Leaders in Open Architecture

RISKS PROCEDURES

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The following document contains a description of the procedures established to identify, measure, manage, control and internally communicate the risks to which Allfunds Bank S.A. is or may be exposed.

1. Credit Risk

Definition: credit risk is defined as the possibility of financial loss as a result of a breach by customers or counterparties of their payment obligations to the Bank.

Identification: given the type of business conducted by the Bank, namely the distribution and intermediation of third-party collective investment schemes (CIS), the Bank does not perform any active lending activity, and nor is that its purpose.

In particular, exposure to this risk is solely with regulated institutions.

With regard to the management of liquidity deriving from its capital and the operating flows from the CIS distribution and intermediation business, in accordance with the guidelines established by Management in a scenario of low risk tolerance, as of 31 December 2015 this liquidity was deposited in demand deposit accounts, overnight deposit accounts and term deposit accounts, with no-penalty cancellation clauses, at the following banks (in brackets are the ratings assigned by Standard & Poor's, Moody's and Fitch Ratings, respectively):

- Banco Santander, S.A. (A-/A3/A-)
- JP Morgan Chase Bank (A+/Aa2/A+)
- Barclays Bank PLC. (A-/A2/A)
- Intesa Sanpaolo S.p.A. (BBB-/A3/ BBB+)
- Citibank N.A (A/A1/A)
- Banco Popular Español S.A. (B+/Ba1/BB-)

Management: the Finance Department, via the Risk Control Unit, manages credit risk within the Group.

The main mission of the Risk Control Unit is to control, monitor and mitigate credit risks emerging during the Group's activity.

Measuring, communication and mitigation systems: to manage and control this risk, the Risk Control Unit has implemented a system of maximum overdraft limits in current accounts, by counterparty, based on an internal methodology for estimating the probability of default for each counterparty.

This is controlled through an integrated system at all times showing the level of consumption of the limit for any counterparty.

The Risk Control Unit daily compiles a report with detailed information on the liquidity situation of each counterparty and compliance with the limits established for each of them, with intraday monitoring. Moreover, in order to prevent breaches in the risk limits, overdraft warnings are established for each counterparty.

2 Market Risk (Position and Interest Rate)

Definition: market risk is defined as the risk to which the Bank is exposed in terms of a potential adverse impact on its income statement due to fluctuations in interest rates, currency exchange rates and the market prices of instruments included in the Bank's trading portfolio, where they exist.

Identification: the Bank has decided to abide by a policy of low risk tolerance. Consequently, the Bank does not have positions on or off balance sheet that might be affected by fair value risk relating to interest rate and price risks, except those positions that are strictly necessary for compliance with regulatory requirements in connection with liquidity and currency exchange derivative hedging to mitigate this risk in the main currencies to which it is exposed.

As a result of its activity, the Bank carries assets and liabilities on its balance sheet in currencies other than the euro. Furthermore, to strengthen the aforementioned exchange rate risk mitigation mechanisms, Management, at the proposal of the Finance Department, has set a cap on net positions in foreign currencies.

In addition, the main asset items on the balance sheet correspond mainly to demand and term deposits at credit institutions (that may be cancelled at any time without penalty), whereas the liabilities are mainly customer demand deposits, so exposure to interest rate risk may be considered to be not material.

Management: the Finance Department, via the Risk Control Unit, manages market and interest rate risk within the Group.

Measuring, communication and mitigation systems: as part of currency exchange rate risk, Management is informed daily of the exposure and impact on the income statement due to fluctuations in foreign currencies and any measures implemented, if necessary, to mitigate open risk.

With regard to interest rate risk, due to the low sensitivity to interest rates, no limits have been established applicable to the management of the balance sheet. However, in order to comply with the regulations issued under the CRR/CRD IV, the impact of movements in the interest rates curve on the net interest income and equity value of the Bank and its subsidiaries is measured and reported half-yearly.

3 Operating Risk

Definition: operating risk is defined as "the risk of losses arising from deficiencies or failures in the internal processes, human resources or systems, or resulting from external circumstances". These are events whose originating cause is purely operational, which distinguishes them from market or credit risk.

The Bank's goal in relation to operating risk is essentially to identify, monitor, measure, mitigate and prevent the Bank's exposure to this type of risk.

Identification: control systems procedures and processes have been designed and implemented that allow the company's assets and those of the customers to be identified at all times. These are published in the ISAE 3402 report, issued by the audit firm PriceWaterhouseCoopers, which contributes to performing a more comprehensive examination of the control procedures applied in the essential operating processes, certifying their quality.

The Bank has considered fostering mitigation strategies. In 2015, it reviewed and renewed the professional civil liability and employee fidelity policies.

Management: the Finance Department will centralise the booking on the income statement of the effect of operating errors that might emerge during the daily course of business. Hence, they are prevented from being concealed and at the same time each person responsible for the operating process where the deficiency or failure of the internal process has taken place is informed. Similarly, Management is periodically informed of the impact of operating risk on the income statement.

Measuring, communication and mitigation systems: the Operations Department implements daily processes to reconcile cash balances and customer positions to ensure that the balances are properly controlled and any discrepancies in the daily management of the Bank's activity are identified, for their subsequent analysis and effective solution.

Moreover, Management is periodically informed in regard to the losses/gains resulting from operating errors. The Bank keeps an internal database to record the losses/gains deriving from operating incidents and it is in the process of introducing analytical tools to identify actions that will improve the control and monitoring of its processes.

4 Liquidity Risk

Definition: liquidity risk may be defined as the probability of incurring in losses due to not having sufficient liquid resources to meet the obligations undertaken.

Identification and Mitigation: the Bank has established a prudent criterion in the management and diluting of losses in connection with this risk. Despite the Bank's current business model and its low exposure to liquidity risk, the Bank has decided to establish limits aimed at covering potential liquidity risks that may emerge during the implementation of its operating processes (as a result of being able to unwind or close a position in a timely manner), as well as mitigating structural liquidity risk (maturity mismatch between assets and liabilities).

The purpose of these limits seeks that the Bank always maintains a minimum level of liquid assets within the framework of low exposure to this type of risk implied by the current business model of the Allfunds Bank Group.

Management: operating or short-term liquidity is managed by the Settlement Department within the Bank's Operations Department and it is monitored by the Finance Department.

Due to the prudent liquidity management policy established by Management, the risk of loss due to not having sufficient liquid resources to meet the obligations undertaken is very low.

Measuring and communications systems:

Liquidity risk management is duly instrumented and documented in the internal risk management procedure manual. Moreover, the procedures provide full coverage to applicable liquidity regulations and regulatory requirements. Via the Finance Department, the following regulatory reports are periodically issued:

- Liquidity statements (monthly): as indicated in Bank of Spain Circular 4/2011, liquidity statements are aimed at defining the necessary information to assess the liquidity risk profile of banks and draw up indicators that may be used to compare them.
- LCR (monthly) and NSFR (quarterly):

  - Liquidity Coverage Ratio (LCR): this ratio is aimed at tackling short-term liquidity stress, i.e., to ensure that sufficient, high-quality liquid resources are available to cover a scenario of acute crisis during one month.
  - Net Stable Funding Ratio (NSFR): this ratio is aimed at ensuring sufficient coverage of liquidity risk over a long-term time frame, i.e., to ensure that sufficient stable funds are available for banks to fund their activities.

- ICAAP for the Bank of Spain to assess the Bank's capital adequacy and liquidity to conduct its activity in normal market conditions and in stressed scenarios.

5 Other Risks

5.1 Concentration Risk

Definition and Identification: concentrations of risk may occur in assets, liabilities or off-balance sheet items, through the execution or processing of operations, or a combination of these broad categories.

Due to its nature, the concentration of credit risk is due to common or correlated risk factors, which at times of crisis jeopardise the solvency of each of the counterparties forming the concentration.

Measuring, communication and mitigation systems: for the purposes of aggregation and calculation, the Bank is subject to Part IV of the CRR concerning “large exposures” (exceeding 10 % of eligible capital). No individual exposure, including all kinds of credit and equity risks, may exceed 25 % of the capital base.

In the specific case of the controlled company, Allfunds Bank, S.A., since it has exposure to individual concentration with a financial institution (that does not belong to the group) exceeding 25 % of eligible capital but lower than the €150mn maximum limit on individual concentration, the bank invokes the clause provided in the regulation on “large exposures” and will adhere to a cap on individual concentration of less than 100 % of eligible capital.

At 31 December 2015, the balances held in the Santander Group (an indirect shareholder of the Bank) represented 348.41 % of eligible capital. However, it should be taken into account that these exposures are not subject, since they are exposures held with credit institutions that take part in the management of the Bank.

Given its activity and the nature of its exposures, the Bank does not plan to conduct additional controls on concentration risk aside from those strictly required by the aforementioned regulations.

5.2 Technology Risk

Definition: information infrastructure and technology are key, fundamental elements for the all the Bank's operating processes, including both the business and support processes.

Measuring, communication and mitigation systems: Systems activity comprises a series of processes entailing general controls applied to IT systems. These are:

- Analysis of needs and design of general infrastructure. They envisage the controls to mitigate the risks linked to the drafting and monitoring of systems' strategic plans, guaranteeing that they are in line with the business and with legal and regulatory requirements, with the design, analysis and monitoring of the projects to improve IT infrastructure and the selection and management of contracts with services suppliers in their technical sphere.

- Acquisition and maintenance of software and hardware. Controls of the selection, approval, purchase or contracting of elements of systems, configuration and testing of new elements, planning of implementations and systems maintenance.
- Development and performance of applications. This includes controls relating to receipt, feasibility analysis, approval, functional and technical design, development of applications, developmental tests and implementation of the systems in the operating environment.
- Maintenance of applications. Controls linked to system usage and data management are included.
- IT security management. This includes all controls aimed at ensuring the proper design of aspects linked to the precepts of data security and processes.

5.3 Reputational Risk

Definition: reputational risk is seen by the Bank's Management as a basic aspect of action. No new service or product will be approved by Management until it has undergone thorough analysis by the various control areas.

Management: in the case of new customers, analyses must be obtained from the Compliance and Risk Departments of the AFB Group which, with the support of the Commercial Department and the approval of Management, determine the customer's potential impact on the Bank's reputational risk.

Identification and Mitigation: in addition, and in response to the Bank's prudent approach to risk management, no asset considered susceptible to generating reputational risk based on the aforementioned analyses will be included in the range of products offered to customers.

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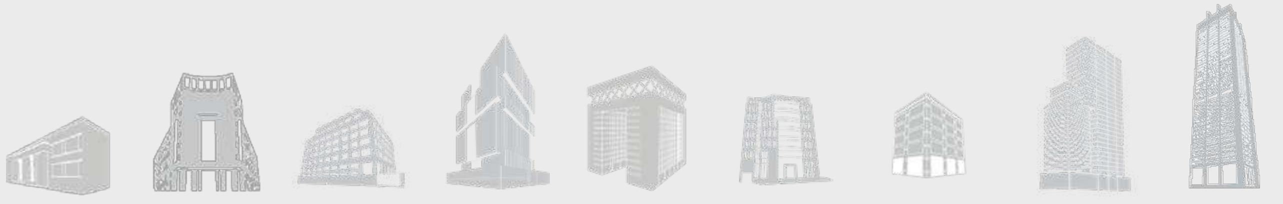

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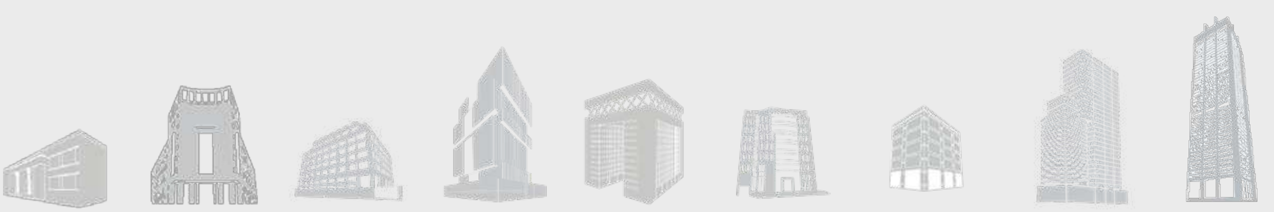

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