PILLAR 3 DISCLOSURES REPORT

Allfunds Bank International S.A.

Year 2015

Index

1. General overview

1.1 About Allfunds Bank International S.A.

Allfunds Bank International S.A. (hereafter, the "Bank" or "AFBI") is an entity operating in Luxembourg since 2008, as PSF ("Professional of the Financial Sector") until 2014 and as a Bank after then. It is wholly owned by a single shareholder: Allfunds Bank S.A. (hereinafter, the "Group"). The Group is currently one of the leading platforms for the distribution of Undertakings for Collective Investments (hereafter, "UCIs") at an institutional level and has a presence on the ground in Spain, Italy, the United Kingdom, Chile, Dubai, Luxembourg and Switzerland.

AFBI has its registered office at 30, Boulevard Royal, Luxembourg.

AFBI offers distribution services comprising around 400 fund managers and more than 40.000 funds with an extensive network made of more than 100 clients, spread over more than 30 countries, including commercial banks, private banking institutions, fund managers and insurance companies. The Bank has a 100% shareholding in Allfunds International Schweiz AG (hereafter, "AFIS"). AFIS, with registered address at Bahnhofstrasse 26, Zurich Switzerland, was created in November 2012. On May 31st 2013 the Swiss Financial Market Supervisory Authority ("FINMA") granted to the new entity the licences required to perform distribution activities. The Swiss subsidiary provides a local-adapted service in Switzerland, where there are specific regulatory limitations to fund distribution.
In accordance with article 19 (1) of the CRR[1], AFBI is considered excluded from the scope of supervision on a consolidated basis.

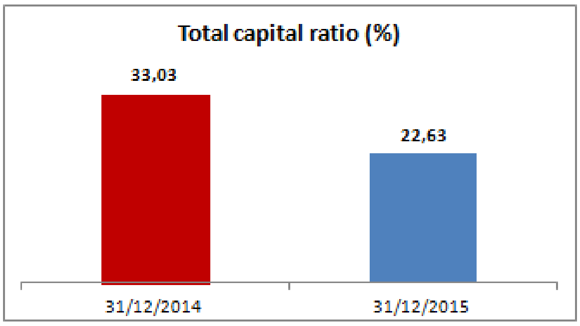
1.2 Results

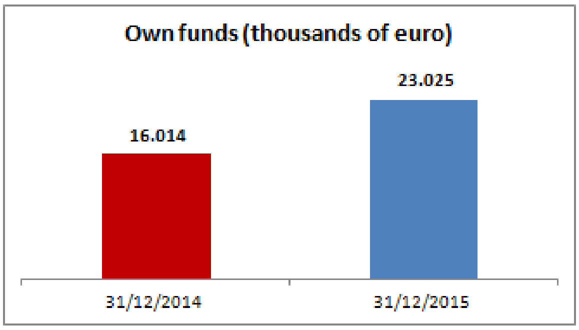
At 31 December 2015, the Bank's total assets amounted to EUR 265.582 thousand, up +292% compared with a year earlier.
The balance held in loans and receivables amounted to EUR 196.612 thousand, i.e. 384 % more than the previous year.
The Bank obtained a net profit of EUR 5.905 thousand at 2015 year-end, up +50% compared to 2014.
Net fee and commission income amounted to EUR 15.014 thousand, which represents a 57% increase with respect to previous year.
Administrative expenses, which comprise staff costs and other general administrative expenses, amounted to EUR 8.968 thousand, up +49% with respect to the previous year. This increase was mainly due to the higher cost of IT systems, new hires, new location and business trips in order to boost the entity's growth.

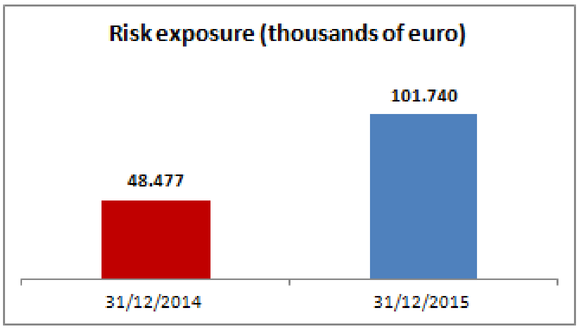
[1] Capital Requirements Regulation: Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

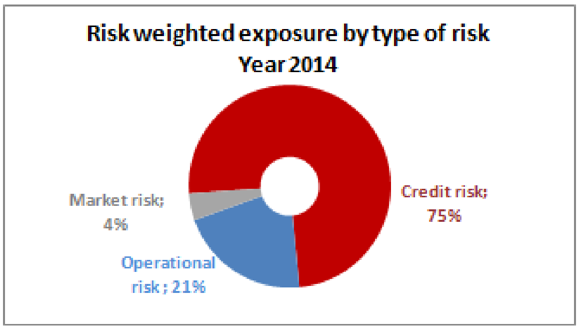
1.3 Solvency

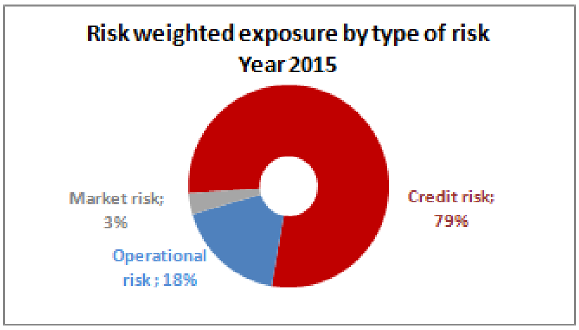
Regarding solvency, and according to the CRR/CRD IV, the Bank shows comfortable levels above the regulatory requirements.
The following charts show the evolution of qualifying own funds, capital requirements and total capital ratio:











The increase in the qualifying own funds is mainly due to the incorporation of year-end profit of EUR 5.905 thousand not subject to any distribution to the sole shareholder while the decrease in the capital ratio is driven by the fact that the risk exposure increase percentage was higher than the one of the own funds.

2. Information on general requirements

2.1 Legal framework

During 2015, the Bank has complied with EU solvency regulations reflected in the principles established by the two standards that contain the recommendations of the Basel Committee, summarized below.

Basel III Committee had set up on December 2010 the "Global Legal Framework to strengthen Banks and the Banking system", whose aim was to reinforce significantly the capital requirements on banks to avoid future crisis and to improve international cooperation.

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

- The CRR[1]
- The Capital Requirement Directive 2013/36/UE (CRD IV), from the European Parliament and the Council, 26th June 2013, concerning the access to activities from credit institutions and the prudential supervision of the credit institutions and investment firms, modifying the Directive 202/87/U and abolishing the Directive 2006/48/CE and 2006/49/2006.

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

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

The CRR[1] is directly applicable without the need to transpose it since 1 January 2014, although in certain cases the Regulation allows Member States to choose between different regulatory options.

The Part Eight of the CRR[1] requires institutions to disclose at least annually meaningful financial and risk information in a transparent way in order to promote market discipline and therefore allow market participants to get and compare the various risk profiles of the banks.

This report should specify information about their financial situation and activities which the market and other stakeholders may be interested, in assessing the risks that those groups and organizations face, their market strategy, risk control, internal organization and their situation in order to comply with the minimum capital requirements under solvency regulation.

According to article 74 of the CRR[1], entities will be equipped with solid Corporate Governance procedures, including a clear organizational structure with well-defined responsibility lines, transparent, consistent and effective procedures to identify, manage, control and communicate the risks they are exposed to or may be exposed to, adequate internal control mechanisms including proper administrative and accounting procedures as well as policies and practices that are consistent with an adequate an effective risk management and that promote the aforesaid.

In this context, this report contains information about:

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

The Pillar III Disclosures Report, after the approval by the Board of Directors of the Bank, is available on the corporative web page of the Group (http://www.allfundsbank.com/).

2.2 Scope of the report

The report is based on AFBI's figures on a standalone level. As mentioned in the section 1.1, AFBI is not subject to consolidated supervision.

2.3 Risk management policies and objectives

2.3.1 General principles of risk management

Prudence applied to risk management constitutes a pillar of the Bank's (and its subsidiary's) activity and in the provision of services to their clients; therefore it is a priority aspect in obtaining transparent results and providing added value to their clients and its shareholder (AFB), which fully controls the Bank.
The general principles which serve as guidelines for the definition, monitoring, and control of risks are those which are listed below:

- The risks assumed must be compatible with the capital of the Bank, in accordance with the objective level of solvency. In this sense, the Bank has a commitment to maintain levels of solvency which are at least similar to those of its shareholder.
- Intention to maintain a low risk profile, by means of:

    - Stick to the business of distribution avoiding investment and the incorporation of a trading portfolio into the balance sheet which may generate risks that the Bank does not wish to assume.
    - The pursuit of a high degree of diversification in the structural risks, setting up concentration limits on clients, sectors, markets, and/or geographical areas which could put at risk the objectives of solvency, liquidity and recurrent results.
    - Continuous attention to the identification and monitoring of the risks, providing all the areas with adequate and dynamic systems that generate an optimal management and control on the risk assumed.

- Existence of a procedure for the control and monitoring of all of the risks to which the Bank is exposed in the course of its business.

- Existence of solid mechanisms for the control and mitigation of operational and reputational risks.
- Independence of the Risk Function from other business areas.
- Involvement of the organization in risk management philosophy.

2.3.2 Corporate governance scheme

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

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

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

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

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

The risk procedures are managed by the Risk Function of the Bank: this process implies a strong leverage of the methodologies and experience of the Risk Control Unit of AFB. The principal mission of the Risk Function is to control, monitor and manage the risks arising during the business activity of the Bank. This mission is carried on a continuous process which considers the size, the complexity and the typology of the activities which the Bank carries on.

2.3.3 Risk Management

2.3.3.1 Basic principles

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

- All of the hierarchy of the Bank should be involved in the monitoring and observance of the principle of governance in matters of risk. This principle flows from the Board of Directors and the General Manager and should involve every area of the Bank.
- Creation and promotion of a series of internal committees formed by the functional heads of each department, in order to ensure a continuous monitoring over the proper compliance with the procedures defined in the internal policy manual, including those which make reference to risk.
- Independence of functions.
- Analysis, monitoring and control of risk positions.
- Supply the Bank with the necessary resources for the risk function to be as appropriate and as effective as possible, emphasizing efforts in operational risks.

2.3.3.2 Risk management structure

The Bank organizational structure represents a system of clearly defined roles to manage risks. According to the Board of Directors, the General Managers with the support of the Heads of the departments are responsible for the management and execution of the duly compliance with the principles and the application of policies in the formal operational procedures.

The Bank has established a monthly Risk Committee, whose main goals are defining, administering, and monitoring compliance with the Bank's risk management policies. The Committee's functions shall include, among others:

- Discussion of regular reports of key risk topics with the various owners and proposing actions
- Follow-up of agreed actions
- Review of operational incidents once per year
- Monitoring and controlling risk management activities and procedures

At monthly Group level, a Compliance and Risk Committee aims at:

- Validating credit ratings proposed by AFB
- Risk Control Unit for new potential clients and changing, whenever needed, existing ones
- Reviewing and approving, at least annually, the effective limit structure, in order to ensure suitability for current market conditions.
- Requesting and monitoring new limits.

During the year 2015, the Bank's Risk Committee and the one at Group level have been held 9 and 8 times, respectively.

2.4 Risk categories

2.4.1 Credit risk

2.4.1.1 Definition

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

2.4.1.2 Strategies and management processes

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

The Bank only assumes credit exposures connected with above-mentioned core business with regulated financial entities.

On the other hand, liquidity generated from its equity (reserves) and from operating flows from their UCIs' distribution and intermediation activities, in accordance with the limited risk acceptance framework defined by the Board, is deposited in either current accounts at sight or "overnight" deposits. At December 31st 2015 this liquidity was deposited in the following entities:

- Allfunds Bank, S.A., shareholder of the Bank
- JP Morgan Chase Bank
- Banque Internationale a Luxembourg
- Citibank N.A.

2.4.1.3 Structure and organisation of the credit risk management function

The credit risk management function is managed within the Risk Function of the Bank: its main mission is to control, monitor and manage the risks arising from the business activity of the Bank.

2.4.1.4 Reporting, measurement and mitigation systems

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

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

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

2.4.2 Market Risk

2.4.2.1 Definition

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

2.4.2.2 Strategies and management processes

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

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

On the other hand, as mentioned above, the vast majority of assets are deposited in either current accounts at sight or “overnight” deposits, whereas the liabilities are credited to deposits from credit institutions at sight. Therefore, there is no relevant exposure to interest rate fluctuations.

2.4.2.3 Structure and organisation of the market risk management function

The market risk management function is managed by the Risk Function with the support of the Group Finance and Risk Departments.

2.4.2.4 Reporting, measurement and mitigation systems

The Risk Function of the Bank informs the General Management through a daily report on the exposure and impact on the income statement due to the foreign currency movements, measures, if applied, to mitigate the open risk.
Regarding interest rate risk, due to the low sensitivity to movements in interest rates, no limits have been defined for this risk. However, in order to comply with the CSSF Circular 08/338, the impact of a shift (upward and downward) of the yield curve is calculated and reported every six months.

2.4.3 Operational Risk

2.4.3.1 Definition

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

2.4.3.2 Strategies and management processes

The objective of the Bank in matters of operational risk is based the identification, monitoring, valuation, mitigation and prevention of the risk deriving from deficiencies or failures in internal processes, human resources, or systems, or deriving from external causes.
Procedures and control systems have been defined and put into practice, which makes it possible to identify the assets of the Bank and those of the clients at any time. These procedures are disclosed in the ISAE 3402, report issued by the auditing firm PriceWaterhouseCoopers which contributes to carrying out a more exhaustive assessment of the control procedures applied in the main operational processes, ensuring their quality. The Bank has considered pushing mitigation strategies. During the year 2015 professional third party liability and infidelity of employees’ insurance policies were renewed.
Starting from 2016, the Bank has implemented a new procedure for the management of the incidents. This procedure, prepared by the Management and by Risk Function, aims at defining clear roles and responsibilities whenever a significant incident occurs.

2.4.3.3 Structure and organisation of the operational risk management function

The Risk Function of the Bank is in charge of the continuous monitoring of the operational risk events. The monitoring is based on both preventive measures (for avoiding the occurrence of operational events) and corrective measures (for incidents already happened). The above-mentioned procedure specifies that all the departments of the Bank are involved requiring a specific timetable for the incident process (from the communication of the event to the final booking of the impact in the P&L of the Bank).

2.4.3.4 Reporting, measurement and mitigation systems

The Operations Department performs the reconciliation of cash balances and client positions on a daily basis, which guarantees control over the maintained balances in order to identify the differences arising in the daily management of the business of the Bank, for subsequent analysis and effective solution.
Furthermore, the losses/profits derived from operational errors are immediately communicated to the General Management (and to the Board if the amount is significant). The Risk Function of the Bank feeds an internal database of losses/profits derived from operational incidents and reviews all the incidents every year into the Risk Committee.

2.4.4 Liquidity Risk

2.4.4.1 Definition

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

2.4.4.2 Strategies and management processes

The Bank has set up a conservative approach to cope with this risk.
The management of the liquidity risk is properly implemented as well as duly documented in the risk management procedures. The procedures also provide a full coverage of the liquidity standards required by the regulator. The Risk Department performs periodically the following regulatory reports (sent to the regulator by the Finance department):

- LCR Ratio (monthly) and NSFR (quarterly):
  - The Liquidity Coverage Ratio (LCR): is introduced in order to deal with liquidity problems in the short term, i.e., to ensure the availability of sufficient high quality liquid assets to cover a severe crisis scenario for a month.
  - The Net Stable Funding Ratio (NSFR): is introduced with the aim of ensuring enough coverage for liquidity risk over a long-term horizon, i.e., to ensure the provision of stable funding for institutions to finance their activities.
- Internal Capital Adequacy Assessment Process (hereafter, the "ICAAP"), where the adequacy of the bank´s capital is assessed against to all the risks that the Bank faces.

2.4.4.3 Structure and organisation of the liquidity risk management function

Operating or short-term cash flows are managed by the Banking Services Area integrated in the Operations Department of the Bank and are monitored by the Risk Department.
Due to the current business model and the low liquidity risk exposure established by the General Management the probability of incurring losses through not having sufficient liquid resources available to meet the obligations assumed is very low.

2.4.4.4 Reporting, measurement and mitigation systems

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

2.4.5 Other risks

2.4.5.1 Concentration risk

Concentrations of risk may occur in assets, liabilities or in off-balance sheet items, through the execution or processing of operations or through a combination of these extensive categories.
Due to their nature, credit risk concentrations are due to common or correlated risk factors, which in times of crisis impair the solvency of each of the counterparties comprising the concentration.
For grouping and calculation purposes, the Bank is subject to the norm established in the Part Four of the CRR[1] , concerning "Large Exposures" (those that exceed 10% of Eligible Own Funds). No single exposure, including all types of credit and variable investment income, can exceed 25% of its eligible capital. In the specific case of AFBI, given that the amount of EUR 150 million is higher than 25% of its eligible capital the limit with other institutions is increased up to 100% of the institution's eligible capital according to article 395 of the CRR[1].

At 31 December 2015 the highest exposure was the one related to AFB (shareholder of the Bank), the reason being the implementation of a specific strategy to fulfill the requirements of the Large Exposures' regime. However, even though this exposure was above the limit, it does not represent a breach of the Large Exposures' regime due to the exemption granted in this regard by the CSSF according to Article 20 of the CSSF Regulation N° 14-01 on the implementation of certain discretions of the CRR[1].

2.4.5.2 Technology risk

The information of infrastructure and technologies are elements both basic and critical in all the operating processes of the Bank, either in business or support processes.

The IT activity comprises a series of processes which cover the general controls applied to the technological systems. These are:

- Analysis of the needs and design of the general infrastructure. These cover the controls which mitigate the risks related to the preparation and monitoring of the strategic plans for the systems, ensuring they are in line with the business and with the legal and regulatory requirements, with the design, analysis, and monitoring of the projects for the improvement of the information infrastructure and with the selection and management of the contracts with the suppliers of services in their technical dimension.
- Acquisition and maintenance of software and hardware. Controls on the selection, approval and purchasing, of the systems, configuration and testing of new components, planning of implementations and the maintenance of the systems.
- Development and evolution of applications. This includes the controls in respect of the reception, feasibility analysis, approval, functional and technical design, development of applications, testing of developments and implementation of the systems in the operating environment.

- Maintenance of applications. This includes the controls in respect of the running of the systems and the management of data.
- Information security management. This brings together all of the controls the objective of which is to guarantee their proper design.

2.4.5.3 Reputational risk

Reputational risk is considered a basic item for action by the Senior Management of the Bank. No new services and products will be authorized by the General Manager of the Group until they have been subject to a comprehensive analysis by different control areas.

In the case of new clients, there should be an analysis by the Compliance and Risk Department which, together with the support of the Sales Department and the approval of the General Manager of the Group, determines the potential impact of the client on the reputational risk of the Bank.

In addition, responding to the conservative nature which the Bank maintains in matters of risk management, no assets which the Bank considers, on the basis of the analyses indicated above, to be susceptible of generating reputational risk will be added to the range of products available to clients.

3. Information on own funds

The qualifying own funds of the Bank at 31 December 2015 were as following:

Qualifying own funds (Thousands of euro)	
Tier 1 Capital	**23.025**
Capital	15.000
Retained Earnings	9.967
Accumulated other comprehensive income	1.516
Deductions	-3.459
Other intangible assets	*-22*
Free deliveries which can alternatively be subject to a 1250% risk weight	*-1.889*
CET1 instruments of financial sector entities where the institution has a significant investment	*-1.548*
Additional Tier 1 Capital	**0**
Tier 2 Capital	**0**
Total Qualifying Own Funds	**23.025**

Qualifying own funds include the following items:

- Tier 1 Capital. It comprises the paid up capital, retaining earnings and deductions of intangible assets (22 thousands of euro), total settlement risk exposure (1.889 thousands of euro) and the participation in the Swiss subsidiary (1.548 thousands of euro) in accordance with current regulations.

- Additional Tier 1 Capital. The Bank doesn´t maintain capital of this category.
- Tier 2 Capital. The Bank doesn´t maintain capital of this category.

4. Information on capital requirements

4.1 General requirements

The total Pillar I risk exposures of the Bank as at 31 December 2015 are listed below:

Pillar I risk exposures (Thousands of euro)	
Credit Risk (Standard Approach)	**80.166**
Institutions	39.013
Corporate	3.641
Public sector entities	27
Other	37.485
Position and Foreign Currency Risk (Standard Approach)	**3.437**
Operational Risk (Basic Indicator Approach)	**18.137**
Total Risk Exposures (Pillar I)	**101.740**
Total Capital Requirements (8% of total risk exposures)	**8.139**

The Regulatory Capital is obtained multiplying the total risk exposures (Pillar I) by a weight of 8%. The Total Capital Ratio of the Bank as of 31st December 2015 stayed at 22,63%, comfortably above the minimum level required of 8% and the capital conservation buffer of 0.625% established for 2016.

4.2 Capital adequacy assessment process

The ICAAP report conducted by the Bank comprises the following aspects:

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

The ICAAP report is sent to the CSSF annually, after the approval by the Board of Directors of the Bank.

5. Information on capital buffers

An important innovation of Directive 2013/36/EU is the criterion of capital buffers during a peak phase of the economic cycle, with the objective of creating a more stable banking system that helps softening, instead of amplifying, economic and financial crisis.
These buffers may be used to absorb losses in difficult economic or stressful times. While its use does not involve a breach of the regulation, this could generate restrictions on dividends of the entity or the payment of variable remuneration for its managers.

- The capital conservation buffer (+2,5%) is set in order to provide the entity with enough ordinary capital to absorb losses in an economic environment of stress. In case of non-compliance, limits on profit distribution or payment of variable remuneration of its executives are imposed.
- A countercyclical capital buffer (0% -2,5%) is a capital requirement in cases of excessive credit growth to avoid the formation of economic bubbles. The buffer will only be constituted in moments in which credit is growing excessively. During periods of normal credit growth, this buffer will be zero. When it is necessary, it will be additional to capital conservation buffer.

Given the negligible exposure in countries having a non-zero countercyclical capital buffer rate[2], the institution-specific countercyclical capital buffer rate as of December 2015 is 0%.

6. Information on credit risk

6.1 Distribution of the exposures

This section contains information on the Bank's exposures to credit risk with the following detail:

- Category of exposure.
- Geographical area.
- Activity sector.
- Residual maturity.

<u>Category of exposure</u>

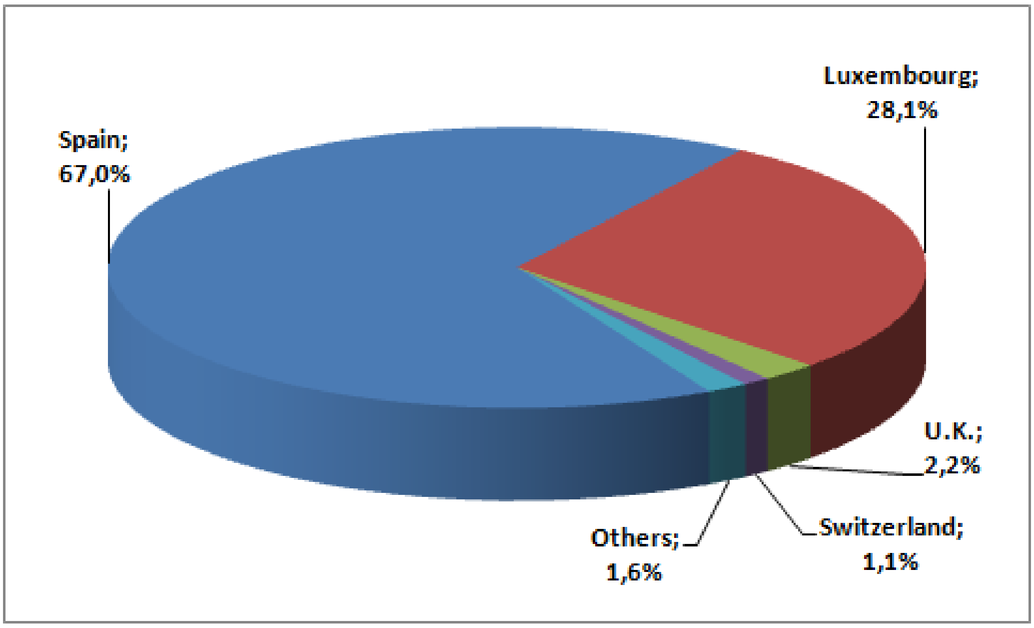
The following table shows the total credit risk exposures:

[2] Considering the negligible credit risk exposure in Norway and Sweden, the institution-specific countercyclical capital buffer amount is less than EUR 100.

Exposure Category	Unweighted exposure (thousands of euro)	Risk Exposure (thousands of euro)
Central governments or central banks	33.446	0
Public sector entities	136	27
Institutions	193.848	39.013
Corporates	3.641	3.641
Other	33.801	37.485
Total	**264.871**	**80.166**

Geographical area

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



Activity sector

Given the specific activity of the Bank, the credit risk exposure is focused exclusively on the services sector, specifically the financial services sector.

Residual maturity

All the credit risk exposures of the Bank have residual maturity lower than 1 year, with the exception of the 'Tangible assets' that nevertheless represent a negligible part of the total credit risk exposures.

6.2 Methodology applied (Standardised Approach)

For the calculation of the credit risk requirements, the Bank adopts the Standardised approach in accordance with Chapter 2 / Section 2 of the CRR[1]. This approach is based on the application of risk weights differentiated by category to the credit risk exposures.
The following table shows by column how exposures are allocated to the categories and related risk weights:

Exposure Category	Risk weight				Total Exposure (thousands of euro)
	0%	20%	100%	250%	
Central governments and central banks	33.446				33.446
Public sector entities		136			136
Institutions		193.543	304		193.848
Corporates			3.641		3.641
Equity				2.457	2.457
Other	1		31.342		31.344
Total Credit Risk Exposures	**33.447**	**193.679**	**35.287**	**2.457**	**264.871**

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

Exposure Category	Risk weight				Total Exposure (thousands of euro)
	0%	20%	100%	250%	
Central governments and central banks	0				-
Public sector entities		27			27
Institutions		38.709	304		39.013
Corporates			3.641		3.641
Equity				6.143	6.143
Other	0		31.342		31.342
Total Credit Risk weighted Exposures	**-**	**38.736**	**35.287**	**6.143**	**80.166**

7. Information on operational risk

In order to quantify the requirements for operational risk, the Bank adopts the Basic Indicator Approach (BIA), the most basic approach among the Basel proposals. This method is based on the hypothesis that the operational risk of the Bank depends from a single relevant indicator (the average gross income) weighted by a fixed coefficient of 15%.
At 31 December 2015, capital requirements for operational risk are as following:

Operational Risk calculation (Euro)	Dec-13	Dec-14	Dec-15
Interest receivable and similar income (+)	17.158	54.037	244.480
Interest payable and similar charges (-)	9.846	13.886	50.813
Exchange differences, net (+)	-	-	-131.900
Commissions/fees receivable (+)	44.840.458	74.123.789	114.645.982
Commissions/fees payable (-)	40.548.529	64.572.770	99.631.973
Net profit or net loss on financial operations (+)	-37.273	22.085	7.311
Other operating income (+)	14.846	779	44.589
Relevant Indicator	4.276.814	9.614.034	15.127.675
Relevant Indicator Average (last three years)			9.672.841
Capital Requirements for Operational Risk			1.450.926
Total Operational Risk Exposures (Pillar I)			18.136.577

During the year 2015 nine operational incidents and an impact of around -17 thousands of euro have been recorded.

8. Information on market risk

The Bank follows the standard approach in accordance with the terms the article 351 and 352 of the CRR[1] for determining the capital requirements for market risk. These articles state "if the sum of net FX position exceeds 2% of its own total funds, the entity shall calculate a capital requirement for foreign exchange risk".

At 31 December 2015 the requirements for market risk were as following:

Thousands of euro	
Total Market Risk Exposures (Pillar I)	**3.437**
Capital Requirements for Market Risk	**275**

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

At 2015 year-end, the sensitivity of the non-trading book activities to a parallel shift of +2% and -2% of yield curves was rather low:

Reference date 31/12/2015	Scenario Δ +200bps	Scenario Δ -200bps
Δ of the non-trading book activities (In thousands of euro)	**51**	**0**

The sensitivity for other convertible currencies is immaterial.

9. Leverage Ratio

The Basel III agreement introduced a regulatory financial leverage ratio. In October 2014, the European Commission modified the CRR[1] (via delegated act) in order to adapt the new form of the calculation. In accordance with Article 451 of the CRR[1], entities have to calculate the leverage ratio and provide disclosure. The aim of this ratio is to ensure that banks don't circumvent requirements for secure and long-term forms of capital.
The leverage ratio is calculated as the institution's capital measure (Tier 1 capital) divided by the institution's total exposure measure.

The total exposure measure is calculated as the sum of the following components:

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

This ratio shall be calibrated for a transitional period (1 January 2014 - 1 January 2018) and will be binding on 1 January, 2018. During this period there is only the obligation to disclose it to the market. Currently a 3% reference level has been established. It is expected that the requirement is published at the beginning of 2017 and become binding in 1st January 2018. Recent publications by the Basel Committee and EBA coincide in recommending a ratio between 4% and 5%.

The Bank complies with all requirements for submission and reporting to the CSSF, as mentioned in the CRR.
The following tables show the relevant information required by the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016.

Figures expressed in thousands of euro

Leverage ratio calculation	
Tier 1 Capital (numerator) as of 31/12/15	23.025
Total Exposure measure (denominator) as of 31/12/15	264.871
Leverage ratio (=numerator/denominator) as of 31/12/15	**9%**
Average of Leverage ratio for the 3-months period (from October to December 2015)	**3%**
Minimum recommended	3%

Figures expressed in thousands of euro

Breakdown of the Leverage ratio denominator	
On-balance sheet items	264.852
- Assets amounts deducted in determining Tier 1 capital	0
Derivatives	19
Securities Financing Transactions (SFTs)	0
Off-balance sheet items	0
Leverage ratio denominator (Total)	**264.871**

In accordance with Article 451 of the CRR, entities will notify the leverage ratio. The aim of this ratio is to ensure that banks don't circumvent requirements for secure and long-term forms of capital. The leverage ratio is defined as Tier 1 capital divided by a measure of non-risk weighted assets.
This ratio shall be calibrated for a transitional period (1 January 2014 - 1 January 2018) and will be binding on 1 January, 2018.
The Bank complies with all requirements for regulatory reporting of the leverage ratio to the CSSF, as mentioned in Article 511 of the CRR.

10. Information on remuneration policy

The following appendix includes the information with regards compensation and remuneration policies as required by the Article 450 of the CRR.

10.1 Background

AFB emerged as a start-up under the combined umbrella of its shareholders and AFB itself. As the company evolved, it built its own identity, comprising its own character and culture, although it is worth noting that a significant part of AFB's policies, procedures, etc. were either adopted or adapted from those of our shareholders.
At present, AFB is a unique company in constant growth and evolution at all levels, and with a high degree of competitiveness in the market. This means that the policies of the Group must constantly adapt to align human resources to its ambitious long-term goals.

10.2 Principles of the remuneration policy

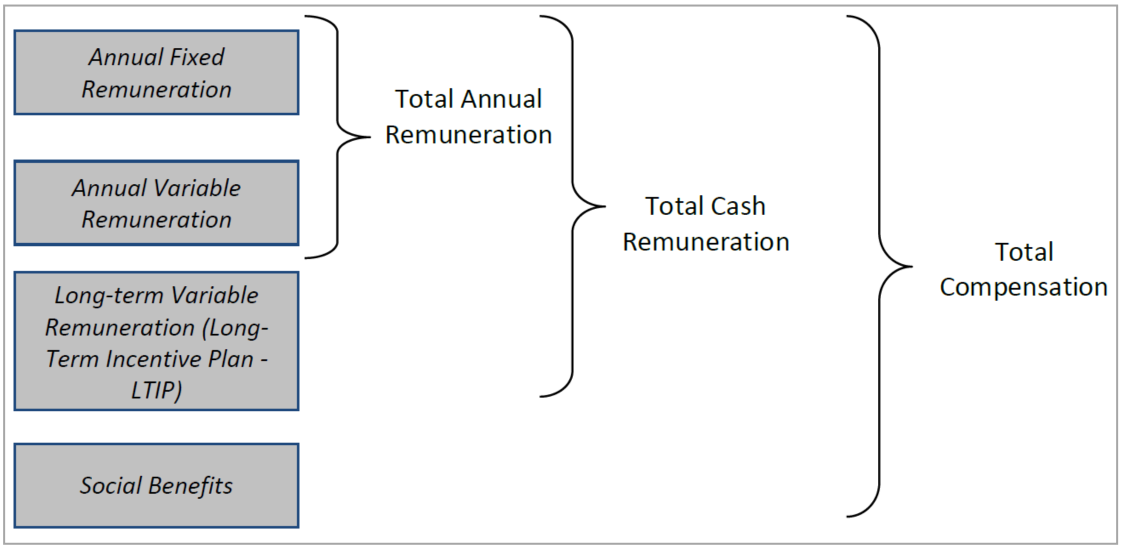
AFB considers the proper remuneration of its professionals to be a fundamental factor for achieving its goals and, accordingly, for unlocking value for shareholders. In this regard, for AFB it is vital to have a remuneration policy that, via the various elements of compensation, enables it to properly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

In general, AFBI's remuneration policy is governed by the following principles:

- Remuneration must foster the adequate and efficient management of risks, and must be aligned with the interests of shareholders, fostering the creation of value in the long term and avoiding conduct aimed at the short term, reducing and curbing excessive risks actions.
- The global remuneration package and its structure should be competitive, making it easier to capture, retain and adequately remunerate employees and directors.
- The remuneration practices derived from the policy should be in keeping with an effective management of conflicts of interest.
- Remuneration should be in accordance with a base sound and solid capital of the entity.
- Fixed remuneration should represent a significant portion of total compensation.
- Variable remuneration should reward performance, based, among other factors, on achieving the Bank's goals, thereby modulating its payment, to avoid overpayment in the event of insufficient performance at AFBI.
- AFBI's remuneration policy should be highly respectful of the principle of non-discrimination for reasons of gender, age, culture, religion and race.
- The policy should promote internal fairness between similar levels of responsibility and performance.
- The Bank keeps the right to pay or not a variable remuneration to the employees.
- The allocation of the variable remuneration components within the Bank shall also take into account all types of current and future risks.
- Remuneration packages relating to compensation or buy out from contracts in previous employment must align with the long-term interests of the Bank including retention, deferral, performance and clawback arrangements.

10.3 Elements of the remuneration policy

General elements of compensation:



Determining the various elements of remuneration of which the Policy is comprised implies being coherent with the degree of responsibility, experience and know-how inherent to each position, and providing incentives for the achievement of the best results at the Bank, with the utmost respect for the principles governing it. Furthermore, the remuneration policy is consistent with the principles relating to the protection of clients and investors in the course of services provided.

10.3.1 Fixed remuneration

Fixed remuneration is the annual gross fixed cash compensation received by each employee, for which purpose the Company uses as a reference in the various markets where it operates, the principles of both external and internal fairness.

Fixed remuneration fundamentally achieves two goals:

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

Since fixed remuneration is established in terms of agreed annual amounts, any increase by law, covenant or agreement is duly absorbed.

Salary reviews at AFBI are conducted annually, at the end of the year immediately prior to the year in which the potential review would take effect, or at the beginning of this latter year. The aim of the reviews is that the employees' fixed remuneration is adequately aligned with the market and, internally, with their profile, i.e. level of knowledge, abilities, attitudes, responsibility, experience and contribution.

10.3.2 Short-term variable remuneration

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

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

AFBI's variable remuneration system was designed to align employees' performance with the shareholders' interests, prudent risk management and the generation of value for the Bank in the long term.

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

- Work performance
- Personal attributes
- Competencies.

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

In no case shall the established Basic Bonus exceed 100% of the fixed component of each employee's total remuneration.
In the event that the short term variable remuneration exceed 100% of the fixed component of each employee’s total remuneration, the Shareholders Meeting approval will be required following the legal procedure established by law. In this case, the short term variable remuneration will not exceed 200% of the fixed component of each employee’s total remuneration.

10.3.3 Long-term variable remuneration

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

Any approval of a ratio higher than 100% should be notified to the CSSF in accordance with Circular CSSF 15/622.

10.3.4 Benefits

When it comes to establishing benefits, as in regard to other items, AFB and AFBI refer to Company policy and market practices.

Generally speaking, the most common benefits are:

- Subsidised meals
- Life insurance
- Medical insurance

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

10.3.5 Confidentiality

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

10.4 Application of the remuneration policy to the identified staff

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

To determine the members of its Identified Staff, AFBI has taken into account both qualitative and 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 (hereafter, the “Regulation”).

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

1. Members of the “Management Body” in regard to their management duties.
2. Members of the “Management Body” in regard to their supervisory duties.
3. Senior Management.
4. Persons in charge of risk control, compliance and internal auditing, reporting directly to the “Management Body”.
5. Persons in charge of risk management at material business.
6. Directors of material business units.
7. Employees with management responsibility in the functions of risk control, regulatory compliance, internal auditing and material business units, and reporting directly to the person.
8. Employees with management responsibilities in material business units and reporting directly to the director of said unit.

9. Employees responsible for the duties of legal counsel, human resources, information technology, finance, etc.
10. Employees responsible for or members of a committee in charge of managing any of the risk categories such as securitization, liquidity, concentration, residual, interest rate, etc.

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

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

For the year 2015, the amounts of remuneration, split into fixed and variable remuneration, and the number of beneficiaries are:

Year	People	Remunerations (thousands of EUR)		
		Fix	Variable	Total
2015	7	724	136	860

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

Luxembourg, June 30th 2016