and Appointments Committee are specified in the following functions in terms of appointments and remuneration:

(a) In terms of appointments:

(i) Identify and recommend candidates to fill vacant positions on the Board of Directors, with a view to the candidates' appointment by the Board of Directors or by the General Meeting. Any director may request the Remuneration and Appointments Committee to take into consideration potential candidates to fill vacancies if they find them to be appropriate.
(ii) Establish a goal of presence of the less represented gender on the Board of Directors and prepare guidance on how to reach or increase the number of directors of that gender in order to achieve this objective.

(iii) Evaluate the balance of expertise, qualifications, diversity and experience of the Board of Directors, prepare a description of the skills and aptitudes necessary for a specific appointment, and assess the dedication of time expected to perform the role.
(iv) Periodically, and at least once per year, evaluate the structure, size, composition and activities of the Board of Directors, and make recommendations with respect to possible changes.
(v) Periodically, and at least once per year, evaluate the suitability of the members of the Board of Directors and the Board as a whole, and report the findings to the Board of Directors.
(vi) Periodically review the policy of the Board of Directors regarding the selection and appointment of the key function holders and make recommendations.

(b) Regarding remuneration:

(i) 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 staff (as this term is defined in applicable legal provisions), as well as individual remuneration and other contractual terms of the members of the Board of Directors with executive duties and ensure their observance.

(ii) Periodically, and at least once per year, evaluate remuneration policies in order to verify that remuneration standards and procedures approved by the Board of Directors are complied with.

Risk and Audit Board Committee

The Risk and Audit Committee is composed of a minimum of three and a maximum of five non-executive directors. The majority of its members and, in any event, its Chair must be independent.

As of 31 December 2021 and as of the date of this Report, the Risk and Audit Committee was composed by Mr David Pérez Renovales (independent Chair), Mr Johannes Korp (non-executive) and Ms Ursula Schliessler (independent). Its Secretary is Ms Marta Oñoro (Board Secretary).

The Risk and Audit Committee shall meet as many times as called by the Committee itself or its Chair, as deemed necessary. It shall also meet whenever the Board of Directors or its Chair requests the issuance of a report or the adoption of proposals. In 2021 the Committee met seven times. The Committee draws up minutes of its meetings.

The Risk and Audit Committee supports the Board in its duty to oversee the integrity and quality of the Company's financial reporting and the effectiveness of its internal and external control systems. Its key responsibilities include:

(v) overseeing the accounting and financial reporting processes, as well as the choice and application of accounting policies, reviewing the financial reports or announcements of the Company and assessing the fairness, adequacy and clarity of their contents;
(vi) overseeing the operation and effectiveness of the internal control systems and the internal audit and risk functions, reviewing reports from internal units and monitoring the effectiveness of corrective action taken by management;
(vii) with regard to the external auditor, advising on its appointment, reappointment or dismissal and on the terms of its engagement, supervising the relationship with it and monitoring its performance and independence, and reviewing the effectiveness of the audit process;
(viii) advising the Board on the Group's risk appetite, risk profile and future risk strategy, and monitoring the effectiveness of the risk management framework; and
(ix) assisting in the design of the Company's financing structure and tax planning policy.

The responsibilities of the Risk and Audit Committee are specified in the following roles in terms of risk, audit and compliance:

(a) In terms of risks:

(i) Advise the Board of Directors on the Entity's current and future overall propensity for risk and its strategy in this area and assist it in monitoring the application of such strategy.

(ii) Together with the Board of Directors, determine the nature, the amount, the format and the frequency of information on risks that should be received by the Committee and by the Board of Directors.

(iii) Collaborate on the establishment of rational remuneration policies and practices. For this purpose, the Committee shall examine if the incentive policy provided for in the remuneration system takes into consideration risk, capital, liquidity and the probability and possibility of profits, without prejudice to the duties of the Remuneration and Appointments Committee.

(b) Regarding audit:

(i) Monitor the effectiveness of the internal control, internal audit and risk management systems of the Entity.

(ii) Supervise the Entity's external auditor.

(iii) Propose the appointment, remuneration and removal of the auditor.

(iv) Review and approve the scope and frequency of the audits and review the audit reports.

(v) Verify that the Board of Directors adopts in due time the corrective measures required to resolve deficiencies in internal control, violations of laws, regulations and policies, and other problems identified by the auditors.

(vi) Monitor the establishment of accounting policies by the Entity.

(c) In terms of Compliance:

(i) Assess the Compliance Monitoring Programme.

(ii) Assess Regulatory Compliance and AML reports with the assessment of compliance risks and its management.

(iii) Inform the Board of the overall measures to be taken to ensure compliance with applicable regulations based on the information provided by the Compliance unit.

2.10. EXECUTIVE COMMITTEE

The Executive Committee exists to support the CEO in the day-to-day management of Allfunds' business. It currently consists of eight members, each of whom oversees a specific area of the business. The composition of the Executive Committee is shown in the table below:

Table 3. Executive Committee as of 31 December 2021

Name	Role
Juan Alcaraz	Chief Executive Officer
Gianluca Renzini	Chief Commercial Officer & Trading Services
Borja Largo	Chief Fund Groups Officer
Amaury Dauge[8]	Chief Financial Officer
Mariano Blanchard	Chief Technology Officer
Jorge Calviño	Chief People Officer
Juan de Palacios	Chief Strategy and Product Officer
Marta Oñoro	General Counsel

2.11. GENERAL MANAGEMENT

The CEO, assisted by the executive management team, is entrusted with the day-to-day management of the business. Control units report administratively to him.

In terms of risk management, the CEO, supported by the Risk Management function, has the following duties:

- Proposing risk policies for the Entity, identifying the different types of risks (credit, market, interest, operational, technological, legal and reputational, among others), and defining

[8] Mr Dauge submitted his resignation in November 2021. It became effective on 31 March 2022. He was replaced as CFO by Mr Alvaro Perera, who has also been appointed as a member of the Executive Committee.

methodologies, processes, procedures and the internal control systems and measures appropriate for the level of risk that the Entity considers in its Risk Appetite.
- Authorising, where appropriate, potential technical exceedances that may occur within the assigned limits.
- Defining the responsibilities and functions of persons involved in risk management.
- Validating and authorising internal and external risk reporting.
- Supervising that the level of assumable risk is in line with the strategic objectives set.
- Leading the Risk and Audit Management Committee, which, among others, reviews and approves the limits' structure established by the Entity for each risk factor.
- Evaluating and following the guidelines issued by regulatory authorities.
- Monitoring that risk levels are in line with the Risk Appetite.

The Board of Directors also makes sure of the following commitments through the CEO:

- 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.

2.12. INTERNAL MANAGEMENT COMMITTEES AND BODIES

In addition to the Board Committees and the Executive Committee, the management team has created several internal Management Committees, each of which is specialised in different key functions, to assist in the day-to-day management of the Entity. The Management Committees existing as of 31 December 2021 were the following:

- **Strategic Product Portfolio Committee** (quarterly): reviews and approves new services and products
- **Client Acceptance Committee** (monthly): approves new countries and clients from a risk, compliance and legal perspective
- **Risk and Audit Committee** (monthly): monitors all types of risks, monitors and ratifies clients' credit ratings, monitors reporting obligations, and approves new reporting obligations including integration risks
- **Technology Committee** (monthly): reviews technology and operational procedures and issues and updates on innovation projects
- **Commercial Committee** (monthly): reviews and approves new clients
- **Integration (Bandol) Committee** (monthly): coordinates and implements acquisitions and transformation projects and in particular the Bandol project
- **Investment Solutions Committee** (monthly): reviews and approves all investment research and solutions initiatives
- **Operations Committee** (monthly): reviews operational procedures and issues and updates on operations team projects
- **Business Continuity / IT security Committee** (on demand): reviews business continuity plans and procedures
- **Crisis Management Committee** (on demand): manages exceptional circumstances that may involve a crisis situation
- **CSR Committee** (bi-annually): reviews ESG topics and monitors the implementation of ESG strategy

In addition to this structure of Management Committees, Allfunds Bank has an **Internal Control Body for AML/TF** composed by the CEO, the Global Compliance Officer, the head of AML, the Chief Commercial Officer & Trading Services, all members of the Entity's AML/TF unit, and those responsible for AML/TF in the Entity's subsidiaries and branches when appropriate. This Internal Body meets regularly and at least quarterly. Its main functions 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 & subsidiaries located in 3rd 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 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.

2.13. 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 the risks the entity assumes during the course of its activities. The key principles of risk management 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 mitigation of 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.

2.14. FUNCTIONS OF THE RISK DEPARTMENT

The main functions of the Risk Department are detailed below:

- 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 consumption.
- 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 policy and procedures as well as calibrating internal procedures.
- Defining the investments required for a better monitoring, control & management of the risks.

2.15. ORGANIZATIONAL STRUCTURE OF THE RISK DEPARTMENT

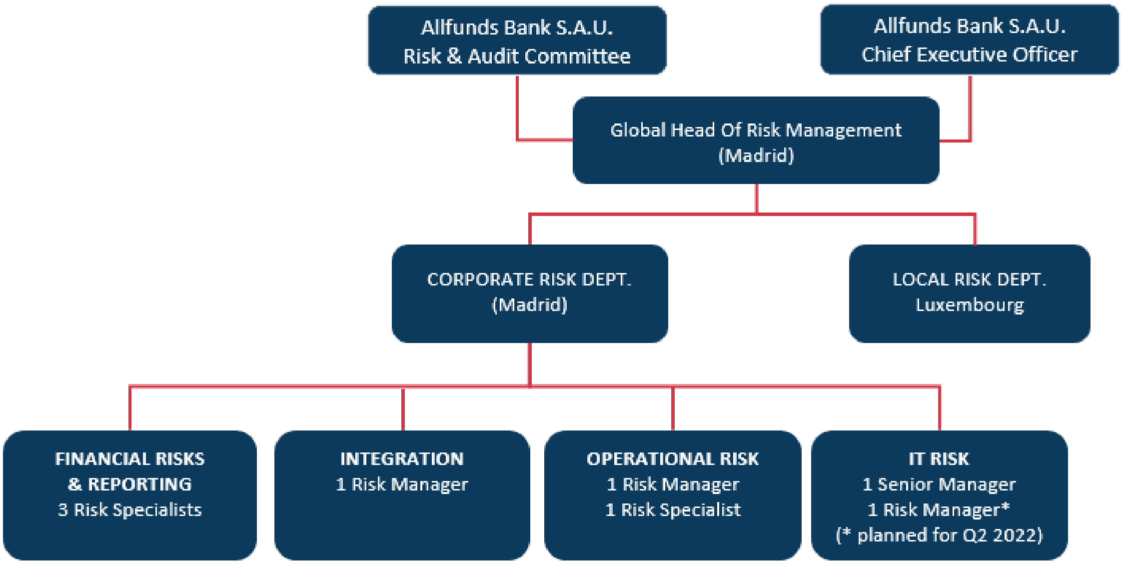
The Risk Management Unit has dual reporting lines: one to the CEO and another to the Board of Directors through the Risk and Audit Board Committee.

The team is composed of a global team based in Madrid and a local team in Luxembourg. The Luxembourg-based team works with independence, but under the close supervision and control of the global team in Madrid. The Risk Management unit consists of nine employees, seven based in Madrid and two based in Luxembourg.

The Global Head of Risk Management reports functionally to the Chairman of the Risk & Audit Committee and hierarchically to the CEO.

Allfunds Bank's Risks 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



2.16. RISK MANAGEMENT FRAMEWORK

The prudence applied by the Group in risk management is a basic pillar in all its activities and in the services it provides. In turn, the Group's organisational structure represents a system of clearly defined delegations for the management of this risk. The general principles that guide the definition, monitoring and management of risks are the following:

a. the risks assumed must be compatible with the assets of the Group and in accordance with the targeted solvency level.
b. willingness to maintain a 'low risk' profile through:
   - sticking to the distribution activity, avoiding incorporating proprietary positions into the balance sheet that generate risks that the Group does not wish to assume;
   - the search for a high degree of diversification of structural risks, establishing limits to concentrations by customers, sectors, markets and/or geographies that may pose a threat to the solvency objectives, liquidity and recurrence of results; and
   - continuous attention to the tasks of identification and monitoring of risks, so that all areas are provided with adequate and dynamic systems that result in optimal management and control of the risks assumed;
c. existence of control and monitoring procedures for all the risks incurred by the Group in the performance of its activity;
d. existence of solid management mechanisms and mitigation of operational and reputational risks;
e. independence of the risk function with respect to the business areas; and
f. involvement of the organisation in the philosophy of risk management.

Allfunds Bank (consolidated) has established a series of principles on 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 risk life cycle, 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 risk variable 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 to.
- 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:
  - ➢ Staying in the distribution business, 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.
  - ➢ Pursuing 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.
  - ➢ Keeping 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 (consolidated) 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 the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing (EBA/GL/2018/03).

2.17. RISK APPETITE FRAMEWORK (RAF)

The Risk Appetite Framework (RAF) is the group-wide corporate management framework to determine risk appetite (the type and amount of risk to be willingly taken to achieve the business strategy) within the Group’s risk capacity. This is supported by the management strategies formulated by the senior management team based on the Group’s management principles, together with the internal control system underpinning that process.

The RAF is an integral and prospective tool and aims primarily to strengthen profitability, enhance risk management and promote transparency in the overall risk-taking policy for capital allocation and profit maximization. This is supported through the setting, communication and oversight of risk appetite, as well as the optimization and speed-up of allocation of management resources.

Allfunds’ RAF 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 RAF 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.

The Board of Directors annually approves the risk strategy and in particular the RAF to promote a good internal governance, the establishment of limits and objectives and the implementation of monitoring and surveillance mechanisms for the different types of risk. Allfunds' Risk Appetite Framework was last reviewed by the Board of Directors in December 2021 with the aim of adapting it to the organizational structure and complexity of the entity, introducing the following improvements:

- Incorporation of IT Risk to the RAF/RAS.
- Recalibration of thresholds for recovery indicators (aligned with new recovery thresholds included in the Recovery Plan updated in December 2021).
- Update of Governance Section to stay aligned with other regulatory reports.
- Reviewed definitions, in pursuit of clarity.

The Board has reaffirmed that the Group's risk appetite is low.

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. RISK APPETITE STATEMENT (RAS)

In order to establish reasonable capital targets for the group, Allfunds Bank (consolidated) 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:

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

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

Table 4. Material risks

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

Given the type of activity of the entity, the main risks to which it is subject are operational risk and ICT 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 (consolidated) 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, market, operational, technological, settlement and business.

2.19. INTERNAL AUDIT

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

2.19.1. 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.

AIA has an Audit Methodology that covers all phases of the audit cycle:

- Audit Universe Assessment.
- Annual Planning.
- Audit Execution, which includes audit planning, fieldwork and reporting.
- Tracking of open issues until closure.
- Business monitoring to identify key business developments that may impact the audit plan

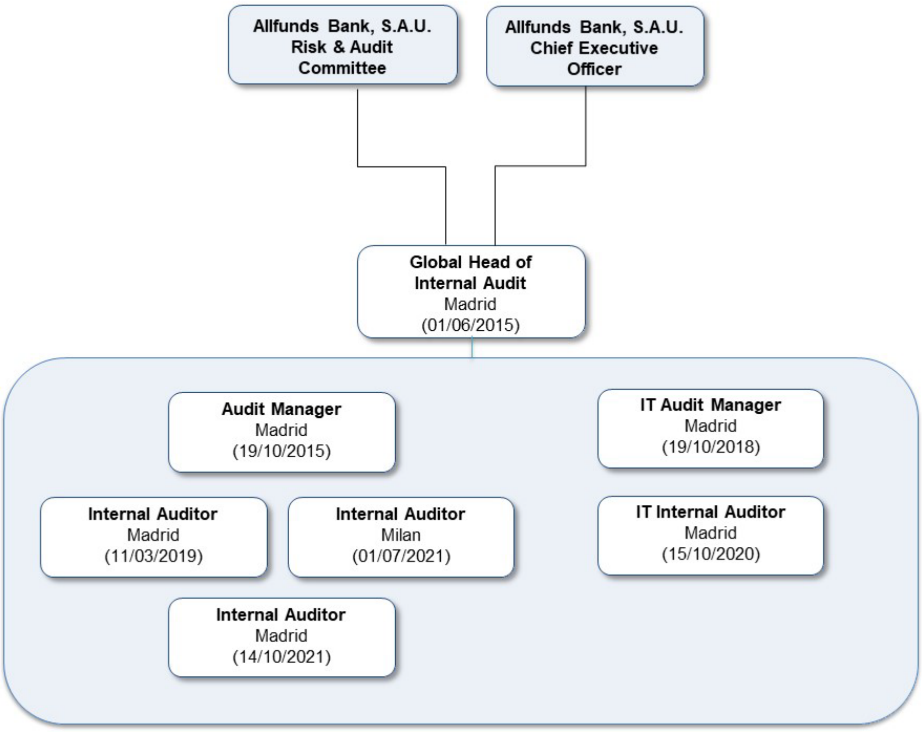
2.19.2. INTERNAL AUDIT DEPARTMENT RESOURCES

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 CEO.

AIA has an approved headcount of seven employees, six of which are based in Madrid and one is based in Milan. The team currently includes a Head of Internal Audit, two Audit Managers and four Audit Seniors.

The structure chart of the team is detailed below:

Figure 6. Internal Audit organization



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 Auto Audit, which is an audit software that allows team members to store audit documentation in a shared and secure environment. Auto Audit is used throughout the audit lifecycle, from annual planning and risk assessment, through audit fieldwork and issue tracking.
- 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 significantly increase the level of assurance it provides.
- AIA has read-only access to the Dealing platform and the external web site (Connect) used by clients to obtain information on funds distributed by Allfunds.

2.20. 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 in accordance with the activities that the Company carries out and the type of business relationships it establishes and is hence focused on the financial market with institutional customers.

2.20.1. COMPLIANCE DEPARTMENT ORGANIZATION

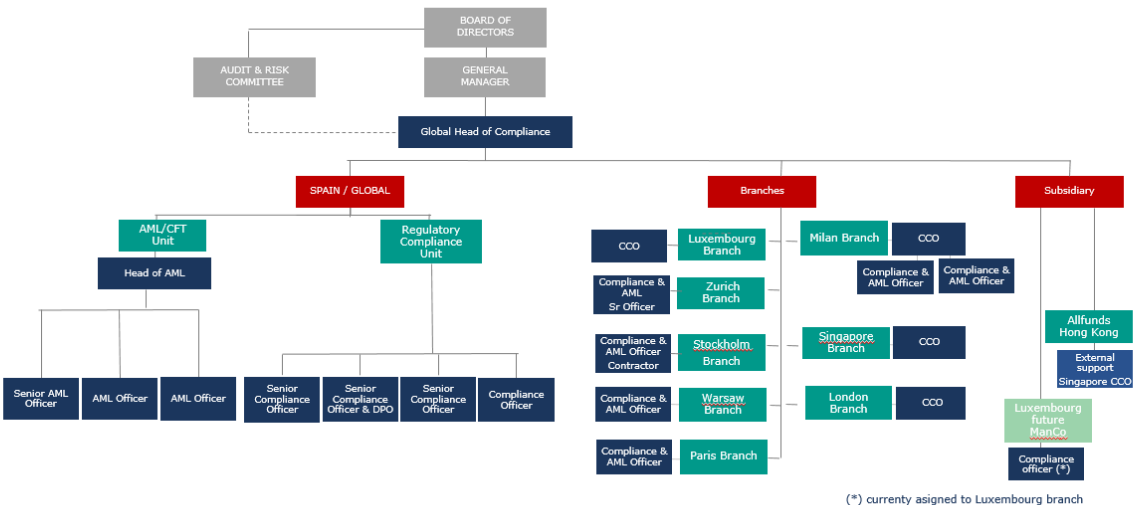
The Compliance Department of Allfunds Bank (consolidated) depends hierarchically on the CEO of the entity and reports at least, on a quarterly basis to the Risk and Audit Board Committee and on an annual basis to the Board of Directors through the annual writing report.

Allfunds' Compliance Department is made up of the AML/CFT Unit and the Regulatory Compliance Unit (RCU), as well as of the local compliance officers of each branch and subsidiary. The Data Protection Officer of Allfunds is a member of the RCU. The offices of the Company which, according to the regulations in force, requires the existence of the compliance function, have established and designated a local compliance officer. Additionally, the Company´s compliance function establishes the action lines, coordination, standardisation and control of branches and subsidiaries. The local Compliance Officers have direct reporting channel with the Company´s compliance function, to guarantee their independence, notwithstanding the jurisdiction in which they are located and their local reporting channels.

The Compliance Department of Allfunds was made up of by 20 professionals at the end of 2021, 19 employees and 1 contractor, with additional external support in Hong Kong and in the London branch.

The current organization chart of the Compliance Department at Group level is shown below.

Figure 7. Compliance Department organization



2.20.2. 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 guidelines[9] 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.*

[9] European Banking Authority. Guidelines on internal governance under Directive 2013/36/EU. EBA/GL/2017/11 In italics extracts from the guidelines.

- 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.*

Likewise, MiFID II regulations[10] establishes that institutions should have a permanent and effective compliance function which acts independently and supervises the effectiveness of measures, policies and procedures, advises those in charge of providing investment and ancillary services, reports to the governing body and supervises the processing of claims. Accordingly, the compliance function will establish a monitoring programme based on risks that ensures an exhaustive control.

Finally, reinforcing the above-mentioned MiFID´s II approach, the European Security Markets Authority (hereinafter ESMA) on its updated guidelines on certain aspects of the MiFID II compliance function requirements[11] stated that "*the compliance function is a crucial function within firms, responsible for identifying, assessing, monitoring and reporting on the firm's compliance risk*."

In particular, the ESMA highlights the role of the compliance function in relation to certain specific topics, such as:

- *the compliance function is assigned new and specific responsibilities in relation to MiFID II's product governance;*
- *the compliance function may also operate as the complaints management function of the firm;*
- *the compliance function shall also advise the management body of the firm on the firm's remuneration policy.*

Consequently, the mission of Allfunds' Compliance function could be summarized in the identification, advice, supervision and reporting on compliance risks, carrying out their tasks independently, adopting a proactive approach and close to the rest of the organisation, as part of its culture, anticipating changes in the regulatory context, in order to incorporate them into the Compliance Programme and mitigate regulatory and reputational risks while promoting ethical and responsible behaviour.

The Compliance department is part of the Company's second line of defence together with the Risk department. Compliance Function monitors the fulfilment with applicable regulations, standards and codes of conduct in order to treat fairly customers and stakeholders. As second line of defence, also monitors and verifies that the Company´s policies and procedures are observed and duly updated and identifies improvement actions while promoting a solid risk and compliance culture across the organisation. Compliance functions are detailed in the Regulatory Compliance Policy.

The Compliance department of Allfunds has developed a comprehensive Compliance monitoring programme based on a risk approach. The programme involves a control model developed with the support of an external provider tool called GlobalSUITE®. The goal of this model is to identify the controls in the first line of defence to mitigate regulatory, conduct and reputational risks, as well as the risk of criminal liability, to review them to verify their effectiveness and to promote the necessary improvement actions together with the relevant areas.

[10] Delegated Regulation (EU) 2017/565 implementing Directive 2014/65/EU on markets in financial instruments (MiFID II).
[11] ESMA 35-36-1952 guidelines on *certain aspects of the MiFID II compliance function requirements*, which replaces ESMA guidelines on the same topic, issued in 2012.

3. CAPITAL

3. CAPITAL

3.1. CAPITAL MANAGEMENT AND ADEQUACY

The objective in managing the bank's capital is to maintain appropriate levels 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 5. Qualifying own funds. Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	31.12.20	31.12.21
CET1	320,686	339,672
Tier 1 additional	-	-
TIER 1	320,686	339,672
TIER 2	-	-
CAPITAL TOTAL	320,686	339,672
RWAs	1,318,365	1,806,711
CET1 ratio [12]	***24.32%***	***18.80%***
Tier 1 ratio	***24.32%***	***18.80%***
Total Capital ratio	***24.32%***	***18.80%***
Leverage ratio	***18.84%***	***10.74%***

Table 6. Details - Qualifying own funds. Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	31.12.20	31.12.21
CET1 Instruments	**1,210,151**	**1,266,448**
Shareholders' equity	1,281,950	1,467,549
Capital	982,041	982,041
Profit	71,798	201,100
Reserves and others	228,111	284,408
Minority interests and unrealised gains/losses	-	-
Adjustments of comput. of minority int. and unrealised g/l	-	-
Other adjustments	(71,799)	(201,101)
Deductions from CET1	**(889,465)**	**(926,776)**
Goodwill	(415,573)	(407,749)
Intangible assets	(473,892)	(519,027)
Financial investments	-	-
Deferred tax assets	-	-
Other CET1 deductions	-	-
CET 1	**320,686**	**339,672**
AT1 Instruments	-	**-**
TIER 1	**320,686**	**339,672**
T2 instruments	**-**	**-**
Financing of subordinated issues	-	-
Generic provisions and excess of provisions IRB	-	-
T2 deductions	**-**	**-**
TIER 2	**-**	**-**
TOTAL CAPITAL	**320,686**	**339,672**

[12] CET1 ratio of 21.35% including the audited 2021 net profit.

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

Table 7. Overview of RWAs (Template EU OV1). Table 6. Details - Qualifying own funds. Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	Risk Weightet Assets		Minimum capital requirements
	31.12.20	31.12.21	
Credit risk (excluding counterparty credit risk)	**827,402**	**1,089,073**	**87,126**
Standardised Approach (SA)	827,402	1,089,073	87,126
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	**9,363**	**57,238**	**4,579**
Standardised Approach (SA)	9,363	57,238	4,579
Internal Model Approaches (IMM)	-	-	-
Operational risk	**481,600**	**660,400**	**52,832**
Basic Indicator Approach	481,600	660,400	52,832
Standardised Approach	-	-	-
Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	**-**	**-**
Floor adjustment	**-**	**-**	**-**
Total[13]	**1,318,365**	**1,806,711**	**144,537**

3.2.2.1. CAPITAL BUFFER

Directive 2013/36/EU introduced the 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.

[13] Capital Buffer requirement of Pilar I: 8% RWA

As of 31 December 2021 the countercyclical buffer for Allfunds Bank (consolidated)[14] was at 0.2840% 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 8. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer. Allfunds Bank (consolidated)

	Relevant Exposures	Countercyclical buffer
Countries (*)	100.00%	**0.28401%**
Andorra	0.00%	0.00000%
Australia	0.00%	0.00000%
Austria	0.19%	0.00000%
Belgium	0.13%	0.00000%
Bermuda Island	0.00%	0.00000%
Brazil	1.59%	0.00000%
British Virgin Islands	0.00%	0.00000%
Canada	0.00%	0.00000%
Cayman Islands	0.10%	0.00000%
Chile	0.17%	0.00000%
China	0.00%	0.00000%
Colombia	0.00%	0.00000%
Denmark	0.00%	0.00000%
Finland	0.07%	0.00000%
France	5.56%	0.00000%
Germany	1.83%	0.00000%
Guernsey	0.26%	0.00000%
Hong Kong	0.18%	**0.00183%**
Ireland	8.05%	0.00000%
Isle of Man	0.00%	0.00000%
Italy	4.72%	0.00000%
Japan	0.00%	0.00000%
Jersey	0.01%	0.00000%
Liechtenstein	0.01%	0.00000%
Lithuania	0.00%	0.00000%
Luxembourg	55.55%	**0.27774%**
Malaysia	0.00%	0.00000%
Malta	0.02%	0.00000%
Mauricio	0.02%	0.00000%
Mexico	0.00%	0.00000%
Netherlands	0.02%	0.00000%
Norway	0.44%	**0.00444%**
Oman	0.00%	0.00000%
Philippines	0.01%	0.00000%
Poland	0.47%	0.00000%
Portugal	0.03%	0.00000%
Saudi Arabia	0.05%	0.00000%
Singapore	0.87%	0.00000%
South Africa	0.00%	0.00000%
Spain	5.85%	0.00000%
Sweden	1.16%	0.00000%
Switzerland	3.63%	0.00000%
United Arab Emirates	0.21%	0.00000%
United Kingdom	8.55%	0.00000%
Uruguay	0.03%	0.00000%
USA	0.22%	0.00000%

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

[14] As of 31 December 2021, the countercyclical buffer for the AFB Banking Group stood at 0.2846% on RWA (see Annex 1).

3.2.2.2. 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 surchage 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.

AS of 31 December 2021, Allfunds Bank (consolidated) had a leverage ratio of 10.74%.

The following Tables show the relevant information as of 31 December 2021 required by the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016.

Table 9. Leverage ratio. Allfunds Bank (consolidated)

Leverage ratio. Breakdown *EUR ('000s)*	CRR leverage ratio exposures 31.12.2020	CRR leverage ratio exposures 31.12.2021
On-balance sheet items	2,591,487	4,089,447
- Asset amounts deducted in determining Tier 1 capital	-889,465	-926,777
Derivatives	507	377
Securities Financing Transactions (SFTs)	0	0
Off-balance sheet items	0	0
Leverage ratio		
Tier 1 capital (numerator)	320,686	339,672
Total exposure measure (denominator)	1,702,529	3,163,047
Leverage ratio	**18.84%**	**10.74%**
Minimum requirement	3.00%	3.00%

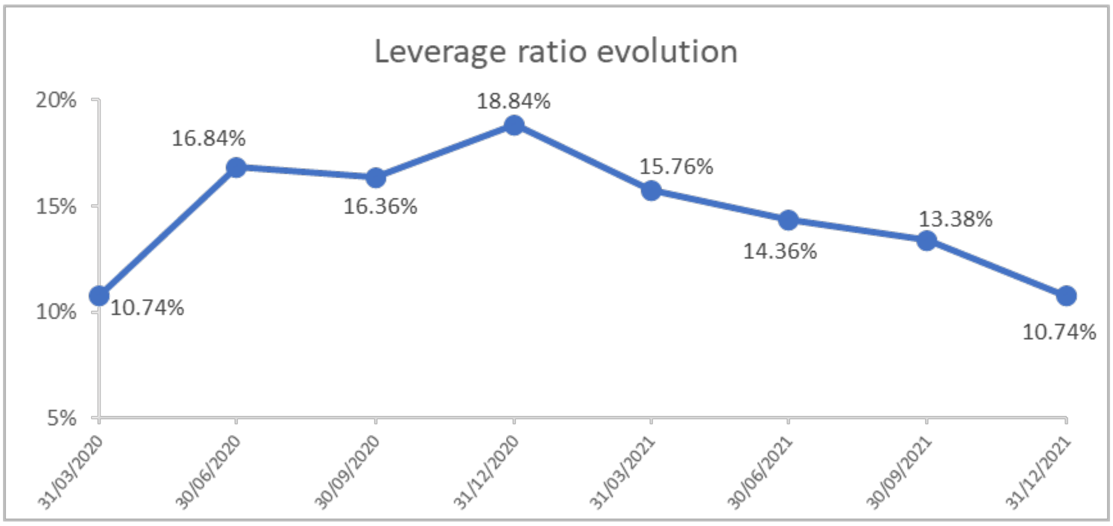
Table 10. Split-up of on balance sheet exposures (excluding derivatives and SFTs). Allfunds Bank (consolidated)

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs) *EUR ('000s)*			
		31.12.20	**31.12.21**
EU-1	**Total on-balance sheet exposures (exduding derivatives, SFTs, and exempted exposures), of which:**	**2,591,487**	**4,089,447**
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	2,591,487	4,089,447
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	1,245,461	1,469,563
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-	-
EU-7	Institutions	653,577	755,150
EU-8	Secured by mortgages of immovable properties	-	-
EU-9	Retail exposures	456	483
EU-10	Corporate	220,336	185,030
EU-11	Exposures in default	-	-
EU-12	Other exposures (e.g., equity, securitisations, and other non-credit obligation assets)	471,657	1,679,221

Table 11. Information on qualitative aspects. Allfunds Bank (consolidated)

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. 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 an decrease from 18.84% as of year-end 2020 to 10.74% as of year-end 2021, comfortable above regulatory levels and aligned with the company's risk appetite.

Figure 8. Evolution of the leverage ratio. Allfunds Bank (consolidated)



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

3.2.2.3. 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 assuring 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 (consolidated) 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

The Bank does not carry out the normal activity of a commercial bank in the sense that it does not participate in active lending activities (loans are not granted and deposits are not actively taken, although clients can decide to fund their cash accounts for their usual operative) and it does not hold risky assets.

Allfunds Bank only works with regulated financial institutions. 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 of 31 December 2021, Pillar I capital requirements for credit risk amounted to EUR 87,126 thousand, in accordance to the CRR. This section contains information on the exposures to credit risk that are broken down as follows:

Table 12. Total and average net amount of exposures (Template EU CRB-B). Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	Exposures before CCF and CRM				Average
	31.03.2021	30.06.2021	30.09.2021	31.12.2021	
Sovereigns and their central banks	1,715,961	1,603,857	1,620,230	1,321,191	1,565,310
Non-central government public sector entities	63,358	82,648	131,915	148,372	106,573
Multilateral development banks	-	-	-	-	-
Institutions/Banks	735,140	796,517	904,084	755,350	797,773
Corporates	270,768	178,909	256.585	185,207	222,867
Regulatory retail portfolios	474	873	543	483	593
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CII's)	9	1	-	-	5
Equity	385	665	664	664	595
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	572,247	708,621	701,450	751,781	683,525
Total Credit Risk - SA portfolio	**3,358,342**	**3,372,091**	**3,615,471**	**3,163,048**	**3,377,241**

4.5.1. Geographical exposures

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

Table 13. Geographical breakdown of exposures (Template EU CRB-C). Allfunds Bank (consolidated)

Exposures *EUR ('000s)*	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	**1,321,191**	**148,372**	**755,350**	**185,207**	**483**	**751,781**	**0**	**664**	**3,163,048**	**1,089,073**	**87,126**
Italy	1,072,621	72,280	86,350	23,948	0	20,328	0	0	1,275,527	61,546	4,924
Luxembourg	200,810	4,890	3,362	65,790	0	455,243	0	0	730,095	521,705	41,736
Spain	13,994	58,831	376,408	14,398	483	40,104	0	0	504,218	130,138	10,411
UK	0	91	96,242	18,597	0	61,594	0	0	176,524	99,438	7,955
Switzerland	33,701	42	10,171	4,721	0	29,325	0	0	77,960	36,079	2,886
France	0	2,799	21,467	17,307	0	34,827	0	0	76,400	56,429	4,514
Ireland	0	0	18	14,871	0	60,685	0	0	75,574	75,560	6,045
USA	0	0	55,184	828	0	1,201	0	0	57,213	13,066	1,045
Sweden	0	1,678	38,781	1,243	0	9,589	0	0	51,291	18,588	1,487
Singapore	65	7,275	13,127	352	0	7,777	0	0	28,596	10,754	860
Germany	0	0	8,776	2,211	0	14,967	0	0	25,954	18,933	1,515
Rest	0	486	45,464	20,941	0	16,141	0	664	83,696	46,837	3,747

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 14 shows the distribution by maturity of Allfunds Bank (consolidated)'s exposure to credit risk:

Table 14. Maturity of exposures (Template EU CRB-E). Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	<1Y	1-5Y	>5Y	Total	Total %
Sovereigns and their central banks	1,321,191	-	-	1,321,191	**41.8%**
Non-central government public sector entities	148,372	-	-	148,372	**4.7%**
Multilateral development banks	-	-	-	-	**-**
Institutions/Banks	755,350	-	-	755,350	**23.9%**
Corporates	185,207	-	-	185,207	**5.8%**
Regulatory retail portfolios	158	307	18	483	**0.0%**
Secured by commercial real state	-	-	-	-	**-**
Collective Investment Undertakings (CII's)	-	-	-	-	**-**
Equity	-	-	664	664	**0.0%**
Past-due loans	-	-	-	-	**-**
Higher-risk categories	-	-	-	-	**-**
Other assets	723,776	-	28,005	751,781	**23.8%**
Total Credit Risk - SA portfolio	**3,134,054**	**307**	**28,687**	**3,163,048**	**100.0%**
%	**99.1%**	**0.0%**	**0.9%**	**100.0%**	

4.5.2. Methodology applied

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

Table 15. Standardised approach – CR exposure and CRM effects (Template EU CR4). Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	Exposures before CCF and CRM			RWA	RWA density
	On-balance sheet amount	Adjustments	Total		
Sovereigns and their central banks	1,321,191	-	1,321,191	0	0.00%
Non-central government public sector entities	148,372	-	148,372	0	0.00%
Multilateral development banks	-	-	-	-	-
Institutions/Banks	755,350	-	755,350	151,070	20.00%
Corporates	191,185	(5,978)	185,207	185,207	100.00%
Regulatory retail portfolios	526	(43)	483	362	74.95%
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-
Equity	664	-	664	664	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	751,781	-	751,781	751,770	100.00%
Total Credit Risk - SA portfolio	**3,169,069**	**(6,021)**	**3,163,048**	**1,089,073**	**34.43%**

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 16. Standardised approach (Template EU CR5). Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	0%	10%	20%	35%	50%	75%	100%	Total
Sovereigns and their central banks	1,321,191	-	-	-	-	-	-	1,321,191
Non-central government public sector entities	148,372	-	-	-	-	-	-	148,372
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	755,350	-	-	-	-	755,350
Corporates	-	-	-	-	-	-	185,207	185,207
Regulatory retail portfolios	-	-	-	-	-	483	-	483
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	664	664
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	11	-	-	-	-	-	751,770	751,770
Total Credit Risk - SA portfolio	**1,469,574**	**-**	**755,350**	**-**	**-**	**483**	**937,641**	**3,163,048**
%	**46.5%**	**-**	**23.9%**	**-**	**-**	**0.0%**	**29.6%**	**100.0%**

Applying risk-weights to credit risk exposures (Pillar I), capital requirements for credit risk were:

Table 17. Standardised Approach: RWAs by asset classes and risk weights. Allfunds Bank (consolidated)

Amounts *EUR ('000s)*	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	-	-	151,070	-	-	-	-	151,070
Corporates	-	-	-	-	-	-	185,207	185,207
Regulatory retail portfolios	-	-	-	-	-	362	-	362
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	664	664
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	0	-	-	-	-	-	751,770	751,770
Total Credit Risk - SA portfolio	**0**	**-**	**151,070**	**-**	**-**	**362**	**937,641**	**1,089,073**
Capital Requirements for Credit Risk[15]	**0**	**-**	**12,086**	**-**	**-**	**29**	**75,011**	**87,126**

4.6. 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. On 31 December 2021 the vast majority of this liquidity was deposited in the following counterparties[16] *(ratings by S&P Capital IQ).*

Table 18. Credit ratings

Counterparty	Type of Counterparty	Rating
Bank of Spain	Sovereign	A
Bank of Italy	Sovereign	BBB
Banque Centrale du Luxembourg	Sovereign	AAA
Banco Santander S.A.	Credit Entity	A+
Bankinter S.A.	Credit Entity	BBB+
Cecabank S.A.	Credit Entity	BBB+
Citibank N.A.	Credit Entity	A+
Credit Agricole CIB	Credit Entity	A+
Credit Suisse AG	Credit Entity	A+
Danske Bank A/S	Credit Entity	A+
JPMorgan Chase Bank N.A.	Credit Entity	A+
SIX SIS AG Zurich	Credit Entity	A+
State Street Bank International GmBH	Credit Entity	AA-

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 Article 131 have been applied for exposures to rated institutions.

15 Capital requirement of Pillar I: 8% RWA.
16 Banco Santander S.A. and Danske bank A/S upgraded by S&P in Dec 2021 from A. Ratings for central banks correspond to the Sovereign rating.

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 31 December 2021:

Table 19. Mapping of external rating to credit quality steps (S&P Capital IQ, Moody's & Fitch Ratings)

	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+	P-1	F-1+	20%	
	2	A-1	P-2	F-1	50%	
	3	A-2, A-3	P-3	F-2, F-3	100%	
	4	Lower than A-3	NP	Lower than F-3	150%	
	5				150%	
	6				150%	

4.7. CREDIT RISK ADJUSTMENTS

A financial asset is considered to be impaired[17] 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 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.

4.7.1. Adjustments and impairments

The Group held past due but not impaired financial assets in the accompanying balance sheets as at 31 December 2021 and 2020 amounting to EUR 107,744 thousand and EUR 86,596 thousand, respectively, all of which had maturities of less than 30 days, were held with other financial companies and originated from uncollected commissions for the commercialization of shares in Collective Investment Institutions, as well as amounts overdrawn in current accounts at those dates.

Financial assets classified as financial assets at amortised cost and collectively estimated to be **impaired due to credit risk** on 31 December 2021 amounted to EUR 10,946 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 its small amount, impaired assets are residual.

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

Valuations adjustments to impaired assets amounted to EUR (6,021) thousand, that can be split in “allowances for performing exposures and exposures under special monitoring” (Stage 1+2) estimated of EUR (142) thousand and “allowances for non-performing exposures” (Stage 3) amounting to EUR (5,879) thousand as of 31 December 2021.

On 31 December 2021, the Group did not hold any financial assets classified as loans and receivables and considered to be **written-off assets**.

4.7.2. Ageing of past-due exposures

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

Table 20. Credit quality of performing and non-performing exposures by past due days (Template EU CQ3). Allfunds Bank (consolidated)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	**1,999,951**	**1,999,951**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**243,268**	**223,686**	**19,582**	**10,946**	**-**	**7,279**	**3,580**	**87**	**-**	**-**	**-**	**-**
Central banks	14,675	14,675	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	61,715	61,715	-	-	-	-	-	-	-	-	-	-
Other financial corporations	163,425	143,843	19,582	10,946	-	7,279	3,580	87	-	-	-	-
Non-financial corporations	2,943	2,943	-	-	-	-	-	-	-	-	-	-
Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-
Households	510	510	-	-	-	-	-	-	-	-	-	-
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**-**			**-**								**-**
Central banks	-			-								-
General governments	-			-								-
Credit institutions	-			-								-
Other financial corporations	-			-								-
Non-financial corporations	-			-								-
Households	-			-								-
Total	**2,243,219**	**2,223,637**	**19,582**	**10,946**	**-**	**7,279**	**3,580**	**87**	**-**	**-**	**-**	**-**

4.8. COUNTERPARTY CREDIT RISK

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

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

4.9. CONCENTRATION RISK

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

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

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

As of 31 December 2021 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. Market risk arises from potential changes in the value of financial instruments as a result of changes in interest rates, exchange rates, share prices, commodity prices or credit spreads.

5.2. LIMITS AND DIVERSIFICATION

The Entity has considered that it is not necessary to define specific limits since it does not allow investments and the market risk is practically non-existent, so it is aligned with the risk appetite.

The primary driver of the Group's net revenue is the total market value of AuA, which are not part of Allfunds on-balance sheet items. Therefore, AuA are not a direct exposure to market risk for Allfunds and a decline in the total market value of AuA due to poor market performance (decline in the prices of financial instruments) would not generate direct losses to Allfunds. Thus, there is no need to allocate additional capital for this. However, the Stress Tests included in Annex V incorporate macroeconomic scenarios to assess the potential adverse effect on the average value of AuA and its potential adverse impact on the Group's business, financial condition and results of operations.

5.3. STRUCTURE AND ORGANIZATION OF MARKET RISK

The market risk management function 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 to 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 BoD 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 31 December 2021, 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 of 31 December 2021, Pillar I capital requirements for market risk amounted to EUR 4,579 thousand, in accordance with the CRR.

6. OPERATIONAL RISK

6. OPERATIONAL RISK

6.1. DEFINITION

In accordance with the Basel framework, Allfunds Bank defines operational risk as the risk of losses resulting from deficiencies or failures of internal processes, human resources or systems, or derived from external circumstances. This definition includes, among others, legal, technological, conduct and outsourcing risk but excludes reputational and strategic/business risk. Operational Risk is, therefore, inherent to all products, 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 structured as follows:

- Two general operational risk indicators based on losses: operational risk net losses divided by gross margin and operational risk net losses divided by own funds.
- Specific statement on IT Risk based on five indicators, ensuring better measurement and fostering ICT risk control that were included into the 2021 RAS.

In addition to those indicators, Allfunds Bank uses Operational Key Indicators, which provide information on risk exposure and warn of possible deteriorations in the internal control environment in order to ensure that the early management of risks complies with the established Risk Appetite Framework. The level of risk exposure has been moderate during fiscal year 2021.

6.3. STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK

According to the Operational Risk Framework (ORF) and the internal control model adopted by Allfunds Bank, Operational Risk management is based on the three lines of defence model: operational risk management is decentralized within the different process managers that cover the entire organization and controlled by a global unit specialized in operational risk management, within the Risk Management.

The operational risk management function is responsible for coordinating, supervising and promoting the identification and assessment, monitoring, mitigation, control and communication of risks directly managed by the process managers. This operational risk function is based on three axes of action:

- The first is based on the analysis of processes and its operational risks and associated controls, jointly addressed by 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. This is complemented with the detection, monitoring and active management of operational risk 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.
- 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 on exposure and root causes of each business line, in order to minimizing them. This information also allows to evaluate deviations between potential losse estimations and actual losses, improving operational risk exposure level estimattions. AFB has a historical database of losses since 2008, which is continuously improved and updated as information on the events is received.
- A third fundamental axis is the corporate risk culture and awareness on the importance of the management and control of operational risk which is carried out through the communication and dissemination of risk policies and procedures, and regular training within the organization aligned with the internal operational risk procedures.

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 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.
- Model risk: risk of loss as a result of failures in the design and implementation of models used for decision-making. This risk has a minimal impact now since the Entity does not widely use internal models (either statistical algorithms or battery of rules) for decision-making.

These non-financial risk subcategories are managed and controlled jointly with other internal control departments (Information Security, IT Risk, Compliance and Legal departments).

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 Board of Directors 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, mitigation plans; and the information systems and internal controls that will be used to control and manage the aforementioned risks.

The **Risk and Audit Management 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 Board of Directors.
- Adapting the risk management procedures to the growing sophistication of the financial market and align them with the current capital requirements.
- 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.

6.4. REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

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 operational risk, maintaining a medium-low appetite.

The Operational Risk Framework (ORF) approved by the Board of complies 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 the Board of Directors, and externally to the regulatory bodies.

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 operational risk management methodology that 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): 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 evaluation is carried out using risk matrices, constructed in terms of frequency and severity, and control effectiveness is determined in terms of design and performance. The RCSA is a continuous exercise with a “forward looking” vision 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 deterioration trends and potential sources of operational risk.

During 2021 Allfunds Bank has continuously implemented and monitored mitigation actions for major sources of risk identified by the Operational Risk team, not only to control the degree of progress in their implementation but also to be able to monitor their effectiveness in accordance with the Procedure for the Mitigation Measures Management. 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.

Another remarkable aspect on the management of operational risk, is the management and control of **third-party risk** that the operational risk team performs jointly with the Legal, Compliance and IT Security teams, along with the 1LoD-areas related to the third-party/outsourcing process. During 2021, outsourcing risk has remained at acceptable levels regarding risk appetite; no relevant events had materialized, and service level agreements were adequate.

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.

Within the operational risk framework (ORF), the communication and reporting process at Allfunds Bank 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 2021, 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 Risk and Audit Management Committee.
  - Ad-hoc periodic information to the BoD through the Risk and Audit Board Committee.

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 (consolidated) as of 31 December 2021 stood at EUR 52,832 thousand.

The bank aims towards maximum automation of CIIs subscription and reimbursement orders management on behalf of its clients (distributors). There is an ever-changing and improving environment. Defined alerts are in place in order to verify the delivery and reception of orders contain the required information and they are sent on time before defined cut-offs.

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. 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 31 December 2021 operational net losses represented 0.08% of Gross Margin and 0.12% of Own Funds, therefore deeming unnecessary the application of additional capital requirements to hedge this 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 12 and 13, respectively.

Figure 9. Historical OR net losses (% Basel-type). Allfunds Bank (consolidated)

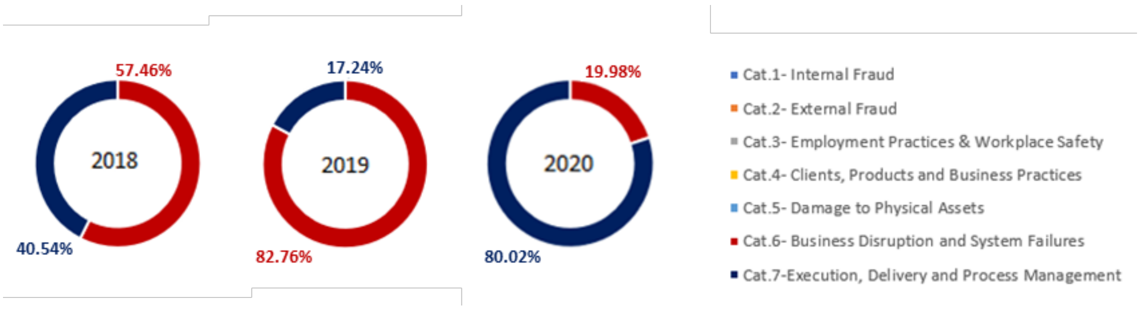
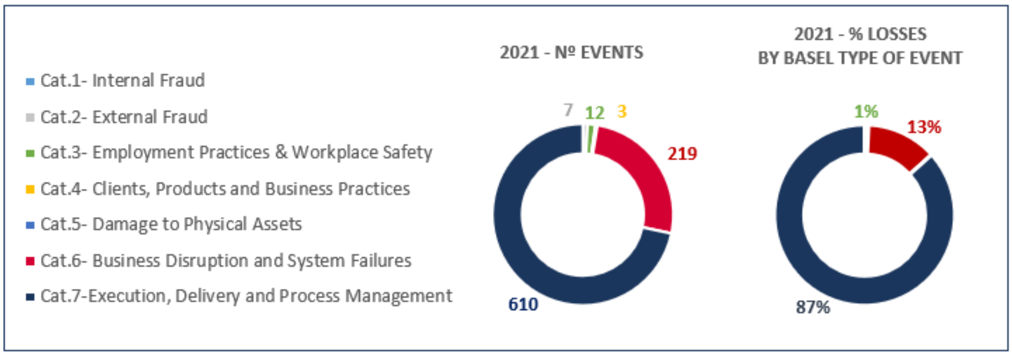


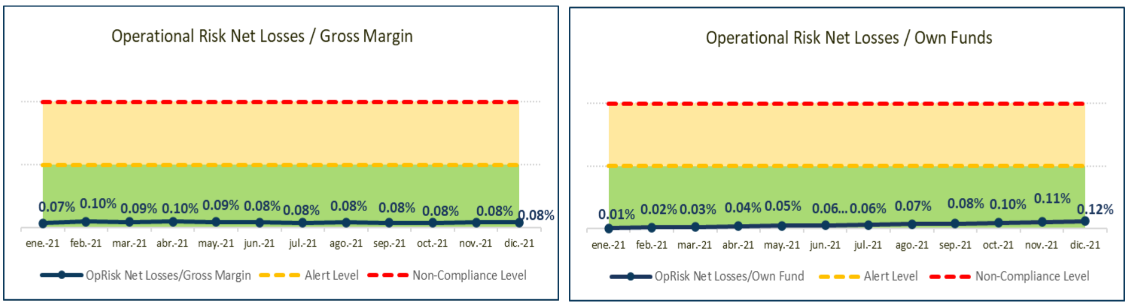
Figure 10. Distribution by type of event 2021. Allfunds Bank (consolidated)



The evolution of losses by type of event shows that most operational losses are due to manual failures in processes (Execution, Delivery and Process Management: 86.66%) and systems failures (Business Disruption and System Failures: 12.65%) following the trend of previous years, where events for operational risk continue to be concentrated in these two categories.

The following figure reflects the evolution of the Operational RAS (Risk Appetite Statement) indicators during 2021; both metrics closed below target level (<0.50%) in compliance with Allfunds' risk appetite.

Figure 11. Operational RAS indicators 2021. Allfunds Bank (consolidated)



6.7. 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 if not compliant with minimum requirements or the applicable regulatory framework. Another legal risk relates to regulatory risk, i.e., the risk of a transaction potentially conflicting with applicable laws and regulation or with a regulator's policy, of services not being provided in accordance with the applicable regulations or, more generally, of legislation potentially changing 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 department, as risk owner function and with the support of external legal advice if needed, reviews and analyses laws and regulations applicable to the services provided by the Entity 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 drafted in accordance with applicable laws and regulations. Deviations are only authorized if validated by a senior lawyer and all agreements must be validated by the Legal department before being signed.
  - All services are designed and rendered in accordance with applicable laws and regulations.
  - Legal and advisory support from external law firms is obtained when necessary.
  - The Global Head of Legal Department is also the Secretary of the Board of Directors and keeps its members informed about legal concerns

  This risk is classified as a subcategory of the operational risk, 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 or supplier) or another group entity (intra-group outsourcing) to provide IT systems or related services adversely impacts the institution`s performance and risk management. The Entity has a Supplier Selection Procedure that includes due diligence controls and an Outsourcing Policy (both updated on 2021) that establishes the criteria to take into account when outsourcing activities to third parties based on the recommendations of the EBA guidelines on outsourcing arrangements (EBA/GL/2019/02). In 2021, the monitoring and control processes have been reinforced in application of those mentioned Policies.

  The **Supplier Selection Procedure** has been updated in order to strengthen control over third parties linked to Allfunds. The main updated topics are: (i) Adding sections relating to Risk Management and IT Security. Both aspects were integrated into the questionnaires that third parties have to complete and sign before signing the contract; and (ii) Providing a more detailed and visual description of the authorization procedure. Likewise, should be mentioned that along 2021, has been reinforced the preventive measures regarding the proposed suppliers within the following areas: (i) Corporate Defence; (ii) General Data Protection Regulation; (iii) AML- CTF reputational risk; and (iv) Corporate Social Responsibility.

  The decision to outsource involves a risk and control assessment; therefore, the Compliance and Risk Management departments prepare their risk assessments reports according to this Policy with the objective to assess and mitigate risk to a reasonable extent prior to the implementation of the outsourced service/ process. These reports are sent to the Legal department who consolidates the information and sends it to the competent authorities, if applicable. Subsequent to these reports, the control areas on a regular basis 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 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 unauthorized 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. TECHNOLOGY RISK

7. TECHNOLOGY RISK

7.1. DEFINITION

According to the European Banking Authority (hereinafter, EBA) and the EBA/GL/2019/04 Guidelines on ICT and Security Risk Management, Technology Risk is defined as the risk of losses due to the inadequacy or failure of hardware and software of technical infrastructures, due to cyber-attacks or other circumstances, which may compromise the availability, integrity, accessibility and security of infrastructures and data.

7.2. LIMITS AND DIVERSIFICATION

The Group has a set of indicators, based on the risk appetite and default alert levels approved by the BoD, structured as follows:

- Six general Technology Risk Indicators based on: number of relevant events, number of IT audit recommendations, number of vulnerabilities pending remediation, availability of IT systems, numbers of servers with obsolete operating systems and number of unresolved critical vulnerabilities overdue.
- In addition to the aforementioned indicators, Allfunds uses Technology Key Indicators, which provide information on risk exposure and alert of possible deteriorations in the internal control environment, in order to ensure that prompt risk management complies with the established Risk Appetite Framework (RAF). The level of risk exposure has been moderate in 2021.

7.3. STRUCURE AND ORGANIZATION OF TECHNOLOGY RISK

The Bank has a global unit specialized in Technology Risk Management, within the Risk Management area, whose main functions are coordinating, supervising and promoting the identification and assessment, monitoring, mitigation, control and communication of risks directly managed by the process managers according to the Technology Risk Methodology and the internal control model adopted by Allfunds Bank based on three lines of defence, considering both these operative processes and also non-operative processes by using specific Technology Risk tools which facilitate the integration of information according to the organizational structure.

From a Technology risk perspective, AFB has clearly differentiated the first and second line of defense:

First Line of Defense:

- The Chief Information Security Officer (CISO) evaluates, in the first instance, the risks associated with the new security threats identified in order to define the actions that allow their remediation.
- The Risk Owner is generally the person responsible for the asset or business unit that is affected by the risk, or a representative, when several assets or business units are affected by the risk.

Second Line of Defense:

- Chief Risk Officer (CRO), responsible for:
  - Reviewing with Technology Risk Management the overall IT risks of AFB.
  - If necessary, escalating to the appropriate governance bodies within AFB’s risk management processes.
- Technology Risk Management, responsible for:
  - Local implementation of the Technology Risk Methodology, leading and ensuring the performance of the Technology Risks analysis.
  - Definition of the Technology Risks treatment plan and monitorization of its development.
  - Involvement of the appropriate stakeholders, ensuring that management understands the current exposure to Technology Risk.

The Technology Risk functions is aligned with the Operational Risk function. The two functions are jointly related and coordinated in order to provide a comprehensive view of risk in AFB. Both functions follow the same governance structure composed of:

- The Risk and Audit Board Committee (quarterly).
- The Risk and Audit Management Committee (monthly).

7.4. REPORTING, MEASUREMENT AND MITIGATION MEASURES

Allfunds Bank has implemented an evolved and mature methodology that allows the quantification and management of exposure against Technology Risk according, to its size and nature. Although this methodology is based on the main regulations and standards that apply to AFB, in general it focuses on enhancing the entire Technology Risk management cycle in terms of strategy and planning, identification and evaluation, mitigation, monitoring, control and communication.

2021 has been a year in which the Technology Risk function has faced significant challenges, arising from the development of the new Technology Risk Methodology. This methodology is based on the main Security standards (ISO 27002, NIST) and obligations (EBA/GL/2019/04 Guidelines on ICT and Security Risk Management). The following IT management tools make up the methodology:

- The **Technology Risk Assurance Framework (TRAF) model** helps to identify the AFB's Technology Risk based on the most relevant processes, assessing the residual risk borne by AFB, the overall quality of the controls and whether additional control enhancements or mitigation actions shall be implemented.

  The scope of the TRAF enhances the traceability of process, threat and control catalogs. Its purpose is to:

  - Establish common basic principles on the management and control of Technology Risk in its different modalities.
  - Identify the key processes in the area (process's catalog), evaluating each process in terms of availability, confidentiality and integrity.
  - Identify the threats affecting AFB (threat catalog).
  - Have a controls's catalog reflecting the main applicable standards and regulations.
  - Define the roles and responsibilities to ensure the effective design and execution of Technology Risk controls.

- The **Technology Risk Inventory** (**TRI) and Monitoring** aims to identify and maintain an inventory of Technology Risks based on the identified threats, as well as their mitigation status. In addition to model development, AFB has defined a TRI process to ensure that identified vulnerabilities are assessed at least once a year.

  By defining the proposed metrics such as incident management, vulnerability management, security policies, and awareness, the level of risk to which AFB is exposed i defined and calculated. In order to extract information, the IT risk area uses inputs such as IT inventories, logs, vulnerability inventories, external reports, local information extraction, etc.

- The **Technology Key Indicators (KIS) and Risk Appetite** aims to help AFB to acknowledge how the indicators applied to the IT risks to which AFB is exposed can ensure the achievement of risk appetite objectives.

  Definition of risk appetite is the first step in risk control, as it determines the risk level that the AFB is willing to assume. Based on this, AFB will allocate resources and efforts to mitigate possible impacts.

- The **Risk Acceptance Process** defined by Technology Risk Management aims to require explicit acceptance of potential risks situation that wouldn't be accepted beforehand in normal operations.

- The AFB **Third Party Questionnaire Framework** aims to perform a Technology Risk analysis in order to identify potential risks in terms of outsourcing. In this process, both the Operational Risk and the IT Risk teams consider whether a service or function is essential or not and analyze the risks of the activity to be outsourced.

In order to identify the main risks, AFB has defined a set of actions to be carried out:

- Identification of the main risks to which the process is exposed to.
- Qualitative estimation of the inherent risk, based on severity and frequency.
- Identification of mitigation measures to cover the identified risks and estimation of residual risk.

It is also worth highlighting that during 2021 Bank of Spain has performed an ICT Risk Management audit which has further strengthened the importance of Technology Risk at AFB.

Within the Technology Risk Methodology, the communication and reporting process at Allfunds Bank comprises the generation and disclosure of Technology Risk information to the relevant stakeholders and bodies, to enable the adoption of necessary decisions and actions.

In 2021, Allfunds Bank has developed independent management reports for Technology Risk monitoring. These reports allow to obtain a broad view of the Technology Risk profile with different aggregation criteria, allowing to present them at different hierarchical levels:

- External reporting:
    - Public information.
    - Due diligences requested by third parties.
- 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).

7.5. OWN FUNDS REQUIREMENTS FOR TECHNOLOGY RISK

Capital requirements for Technology Risk at Allfunds is included in the calculations/requirements of the Operational Risk capital requirements.

8. INTEREST RATE RISK

8. INTEREST RATE RISK

8.1. 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.

8.2. 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.

8.3. 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.

8.4. REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

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

8.5. 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 to avoid exposure to EUR-denominated deposit investments. Nonetheless, in the case of opting for this asset type, these deposits will be cancellable 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 distributors.

According to the states reported by interest rate:

Table 21. IRRBB information

Reduction in economic value	Σ Recurrent profit (last 3 years)	20% Internal Capital
148	389,431	77,745

9. LIQUIDITY AND FUNDING RISK

9. LIQUIDITY AND FUNDING RISK

9.1. 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.

9.2. 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.

9.3. 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.

9.4. REPORTING, MEASUREMENT AND MITIGATION SYSTEMS

Liquidity risk management and monitoring principles assumed by Allfunds Bank (consolidated) 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 Management Committee and, ultimately, to the Board of Directors through the Risk and Audit Board Committee.

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

9.5. 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.

Allfunds’ liquidity reserves are found to be adequate to counterbalance its normal outflows as well as unexpected massive cash withdrawals. In contrast to universal banks/G-SIBs, small domestic/retail lenders, corporate/wholesale/sectorial lenders or other diversified lenders, Allfunds shows a peculiar pattern, similar to those of custodian banks, characterized by the availability of large amounts of liquid assets.

9.6. MEASUREMENT OF LIQUIDITY NEEDS

9.6.1. LIQUIDITY AND FINANCING MANAGEMENT FRAMEWORK

The AFB Banking 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 (LCR) and long-term indicators (NSFR and ALMM, 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.

9.6.2. 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.

9.6.3. LINES OF DEFENCE

Liquidity and financing are 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 22. Lines of defence. Liquidity needs.

<table>
<tr><th></th><th>1ª line of defence</th><th colspan="2">2ª line of defence</th><th>3ª line of defence</th></tr>
<tr><td>Main functions</td><td>Execution</td><td colspan="2">Identification, measurement and control</td><td>Assessment, valuation and review</td></tr>
<tr><td>Areas</td><td>Business</td><td colspan="2">Risks</td><td>Audit</td></tr>
<tr><td>Roles & Responsibilities</td><td>• 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</td><td colspan="2">• 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</td><td>• 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.</td></tr>
<tr><td>Cross-sectional areas</td><td colspan="2">Technology</td><td colspan="2">Accounting</td></tr>
<tr><td>Roles and Responsibilities</td><td colspan="2">Provide disaggregated information from the source of data (Host) located on the Bank's servers, to the system that generates the accounting information (SIC).</td><td colspan="2">Generate the accounting information required by the Bank of Spain to evaluate liquidity management.</td></tr>
</table>

9.6.4. FINANCING PLAN AND LIQUIDITY INDICATORS

The Entity has a Liquidity Financing and Management Plan[18] 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 the Bank 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:

- the main activity of the Bank, as described earlier in this report, is the intermediation and distribution of UCITs at an institutional level, receiving commissions for the services it renders, this concept being its main line of income;
- the Bank does not carry out loan granting activities and does not have an active policy for attracting customer deposits or other forms of financing, as they are not necessary for the provision of the intermediation services it provides to its clients.
- Excessive liquidity is invested in interbank deposits with high-credit quality institutions in order to mitigate concentration risk.

[18] On February 17, 2022, Allfunds shared its last financing plan with Bank of Spain in the context of the prospective analysis on the solvency of Spanish credit institutions (Forward Looking Exercise on Spanish Banks or FLESB).

- 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 Trading and Execution Services Department and monitored by the Finance Department.

9.6.5. 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.

9.6.6. 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	31.12.2021
LCR	Monthly	763.30%
NSFR	Quarterly	144.51%

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 on 31 December 2021 being as follows:

Table 23. Liquidity Coverage Ratio (LCR)

Thousand Euros

Components	Amount EUR ('000s)
Liquidity buffer	1,321,203
L1 excl. EHQCB liquidity buffer (value according to Article 9): unadjusted	1,321,203
NET LIQUIDTY OUTFLOW	173,090
Total Outflows	545,322
Reduction for Inflows Subject to 75% Cap	372,232
LIQUIDITY COVERAGE RATIO (%)	**763.30%**

Allfunds Bank fulfils both the obligation to report the index monthly 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 31 December 2021 has the following composition:

Table 24. Net Stable Funding Ratio (NSFR)

Components	Exposure EUR ('000s)	Weight	Amount EUR ('000s)
• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year)	**339,672**	100%	**339,672**
• Other capital instruments and liabilities with effective residual maturity of one year or more	**1,002,069**	100%	**1,002,069**
• Operational deposits	**1,785,837**	50%	**892,919**
• Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions	**67,939**	50%	**33,970**
• All other liabilities not included in the above categories.	**909,396**	50%	**454,698**
• NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets	**239**	0%	**0**
TOTAL AVAILABLE STABLE FUNDING	**4,105,152**		**2,723,328**
• Coins and banknotes	**12**	0%	**0**
• All central bank reserves	**1,321,191**	0%	**0**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**0**	15%	**0**
• Loans to financial institutions and central banks with residual maturities between six months and less than one year	**0**	50%	**0**
• Deposits held at other financial institutions for operational purposes	**735,062**	50%	**367,531**
• 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	**1,063,704**	50%	**531,852**
• Other unencumbered performing loans with risk weights greater than 35% under the standardised approach and residual maturities of one year or more, excluding loans to financial institutions	**325**	85%	**277**
• NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	**221**	100%	**221**
• 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	**984,637**	100%	**984,637**
TOTAL REQUIRED STABLE FUNDING	**4,105,152**		**1,884,518**
NSFR			**144.51%**

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.

9.7. UNENCUMBERED ASSETS

At the end of December 2021, the last available state about the encumbered assets of Allfunds Bank (consolidated) was as follows:

Table 25. Unencumbered assets. Allfunds Bank (consolidated)

	Encumbered assets		Unencumbered assets	
EUR ('000s)	On-balance sheet amount	Fair value	On-balance sheet amount	Fair value
Assets	4,805	-	4,093,991	-
Demand loans	362	-	1,999,589	-
Equity instruments	-	-	664	664
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:	4,443	-	243,749	-
of which mortgage loans	-	-	-	-
Other assets	-	-	1,849,989	-

10. OTHER RISKS

10. OTHER RISKS

10.1. REPUTATIONAL RISK

According with the EBA and ESMA guidelines, the Company has a Product Governance Policy to address the development of new products, services or significant changes to existing ones. Developing the Product Governance Policy, in 2021 has been drafted a new Products and Services Procedure which sets the role of the Strategic Product Portfolio Committee taking over the tasks of new product and services approval and defines the roadmap for it. The procedure also entails the participation of Compliance and Risk functions in the approval process of new products and services in order to ensure fulfillment with supervisors' standards and also states that no go-live will be without the sign-off from Compliance and Risk and agreed the implementation conditions.

In the case of new clients, the approval is subject to a previous analysis performed by the Compliance and Risk departments of Allfunds Bank, supported by the Sales department. This analysis will determine the potential impact on the ML/FT, reputational, money laundering and financial risks of the Bank. Approval of new clients is overseen on the Customer Acceptance Committee (CAC), chaired by the CEO and coordinated by the AML/CFT Unit of the 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 submitted to the CAC.

Likewise, any new asset management house to be onboarded through Allfunds' platform has to be priorly reviewed by the AML/CFT Unit, with the support of the Fund Groups department. The AML/CFT unit, in case of concerns, may submit the new fund house to the CAC for approval. By doing so, any particular asset and/or asset management house that the Entity regards as sensitive of generating reputational risk will not be incorporated into the product range available to clients.

Conversely, if a client request 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).

Finally, in 2021 the Company has updated the Intermediaries Selection Procedure and the Sub-custodian Selection Procedure, within the Best Execution and Asset Protection frameworks. This strengthens the company's protection in its relationship with third parties and reduces reputational risk.

10.2. BUSINESS RISK

Business risk is considered a main risk for the Bank, for this reason the Entity monitors profitability and AuA as part of its Risk Appetite Statement in order to verify alignment with the business objectives and also to identify promptly changes in trends.

10.3. CLIMATE AND ENVIRONMENTAL RISKS

Allfunds is progressively incorporating environmental, social and governance (ESG) aspects into its risk management framework.

With regard to climate-related and environmental risks, Allfunds' objective is to reduce the direct or indirect impact of its business and thus limit its exposure to these risks.

It should be noted that the Group does not develop lending activities, does not participate in the issuance of financial instruments and does not provide portfolio management. For this reason, its exposure to these risks according to the Task Force on Climate Related Financial Disclosures (TCFD) is considered limited.

Precautionary approach: Policies and procedures in place

The Group has an environmental precautionary approach articulated through the Environmental Management System, Environmental and Climate Change Management Policy, Corporate Social Responsibility Policy and the commitment to the environment in the General Code of Conduct.

The environmental commitment is based on:

- Opt for a Sustainability Perspective based on environmental risk management and environmental education of the people who make up Allfunds to assess, avoid, reduce and mitigate the environmental risks and impacts of the activities carried out by the Entity.
- Prevent Pollution by identifying and assessing its environmental impacts and establishing control mechanisms.
- Contribute to the Mitigation of Climate Change and Sustainable Use of Resources by combining or replacing the use of non-renewable resources with renewable resources in key areas such as use of materials and facilities and water.
- Establish Environmental Criteria in the selection of suppliers and promote environmentally responsible actions in Allfunds' scope of influence.
- Measure, Record and Report with Transparency the company's main environmental indicators.

Allfunds has implemented the ISO 14001 environmental management standard at its headquarters in Madrid, that has been certified in June 2021. There are plans to implement this standard at other centres during 2022.

Environmental aspects and their impacts

The organisation identifies its environmental aspects and their impacts associated in accordance with its assessment procedure.

The main environmental aspects identified in 2021 and their impacts are as follows:

Table 26. Environmental aspects and impacts

Process/ Activity	Aspect	Impact
Lighting of facilities and power supply to equipment	Electricity consumption (kWh)	Depletion of natural resources
Cleaning, human consumption and hygiene use	Water consumption (m3)	Depletion of natural resources
Use of paper in the office	Paper consumption (sheets)	Depletion of natural resources
Use of paper in the office	Paper and cardboard waste generation (kg) Toner waste generation (units)	Pollution from waste management, land occupation
Printing paper in the office	Toner consumption (units)	Resource depletion through consumption of raw materials
Printing paper in the office	Generation of toner waste (units)	Pollution from waste management, land occupation
Replacement of lights or end of useful life of lights	Generation of fluorescent lamps (units) waste	Pollution of the environment, land occupation
Packaging waste, packaging	Generation of plastic and packaging waste (kg)	Pollution of the environment, land occupation
Obsolete or damaged equipment	Generation of Waste Electronic & Electrical Equipment (WEEE) (units)	Pollution of the environment, land occupation
Kitchen, canteen and pruning waste	Generation of organic waste	Pollution from waste management
Use of office equipment	Generation of alkaline batteries (kg)	Clogging of landfills
Office activities	Noise emission into the atmosphere	Pollution of the environment, land occupation
General bathroom use in office	Discharge of urban waste water or sanitary water (m^3)	Atmospheric pollution and health effects

The most significant environmental aspects in 2021 were the generation of cardboard and paper waste and the generation of waste electrical and electronic equipment.

As a positive environmental impact, we have identified that in the centres in Spain, London, Luxembourg, Zurich, Poland, Chile and Singapore, all the electricity supplied was 100% renewable in 2021 (representing almost 93% the total Group energy consumption) and therefore the CO2 emissions - scope 2 in these countries is zero.

Resources allocated

Total resources allocated to environmental risk prevention in 2021 amounted to EUR 202,318.02, 1.83% more than in 2020 (EUR 198,611.24).

Allfunds has not received any fines or environmental sanctions during prevoius years.

Given that Allfunds considers the environmental impacts of its business activities to be insignificant, it has no provisions or guarantees to cover the possible materialisation of its environmental risks, as this is not relevant due to the type of operations and activity it carries out.

Additional information can be found in the ESG Annual Report and the Non-financial Information Report on its public webpage under the Corporate Social Responsibility section (https://allfunds.com/en/csr/).

11. REMUNERATION POLICY

11. REMUNERATION POLICY

11.1. BACKGROUND AND SCOPE OF APPLICATION

The following section includes the information regarding the compensation and remuneration policies in compliance with the requirements established in article 450 of the CRR2. This section covers the qualitative requirements established in Table EU REMA - Remuneration policy.

Scope of application

The policy described in this section is applicable to the entire Allfunds Group, with specific implementations of it in significant countries (Luxembourg and Sweden).

11.2. ALLFUNDS REMUNERATION POLICY

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

The Company has paid special attention to ensuring that the Policy complies with the remuneration regulations applicable to credit institutions, and that the elements that compose it promote adequate and effective risk management, always avoiding potential conflicts of interest. The Risk and Regulatory Compliance areas are in charge of assessing the adequacy of the policy in this regard. As set out above, this Remuneration Policy has been prepared to promote sound and effective risk management, and to this end, the policy also aims to prevent employees from assuming risks that exceed the risk level tolerated by the Bank.

The Company's Remuneration Policy was reviewed and approved by the Board of Directors in March 2021.

11.3. CORPORATE GOVERNANCE

11.3.1. BOARD OF DIRECTORS

The Board of Directors has set up a Remuneration and Appointments Committee ("RemCo") 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.

As to the Board itself, its responsibilities in the area of remuneration include the following:

- To ensure the proper elaboration and periodical review of the general requirements of the remuneration policy.
- To set out and monitor the remuneration of the management functions' members.
- To ensure that the Remuneration Policy and practices are appropriately implemented and aligned with the Company's overall corporate governance framework, corporate culture, risk appetite and related governance processes.
- To approve the Remuneration Policy of the Company and the "Identified Staff" List.

The remuneration of the members of the Board is set out in the Bank's bylaws, explained below, and approved by the General Meeting.

11.3.2. REMUNERATION & APPOINTMENTS COMMITTEE

Allfunds' RemCo is composed of non-executive directors. All or most of them are independent.

Members of the RemCo (and other 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 able of forming an independent judgment on the suitability of the remuneration policy.

The RemCo generally meets no less than twice per year with one of those meetings taking place at the end of the salary review and bonus process for its approval. In 2021 the Committee met seven times.

Its main duties with regards to remuneration are the following:

- To 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 Staff (as defined in applicable legal provisions); and
    - individual remuneration and other contractual terms of the members of the Board of Directors with executive duties, ensuring the observance thereof.
- At least once a year review and assess the Remuneration Policy in order to verify that remuneration standards and procedures approved by the Board of Directors are complied with.

11.3.3. RISK AND AUDIT COMMITEE

The Risk and Audit 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:

- To cooperate with the RemCo 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.
- To ensure that established policies comply with the applicable regulatory framework.

11.3.4. CORPORATE AND CONTROL FUNCTIONS

It corresponds to the control functions to assist the RemCo, when required, in determining the overall strategy of the Company applicable to remuneration, considering the need to promote sound and effective risk management.

11.3.5. SPECIFIC FUNCTIONS

These corporate and/or control units and management will assume the following specific functions:

a) Human Resources:

- Proposing to the RemCo the Remuneration Policy and its subsequent amendments;
- Coordinating and monitoring, as a complement to the Board of Directors, the implementation of the Policy and evaluating its performance;
- Safeguarding employment contracts;
- Preparing the annual remuneration report;
- Disclosing of the List of the "Identified Staff" to the Bank of Spain.

b) Risk Management: assessing how the variable remuneration policy affects the risk profile of the Entity and Entity's culture.

c) Compliance: Analysing how the Remuneration Policy affects regulatory compliance and internal policies of the Company. The conclusion will be included in the annual Compliance Report to be provided to the Board of Directors.

d) Internal Audit: reviewing the Remuneration policy is part of the internal audit plan and shall be done on a yearly basis. The internal audit report is notified to management and to the Board of Directors. Additionally, Internal Audit shall provide the Risk and Audit Board Committee and Senior Management with a reliable opinion about the effectiveness of controls aimed at mitigating significant risks that affect the business, both existing and potential. The aim of this 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.

11.4. PRINCIPLES OF THE REMUNERATION POLICY

The appropriate remuneration of its employees and directors is a key factor for achieving the Company's goals and for creating value for shareholders. For Allfunds it is vital to have a Remuneration Policy that, through the various elements of compensation, enables it to properly remunerate each position within the organisation, based on the position's level of responsibility and contribution, and to adequately reward exceptional results and performances, thus allowing the Company to attract, manage and retain talented professionals.

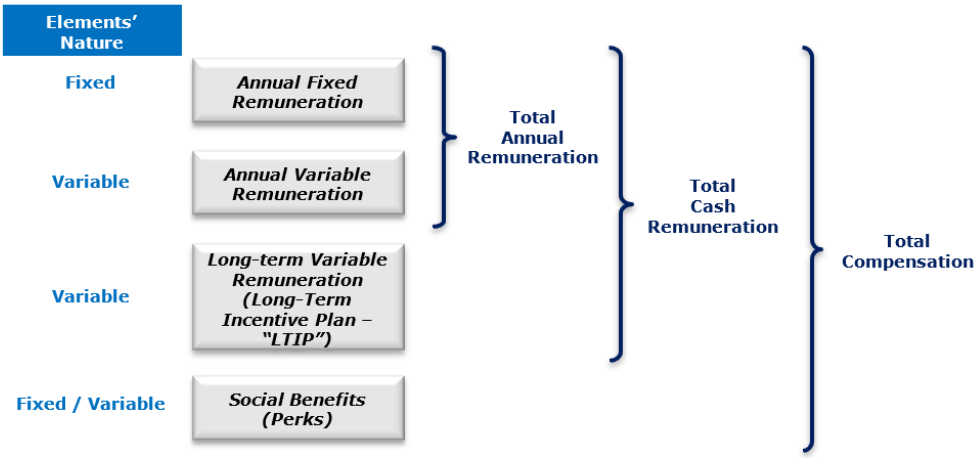
Allfunds' Remuneration Policy is governed by the following principles:

- Remuneration must foster an adequate and efficient risk management, and must be aligned with the interests of shareholders, fostering the creation of value in the short, mid and long terms and reducing excessive risk assumption.
- The global remuneration package and its structure should be competitive, making it easier to capture, retain and adequately remunerate employees and directors.
- Allfunds' Remuneration Policy must be gender neutral and comply with 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.
- Remuneration must be consistent with the maintenance of a sound and solid capital base of the Entity.
- Fixed remuneration should represent a significant portion of total compensation.
- Variable remuneration should reward performance, based, among other factors, on having a solid capital base and achieving the Group's goals, so that it may be limited or modulated in the event of underperformance at Allfunds.
- The Remuneration Policy aims to encourage responsible business conduct and ensures that employees are not remunerated in a way that conflicts with their duty to act in the best interests of clients. In particular, the Remuneration Policy does not introduce incentives for employees to favour their own interests or the institution's interests to the detriment of clients:
  - 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 of certain financial instruments or specific product categories.
  - The Remuneration Policy is flexible and allows for the possibility of paying no variable remuneration at all.
- The allocation of the variable remuneration elements within the Entity shall also consider all types of current and future risks.

11.5. ELEMENTS OF THE REMUNERATION POLICY

The remuneration arrangements may include a mix of base salary, annual bonus awards, (share incentives/ a long term incentive plan) and other specific benefits:

Figure 12. Elements of the Remuneration Policy



When it is not possible to clearly set out whether a remuneration component is of a fixed nature, it will be considered of a variable nature (separate from the annual variable remuneration or bonus) for the purposes of the limits and/or requirements established in the Policy in accordance with applicable regulations.

When determining the remuneration of a specific position at Allfunds, the following factors are considered:

- Internal balance: comparison with the remuneration of an employee whom the Company is paying for a position of comparable profile (knowledge, abilities, attitudes, responsibility, experience and contribution).
- External balance: comparison with the remuneration of an employee whom the market is paying for a position of comparable profile (knowledge, abilities, attitudes, responsibility, experience and contribution). To assess the Policy's External balance, the following aspects must be considered:
  - Specificity of the business/niche: Allfunds' business is practically unique in the market so that it is not easy to find competitors with a similar business model, although several of the profiles of the Company may be found in other operators within the financial sector.
  - Commercial profile / Client-oriented approach: Most all the profiles must support the sale process with their knowledge. Therefore, they must be highly client-oriented profiles, with considerable capacity to develop commercial relationships and intervene in the various phases of what is usually a long negotiation process until a deal is closed.
  - Corporate/Institutional Client: Allfunds' clients are financial institutions (distributors). The level of interlocution of the professionals and directors of Allfunds within these institutions is typically close to that of the heads of specialist areas and the board of directors of these institutions. Therefore, commercial positions or positions that support institutional sales must be taken as a reference.
  - International Component: Allfunds' final clients may be located anywhere in the world and, accordingly, it is necessary to assess this component of willingness to travel and, potentially, close deals anywhere in the world.

In addition to these, for the purposes of taking market remuneration references, the following elements are considered:

- Impact of the position on the business
- Relationship with clients
- Complexity of the position
- Importance in the Company's expansion process
- Team management
- Retention of key employees

11.5.1. FIXED REMUNERATION

Fixed Remuneration is the annual gross fixed cash compensation received by each employee (the "Fixed Remuneration"). In order to set it up, the Company looks at both external and internal balance, by reference to the various markets where it operates (Spain, Italy, United Kingdom, Luxembourg, Switzerland, Poland, France, LATAM, APAC, UAE,…).

Fixed Remuneration fundamentally achieves two goals:

- To remunerate the level of responsibility and complexity of the functions assigned to each job position. In relation to this objective the internal balance of the remuneration is especially important, establishing and maintaining a fair remuneration structure that is coherent with the relative importance of each position, so that the greater the responsibility and/or complexity the higher the benchmark level of Fixed Remuneration.
- To assure enough remuneration so that there is a fair and efficient ratio between the fixed and variable elements of total remuneration, enabling variable remuneration to be modulated to the extent that it might be adjusted or cancelled in the event of underperformance, critical operational risk or for failure to consider the clients' best interests.

Additionally, for the Company to be able to attract, retain and motivate talented professionals, Fixed Remuneration, considered in combination with the remaining elements of remuneration, must make a competitive package to allow 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.

Subject to the maintenance of a sound capital base, the Company's intention is that Fixed Remuneration should be in market median ranges for a position with a comparable profile (knowledge, abilities, attitudes, responsibility, experience and contribution) in other financial entities.

Any increase set out by law, collective agreement or other agreement will be offset within the existing Fixed Remuneration.

11.5.2. SALARY REVIEW POLICY & INTERVENTION POLICY

Salary reviews at Allfunds are conducted annually at the beginning of the year, taking retroactive effect as of January 1st.

During this process, a decision is made both on the potential increase in employees' Fixed Remuneration and the previous year's bonus to be granted, as the case may be, that would be payable within the first few months of the year in which the salary review would take effect.

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

There is no obligation to increase the Fixed Remuneration from one year to another other than as set out by mandatory law or applicable collective bargaining agreement.

Interventions, i.e., substantial changes in Fixed Remuneration, may be implemented in those cases in which the Fixed Remuneration of an employee considered key is significantly below the median market benchmarks or the Company's equivalent profiles.

These changes will be made within the process of salary reviews. Notwithstanding this, changes may be implemented when it is considered that there is a risk of talent loss from the Company, or a significant change in responsibility within the calendar year in which the circumstances that justify the change.

11.5.3. SHORT-TERM VARIABLE REMUNERATION (annual bonus)

Variable remuneration is used to reward individual performance in line with a number of factors, including risk appetite, business unit performance and the performance and corporate strategy of Allfunds.

A reasonable part of the remuneration of Allfunds' employees is variable and is aimed primarily at achieving the following goals:

- Alignment with long term business strategy and sustainable shareholder value creation;
- Pay for performance to reinforce high performance culture;
- Alignment with competitive market practices;
- In compliance with regulatory requirements.
- Allowing flexibility to adjust depending on the circumstances.

Allfunds' Variable Remuneration system is 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:

11.5.3.1. SETTING TARGET BONUS AND POOLS

All Allfunds' employees may be eligible to participate in the bonus system. Remuneration under this scheme shall not be consolidated.

The ranges of target bonus shall be established for each employee in accordance with their responsibility, reflecting a fair and efficient ratio between the fixed and variable elements of the total remuneration.

The benchmark target bonus for each employee is set out in the services contract during the hiring process.

The target bonus might change in case of interventions (promotions, increases in responsibility or outstanding development by the employee), at the time these are set out.

Global Bonus Pool – top-down approach

The Global Bonus Pool will be based on the achievement of quantitative (80%) and qualitative (20%) corporate objectives, and shall consider all current risks, expected losses, estimated unexpected losses and stressed conditions associated with the Bank's activities.

The Target Pool will be equal to the sum of the target bonuses of all participants, assuming 100% achievement of the objectives, and there will be an upside of up to 150% of payout for quantitative goals and 120% for qualitative goals.

The Maximum Global Bonus Pool will be 80%x150% + 20%x120% = 144% of Total Target Bonuses.

In the event of adverse economic situations, a minimum pool of 40% of Total Target Bonuses will be set to ensure the possibility to reward and retain top performers and key employees.

Any bonus pool is subject to Allfunds complying with minimum liquidity, solvency and capital regulatory requirements.

The Global Bonus Pool will be agreed by the Board upon proposal from the RemCo.

Units sub-pools

For the purposes of the annual bonus, the CEO will be considered as a unit. The CEO's bonus shall be determined by the Board upon proposal from the Remco. The relevant amount will be reduced from the Global Bonus Pool.

Based on achievement of corporate and unit KPIs, preliminary sub-pools will be set out by each business-unit and adjusted up or down to ensure that the total of the sub-pools is equal to the Global Bonus pool (once adjusted to take into account the CEO's bonus).

11.5.3.2 ASSESMENTS

The Allfunds evaluation system qualifies the individual salary review of each employee, as well as the variable compensation potentially awarded to the employees. The evaluations are carried out in the Company every year, evaluating the competencies that are integrated into the following four blocks of content, in accordance with an action consistent with the principles and values set forth in the Allfunds General Code of Conduct:

1) Excellence:
    - Passion / Agility for impact.
    - Performance and quality orientation.
    - Efficiency.
2) Accountability:
    - Integrity.
    - Responsibility.
    - Ownership: taking full responsibility, acting like an owner.
3) Empowerment:
    - Autonomy.
    - Taking decisions measuring risks.
    - Create value (growth and re-valorisation).
4) Inspiration:
    - Eagerness to learn.
    - Forge relationships built on trust.
    - Maintain focus and alignment around the vision.

The assessment will be the responsibility of the direct manager of each employee. In the corporate areas, the direct manager will be the local manager except for the Risks, Compliance, Internal Audit, HR and Finance functions, the evaluation of which will be made by the overall manager of the function within the Group.

The assessment of the Identified Staff and other senior management will be carried out by the CEO and the Chief People Officer.

From HR, the appropriate indications will be given to those responsible for the teams that have to carry out the evaluations with the aim that the overall result of the individual evaluations tends to follow a normal distribution.

11.5.3.3 SETTING THE BONUS PAY-OUT

The Bonus payable to each employee is set based on achievement of Corporate, Unit/Individual KPIs and a qualitative evaluation, and will be adjusted depending on the relevant unit sub-pool.

The determination of the variable remuneration of control functions shall not compromise their objectivity and independence.

Corporate objectives will be based on certain metrics, including EBIDTDA and SMART/Financial metrics, to be approved every year by the Board of directors upon proposal from the RemCo.

The weight of the different criteria will depend on the employee category:

	Corporate goals	Unit or/and individual KPIs	Qualitative (values/competences)
CEO	90%		10%
Executives	60%	30%	10%
Managers	35%	45%	20%
Rest of staff	20%	30%	50%

The remuneration must be consistent with maintaining a sound and solid capital base of the entity, and should encourage responsible business conduct, so that no variable shall be paid unless these conditions might be fulfilled.

The relevant goals, KPIs and objectives shall be notified to each of the employees once they have been approved by the Board, so that they understand the process and criteria that shall be used to assess their performance.

11.5.3.4 BONUS APPLICABLE IN RELATION TO NEW HIRES

The Bonus of reference to newly hired employees will be modulated depending on the date the employee joined the Company. The target bonus 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.

11.5.3.5 CONDITION FOR BONUS ENTITLEMENT

For the award and payment of any variable remuneration, the employee must continue in the Company on payment date, without being on notice period. Payment will be prorated to the time of effective services by the employee during the year of accrual.

11.5.3.6 PAYMENT DATE AND GUARANTEED VARIABLE REMUNERATION

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.

Guaranteed variable remuneration is exceptional and shall be limited to the first year of employment, payable only when the entity has a sound and solid capital base.

It must be approved by the RemCo upon proposal from the CEO.

11.5.4. LONG-TERM INCENTIVE PLAN

Selected employees of the Company will be eligible to participate in the Long-Term Incentive Plan (“LTPI”). Vesting of any grant shall occur over a [three year] period subject to quantitative performance conditions. These conditions will be clearly set out to eligible participants, and the Company will assess whether those conditions have been met before paying any potential award.

LTIP awards may be subject to adjustment prior to vesting (including to reflect the extent of adherence to the risk framework and compliance with applicable rules and the Company’s Code of Conduct). Furthermore, in case of Identified Staff members, it could be subject to deferral, payment in instruments, reductions (“malus”), and reimbursements (“clawback”) in accordance with the provisions set out in Appendix II of this Policy.

11.5.5. BENEFITS

Benefits currently provided are:

	Remuneration Nature
Meal allowance	Fixed
Life insurance	Fixed
Medical insurance	Fixed
Pension Plan (if applicable)	Fixed

Some of the Company's senior executives, in terms of both responsibility and business, may be eligible for a corporate vehicle (Fixed Remuneration) in accordance with the applicable Group's policy.

11.5.6. CONFIDENTIALITY

The individual remuneration conditions of each employee have a STRICTLY CONFIDENTIAL CHARACTER between the employee, the person in charge of the area involved and the human resources department and should not be disclosed under any circumstances to other employees or managers.

11.6. APPLICATION OF THE REMUNERATION POLICY TO IDENTIFIED STAFF

In accordance with regulatory requirements for financial institutions, personnel whose activities are deemed to have an impact on the institution's risk profile are considered as material risk-takers (“Identified Staff”).

11.6.1. 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”).

The positions to be included in the Identified Collective of Allfunds have been determined in accordance with the 15 qualitative criteria established for this purpose in the Regulation, detailing those that are applicable in Allfunds (with the same numbering of the Regulation):

- Members of the Management Body in their management function.
- Members of the Management Body in their supervisory function.
- Team categorized as Senior Management.
- Those responsible, reporting to the management body, for the activities of the independent risk management function, the compliance verification function or the internal audit function.

- People with global responsibility for risk management in an "Important Business Unit" with an internal capital of at least 2% of the Entity[19].
- Individuals leading a function responsible for legal affairs, finance, including tax and budgeting, human resources, compensation policy, information technology, or economic analysis

No personnel have been identified to be included in the Identified Group in accordance with the quantitative criteria set out in the Regulations as all relevant individuals were already identified under the qualitative criteria.

The list will be updated according to the circumstances from time to time.

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

11.6.2. REMUNERATION OF NON-EXECUTIVE DIRECTORS (NEDs)

Non-executive directors (NEDs) shall be entitled to receive a fixed annual amount, within the limits established by the Shareholders' Meeting for the Board of Directors as a whole.

However, NEDs exercising executive or managerial functions in business groups to which the shareholders of the company belong and for which they receive remuneration from those entities, shall not receive any remuneration in their capacity as NED.

The Board of Directors, on a proposal from the Remuneration and Appointments Committee, shall establish the way to structure the remuneration, and whether it includes the possibility of assessing the specific remuneration for membership of a committee, the presidency, board attendance allowances or based on time.

The Board of Directors will ensure that the Remuneration of the NEDs conforms to criteria of moderation and adequacy to the results of the Company.

11.6.3. REMUNERATION PRINCIPLES APPLICABLE TO CONTROL FUNCTIONS

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

The ratio between fixed and variable remuneration of the control functions staff shall be weighted in favour of the fixed remuneration. Accordingly, the ratio set out below whereby the variable remuneration might be up to 200% of the fixed remuneration shall not apply to them.

Their variable remuneration will be based on specific objectives of the unit and should not be determined based on 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 RemCo.

11.6.4. VARIABLE REMUNERATION

The Variable Remuneration scheme applicable to Identified Staff is governed by the same criteria and principles applicable to Allfunds employees in general and described above. For these purposes, "Variable Remuneration" means all the variable components of remuneration, including the annual bonus and the LTIP, subject to the qualifications set out below.

[19] According to the Regulation, Important Business Unit is the business unit, as defined in article 142, paragraph 1, point 3, of Regulation (EU) No. 575/2013, to which internal capital has been distributed in accordance with Article 73 of Directive 2013/36 / EU that represents at least 2% of the internal capital of the entity.

All components of the Variable Remuneration shall not exceed 200% of the Fixed Remuneration of the relevant member of the Identified Staff (exception made of those in Control Functions). This ratio has been approved by the Shareholders Meeting as set out by law.

The Variable Remuneration could be subject to deferral, payment in instruments, reductions (“malus”), and reimbursements (“clawback”) in accordance with the provisions set out in Appendix II of this Policy.

Furthermore, the failure by any member of the Identified Staff to explicitly accept and adhere to any deferral, payment in instruments, reduction (“malus conditions”) and reimbursement measures (“clawback conditions”) set out in respect of the Variable Remuneration from time to time will imply the loss of their right as an Identified Person to receive any Variable Remuneration.

11.6.5. 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 set out by law.

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.

11.6.6. DEFERRAL POLICY[20]

The settlement and payment of Annual Bonus and the LTIP to which, as the case may be, a member of the Identified Staff to whom the deferral and reduction measures of Variable Remuneration (“Deferral Policy”) are applicable, is entitled, must be paid according to the following schedule:

- 60% of Variable Remuneration, during the first months of the year following the year to which the annual variable remuneration relates (“First Payment Date”).
- The remaining 40% of variable remuneration (“Deferred Variable Remuneration”), to be received, if applicable, in deferred payments in accordance with the following schedule:
  - one-third (1/3), in the thirty days immediately following the first anniversary of the First Payment Date;
  - one-third (1/3), in the thirty days immediately following the second anniversary of the First Payment Date;
  - one-third (1/3), in the thirty days immediately following the third anniversary of the First Payment Date;

The measures of future performance, to which the deferred element is linked, shall be risk adjusted as set out in point 11.4.

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

11.6.7. PENSION COMMITMENTS

Selected individuals are entitled to pension commitments, consisting of the contribution of a fixed annual amount to the relevant plan.

[20] Royal Decree-Law 7/2021, of 27 April, transposing European Union directives in matters of competition, prevention of money laundering, credit institutions, telecommunications, tax measures, prevention and repair of environmental damage, posting of workers in the provision of transnational services and consumer protection, in force since 29 April 2021, has amended article 34 of Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions, establishing that entities that are not considered a "large entity", such as Allfunds Bank, must not apply either the deferral or the payment in instruments for the variable remuneration of the identified group that they grant from the entry into force of the Royal Decree-Law. For this reason, the Board of Directors of Allfunds Bank has decided to eliminate the deferral of the variable remuneration of the Identified Collective as of the year 2022. It is expected to reflect this decision in the Remuneration Policy that will be reviewed by the Board of Directors next July.

11.7. DISCLOSURE

The Human Resources department is responsible for the evaluation and periodic review of the remuneration policy, at least annually. Any modification in it must be supervised by the Risk and Compliance departments. The new version of the policy, including the modifications made, must be approved by the Board of Directors and validated by the Shareholders' Meeting.

Once validated, the remuneration policy is available through the Company's public website.

Table 27. Template EU REM1 - Remuneration awarded for the financial year

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff		2	5	14
	Total fixed remuneration		2,071,088	1,967,429	2,960,314
	Of which: cash-based				
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	(Not applicable in the EU)				
	Of which: other forms				
	(Not applicable in the EU)				
Variable remuneration	Number of identified staff		2	5	14
	Total variable remuneration		2,399,147	3,178,170	1,963,246
	Of which: cash-based		2,399,147	3,178,170	1,963,246
	Of which: deferred				
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: deferred				
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
	Of which: deferred				
Total remuneration			4,470,235	5,145,599	4,923,561

Table 28. Template EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff).

There have been no guaranteed variable remuneration o severance payments awarded during 2021.

	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff				
Guaranteed variable remuneration awards - Total amount				
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff				
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount				
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff				
Severance payments awarded during the financial year - Total amount				
Of which paid during the financial year				
Of which deferred				
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
Of which highest payment that has been awarded to a single person				

Table 29. Template EU REM3 - Deferred remuneration

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function								
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
MB Management function							184,659	564,356
Cash-based							184,659	564,356
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Other senior management							258,381	518,937
Cash-based							258,381	518,937
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms							302,543	997,386
Other identified staff							302,543	997,386
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Total amount							**745,582**	**2,080,678**

Table 30. Template EU REM4 - Remuneration of 1 million EUR or more per year

EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	1
1 500 000 to below 2 000 000	2
2 000 000 to below 2 500 000	
2 500 000 to below 3 000 000	
3 000 000 to below 3 500 000	1
3 500 000 to below 4 000 000	
4 000 000 to below 4 500 000	
4 500 000 to below 5 000 000	
5 000 000 to below 6 000 000	
6 000 000 to below 7 000 000	
7 000 000 to below 8 000 000	
To be extended as appropriate, if further payment bands are needed.	

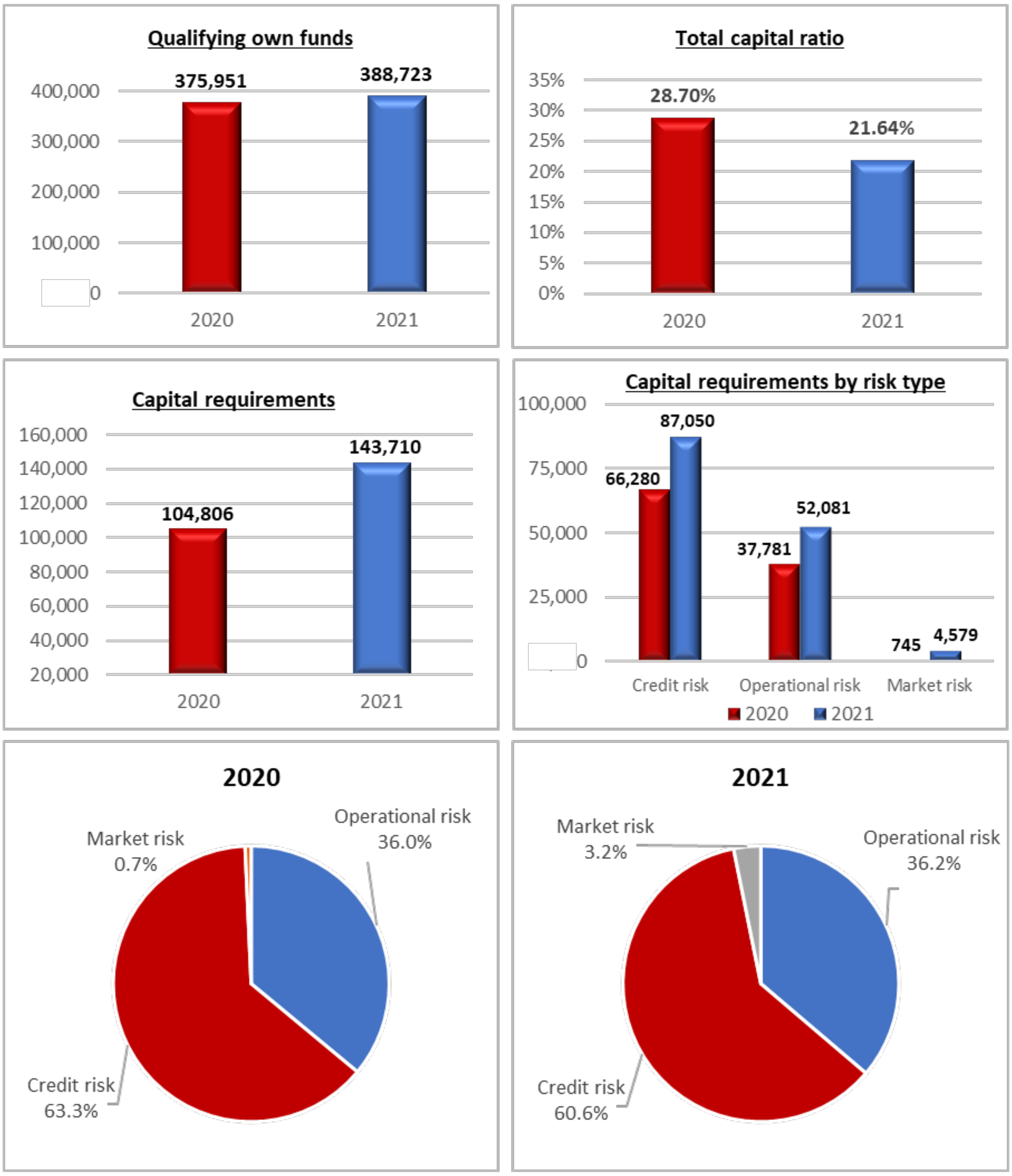
ANNEX 1

QUANTITATIVE INFORMATION ABOUT THE AFB BANKING GROUP

ANNEX 1. QUANTITATIVE INFORMATION ABOUT THE AFB BANKING GROUP

1. SOLVENCY

Figure 13. Solvency information. AFB Banking Group



2. INFORMATION ON OWN FUNDS

Table 31. Qualifying own funds. AFB Banking Group

Amounts EUR ('000s)	31.12.20	31.12.21
CET1	375,951	388,723
Tier 1 additional	-	-
TIER 1	375,951	388,723
TIER 2	-	-
TOTAL CAPITAL	375,951	388,723
RWA	1,310,070	1,796,373
CET1 ratio	***28.70%***	***21.64%***
Tier 1 ratio	***28.70%***	***21.64%***
Total Capital ratio	***28.70%***	***21.64%***
Leverage ratio	***14.48%***	***12.28%***

Table 32. Details. Qualifying own funds. AFB Banking Group

Amounts EUR ('000s)	31.12.20	31.12.21
CET1 Instruments	**2,379,802**	**2,368,634**
Shareholders' equity	2,389,893	2,543,635
Capital	2,411,310	2,411,310
Profit	10,090	137,443
Reserves and others	(31,507)	(5,118)
Minority interests and unrealised gains/losses	-	-
Adjustments of comput. of minority int. and unrealised g/l	-	**-**
Other adjustments	(10,091)	**(175,001)**
Deductions from CET1	**(2,003,851)**	**(1,979,911)**
Goodwill	(1,015,977)	(1,008,153)
Other intangible assets	(987,874)	(971,758)
Financial investments	-	-
Deferred tax assets	-	-
Other CET1 deductions	-	-
CET 1	**375,951**	**388,723**
AT1 Instruments	-	-
TIER 1	**375,951**	**388,723**
T2 instruments	**-**	**-**
Financing of subordinated issues	-	-
Generic provisions and excess of provisions IRB	-	-
T2 deductions	-	-
TIER 2	**-**	**-**
TOTAL CAPITAL	**375,951**	**388,723**

As of 31 December 2021 the AFB Banking Group's consolidated results amounted to a net profit of EUR 137.44 million.

3. INFORMATION ON CAPITAL REQUIREMENTS

Table 33. Overview of RWAs (Template EU OV1). AFB Banking Group

Amounts EUR ('000s)	RWA 31.12.20	RWA 31.12.21	Minimum capital requirements
Credit risk (excluding counterparty credit risk)	**828,494**	**1,088,122**	**87,050**
Standardised Approach (SA)	828,494	1,088,122	87,050
Internal Rating-Based (IRB) Approach	-	-	-
Counterparty credit risk	**-**	**-**	**-**
Standardised Approach for counterparty credit risk (SA-CCR)	-	-	-
Internal Model Method (IMM)	-	-	-
Equity positions in banking book under market-based approach	**-**	**-**	**-**
Simple risk-weight approach	-	-	-
Internal Model approach	-	-	-
Equity investments in funds – look-through approach	**-**	**-**	**-**
Equity investments in funds – mandate-based approach	**-**	**-**	**-**
Equity investments in funds – fall-back approach	**-**	**-**	**-**
Settlement risk	**-**	**-**	**-**
Securitisation exposures in banking book	**-**	**-**	**-**
Market risk	**9,313**	**57,238**	**4,579**
Standardised Approach (SA)	9,313	57,238	4,579
Internal Model Approaches (IMM)	-	-	-
Operational risk	**472,263**	**651,013**	**52,081**
Basic Indicator Approach	472,263	651,013	52,081
Standardised Approach	-	-	-
Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	**-**	**-**
Floor adjustment	**-**	**-**	**-**
Total[21]	**1,310,070**	**1,796,373**	**143,710**

[21] Capital requirement of Pillar I: 8%RWA

CAPITAL BUFFER

Table 34. Geographical distribution of relevant[22] credit exposures for the calculation of countercyclical capital buffer. AFB Banking Group

	Relevant Exposures	Countercyclical buffer
Countries (*)	**100.00%**	**0.28461%**
Andorra	0.00%	0.00000%
Australia	0.00%	0.00000%
Austria	0.19%	0.00000%
Belgium	0.13%	0.00000%
Bermuda Island	0.00%	0.00000%
Brazil	1.59%	0.00000%
British Virgin Islands	0.00%	0.00000%
Canada	0.00%	0.00000%
Cayman Islands	0.10%	0.00000%
Chile	0.17%	0.00000%
China	0.00%	0.00000%
Colombia	0.00%	0.00000%
Denmark	0.00%	0.00000%
Finland	0.07%	0.00000%
France	5.57%	0.00000%
Germany	1.83%	0.00000%
Guernsey	0.26%	0.00000%
Hong Kong	0.18%	**0.00183%**
Ireland	8.07%	0.00000%
Isle of Man	0.00%	0.00000%
Italy	4.73%	0.00000%
Japan	0.00%	0.00000%
Jersey	0.01%	0.00000%
Liechtenstein	0.01%	0.00000%
Lithuania	0.00%	0.00000%
Luxembourg	55.67%	**0.27833%**
Malaysia	0.00%	0.00000%
Malta	0.02%	0.00000%
Mauricio	0.02%	0.00000%
Mexico	0.00%	0.00000%
Netherlands	0.02%	0.00000%
Norway	0.44%	**0.00445%**
Oman	0.00%	0.00000%
Philippines	0.01%	0.00000%
Poland	0.48%	0.00000%
Portugal	0.03%	0.00000%
Saudi Arabia	0.05%	0.00000%
Singapore	0.87%	0.00000%
South Africa	0.00%	0.00000%
Spain	5.65%	0.00000%
Sweden	1.16%	0.00000%
Switzerland	3.64%	0.00000%
United Arab Emirates	0.21%	0.00000%
United Kingdom	8.57%	0.00000%
Uruguay	0.03%	0.00000%
USA	0.00%	0.00000%

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

[22] "Relevant credit exposures" include all those exposure classes referred to in points (g) to (n) of Article 112 of Regulation (EU) No 575/2013: (g) exposures to corporates; (h) retail exposures; (i) exposures secured by mortgages on immovable property; (j) exposures in default; (k) exposures associated with particularly high risk; (l) exposures in the form of covered bonds; (m) items representing securitisation positions; (n) exposures to institutions and corporates with a short-term credit assessment; (o) exposures in the form of units or shares in collective investment undertakings ('CIUs'); (p) equity exposures; (q) other items.

4. LEVERAGE RATIO

Table 35. Leverage ratio. AFB Banking Group

Leverage ratio. Breakdown EUR ('000s)	CRR leverage ratio exposures 31.12.2020	CRR leverage ratio exposures 31.12.2021
On-balance sheet items	4,600,536	5,145,773
- Asset amounts deducted in determining Tier 1 capital	-2,003,851	-1,979,912
Derivatives	507	377
Securities Financing Transactions (SFTs)	0	0
Off-balance sheet ítems	0	0
Leverage ratio		
Tier 1 capital (numerator)	375,951	388,723
Total exposure measure (denominator)	2,597,192	3,166,238
Leverage ratio	**14.48%**	**12.28%**
Minimum requirement	3.00%	3.00%

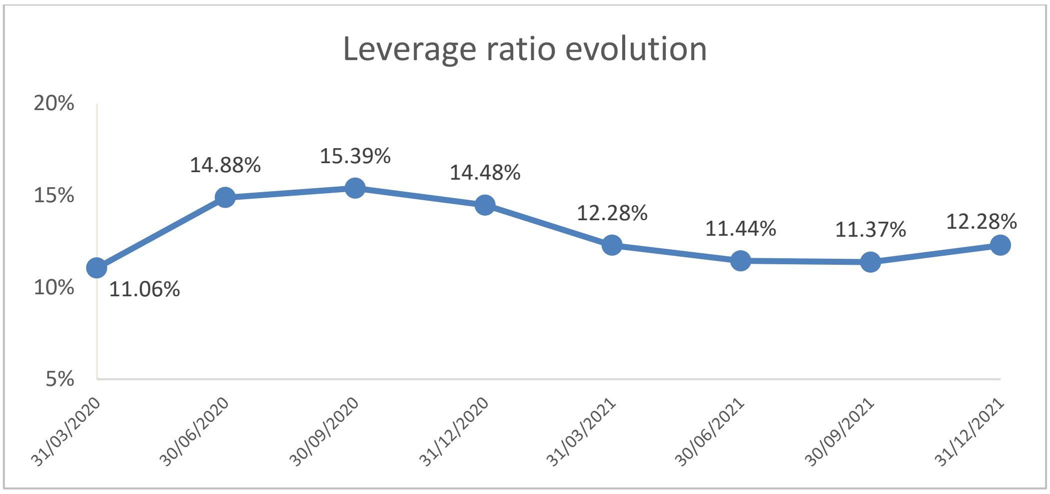
Table 36. Split-up of on balance sheet exposures (excluding derivatives and SFTs). AFB Banking Group

Split-up of on balance sheet exposures (exduding derivatíves and SFTs)		EUR ('000s)	
EU-1	**Total on-balance sheet exposures (exduding derivatives, SFTs, and exempted exposures), of which:**	**4,600,536**	**5,145,773**
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	4,600,536	5,145,773
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	1,245,461	1,469,563
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-	-
EU-7	Lnstitutions	659,030	760,327
EU-8	Secured by mortgages of immovable properties	-	-
EU-9	Retail exposures	456	483
EU-10	Corporate	220,336	183,043
EU-11	Exposures in default	-	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,475,253	2,732,357

Table 37. Information on qualitative aspects. AFB Banking Group

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. 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 14.48% as of year-end 2020 to 12.28% as of year-end 2021, comfortable above regulatory levels and aligned with the company's risk appetite.

Figure 14. Evolution of the leverage ratio. AFB Banking Group



5. CREDIT RISK. QUANTITATIVE INFORMATION : EXPOSURES DISTRIBUTION

Table 38. Total and average net amount of exposures (Template EU CRB-B). AFB Banking Group

Amounts EUR ('000s)	Exposures before CCF and CRM				Average
	31.03.2021	30.06.2021	30.09.2021	31.12.2021	
Sovereigns and their central banks	1,715,961	1,603,857	1,620,230	1,321,191	1,565,310
Non-central government public sector entities	63,358	82,648	131,915	148,372	106,573
Multilateral development banks	-	-	-	-	-
Institutions/Banks	740,202	801,669	909,360	760,527	802,940
Corporates	270,768	178,909	256,585	183,221	222,371
Regulatory retail portfolios	474	873	543	483	593
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CIU's)	9	1	-	-	3
Equity	385	665	664	664	595
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	572,356	708,621	701,450	751,781	683,552
Total Credit Risk - SA portfolio	**3,363,513**	**3,377,243**	**3,620,747**	**3,166,239**	**3,381,936**

Geographical exposures

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

Table 39. Geographical breakdown of exposures (Template EU CRB-C). AFB Banking Group

Exposures EUR ('000s)	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	**1,321,191**	**148,372**	**760,527**	**183,221**	**483**	**751,781**	**0**	**664**	**3,166,239**	**1,088,122**	**87,050**
Italy	1,072,621	72,280	86,350	23,948	0	20,328	0	0	1,275,527	61,546	4,924
Luxembourg	200,810	4,890	3,362	65,790	0	455,243	0	0	730,095	521,705	41,736
Spain	13,994	58,831	376,977	12,412	483	40,104	0	0	502,801	128,265	10,261
UK	0	91	100,850	18,597	0	61,594	0	0	181,132	100,360	8,029
Switzerland	33,701	42	10,171	4,721	0	29,325	0	0	77,960	36,079	2,886
France	0	2,799	21,467	17,307	0	34,827	0	0	76,400	56,429	4,514
Ireland	0	0	18	14,871	0	60,685	0	0	75,574	75,560	6,045
USA	0	0	55,184	828	0	1,201	0	0	57,213	13,066	1,045
Sweden	0	1,678	38,781	1,243	0	9,589	0	0	51,291	18,588	1,487
Singapore	65	7,275	13,127	352	0	7,777	0	0	28,596	10,754	860
Germany	0	0	8,776	2,211	0	14,967	0	0	25,954	18,933	1,515
Rest	0	486	45,464	20,941	0	16,141	0	664	83,696	46,837	3,747

Maturity of exposures

Table 40. Maturity of exposures (Template EU CRB-E). AFB Banking Group

Amounts EUR ('000s)	<1Y	1-5Y	>5Y	Total	Total %
Sovereigns and their central banks	1,321,191	-	-	1,321,191	**41.7%**
Non-central government public sector entities	148,372	-	-	148,372	**4.7%**
Multilateral development banks	-	-	-	-	**-**
Institutions/Banks	760,527	-	-	760,527	**24.0%**
Corporates	183,221	-	-	183,221	**5.8%**
Regulatory retail portfolios	158	307	18	483	**0.0%**
Secured by commercial real state	-	-	-	-	**-**
Collective Investment Undertakings (CIU's)	-	-	-	-	**-**
Equity	-	-	664	664	**0.0%**
Past-due loans	-	-	-	-	**-**
Higher-risk categories	-	-	-	-	**-**
Other assets	723,776	-	28,005	751,781	**23.7%**
Total Credit Risk - SA portfolio	**3,137,245**	**307**	**28,687**	**3,166,239**	**100.0%**
%	**99.1%**	**0.0%**	**0.9%**	**100.0%**	

Methodology applied

Table 41. Standardised approach-CR exposure & CRM effects (Template EU CR4). AFB Banking Group

Amounts EUR ('000s)	Exposures before CCF and CRM			RWA	RWA density
	On-balance sheet amount	Adjustments	Total		
Sovereigns and their central banks	1,321,191	-	1,321,191	0	0.00%
Non-central government public sector entities	148,372	-	148,372	0	0.00%
Multilateral development banks	-	-	-	-	-
Institutions/Banks	760,527	-	760,527	152,105	20.00%
Corporates	189,199	(5,978)	183,221	183,221	100.00%
Regulatory retail portfolios	526	(43)	483	362	74.95%
Secured by commercial real state	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-
Equity	664	-	664	664	100.00%
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	751,781	-	751,781	751,770	100.00%
Total Credit Risk - SA portfolio	**3,172,260**	**(6,021)**	**3,166,239**	**1,088,122**	**34.37%**

Table 42. Standardised approach (Template EU CR5). AFB Banking Group

Amounts EUR ('000s)	0%	10%	20%	35%	50%	75%	100%	Total
Sovereigns and their central banks	1,321,191	-	-	-	-	-	-	1,321,191
Non-central government public sector entities	148,372	-	-	-	-	-	-	148,372
Multilateral development banks	-	-	-	-	-	-	-	-
Institutions/Banks	-	-	760,527	-	-	-	-	760,527
Corporates	-	-	-	-	-	-	183,221	183,221
Regulatory retail portfolios	-	-	-	-	-	483	-	483
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	664	664
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	11	-	-	-	-	-	751,770	751,781
Total Credit Risk - SA portfolio	**1,469,574**	**-**	**760,527**	**-**	**-**	**483**	**935,655**	**3,166,239**
%	**46.4%**	**-**	**24.0%**	**-**	**-**	**0.0%**	**29.6%**	**100.0%**

Applying risk-weights to credit risk exposures (Pillar I), capital requirements for credit risk were:

Table 43. Standardised Approach (SA): RWAs by asset class and risk weight. AFB Banking Group

Amounts EUR ('000s)	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	-	-	152,105	-	-	-	-	152,105
Corporates	-	-	-	-	-	-	183,221	183,221
Regulatory retail portfolios	-	-	-	-	-	362	-	362
Secured by commercial real state	-	-	-	-	-	-	-	-
Collective Investment Undertakings (CII's)	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	664	664
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	0	-	-	-	-	-	751,770	751,770
Total Credit Risk - SA portfolio	**0**	**-**	**152,105**	**-**	**-**	**362**	**935,655**	**1,088,122**
Capital Requirements for Credit Risk (1)	**0**	**-**	**12,168**	**-**	**-**	**29**	**74,853**	**87,050**

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

6. LIQUIDITY RISK: LCR AND NSFR.

Table 44. Liquidity Coverage Ratio (LCR). AFB Banking Group

Components	Amount EUR ('000s)
Liquidity buffer	1,321,203
L1 excl. EHQCB liquidity buffer (value according to Article 9): unadjusted	1,321,203
NET LIQUIDTY OUTFLOW	172,055
Total Outflows	545,322
Reduction for Inflows Subject to 75% Cap	373,267
LIQUIDITY COVERAGE RATIO (%)	**767.90%**

Table 45. Net Stable Funding Rat (NSFR). AFB Banking Group

Components	Exposure EUR ('000s)	Weight	Amount EUR ('000s)
• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year)	**388,723**	100%	**388,723**
• Other capital instruments and liabilities with effective residual maturity of one year or more	**2,203,131**	100%	**2,203,131**
• Operational deposits	**1,785,837**	50%	**892,919**
• Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions	**67,939**	50%	**33,970**
• All other liabilities not included in the above categories.	**909,635**	50%	**454,818**
• NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets	**239**	0%	**0**
TOTAL AVAILABLE STABLE FUNDING	**5,355,504**		**3,973,561**
• Coins and banknotes	**12**	0%	**0**
• All central bank reserves	**1,321,191**	0%	**0**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**0**	15%	**0**

• Loans to financial institutions and central banks with residual maturities between six months and less than one year	**0**	50%	**0**
• Deposits held at other financial institutions for operational purposes	**740,240**	50%	**370,120**
• 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	**1,061,717**	50%	**530,859**
• Other unencumbered performing loans with risk weights greater than 35% under the standardised approach and residual maturities of one year or more, excluding loans to financial institutions	**325**	85%	**277**
• NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	**221**	100%	**221**
• 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	**2,231,798**	100%	**2,231,798**
TOTAL REQUIRED STABLE FUNDING	**5,355,504**		**3,133,275**
NSFR			**126.82%**

7. UNENCUMBERED ASSETS

Table 46. Unencumbered assets. AFB Banking Group

	Encumbered assets		Unencumbered assets	
EUR ('000s)	On-balance sheet amount	Fair value	On-balance sheet amount	Fair value
Assets	2,818	-	5,346,330	-
Demand loans	362	-	2,004,766	-
Equity instruments	-	-	664	664
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:	2,456	-	243,749	-
of which mortgage loans	-	-		-
Other assets	-	-	3,097,151	-

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

ANNEX 2. PROFILE OF ALLFUNDS BANK'S DIRECTORS

Below is the profile of the members of the Board of Directors as of 31 December 2021. Mr David Bennett's profile is also included for exhaustiveness purposes:

Blake Kleinman (Non-executive director)

Mr Kleinman joined Allfunds in 2017. He joined H&F in 2001 and is now a partner, focusing on the software, internet & media, and financial services sectors. He is currently a director of AutoScout24 and TeamSystem. Mr Kleinman was formerly a director of Gartmore, IRIS, Scout24, SSP and Wood Mackenzie and was active in H&F's investments in Arch Capital, Axel Springer, Mondrian, Nielsen, and ProSieben. Prior to H&F, Mr Kleinman worked in the Mergers, Acquisitions and Restructurings Department at Morgan Stanley & Co. in New York. Mr Kleinman is a graduate of Harvard College. On 17 May 2022 Mr Kleinman was replaced as Board Chair by Mr David Bennett.

David Bennett (Independent Chair)

Mr. Bennett joined the Board of the Company in 2022. He has a profound knowledge of the global financial markets, with considerable experience in technology-driven financial services businesses and a deep strategic vision, having managed business growth and transformation, and corporate transactions from executive and non-executive roles. He has worked in Alliance & Leicester Group (Abbey National Plc following its acquisition by Banco Santander), the Lloyds TSB Group, Cheltenham & Gloucester, Chemical Bank and Grindlays Bank. Mr. Bennett also has extensive experience in board roles, having served as Chairman of Ashmore Group plc and HomeServe Membership Ltd and Non-Executive Director at Together Personal Finance, easyJet, Pacnet, Bank of Ireland UK, CMC Markets and Clarity Commerce Solutions. Mr. Bennett currently serves as Board Chair at Virgin Money UK plc, Non-Executive Director and Chair of the Audit and Risk Committee at PayPal (Europe) S.à r.l. et Cie., S.C.A., and Non-Executive Director at the Department of Work and Pensions of the British Government. Mr. Bennett holds an MA in Economics from Cambridge University.

Juan Alcaraz (Chief Executive Officer)

Mr Alcaraz is the founder & CEO of Allfunds. Before launching Allfunds in 2000, he spent five years as the head of investment funds at BSN, Santander Group's private bank. From 2009 until 2016 he held a dual role as both CEO of Santander Asset Management and CEO of Allfunds. Mr Alcaraz holds a degree in Business Administration from COX Business School, Southern Methodist University in Dallas, Texas.

Amaury Dauge (Former Chief Financial Officer)

Mr Dauge is the former Chief Financial Officer at Allfunds. He joined Allfunds in 2020 from Qontigo, where he served as CFO & COO, and prior to that he was President & CFO of Axioma. Previously, he served as Group CFO at Euronext, where he led the financial and legal carve-out of the company from NYSE Euronext and its subsequent IPO. Mr Dauge holds an Executive MBA from INSEAD and a bachelor's of Business Administration, Finance from Inseec Group. He also holds a CIIA (Euro Zone CFA equivalent) from CFAF – Centre de Formation à l´Analyse Financière. Mr Dauge resigned with effect from 31 March 2022.

Alvaro Perera (Chief Financial Officer)

Mr Perera joined Allfunds in 2017 as Head of Financial Planning & Analysis (FP&A) and M&A. He has 15 years of experience in the financial services industry, with an ample track record in M&A and integration of companies and deep expertise in FP&A, cost management and performance optimisation. He has strong strategic and operational capabilities and a solid knowledge of Allfunds and its competitive landscape. During the past years he has worked hand-in-hand with the CEO and the former CFO and has actively contributed to Allfunds' main achievements, including its IPO and M&A-led expansion strategy. Upon the CFO's resignation in November 2021, the Board started a formal process to identify and appoint Mr Perera as successor to Mr Dauge. Before joining Allfunds, he worked at Banco Santander, where he also served as Head of FP&A and M&A in Santander Asset Management UK (2013-2017) and as Vice President in M&A at the Global Investment Banking Division of Banco Santander (2011-2013). Previously he was a consultant at the Transaction Advisory Services of PwC (2007-2011) and Deloitte (2006-2007).

Mr Perera holds a degree in Business Administration, majoring in Finance, from the Universidad Pontificia de Comillas (Spain).

Zita Saurel (non-executive director)

Ms Saurel joined Allfunds in 2017. She joined H&F in 2005 and is now a partner, focusing on the internet & media sectors and financial services sectors. Ms Saurel was formerly a director of Nets, Wood Mackenzie and Hostelworld (Web Reservations). She was also active in H&F's investments in Scout24, IRIS, Nielsen and Gartmore. Ms Saurel also leads H&F's capital markets activities in Europe related to new investments and for portfolio companies. Prior to H&F, Ms Saurel worked at Investcorp in London and the Leveraged Finance department of Lehman Brothers in London. In addition, she serves as a Director of Glasswing International and a Governor of The Royal Ballet School. Ms. Saurel is a graduate of Georgetown University.

Johannes Korp (non-executive director)

Mr Korp joined Allfunds in 2017. He joined H&F in 2014 and is a partner, focusing on the financial services, software and consumer & retail sectors. Mr Korp has been active in H&F's investments in Action, Allfunds and Nets/Nexi, where he was formerly a director. 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. Mr Korp is a graduate of the University of St. Gallen (Switzerland) and earned an MBA from Stanford Graduate School of Business.

Chris Reid (non-executive director)

Mr Reid is based in GIC's London office and has led the Financial Services and Fintech sector activities within the private equity business since 2015. He has 20 years of experience and joined GIC in July 2012, having previously worked in the private equity investment business of Arle Capital and 3i Group Plc. Previously, Mr Reid trained at Arthur Andersen and then Deloitte. He is a qualified accountant with the Institute of Chartered Accountants England and Wales. He graduated from the University of Southampton with a MSc in International Financial Markets.

Alessandro Gioffreda (non-executive director)

Mr Gioffreda joined Allfunds in 2020. He is the Head of Territory Management and a member of the Executive Management Team at BNP Paribas Securities Services (BP2S). Previously, Mr Gioffreda worked as Regional Head of Continental Europe and Head of Italy, Switzerland and Mediterranean Basin at BP2S. Mr Gioffreda holds a BA in Economics from Universita' Cattolica Del Sacro Cuore, Milan.

Fabian Shey (non-executive director)

Mr Shey joined Allfunds in 2020 after leading the team that launched CS InvestLab AG in 2017 and serving as Chairman of CS InvestLab AG from 2017 to 2019. Mr Shey is also a Managing Director at Credit Suisse, overseeing the private & alternative markets area within Credit Suisse private bank. His team works across the alternatives' spectrum including late-stage venture capital and co-investments, private equity, yield alternatives and hedge funds. Prior to joining Credit Suisse, he held a variety of senior positions at UBS and RBS in foreign exchange and fixed income businesses. During his career, Mr Shey served as a founding board member and later as Chairman of FX Alliance LLC. He also served as a member of the UBS Investment Bank Board and the FX Committee of the Federal Reserve. Mr Shey holds an M.B.A. (Finance) from the University of Chicago and a B.S. (Economics) from Miami University.

Lisa Dolly (independent non-executive director)

Ms Dolly joined Allfunds in 2021. Previously, she worked at Pershing LLC where she held positions of strategic importance, most recently as Chairman, CEO and Member of the BNYMellon Executive Committee (2016-2019) and Chief Operating Officer (2013-2016). Earlier positions include Director of Global Operations, Chief Administrative Officer, and Head of Managed Investments, Lockwood, and Albridge. Ms Dolly has also served on the Board of SIFMA (Securities Industry Financial Markets Association) and as Chair of the SIFMA Operations/Technology Committee. As a graduate of Rutgers University, Ms Dolly is a member of the Douglass College, Rutgers University Dean's Advisory Board as well as a member of the Rutgers University Board of Overseers. Ms Dolly is an independent director at Hightower Advisors and at RBB Funds.

Sofia Mendes (independent non-executive director)

Ms Mendes joined Allfunds in 2021. She has more than 20 years of professional experience advising financial institutions on mergers and acquisitions and capital market transactions. Ms Mendes is a partner at Arcano Partners. Prior to that, she was a partner in the FIG Corporate Finance team at KPMG in Madrid for five years and a year before she served as investment director at Private Equity ECS in Lisbon. From 2000 to 2009 she worked in the JPMorgan European Financial Institutions team from the London and Madrid offices as Senior Vice President, carrying out M&A and capital markets operations for all segments of the financial sector, and as Head of the Business of Bancassurance in Europe. Before joining JPMorgan, Ms Mendes worked as an auditor for KPMG in Lisbon. Ms Mendes holds a degree in Management and Business Administration from the Portuguese Catholic University of Lisbon.

David Pérez Renovales (independent non-executive director)

Mr Pérez Renovales joined Allfunds in 2021. His career in banking spans 21 years, 18 of which were at Bankinter where he occupied various roles (Managing Director of Capital Markets, Managing Director of Products and SME Divisions, Investor Relations Officer, Chief Financial and Risk Officer, General Deputy Director and member of the Steering Committee). Mr Pérez Renovales was also formerly the CFO of Línea Directa Aseguradora, before shifting roles to launch that company's Health business. He is also a member of the Línea Directa Aseguradora Steering and Investment Committees. Mr Pérez Renovales is also currently a member of the Board of Directors of Harvard Club in Spain and of the Executive Committee of ICADE Business Club. He holds a degree in Law and Business Economics at the Universidad Pontificia Comillas-ICADE, a PMD from Harvard Business School and an Executive Program from Singularity University. He is also a professor of Corporate Finance at Universidad Pontificia Comillas - ICADE. Mr Renovales is a member of the Línea Directa Aseguradora Steering and Investment Committees.

JP Rangaswami (independent non-executive director)

Mr Rangaswami joined Allfunds in 2018. His other board appointments include Admiral Group plc, DMGT plc, the National Bank of Greece and EMIS Group plc. In addition, he is the Chairman of the Web Science Trust and serves as trustee of Cumberland Lodge, a think tank with scholars in residence whose patron is the Queen. He is an Adjunct Professor at the University of Southampton, a Fellow of the British Computer Society, a Chartered IT Professional and a Fellow of the Royal Society of the Arts. He is also a Liveryman of the Worshipful Company of Information Technologists and a Freeman of the City of London. Mr Rangaswami previously served as Chief Data Officer and Group Head of Innovation at Deutsche Bank from 2015-2018, Chief Scientist at Salesforce.com from 2010-2014, Chief Scientist at BT plc from 2006-2010, and Global CIO at Dresdner Kleinwort from 2001-2006 (having joined Dresdner Kleinwort in 1997). Mr Rangaswami holds a degree in Economics and Statistics from St. Xavier's College, University of Calcutta. Mr Rangaswami is a director at Admiral Group plc, DMGT plc, the National Bank of Greece and EMIS Group plc.

Delfin Rueda (independent non-executive director)

Mr Rueda joined Allfunds in 2021. He also serves as CFO and vice-chair of the Executive Board at NN Group NV and Chairman of the Audit Committee of the Supervisory Board of Adyen NV. Previously, Mr Rueda worked as CFO and CRO of Atradius NV, as Senior Vice President in the Financial Institutions Group of the Corporate Finance Department of JP Morgan, as an Executive Director at UBS, and as Senior Consultant at Andersen Consulting. Mr Rueda holds a Master's of Science degree in Economics from Universidad Complutense and an M.B.A. in Finance from The Wharton School. Mr Rueda is the CFO and vice-chair of the Executive Board at NN Group NV and Chairman of the Audit Committee of the Supervisory Board of Adyen NV.

Ursula Schliessler (independent non-executive director)

Ms Schliessler joined Allfunds in 2021. She has senior executive experience in asset management and wealth management, having previously worked at Citigroup, Morgan Stanley and Legg Mason. She has led global teams across multiple functional areas and her experience spans product development and management, sales strategy, business process design and implementation, change/project management and overseeing risk, operations, technology and data. Prior to assuming her current independent non-executive director positions and trustee position, Ms Schliessler was Chief Administrative Officer of Legg Mason until July 2019. Ms Schliessler holds a Master's of Commerce degree in Business Economics from the University of the Witwatersrand in Johannesburg, South Africa. Ms. Schliessler is an independent director at S&P Global Ratings Europe and at Asset Management One, and independent director at Starfish Greathearts Foundations.

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.
AIA	Allfunds Internal Audit
ALMM	Additional Liquidity Monitoring Metrics
AML	Anti-Money Laundering
BCBS	Basel Committee on Banking Supervision
BoD	Board of Directors
BoS	Bank of Spain
B2B	Business to Business
B2C	Business to Client
B2B2C	Business to Business to Client
CET1	Common Equity Tier 1
CIIs	Collective Investment Institutions
CNMV	National Securities Market Commission
CRD IV	Capital Requirements Directive 2013/36/UE
CRD V	Capital Requirements Directive 2019/878/UE, amending Directive 2013//36/UE
CRR	Capital Requirements Regulation 575/2013
CRR II	Capital Requirements Regulation 2019/876, amending Directive 575/2013
CSSF	Commission de Surveillance du Secteur Financier
DORA	Digital Operational Resilience Act
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
ICT	Information and Communication Technology
OKIs	Operational Key Indicators
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
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
SFTs	Securities Financing Transactions
SREP	Supervisory Review and Evaluation Process
UCITS	Collective investment in transferable securities