

Pillar III Disclosures Report

WiZink Bank, S.A.

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1	INTRODUCTION.....	5
2	SCOPE OF APPLICATION.....	6
3	RISK MANAGEMENT POLICIES AND OBJECTIVES.....	7
3.1	CREDIT RISK.....	8
3.1.1	Management strategies and processes.....	8
3.1.2	Structure and organization of the credit risk management function	9
3.1.3	Approval of risks, monitoring and collections	10
3.2	EXCHANGE RATE RISK	10
3.3	MARKET RISK	11
3.4	OPERATIONAL RISK.....	11
3.4.1	Management strategies and processes.....	11
3.4.2	Structure and organization the Risk Control function	12
3.4.3	Scope and nature of reporting and measurement systems.....	13
3.4.4	Risk hedging and mitigation policies	13
3.5	BALANCE SHEET STRUCTURAL INTEREST RATE RISK	14
3.5.1	Management strategies and processes.....	14
3.5.2	Interest rate risk structure and organization	14
3.5.3	Scope and nature of reporting and measurement systems.....	14
3.5.4	Risk hedging and mitigation policies	14
3.6	LIQUIDITY RISK.....	15
3.7	OTHER RISKS.....	16
3.7.1	Business and Strategic Risk.....	16
3.7.2	Reputational Risk.....	17
3.7.3	Conduct Risk	17
3.8	GLOBAL SYSTEMIC RISK	18
3.9	ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS FOR THE INSTITUTION'S PROFILE AND STRATEGY.....	18
3.10	DESCRIPTION OF THE RISK PROFILE ASSOCIATED WITH THE CORPORATE STRATEGY	18

4	CORPORATE GOVERNANCE.....	19
4.1	EXECUTIVES WHO HOLD POSITIONS ON THE BOARD OF DIRECTORS	19
4.2	SELECTION POLICY FOR MANAGEMENT AND THEIR EXPERTISE, SKILLS AND EXPERIENCE	19
4.3	DIVERSITY POLICY AS REGARDS THE SELECTION OF MEMBERS OF THE MANAGEMENT BODY, ITS OBJECTIVES AND THE TARGETS SET OUT IN THAT POLICY, AND LEVEL OF ACHIEVEMENT OF THOSE OBJECTIVES AND TARGETS	19
4.4	FLOW OF RISK INFORMATION TO THE MANAGEMENT BODY	20
5	INFORMATION ON OWN FUNDS.....	28
5.1	RECONCILIATION OF ACCOUNTING CAPITAL AND REGULATORY CAPITAL.....	28
5.2	DESCRIPTION OF MAIN FEATURES, TERMS AND CONDITIONS OF CAPITAL INSTRUMENTS	28
5.3	INFORMATION ON OWN FUNDS AT 31 DECEMBER 2016	30
6	CAPITAL REQUIREMENTS	32
6.1	AMOUNT OF OWN FUNDS REQUIREMENTS BY TYPE OF RISK	32
6.1.1	Minimum own funds requirements for credit risk.....	32
6.1.2	Amount of own funds requirements for market risk.....	33
6.1.3	Amount of own funds requirements for operational risk.....	33
6.2	INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS	33
6.3	CAPITAL BUFFERS	33
7	INFORMATION ON CREDIT RISK.....	34
7.1	ACCOUNTING DEFINITIONS OF "PAST DUE" AND "IMPAIRED"	34
7.2	DESCRIPTION OF APPROACHES AND METHODS ADOPTED TO DETERMINE GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS.....	34
7.3	TOTAL AMOUNT OF EXPOSURES AFTER ACCOUNTING OFFSETS AND WITHOUT TAKING INTO ACCOUNT THE EFFECTS OF CREDIT RISK MITIGATION, AND THE AVERAGE AMOUNT OF EXPOSURES OVER THE PERIOD BROKEN DOWN INTO DIFFERENT EXPOSURE CATEGORIES	35
7.4	GEOGRAPHICAL DISTRIBUTION OF EXPOSURES.....	36
7.5	BREAKDOWN OF EXPOSURES BY RESIDUAL MATURITY.....	38
7.6	AMOUNT OF IMPAIRED EXPOSURES AND PAST-DUE EXPOSURES BY INDUSTRY	39

7.7	AMOUNT OF IMPAIRED EXPOSURES AND OF PAST-DUE EXPOSURES BROKEN DOWN BY SIGNIFICANT GEOGRAPHICAL AREAS	41
7.8	RECONCILIATION OF CHANGES IN THE SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS FOR IMPAIRED EXPOSURES	42
7.9	EXPOSURE TO SECURITIZATION	42
8	UNENCUMBERED ASSETS	43
9	EQUITY EXPOSURES NOT RECORDED IN THE TRADING BOOK	44
9.1	ACCOUNTING POLICIES AND MEASUREMENT METHODS FOR EQUITY INSTRUMENTS	44
9.2	CARRYING AND FAIR VALUE OF EQUITY INSTRUMENTS AND HOLDINGS NOT INCLUDED IN THE TRADING BOOK	45
9.3	GAINS OR LOSSES RECORDED DURING THE PERIOD ON THE SALE OR LIQUIDATION OF EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK	45
9.4	ALL GAINS OR LOSSES RECOGNIZED IN EQUITY	45
10	EXPOSURE TO INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING BOOK	46
11	LEVERAGE RATIO	47
12	REMUNERATION POLICY	49
12.1	INFORMATION ON HOW REMUNERATION POLICY IS SET IN WIZINK BANK	49
12.2	INFORMATION ON LINKAGE BETWEEN REMUNERATION AND PERFORMANCE: MAIN FEATURES OF THE REMUNERATION SYSTEM	49
12.3	DISCLOSURE OF CRITERIA FOR MEASURING THE PERFORMANCE ON WHICH ENTITLEMENT TO SHARES, OPTIONS OR VARIABLE REMUNERATION COMPONENTS IS BASED	50
12.4	DETERMINATION OF "IDENTIFIED STAFF"	50
12.5	QUANTITATIVE INFORMATION ON REMUNERATION OF "IDENTIFIED STAFF" BROKEN DOWN BY BUSINESS AREA	51

TABLES

TABLE 1: RECONCILIATION OF COMPONENTS OF CAPITAL	28
TABLE 2: INFORMATION ON OWN FUNDS.....	31
TABLE 3: CAPITAL REQUIREMENTS BY TYPE OF RISK.....	32
TABLE 4: CAPITAL REQUIREMENTS FOR CREDIT RISK. STANDARDIZED APPROACH.....	32
TABLE 5: EXPOSURE TO CREDIT RISK NET OF VALUATION ADJUSTMENTS AND PROVISIONS	35
TABLE 6: INTERNATIONAL GEOGRAPHICAL DISTRIBUTION OF LOANS AND RECEIVABLE.....	36
TABLE 7: GEOGRAPHICAL DISTRIBUTION OF LOANS AND RECEIVABLES BY REGION.....	37
TABLE 8: BREAKDOWN OF EXPOSURES BY RESIDUAL MATURITY	38
TABLE 9: BREAKDOWN OF IMPAIRED EXPOSURES BY INDUSTRY	39
TABLE 10: BREAKDOWN OF PAST-DUE EXPOSURES BY INDUSTRY	40
TABLE 11: AMOUNT OF IMPAIRED EXPOSURES BY GEOGRAPHICAL AREA.....	41
TABLE 12: AMOUNT OF PAST-DUE EXPOSURES BY GEOGRAPHICAL AREA	41
TABLE 13: CHANGES TO WRITEDOWNS AND PROVISIONS FOR THE PERIOD.....	42
TABLE 14: ENCUMBERED AND UNENCUMBERED ASSETS	43
TABLE 15: EQUITY INSTRUMENTS AND HOLDINGS. CARRYING AND FAIR VALUE.....	45
TABLE 16: IMPACT OF VARIATIONS IN INTEREST RATES	46
TABLE 17: CALCULATION OF LEVERAGE RATIO	48
TABLE 18: CURRENT REMUNERATION OF "IDENTIFIED STAFF"	51
TABLE 19: CURRENT FIXED AND VARIABLE REMUNERATIONS AMOUNTS OF "IDENTIFIED STAFF"	51

1 INTRODUCTION

The purpose of this "Pillar III Disclosures Report" ("*Información con Relevancia Prudencial*" — Information of Prudential Reference) of WiZink Bank, S.A., referring to 31 December 2016, is to meet the market disclosure requirements primarily laid down in the reference¹ legislation on capital and supervision on a consolidated basis of credit institutions: Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter, "CRR") and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (hereinafter, "CRD IV").

The recommendations of the European Banking Authority (hereinafter, "EBA") and the Enhanced Disclosure Task Force² (hereinafter, "EDTF") and Basel Committee have also been taken into account in preparing this report, always bearing in mind the application of the principles of materiality and proportionality.

The information contained in the accompanying report meets the requirements of the CRR. It has been drawn up considering the provisions of article 432.2 of the CRR on the confidentiality of the information. WiZink Bank, S.A. represents that it has omitted no required information for reasons of confidentiality or because the information is reserved.

The Audit and Risk Committee of WiZink Bank, S.A. has approved this "Pillar III Disclosures Report" after its examination by the internal audit department.

The Pillar III Disclosures Report is available on the
WiZink Bank website

¹ Together with the national laws that have transposed the CRR and CRD IV (Royal Decree Law 14/2013, Law 10/2014 and Royal Decree 84/2015).

² Review of the Pillar 3 disclosure requirements document of 28 January 2015.

2 SCOPE OF APPLICATION

The information presented in this document refers to WiZink Bank, S.A. (hereinafter, "the Entity"), as an individual credit institution, and conforms to the requirements of article 436 CRR.

WiZink Bank, S.A. is a credit institution trading under the WiZink name and specialized in providing credit and savings solutions with basic and simple products.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

The different risks inherent in the banking business carried on by WiZink Bank are managed with criteria of utmost prudence, at all times pursuant to the basic objectives of solvency, profitability, efficiency and sufficient liquidity.

The risk policy synthesizes strict professional criteria in the bank's study, assessment, assumption and monitoring of risks, striving to optimize the risk/return relation inherent in credit risk, and to minimize the rest of the risks (operational, liquidity, interest rate, market, business, reputational and others).

The following management principles are hallmarks of the bank's approach to risk management:

- Involvement of senior management: amongst other functions, the bank's senior executives regular monitor the evolution of its internal management of risks, with the objective of ensuring proper implementation of international capital regulations (Basel III), which are already in place in the daily risk management practices, allocating the necessary human and material resources and defining a comprehensive risk framework, charting an appropriate risk policy and overseeing its continual adaptation to the changes at work in the market, clientele and regulatory framework.
- Separation of the risk and commercial areas.
- Formal system for granting risk-approval authority in which the various hierarchical levels of the organization are delegated different powers for authorizing operations.
- Risk management and limits granted per client or economic group of related clients where such group relations exist.
- Priority placed on risk policies aimed at ensuring the bank's stability, short, medium and long-term viability and maximizing the risk/return relation.
- Strict compliance with applicable legal rules, in all aspects, with special emphasis on following through on anti-money laundering and terrorist financing instructions.
- Differentiated analysis and treatment of refinancing or debt restructuring operations.
- Search for maximum equilibrium between loans and receivables and funds.
- Goal-oriented flexibility in the organizational structure.
- Application of internal automated systems based on rating and scoring mechanisms.
- Monitoring risk from analysis through to cancellation.

As the institution's highest governing body, the Board of Directors is actively engaged in managing and controlling the entity's risks, as well as in ensuring capital levels are adequate for those risks. This monitoring activity is done both directly at Board meetings and through the Audit and Risk Committee, which has been delegated powers by the Board itself and the different committees that are in place. Their functions and tasks are specified in the next section.

The activities carried on by the Board of Directors in relation to managing and controlling risk and ensuring adequate capital levels for its risk profile have involved:

- Reviewing and approving the risk appetite and control framework.
- Reviewing and approving the internal capital adequacy assessment process.
- Reviewing and approving the internal liquidity adequacy assessment process.
- Determining the bank's target capital.

In addition, during 2015 a risk appetite declaration with a 3-year horizon was prepared, approved and implemented. This comprehensive risk overview has also been accompanied by a risk assessment exercise that allows the WiZink Bank risk profile to be defined with absolute clarity and submitted to constant monitoring. This will help prevent deviations or divergences from the risk appetite charted that would require adopting the appropriate corrective measures.

Set out below is the information required by article 435.1 of the CRR in relation to the management objectives and policies for the different categories of risk:

3.1 Credit Risk

Credit risk is the possibility of suffering losses as a result of a debtor's default on its contractual obligations.

3.1.1 Management strategies and processes

Credit risk is the most significant risk in the bank's balance sheet. In WiZink Bank, credit risk management is focused on identifying, measuring, integrating, controlling and assessing the different risk exposures, as well as on establishing the profitability of operations and customers adjusted to the risk taken on.

The credit risk management criteria are not uniform across the organization as regards policies, tools, circuits and processes, but instead depend on the specific product and on its origin, differentiating products from Citibank Spain and products from the Banco Popular Group and those from Barclaycard, both in Spain and Portugal. For all of these the institution has quantitative tools and models that allow it to optimize credit risk management in the process of approving, monitoring and recovering risks.

Notwithstanding the above, the bank is pursuing gradual progress toward greater integration of all policies, structures, tools, circuits and processes, with the ultimate goal of convergence toward a common unified credit risk management.

3.1.2 Structure and organization of the credit risk management function

The credit risk management function consists of a number of departments that mainly perform functions relating to the definition of policies for extending and monitoring credit and for managing defaults, non-performing loans and fraud. The responsibilities assigned to each of these risk management functions during the entire life of the product are:

- **Lending policy:** Definition of risk policies both for developing new customers and for managing the existing portfolio, pursuant to the overarching goal of growing the business while maintaining credit quality.
- **Extension of credit:** Analysis and approval of credit products. Monitoring production and the credit-analysis performance of internal analysts and the management of the external Data Capture and Verification agencies.
- **Collections strategy:** Definition of the collections strategy for the entire process running from the first unpaid bill through to the management of debt writeoffs.
- **Collections and recovery management:** Reduce loan losses to the utmost to strengthen the WiZink Bank income statement, offering help and support to customers in different stages of debt delinquency, through internal managers and outside collection agencies, all supported by the Administration area, which is responsible for generating operating reports, managing the parameterization of the collections system and telephone communications, and conducting quality control and training.
- **Anti-fraud functions:** Charting the policies for fraud prevention, detection and recovery and instances of fraud.

In addition to the areas described above, there are two units which, though not seen in the current credit risk organizational chart, have functions that may be performed from other areas of the bank with which they have matrix management flows. Those areas are:

- **MIS & Reporting:** Projections of non-performing loans and future losses, generation of ad hoc analyses and periodic reports needed for managing credit risk.
- **Scoring:** Responsible for all the scoring models used in acquisition, portfolio management and collections strategies.

3.1.3 Approval of risks, monitoring and collections

Given the nature of WiZink Bank's business, the management of credit risk is exclusively focused on credit cards, so no specific credit risk reduction and hedging techniques are employed beyond those inherent to the management of the risk associated with those cards. Also, the credit portfolio does not display significant individual or sector risks, and its Pillar II requirements are zero in this respect, which in and of itself mitigates the credit risk.

The bank's risk approval structure is specialized according to the type of customer and relies on risk monitoring systems designed to anticipate problem situations in order to allow a swift response suited to each particular situation. In this respect, the bank pursues comprehensive and effective risk management using methodologies and models it has developed to quantify the prime elements of credit risk.

By developing scoring models, segmentation and minimum criteria for approving risks, all salient risk factors are considered, both quantitative and qualitative, to ensure decisions are primarily grounded in measurable and objective parameters. This is done automatically in the analysis and admission process in order to rule out transactions that do not meet the bank's risk and profitability requirements or forward them to a credit analyst for evaluation and approval.

The full cycle of risk is actively managed, from pre-analysis through to complete cancellation. The bank does this using a limits scheme based on the goal of keeping credit risk exposure at appropriate levels in line with its risk profile. Business success is not achieved solely through customer acquisition, but requires a robust policy for managing the associated risks and mitigating their impact in the event of default.

The collections and loss mitigation process is activated when a customer, for whatever reason, fails to make a payment when due. This triggers a process based on robust systems of collections and monitoring that are grounded in segmenting credit risk according to the number of days past due and to the risk level. That segmentation underpins the different management strategies: intensity of calls, collections channels, mitigation tools and management of outside agencies.

The results of all processes and functions are assessed periodically to pinpoint anomalous deviations from the expected performance and identify areas for improvement and possibilities for optimization.

3.2 Exchange Rate Risk

Exchange rate risk arises from the possibility of the positions the bank holds on and off its balance sheet being adversely affected by movements in exchange rates between currencies and of its net assets as measured in euros being reduced as a result.

The WiZink Bank business model does not involve any operations in foreign currencies. The bank operates with its customers in euros only, both in lending and in deposit-taking and savings products.

The institution thus nonetheless engages in occasional transactions in foreign currency in relation to corporate projects, specifically those arising from the TSA reached with Barclays in connection with WiZink Bank's acquisition of its cards business. The bank's current policy is to hedge those positions automatically in order to eliminate the exchange rate risk immediately.

Accordingly, on the whole, its exposure to exchange rate risk is rated as very low or non-existent.

3.3 Market Risk

The bank does not have a trading book as it holds nearly no equity positions and is not subject to capital charges for this risk.

3.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

In the bank's model, it includes, in addition to technology risks (risk of technological transformation and cyberattacks) and the risk of external and internal fraud, other non-technological events in WiZink Bank, such as conduct risk. It does not include strategic risk or the risk of loss wholly caused by authorized judgments in relation to borrowing, market, liquidity or insurance risks.

3.4.1 Management strategies and processes

The Operational Risk Management Policy (ORM Policy) and Manager's Control Assessment (MCA) Standards represent the policy and standards that currently govern WiZink Bank's internal control environment. This policy is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework, and with Sarbanes-Oxley (SOX) sections 302 and 404. The aim of the Operational Risk Management Policy is to establish a management framework for assessing and reporting on operational risk and the overall effectiveness of the internal control environment through organizational consistency to ensure that operational risk is managed adequately in compliance with the Basel requirements.

The policy is based on the MCA program, which continuously evaluates the effectiveness of the organization's internal control environment against the Basel requirements.

The Operational Risk Management Framework is based on a governance structure that underpins the main operational risk management activities: anticipation, identification, mitigation and recovery. Operational risk is managed in the organization through a model of three lines of defense, in line with the bank's internal control governance structure. The Risk Control department oversees the Management Framework from the second line of defense.

3.4.2 Structure and organization the Risk Control function

The Risk Control department is led by the Chief Risk Officer (CRO), who plays a key role in defining the risk appetite, as well as in actively monitoring the bank's risk profile.

The prime mission of the Risk Control team is to support the different business areas in implementing a robust risk management culture, in addition to the following tasks:

- Identifying, anticipating and mitigating the risks that could affect business goals, and minimizing operational risk events and losses, in line with the regulatory requirements of the Basel Committee. This includes controlling all of the types of risk to which the institution is or may be exposed, both of a financial nature (credit, market, liquidity, interest rate, exchange rate, etc.) and non-financial risks (operational, reputational, strategic or business, etc.).
- Providing a comprehensive vision of our institution's risk exposure, its management and control environment, with responsibility for developing and implementing the risk appetite framework.
- Ensuring that the three lines of defense are set up properly in WiZink Bank as organizational structure for risk management and internal control.
- Advising on the design of the internal control environment and on implementing policies and procedures to mitigate operational risks.
- Anticipating the identification of the most important existing and emerging risks and proposing the corrective actions need to mitigate those risks.
- Monitoring the effectiveness of the existing corrective actions in addressing the problems and weaknesses that are identified.
- Identifying, anticipating, measuring, mitigating and reporting on operational risk exposure. These tasks are performed drawing on the information received from the relevant committees.
- Properly managing the operational risk management framework, ensuring implementation and coordination of a robust program for management controls assessment (MCA) in all areas of the bank, as well as effective management of operational losses in order to meet the minimum requirements stipulated by the Bank of Spain for calculating operational risk capital charges.
- Ensuring that risk control governance is managed adequately, attending and giving monthly presentations of the key information to the Audit and Risk Committee, as well as leading the monthly BRCC committee meeting where the Management Committee

is informed on the state of the entity's control environment and of the most significant control and compliance weaknesses.

3.4.3 Scope and nature of reporting and measurement systems

The MCA program is a key element for the operational effectiveness of the operational risk management framework. MCA is an internal assessment tool designed to help management prevent or detect operational control problems, identify and properly mitigate emerging risks and implement corrective actions that resolve or mitigate the potential impact on the business objectives and operational losses.

Managers identify the Key Risk Control Indicators (KRCIs) and set a threshold or limit for each operational risk that is identified. Breach of a limit triggers an alert to the different business areas of the possible existence of a significant potential change in risk exposure and puts a planned series of actions into play. Indicators must be pertinent, measurable, anticipatory, transparent, timely, exact and comparable (between risks, products and areas). The levels for each key operational risk and the status of its control indicator are reviewed quarterly by senior management.

The control weaknesses that are identified in each area are compiled in a list of issues. If weaknesses or gaps are identified in the implementation or execution of key controls, the head of the business area must, first of all, state these conclusions in the relevant section of the MCA, determine what changes are needed and the monitoring/ testing methods and tools that should support them and, finally, create a new issue for the weakness identified, relating it to its associated operational risk. Once a month, Risk Control coordinates a review and update of the list of issues and the state of the corresponding corrective action plans (CAPs), showing their evolution and current status.

In October 2016 a Governance, Risk and Compliance (GRC) tool was implemented to give comprehensive support not only to the risk control function, but also to the regulatory compliance and internal audit functions. This tool is called ACCELUS, from Thomson Reuters, and has strengthened management, monitoring and reporting of operational risk at entity level.

3.4.4 Risk hedging and mitigation policies

The policy for mitigating and preventing operational risk in the bank is based on the contingency and continuity plans drawn up by the Department of Information Security and COB, which allow the entity to stave off possible future problems that could in any way threaten its business continuity. Specifically, the contingency plans set out the actions to be implemented if for any reason the building in which WiZink Bank is currently headquartered ceases to be operative. This plan specifies the number of jobs that would require working locally and if so, with what time urgency. Once the contingency plan has been charted, a supplier who can offer a building prepared for this circumstance is engaged.

The objective of the WiZink Bank continuity plan, in turn, is to ensure that failure or non-performance by any of WiZink Bank's suppliers has the least possible impact on its daily operations. According to

the plan, in each case, for a given activity, various vendors are contracted, where possible, in order to reduce risk exposure. Where only one supplier can be contracted for a given service, it is required to have its own continuity plans.

3.5 Balance sheet structural interest rate risk

Balance sheet structural interest rate risk refers to the possibility of suffering losses due to the potential impact of changes in interest rates on the bank's profits or its net assets.

3.5.1 Management strategies and processes

The governing principle for interest rate risk control in WiZink Bank is based on measuring and managing this risk category, seeking to ensure a stable and growing net interest income and equity value that are compatible and coherent with the bank's business model, at all times taking into consideration variations in market interest rate levels and in the slope of the rate curve. The main source of interest rate risk for the bank arises from timing mismatches between maturities and repricing of the different balance sheet captions.

3.5.2 Interest rate risk structure and organization

Interest rate risk, exchange rate risk, liquidity risk and market risk are managed by the treasury function, which forms part of the financial department. The main functions of the treasury area are monitoring and managing those risks.

The Assets and Liabilities Committee (ALCO) also plays a pivotal role in managing this risk. This is the committee that oversees and gives final approval for all market and liquidity risks and for optimizing the balance sheet, assessing capital management and for supervising legal and regulatory restrictions on the business and the different legal vehicles.

The different business areas, in turn, are charged with identifying the possible risks in their area of action and measuring and reporting them properly. The bank also has a risk control and monitoring structure that allows it to oversee and control risks independently of the treasury function.

3.5.3 Scope and nature of reporting and measurement systems

WiZink has set up its own measurement and control systems based on regulatory recommendations and on the best practices in the market. The tools and systems used are described in detail each year as part of the bank's Internal Liquidity Adequacy Assessment Process (ILAAP).

3.5.4 Risk hedging and mitigation policies

WiZink Bank manages interest rate risk through its Treasury department and the ALCO.

During 2016, WiZink drew up liquidity and interest rate management policies and defined additional risk hedging and mitigation procedures. Toward this end, WiZink has approved the following internal policies:

- Risk Appetite Framework (RAF): Development of policies and procedures for approving, monitoring and controlling the bank's risk appetite. This includes two components:
 - o Declaration of appetite and tolerance.
 - o Control and monitoring mechanisms.
- IRRBB (Risk Appetite Framework): This defines the bank's criteria for managing its interest rate risk in the banking book. This policy seeks to define the principles, concepts, governance, high-level procedures and systems and tools that make up the risk function in order to ensure efficient management of IRRBB in WiZink.
- ALM (Assets and Liabilities Management policy): This policy defines the criteria for the WiZink Bank assets and liabilities management function. Its core goal is to define the principles, governance, functions, related procedures, tools and systems that articulate the Treasury/ALM function, in order to achieve efficient structural risks management in WiZink Bank. ALM policy mainly focuses on liquidity risk and interest rate risk in the banking book.
- Liquidity Risk Policy: This policy defines WiZink Bank's liquidity risk management criteria (including intraday liquidity risk). This policy seeks to define the principles, concepts, governance, high-level procedures and systems and tools that make up the risk function in order to ensure efficient management of WiZink's liquidity risk.

The content of these policies is aligned with the risk strategy and appetite, as well as with regulatory provisions and best market practices.

3.6 Liquidity Risk

Liquidity risk, in general terms, refers to the possibility of incurring losses because there is not sufficient cash available to meet payment obligations as they fall due.

The bank has a suite of tools and metrics to monitor liquidity risk. The main tool is the Market Access Report (MAR). The existing systems are used to monitor this risk. These management reports show the daily position and gaps or mismatches of contractual and non-contractual lending and deposit-taking and savings products in a base-line scenario and in a stressed scenario (Scenario 2), divided into different maturities, from O/N (overnight) to more than 2 years. Apart from monitoring positions and gaps, a list of liquidity ratios are collected to give an overview of the bank's overall liquidity situation. The information gathered daily in the reports generated by MAR is summarized monthly and the conclusions are presented to the ALCO committee, which decides whether measures have to be taken when the bank is operating outside the limits it has charted.

The internal organization of the liquidity risk function is the same as for market risk, exchange rate risk and interest rate risk.

During 2016, WiZink approved its internal policy for liquidity risk mentioned in the previous section. It also carried out its Internal Liquidity Adequacy Assessment Process (ILAAP), which details all fundamental aspects of liquidity risk management.

3.7 Other Risks

3.7.1 Business and Strategic Risk

This refers to the risk of the entity seeing its capacity to attain its objectives negatively affected as a result of incorrect decisions, erroneous application of decisions or failure to respond to changes in the industry or environment, with a consequent reduction of its revenues or capital.

The main differentiating factors in WiZink Bank's business strategy rest on several pillars: for one, on an independent business focused on profitability and a disciplined view of risk management and subscriptions, on a direct and online sales distribution model, and successful and efficient delinquent account collections and operations functions; and secondly, on being highly oriented towards customer and portfolio management, based in turn, on a mature analytical discipline.

The new WiZink Bank is aware of the emerging importance of strategic or business risk, and of the bank's exposure to that risk. It has therefore implemented a suite of control principles and procedures that can effectively mitigate the impact of potential materialization of such risk events.

Furthermore, WiZink Bank has charted its Plan 2017, approved by the Board of Directors on 1 February 2017. That plan outlines the main initiatives to be carried out to generate business with the aim of developing new customers and improving efficiency in the existing customer base. Those initiatives are detailed in the plan.

The initiatives focused on achieving strategic goals during 2017 are complimentary and they are integrated in the bank's currently ongoing transformation. They also take into account the funding plan that has been developed to ensure consistency and the capacity to follow through on those initiatives. Given that WiZink Bank's primary revenue source comes from the credit it extends, it will continue to promote and invest in acquisition of new customers and the controlled expansion of its lending through its strongest distribution channels.

In 2017 the institution will intensify its work on more robust management of its portfolios with a strong customer focus. That management approach pivots on a set of action plans aimed at maximizing the efficiency of the portfolio and boosting profits.

The strategy and initiatives planned for 2017 are aligned with the ongoing transformation of WiZink Bank.

Business and strategic risk is considered a material risk for the bank and is included in the risk appetite framework approved by the Board of Directors of WiZink Bank, S.A.

3.7.2 Reputational Risk

Reputational risk refers to the possibility of losing customers, a fall in revenues or court cases arising against the bank that can lead to weakening its prestige, project a poor image or generate negative publicity for the institution and its business practices amongst stakeholders.

This type of risk is the one that requires mostly qualitative management and its measurement is the most difficult one to quantify. The satisfaction of the bank's customers is the supreme test of this risk and WiZink Bank therefore works to ensure that its products and sales practices are appropriate. All products offered to customers have to be scrutinized and approved before being launched. Exhaustive controls are conducted of sales practices, customer complaints and any formal complaints from regulators. That information is carefully analyzed and dealt with by the different committees involved to ensure that customers are adequately protected. Below is a list of the main committees that work on controlling and managing reputational risk:

- Internal Control Office (ICO) for anti-money laundering related issues.
- The Operational Losses Committee analyzes cases that have involved an operational loss and, if appropriate, proposes corrective actions to avoid similar events in the future.
- The Regulatory Projects Committee serves to ensure proper adaptation to regulatory developments.

The above committees escalate incidents that are detected to the bank's Business Risk Control Committee and Compliance Committee (BRCC), which performs specific analyses of trends in claims, requests and instructions from regulators and supervisors, and follows up on court rulings to protect the institution's reputation.

3.7.3 Conduct Risk

Conduct risk is the risk of suffering material losses in an entity as a result of inadequate provision of financial services (including cases of willful misconduct) to its customers. This risk considers lawsuits brought by customers, improper sales practice or incorrect handling of claims and complaints.

The entity has assessed the materiality of this risk and made decisions accordingly, at the prompting of the senior management, in order to provide ever sounder control systems, include conduct risk in the corporate risk management framework and align it with the bank's appetite risk, and to ensure that staff have the appropriate knowhow and skills, together with sound professional judgement to guarantee customers do not take on undesired risks.

3.8 Global systemic risk

WiZink Bank is not considered an institution of global system importance within the meaning of article 131 of CRD IV.

3.9 Adequacy of risk management arrangements for the institution's profile and strategy

The Board of Directors of WiZink Bank, as highest body responsible for monitoring and supervising the bank's risks, is responsible for approving the annual Internal Capital Adequacy Assessment Report. That report gives an assessment of:

- The material risks to which the bank is exposed
- The allocation of economic capital required for each type of material risk
- Governance, management and risk control systems
- Capital target
- Capital planning in baseline and adverse scenarios
- Program of improvement actions

The assessment is followed by a declaration that the governance, management and control systems at the individual and overall risk level are adequate and appropriate for the institution's actual situation.

3.10 Description of the risk profile associated with the corporate strategy

The Risk Appetite Framework approved by the Board of Directors includes an assessment of the bank's risk profile.

The WiZink Bank risk profile is classified as medium-low level risk and stable for most of its risks. A medium-low risk profile means the risk of the institution facing future difficulties is low, as a result of a low level of inherent risk, sound internal and corporate governance and internal control and management systems that are adequate for the activities carried on. This assessment reflects the integration currently being pursued in the bank.

4 CORPORATE GOVERNANCE

4.1 Executives who hold positions on the Board of Directors

At present, the WiZink Bank General Manager does not hold a seat on the Board of Directors, although he does attend and take part in the meetings.

4.2 Selection policy for management and their expertise, skills and experience

The approach to selecting members of the Board of Directors seeks to ensure the adequacy of the key members as provided in Law 10/2014 of 26 June 2014 and implemented in Royal Decree 84/2015 of 13 February 2015 so that the suitability of the persons who effectively direct the business of the institution is guaranteed.

In particular, the main traits considered in selecting individuals for key positions are their demonstrated integrity, professional background in demanding positions, deep industry knowledge and past successes, along with planning and management skills, the ability to adapt and strategic vision.

The Board of Directors and the Remuneration and Appointments Committee are charged with initial evaluation and continuous monitoring of the suitability of people in key positions in WiZink Bank, with the support of the structure and organization of the HR Department, as a specialized unit equipped with specific capacities for selecting personnel and examining professional backgrounds.

4.3 Diversity policy as regards the selection of members of the management body, its objectives and the targets set out in that policy, and level of achievement of those objectives and targets

WiZink Bank is a company committed to diversity as a means of generating value in its human resources.

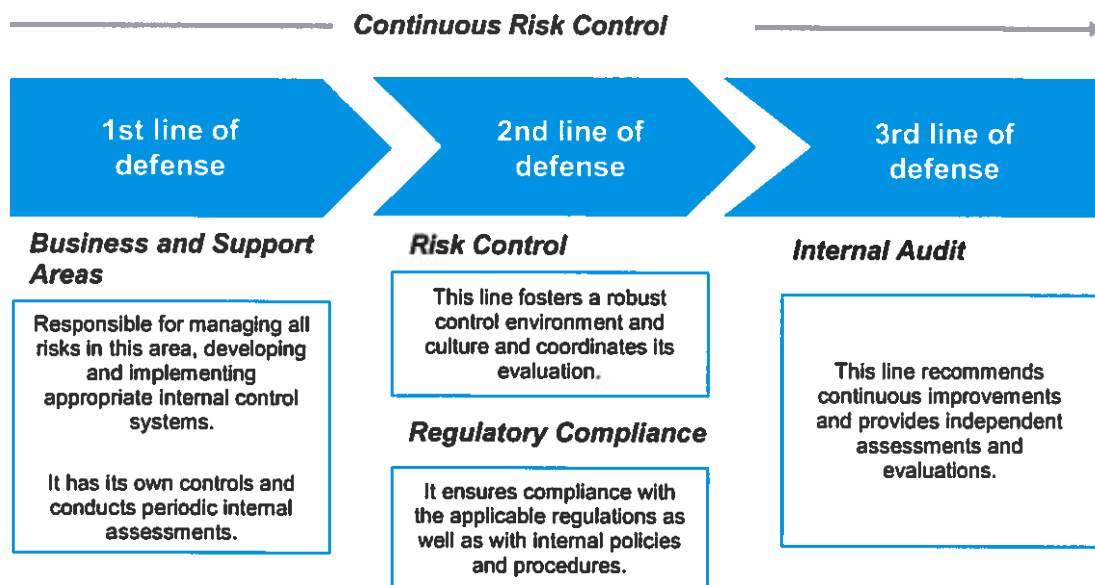
As at 31 December, women represented 31% of the bank's management team, which is considered a significant percentage but which can be increased as recruitment opportunities arise.

The company also strives to ensure equal pay in salary and variable remuneration. As at the reference date, of the employees reporting directly to the senior management, women receive an average of 7.2% more total compensation than the men in that group, so this objective is also considered to have been met.

4.4 Flow of risk information to the management body

In addition to being aligned with the company's strategy, the risk management system is actively supported and promoted by the Board of Directors and senior management to ensure its effectiveness.

The bank has a solid information system to support effective monitoring and delivery of information. The system is based on the "3 lines of defense" featuring a sufficient level of separation and independence so that the efficacy of the general model is not compromised. The three lines of defense operate in coordination to maximize their efficiency and optimize the system's performance.



Above the three lines of defense, the Board of Directors and its executive committees are responsible for proper management and control of risks at the highest level of the organization.

The board of directors is responsible for approving the bank's general policies and strategies, in particular the overall risk policy. There are two Board committees that specifically address risks.

According to the new rules on Board committees introduced by Law 10/2014 of 26 June 2014 on regulation, supervision and solvency of credit institutions, the Board formally set up an Appointments and Remuneration Committee and an Audit and Risk Committee:

Appointments and Remuneration Committee	
Description of functions	<ul style="list-style-type: none"> - Policies on granting remuneration, benefits, incentives and salaries - Appointment of directors and section of senior managers - Human resources and training policies.
Frequency	Bi-monthly.
Members	<u>Directors:</u> Rick John Noel; Jorge de Velasco <u>Secretary:</u> Francisco Javier Lleó
Invitees	General Manager Head of HR
Required by law	✓
Manager	HR Director
Audit and Risk Committee	
Description of functions	<ul style="list-style-type: none"> - Annual Financial Statements and Reports - Internal Control and Risk Management - Internal audit, external audit, Chief Risk Officer (CRO) selection and management - Current and future risk appetite
Frequency	Monthly
Members	Chair: Geeta Gopalan Directors: Krzysztof Drozd; Maria Villanueva Basarte Secretary: Francisco Javier Lleó
Invitees	General Manager CRO Chief Credit Officer Chief Financial Officer Head of legal and regulatory compliance department Head of internal audit
Required by law	✓
Manager	Audit and Risk: Chief Risk Officer

There follows a description of the "Management Meetings", which include the weekly staff management meetings and other business and strategy meetings. There are also "Internal Reviews and Working Sessions" that include the rest of the periodic meetings that allow the company to analyze and oversee diverse processes such as sales, operating and technology indicators, human resources reviews, credit risk indicators, etc. *

Characteristics of the Management Meetings




Management meetings/Working session	Scope	Frequency	Members
Staff meeting	Coordinating meeting Progress report on and discussion of top priorities	Weekly	Chair: General Manager Members: Management Team
Strategic reviews	Discuss progress of strategic initiatives and potential actions/impact on business model. Review of key issues and controls	Monthly	Chair: General Manager Members: Strategic leadership of the Group, Ad hoc invitees
Management meetings	Full review of business performance indicators Set levels of business priorities and monitor key advances in strategic actions Review of key issues and controls	Monthly	Chair: General Manager Members: Directors (Rick Noel, Jorge de Velasco, Elena Lieskovska, Krzysztof Drozd), Alejandro Herraiz, Alvaro Jimenez, CFO, Commercial Manager, Rest of Management Team and other ad hoc invitees
Internal Reviews and Working Sessions	Commercial review (includes NPV, liabilities and business insurance review) Operations Review/Service Committee Technology Review Review of Credit Risks (including PQR) HR/Organization Review Review of Operational Losses ...	Biweekly/ Monthly/ Quarterly	Management Team and/or representatives of Management Team

In order to ensure adequate follow-up and governance of specific projects relating to regulatory changes or strategic decisions, the following "Steering Committees of Strategic & Regulatory Projects" hold meetings:


Characteristics of Steering Committees of Strategic & Regulatory Projects

Committees	Description of functions	Frequency	Members
Ruby Integration Steering Committee	Review status, progress reports and key issues regarding Ruby Integration project (Barclaycard)	Monthly	Chair: Integration PMO Members: Group Strategic Leadership, Ruby Integration Project Heads
IFRS9	Review status, progress reports and key issues regarding IFRS9	Monthly	Chair: Head of Project IFRS9 Project (TBD) Members: Management Team + Ad hoc invitees
Regulatory Projects	Review status, progress reports and key issues regarding WiZink regulatory projects (including New Data Protection Regulation - GDPR, COMPLY for PSD2) Specific section of the Portugal Regulatory project for country-specific changes	Monthly	Chair: Processes and Continuous Improvement Manager (O&T) Members: Representatives of the Group Strategic Leadership areas


Lastly, but no less importantly, the "Management Committees" enable the company to comply with regulatory governance requirements; the ALCO, OCIC and Product Governance Committee are required by regulation. The BRCC, Credit Risk and Compensation Committees are also included in this category as they compile issues that potentially arise in other internal reviews and working session groups and act as decision-making bodies.

Credit Risk Committee	
Description of functions	Monitoring application of policies and procedures relating to credit origination
Frequency	Monthly
Attendees	Chair: Head of Credit Risk Members: Strategic leadership of the bank and credit risk team
Required by law	
Manager	Office of General Manager
Assets and Liabilities Committee (ALCO)	
Description	Management of all activities relating to balance sheet
Frequency	Monthly
Attendees	Chair: Treasurer Members: Management Team, Controller, Treasury -
Required by law	
Manager	Finance
Compensation Committee	
Description	<ul style="list-style-type: none"> - Defining and approving estimated salary budget for the next year (fixed + bonus). - Approving employee salaries for the next year (fixed + bonus) based on employee performance and harmonization exercises.
Frequency	Every four months
Attendees	Chair: Head of Human Resources Members: Management Team, HR Compensation Team.
Required by law	
Manager	HR

Business Risk Control and Compliance Committee (BRCC)


Description	Review actions taken to control incidents and evaluate the general effectiveness of the controls designed to mitigate operational risk by the main governing bodies.
Frequency	Monthly
Attendees	Chair: CRO Members: Internal Audit. Group Strategic Leadership Control Team
Required by law	
Manager	Risk Control

Internal Control Office (OCIC)

Description	Monitoring the application of AML procedures and procedures
Frequency	Bimonthly
Attendees	Chair: Legal and Regulatory Compliance Members: Management Team Compliance – AML Team
Required by law	
Manager	Legal & Regulatory Compliance

Products Committee

Description	Approving and reviewing new products and services and monitoring changes to existing products.
Frequency	Bimonthly

Attendees	Chair: Head of Marketing
	Members: Commercial Team CRO Treasurer CRO Chief Financial Officer Legal and Regulatory Compliance Portugal Country Head Operations & Technology
Required by law	
Manager	Marketing

The risk management model features an internal control environment that ensures comprehensive overview and adequate control of all risks. Those controls are run in all areas of WiZink Bank for each type of risk, thereby ensuring that the overall risk profile and risk exposures are consistent with the mandates received from the Board of Directors and from regulators.

The main functions that guarantee effective risk control are:

- Aggregate review and consolidation of all risks. Risk control reviews all risks with the aim of raising questions or challenges independently of risk management and control mechanisms, with the results of its analysis serving as input for decision-making by top management. It does this by drawing on a series of reports that provide an aggregate assessment of all material risks (management of the risk appetite framework).
- Evaluation of internal control mechanisms. This consists of systematic periodic review of all processes involved in risk control in order to ensure their effectiveness, continued validity and application (MCA management).
- Supervision by the compliance function that the institution operates in accordance with the applicable legal framework, internal rules and the requirements of regulators and supervisors.
- The evaluation by internal audit, as third line of defense, affords an independent review of the first two lines of defense, ensuring that the policies, methods and procedures are adequate and are integrated into management. Internal audit operates is independent of any other function and works to provide certainty on these matters to the Board of Directors and to senior management, thus contributing to the protection of the organization and its reputation.

Lastly, the governance system is rounded out by the WiZink Bank risk appetite framework, which provides an integrated overview of the analysis of all risks to which the bank may be exposed. The risk appetite is managed by means of a continuous process built around the following specific milestones:

- Quarterly tests of the metrics of each risk by each manager; analysis and presentation of results and proposed corrective actions (as necessary) to the General Management, to the Audit and Risk Committee, and to the Board of Directors.
- On a yearly basis, an annual monitoring report on the risk profile is prepared, along with a review of the risk appetite. Both are prepared by the respective managers involved and are reviewed with the General Management and with Audit and Risk Committee prior to being submitted to the Board of Directors for approval.

5 INFORMATION ON OWN FUNDS

The information presented in this section complies with the disclosure obligations of article 437 of part eight of the CRR, and with the other European Union rules in force:

- ITS on Disclosure for Own Funds by institutions under article 437(2) and 492(5) of Regulation (EU) 575/2013 (CRR).
- Commission Implementing Regulation No (EU) 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to the CRR.

5.1 Reconciliation of accounting capital and regulatory capital

The following table shows the reconciliation of accounting capital and regulatory capital:

ELIGIBLE COMPONENTS (thousand €)	
Capital	147,862
Share premium	685,022
Reserves	192,895
Profit or loss for the period	46,854
Other accumulated overall total	-892
(-)Dividends and remunerations	-
Total Own Funds in Public Balance Sheet	1,071,741
(-)Goodwill	-193,583
(-)Other intangible assets	-355,510
TIER 1	522,648
Generic funds and overprovisions	32,214
TOTAL REGULATORY CAPITAL	554,862

Table 1: Reconciliation of components of capital

* The audited income statement for 2016 records a profit of €97,451 thousand; however, at 13.02.2017, date on which the statements of solvency at 31.12.2016 were sent, the 2016 financial statements were in the process of being audited. Accordingly, the profit for the second half of the year of €50,597 thousand was computed as capital in the next submission of those statements, referenced to 31.03.2017, after the 2016 audit opinion had been issued and minus the dividend payout proposed by the Board of Directors.

5.2 Description of main features, terms and conditions of capital instruments

CET1 includes all common equity tier 1 capital items, after applying prudential filters, making the CET1 deductions and applying exemptions subject to the limits set out in the CRR. The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. Those timetables have been written into Spanish regulations via Bank of Spain Circular 2/2014. There follows a description of the bank's CET1 components:

- Capital: includes the full amount of capital subscribed and paid in by the WiZink Bank, S.A. shareholders. At 31 December 2016, share capital stock consisted of 147,862

thousand shares, each with a par value of €1.00, fully subscribed and paid in. The bank's shares are not publicly traded.

- **Share premium:** the share issue premium arises in capital increases and is calculated as the product of the number of shares issued in the increase by the difference between the issue price and the par value of each share. This issue premium may be used, as provided by company law, to increase capital and is subject to no restrictions on its distribution. At 31 December 2016, the overall share premium amounted to €685,022 thousand.
- **Reserves:** this includes the net amount of cumulative earnings from previous years that, in the distribution of profits, are allocated to strengthening the balance sheet, along with permanent adjustments and issue expenses of capital instruments. The laws applicable to Spanish public limited companies (*sociedades anónimas*) provide that companies that make a profit must set aside 10% of that profit to the "legal reserve", until it reaches 20% of capital. The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it may be used only to offset losses, provided sufficient other reserves are not available for that purpose. Spanish company law also requires entities to set aside restricted reserves for transactions involving treasury shares or the shares of their parent company, in amounts equal to the respective carrying amounts of treasury shares or assets (loans for the acquisition of, or secured by, the shares). These reserves are restricted until the circumstances giving rise to their recognition cease to exist. As at 31 December 2016, the figure for reserves and other reserves amounted to €192,895 thousand.
- **Retained earnings:** this records the net profit for the year of €97,451 thousand.
- **Other equity instruments:** this records the equity component of hybrid financial instruments having the nature of equity, equity increases for employee remuneration and other equity-type items not classified under other equity items. The institution does not trade in other equity instruments and thus had none on its books at year-end 2016.
- **Own securities:** this includes the amount of all own equity instruments held by the bank. The bank has not traded with treasury stock and thus held no own shares at year-end 2016.
- **Deductions** are composed of the part that corresponds to goodwill and other intangible assets recognized in the balance sheet. As a result of the acquisition of Citibank Spain's business in 2014, some €182 million of intangible assets with a finite useful life were identified, mainly associated with the credit card customers acquired, together with goodwill of €167 million at 31 December 2014. In 2015, pursuant to the terms of the Citibank España, S.A. purchase agreement, the bank paid an additional earn-out of €5 million, bringing the goodwill in the acquisition up to €172 million, which is being written off on a straight-line basis over 10 years following the acquisition date.

A total of €138.5 million of intangible assets with a finite useful life were acquired through the purchase of the credit card businesses in Spain and Portugal of Barclays Bank Plc, part of which has been amortized at 31 December 2016. The future economic benefits not identifiable separately or individually stemming from these businesses, that is, goodwill, amounted to €54.1 million, or €53.5 million at 31 December 2016 after deducting the applicable amortization charge calculated on a straight-line basis over 10 years.

An estimated €20.4 million of other intangible assets with a finite useful life were acquired through the purchase of the credit and debit card businesses of Banco Popular Portugal (BAPOP) completed on 1 December 2016, with goodwill totaling €6.92 million, or €6.86 million at 31 December 2016, after applicable deducting the amortization charge calculated on a straight-line basis over 10 years.

Tier 1 Capital includes CET1 Capital plus Additional Tier 1 Capital (hereinafter, "AT1"). AT1 is composed of issues of qualifying hybrid instruments net of the AT1 deductions. At 31 December 2016, WiZink Bank had no AT1, as it issues no such instruments. As a result, the CET1 and Tier 1 Capital figures match.

Tier 2 capital is characterized by a lower degree of permanence and stability than Tier 1 capital. At year-end 2016, the bank had issued no Tier 2 equity instruments and the whole of this capital consisted of the general reserve for credit risk, within the stipulated regulatory limits.

5.3 Information on own funds at 31 December 2016

The following table summarizes the main items included for solvency purposes in WiZink Bank eligible own funds, both Tier 1 ordinary and additional and Tier 2, according to the criteria set out in the second part of the CRR (in thousand euros):

COMMON EQUITY TIER 1 CAPITAL	
Equity instruments that qualify as CET1	832,884
Retained earnings	239,767
Other reserves	-910
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	1,071,741
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	
(-) Goodwill	-193,583
(-) Other intangible assets	-355,510
(-) Total Common Equity Tier 1 (CET 1) capital regulatory adjustments	-549,093
Common Equity Tier 1 capital	522,648
Additional Tier 1 (AT1) capital: instruments	
Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 (AT1) capital: regulatory adjustments	
Additional Tier 1 (AT1) capital	-
Tier 1 capital (T1= CET1 + AT1)	522,648
Tier 2 (T2) capital: instruments and provisions	
Credit risk adjustments	32,214
Tier 2 (T2) capital before regulatory adjustments	32,214
Tier 2 (T2) capital: regulatory adjustments	
Tier 2 capital	32,214
Total capital (TC= T1 + T2)	554,862
Total risk weighed assets	3,544,717
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of total risk exposure)	14.74%

Tier 1 (as a percentage of total risk exposure)	14.74%
Total capital (as a percentage of total risk exposure)	15.65%
Common Equity Tier 1 available as buffers (as a percentage of total risk exposure)	10.24%
Amounts below the thresholds for deduction (before risk weighting)	
Deferred tax assets arising from temporary differences (amount below 10% threshold and net of related tax liabilities, provide conditions of article 38.2 are met)	10,918
Applicable caps on the inclusion of provisions in Tier 2	
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	60,184
Cap on inclusion of credit risk adjustments in T2 under standardized approach	32,214
Equity instruments subject to phase-out arrangements	
Does not apply	

Table 2: Information on Own Funds

6 CAPITAL REQUIREMENTS

6.1 Amount of own funds requirements by type of risk

Shown in the following table are WiZink Bank's capital requirements at 31 December 2016 by type of risk:

TYPE OF RISK	AMOUNT REQUIRED (000s €)
Credit risk	206,170
Market risk	-
Credit valuation adjustment risk	-
Operational risk	77,407

Table 3: Capital requirements by type of risk

6.1.1 Minimum own funds requirements for credit risk

WiZink Bank applies the standardized approach to calculate its capital requirements for credit risk. The amount is shown below, rounded to thousands of euros, and represents 8% of risk-weighted exposures. The requirement thus obtained is €206,170 thousand. The following table gives a breakdown of those requirements by exposure category.

EXPOSURE CATEGORY	AMOUNT (thousand euro)
Central administration or central banks	57,814
Regional administrations or local authorities	-
Public sector entities	-
Multilateral development banks	-
International organizations	-
Entities	63,652
Enterprises	12,523
Minority exposures	2,221,898
Exposures secured by real estate mortgages	-
Exposures in default	75,909
Entries associated with particularly high risks	-
Guaranteed bonds	-
Exposures to entities and companies with short-term credit rating	-
Units or shares in collective investment institutions	-
Equity exposures	21,949
Other	123,384
TOTAL RISK-WEIGHED EXPOSURE	2,577,128
CREDIT RISK CAPITAL REQUIREMENTS	206,170

Table 4: Capital requirements for credit risk. Standardized approach

6.1.2 Amount of own funds requirements for market risk

The bank does not have a trading book and is therefore not subject to capital requirements for this risk.

6.1.3 Amount of own funds requirements for operational risk

WiZink Bank applies the standardized approach to calculate its minimum own funds requirements for operational risk, having complied with the requisite formalities to request use of that approach. That approach involves determining capital requirements based on average relevant revenues for the last three financial (3) years (in this case, 2014, 2015 and 2016).

Relevant revenues are allocated to the business lines stipulated by the standards, and the relevant weighting factors are then applied, to determine the own fund requirements for this risk.

At 31 December 2016, the calculation described above yields operational risk own funds requirements of €77,407 thousand.

6.2 Internal Capital Adequacy Assessment Process

In the 2016 internal capital adequacy assessment the bank is using the guidelines published by the European Banking Authority (EBA) and addressing the points indicated in the letter sent by the Single Supervisory Mechanism to significant credit institutions regarding supervisory expectations for ICAAP and ILAAP.

The internal capital requirements for credit and operational risks have thus proven to be similar to those for the regulatory capital requirements, giving rise to internal capital requirements for interest rate risk in the banking book and business risk, for which the institution has more than sufficient capital.

6.3 Capital buffers

At 31 December 2016 the bank applies the capital buffer that it began phasing in in 2016.

7 INFORMATION ON CREDIT RISK

7.1 Accounting definitions of “past due” and “impaired”

The bank applies the accounting definitions of past-due and impaired positions employed by the Bank of Spain in Circular 4/2004, as subsequently amended, on public and reserved financial reporting standards and model financial statements. According to that Circular, the following definitions apply:

- Non-performing assets due to customer default (past-due). This includes the total amount of debt instruments, irrespective of holder and guarantee, that have amounts more than three months past due in respect of principal, interest or any other contractually covenanted charges, unless they are to be classified as write-offs, and contingent liabilities in which the debtor has defaulted.

This also includes the amounts of all transactions of a client when the balances classified as non-performing due to customer default exceed 20% of the amounts to be recovered. To test that percentage, the numerator will include cash balances past due on principal, interest or any past-due or impaired expenses on doubtful operations. The denominator will include all monetary risks pending collection, excluding interests not yet accrued. If this percentage exceeds 20%, both the monetary and contingent risks with the customer are transferred to non-performing, except for non-financial guarantees.

- Impaired assets includes those debt instruments, as well as contingent liabilities and commitments, for which there is objective evidence of impairment. This basically refers to the existence of unpaid amounts, defaults, refinancing and information that points to the possibility that covenanted future flows may not be recovered, or in the case of equity instruments, of not recovering their full book value.

7.2 Description of approaches and methods adopted to determine general and specific credit risk adjustments.

The institution has applied the parameters established by the Bank of Spain based on its experience and information on the sector, which determine the method and amount to be used to cover inherent impairment losses incurred in debt instruments and contingent risks classified as standard risk. This method of determining the coverage of the inherent impairment losses incurred in debt instruments is carried out by applying specific percentages to debt instruments not measured at fair value through changes in the income statement and contingent risks classified as standard risk. The aforementioned percentages vary depending on the classification of those debt instruments under normal risk in the following subcategories:

- Negligible risk
- Standard

- Standard under special monitoring.

Recognition in the income statement of the accrual of interest based on the contractual terms is interrupted for all debt instruments individually classified as impaired and for those for which collective impairment losses have been calculated because there are amounts more than three months past due.

7.3 Total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of exposures over the period broken down into different exposure categories

The following table shows, broken down by exposure categories for the standardized approach, the amount of exposure to credit risk after applying valuation adjustments and impairment writedowns. In each case, the exposure to SMEs is specified³:

EXPOSURE CATEGORY	Original exposure (thousand €)	Of which SME	Valuation adjustments and provisions	Exposure net of valuation adjustments and provisions (thousand €)
Central administration or central banks	52,989	-	-	52,989
Regional administrations or local authorities	4	-	-	4
Public sector entities	156	-	-	156
Multilateral development banks	-	-	-	-
International organizations	-	-	-	-
Entities	645,470	-	-	645,470
Enterprises	14,210	-	-	14,210
Minority exposures	3,012,442	-	-	3,012,442
Exposures secured by real estate mortgages	-	-	-	-
Exposures in default	275,696	-	(203,912)	71,784
Entries associated with particularly high risks	-	-	-	-
Guaranteed bonds	-	-	-	-
Exposures to institutions and companies with short-term credit rating	-	-	-	-
Units or shares in collective investment institutions	-	-	-	-
Equity exposures	21,949	-	-	21,949
Other	124,677	-	-	124,677
TOTAL EXPOSURE	4,147,595	-	(203,912)	3,943,683

Table 5: Exposure to credit risk net of valuation adjustments and provisions

³ Equity exposures do not have maturities.

7.4 Geographical distribution of exposures

There follows a breakdown of the bank's loans and receivables per its financial statements at 31 December 2016 according to the business sector and geographical area⁴:

€ thousands		TOTAL*	SPAIN	REST EU	AMERICA	REST OF WORLD
	2016					
Central banks and credit institutions		72,089	71,986	-	-	103
Public authorities		117	68	-	49	-
Central government		4	4	-	-	-
Other		113	64	-	49	-
Other financial corporations and sole proprietorships (financial business activity)		276,969	276,966	3	-	-
Non-financial corps and sole proprietorships (non-fin. business activity) by purpose		406,538	402,895	3,344	120	179
Construction and property development, including land		150	150	-	-	-
Civil engineering		-	-	-	-	-
Other purposes		406,388	402,745	3,344	120	179
Large companies		10,366	10,032	166	38	130
SMEs and individual entrepreneurs		396,022	392,713	3,178	82	49
Other households (by purpose)		2,977,313	2,152,124	823,493	871	825
Housing		161	161	-	-	-
Consumer loans		2,974,516	2,149,331	823,492	870	823
Other purposes		2,637	2,632	1	1	3
Total		3,733,026	2,904,039	826,840	1,040	1,107

* Includes cash, cash balances at central banks and other demand deposits, loans and receivables, available-for-sale financial assets, investments in subsidiaries, joint ventures and associates, derivatives - hedge accounting and guarantees received.

Table 6: International geographical distribution of loans and receivable

The tables that follow show the same breakdown by region:

€ thousands		TOTAL	Andalusia	Aragon	Asturias	Balearic Is.	Canary Is.	Cantabria
	2016							
Central banks and credit institutions		71,986	1	-	-	-	-	-
Public authorities		68	1	-	-	-	-	-
Central government		4	-	-	-	-	-	-
Other		64	1	-	-	-	-	-
Other financial corporations and sole proprietorships (financial business activity)		276,966	112	8	8	16	25	3
Non-financial corps and sole proprietorships (non-fin. business activity) by purpose		402,895	66,713	9,157	7,702	11,370	17,812	4,337
Construction and property development, including land		149	49	1	3	10	13	-
Civil engineering		-	-	-	-	-	-	-
Other purposes		402,747	66,664	9,156	7,699	11,360	17,799	4,337
Large companies		10,034	731	69	125	228	135	219
SMEs and individual entrepreneurs		392,713	65,933	9,087	7,574	11,132	17,664	4,118
Other households (by purpose)		2,152,123	281,247	41,710	46,268	45,310	86,012	25,642
Housing		161	91	-	-	-	-	-
Consumer loans		2,149,330	281,058	41,684	46,240	45,297	86,004	25,638
Other purposes		2,632	98	26	28	13	8	4
Total		2,904,039	348,074	50,875	53,978	56,696	103,849	29,982

⁴ The tables in this section have been prepared using only the drawn balances.

€ thousands							
2016	Castile La Mancha	Castile León	Catalonia	Extremadura	Galicia	Madrid	Murcia
Central banks and credit institutions	-	-	-	-	-	71,985	-
Public authorities	-	-	58	-	2	6	-
Central government	-	-	-	-	-	4	-
Other	-	-	58	-	2	2	-
Other financial corporations and sole proprietorships (financial business activity)	24	72	181	1	110	276,274	61
Non-financial corps and sole proprietorships (non-fin. business activity) by purpose	15,203	19,660	75,581	6,586	27,947	73,743	8,435
Construction and property development, including land	6	1	9	-	6	29	5
Civil engineering	-	-	-	-	-	-	-
Other purposes	15,197	19,659	75,572	6,586	27,941	73,714	8,430
Large companies	85	107	1,244	7	669	5,444	114
SMEs and individual entrepreneurs	15,112	19,552	74,328	6,579	27,272	68,270	8,316
Other households (by purpose)	61,412	77,122	307,324	26,094	117,062	743,524	54,974
Housing	70	-	-	-	-	-	-
Consumer loans	61,316	77,056	307,190	26,084	117,006	741,544	54,958
Other purposes	26	66	134	10	56	1,980	16
Total	76,639	96,854	383,144	32,681	145,121	1,165,532	63,470

€ thousands					
2016	Navarra	Aut. Community of Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit institutions	-	-	-	-	-
Public authorities	-	1	-	-	-
Central government	-	-	-	-	-
Other	-	1	-	-	-
Other financial corporations and sole proprietorships (financial business activity)	6	45	18	1	1
Non-financial corps and sole proprietorships (non-fin. business activity) by purpose	4,488	35,011	16,114	1,678	1,359
Construction and property development, including land	-	15	2	-	-
Civil engineering	-	-	-	-	-
Other purposes	4,488	34,996	16,112	1,678	1,359
Large companies	49	390	399	14	5
SMEs and individual entrepreneurs	4,439	34,606	15,713	1,664	1,354
Other households (by purpose)	15,741	154,931	52,165	7,682	7,903
Housing	-	-	-	-	-
Consumer loans	15,705	154,854	52,118	7,680	7,898
Other purposes	36	77	47	2	5
Total	20,235	189,988	68,297	9,361	9,263

Table 7: Geographical distribution of loans and receivables by region

7.5 Breakdown of exposures by residual maturity

Shown in the following table is a breakdown of exposures to credit risk by residual maturity for each significant time horizon (in thousands of euros):

RESIDUAL MATURITY BREAKDOWN			
Sector	Less than 1 year	More than 1 year	Undefined
Central administration or central banks	27,591	25,419	-
Regional administrations or local authorities	-	-	-
Public sector entities	-	156	-
Multilateral development banks	-	-	-
International organizations	-	-	-
Entities	314,471	336,329	-
Enterprises	11,715	2,496	-
Minority exposures	2,006,259	1,006,187	-
Exposures secured by real estate mortgages	-	-	-
Exposures in default	-	275,696	-
Entries associated with particularly high risks	-	-	-
Guaranteed bonds	-	-	-
Exposures to institutions and companies with short-term credit rating	-	-	-
Units or shares in collective investment institutions	-	-	-
Equity exposures	-	21,949	-
Other exposures	101,464	23,213	-
TOTAL	2,461,500	1,691,446	-

Table 8: Breakdown of exposures by residual maturity

7.6 Amount of impaired exposures and past-due exposures by industry

The following tables give for each sector the amount of impaired exposures and past-due exposures, separately, and the relevant adjustments for general and specific credit risk:

IMPAIRED EXPOSURES BY INDUSTRY (thousand €)				
Industry	Original exposure	Valuation adjustments		
		Total	Specific	General
Agriculture, cattle farming, hunting and forestry	132	109	109	-
Fishing	20	10	10	-
Extractive industries	20	20	20	-
Manufacture of food products, beverages and tobacco	68	60	60	-
Chemical industry	5	4	4	-
Glass, ceramics and building materials	22	18	18	-
Metallurgy and manufacture of metallic products	201	195	195	-
Manufacture of transport equipment	15	13	13	-
Other manufacturing industries	283	283	283	-
Supply and distribution of electricity and gas	10	10	10	-
Water supply	12	12	12	-
Construction (excluding property development)	743	689	689	-
Property development	13	12	12	-
Commerce and repairs	1,249	1,249	1,249	-
Transportation and warehousing	559	559	559	-
Catering	486	486	486	-
Information and communication	166	166	166	-
Real estate activities	139	139	139	-
Professional, scientific and technical activities	292	275	275	-
Administrative and auxiliary services	4,486	1,587	1,587	-
Education	68	50	50	-
Human health and social work	79	79	79	-
Arts, entertainments and recreation activities	99	79	79	-
Other services	186	186	186	-
Insurance	4	2	2	-
Other financial intermediation	33	25	25	-
Acquisition of main residence	-	-	-	-
Acquisition of other current assets and services	266,306	197,165	197,165	-
TOTAL	275,696	203,482	203,482	-

Table 9: Breakdown of impaired exposures by industry

PAST DUE EXPOSURES BY INDUSTRY (thousand €)				
Industry	Original exposure	Valuation adjustments		
		Total	Specific	General
Agriculture, cattle farming, hunting and forestry	132	109	109	-
Fishing	20	10	10	-
Extractive industries	20	20	20	-
Manufacture of food products, beverages and tobacco	68	60	60	-
Chemical industry	5	4	4	-
Glass, ceramics and building materials	22	18	18	-
Metallurgy and manufacture of metallic products	201	195	195	-
Manufacture of transport equipment	15	13	13	-
Other manufacturing industries	283	283	283	-
Supply and distribution of electricity and gas	10	10	10	-
Water supply	12	12	12	-
Construction (excluding property development)	743	689	689	-
Property development	13	12	12	-
Commerce and repairs	1,249	1,249	1,249	-
Transportation and warehousing	559	559	559	-
Catering	486	486	486	-
Information and communication	166	166	166	-
Real estate activities	139	139	139	-
Professional, scientific and technical activities	292	275	275	-
Administration and auxiliary services	4,486	1,587	1,587	-
Education	68	50	50	-
Human health and social work	79	79	79	-
Arts, entertainments and recreation activities	99	79	79	-
Other services	186	186	186	-
Insurance	4	2	2	-
Other financial intermediation	33	25	25	-
Acquisition of main residence	-	-	-	-
Acquisition of other current assets and services	210,288	163,307	163,307	-
TOTAL	219,678	169,624	169,624	-

Table 10: Breakdown of past-due exposures by industry

7.7 Amount of impaired exposures and of past-due exposures broken down by significant geographical areas

Shown in the following tables are the amounts of impaired exposures and of past-due exposures of the institution, broken down by geographical areas:

IMPAIRED EXPOSURES BY GEOGRAPHICAL AREA (thousand €)				
Area	Original exposures	Valuation adjustments		
		Total	Specific	General
Africa	187	67	67	-
Central America	125	28	28	-
South America	510	433	433	-
Asia	81	10	10	-
Middle East	18	6	6	-
Near East	12	4	4	-
Europe	274,762	202,934	202,934	-
Spain	150,897	108,496	108,496	-
TOTAL	275,696	203,482	203,482	-

Table 11: Amount of impaired exposures by geographical area

PAST-DUE EXPOSURES BY GEOGRAPHICAL AREA (thousand €)				
Area	Original exposures	Valuation adjustments		
		Total	Specific	General
Africa	187	67	67	-
Central America	125	28	28	-
South America	510	433	433	-
Asia	81	10	10	-
Middle East	18	6	6	-
Near East	12	4	4	-
Europe	218,744	169,076	169,076	-
Spain	94,879	74,638	74,638	-
TOTAL	219,677	169,624	169,624	-

Table 12: Amount of past-due exposures by geographical area

7.8 Reconciliation of changes in the specific and general credit risk adjustments for impaired exposures

Shown below is the movement recorded in 2015 and 2016 in the balance of impairment writedowns in the loans and receivables caption:

€ thousands	Specific provision	Generic provision	Country-risk provision	Total
Opening balance, 2015	94,828	22,032	304	117,164
Net provisions	29,929	15,060	16	45,005
Draw downs in current year	3,057	-	27	3,084
Applications	50,746	-	-	50,746
Other movements and transfers	(17)	2	-	(15)
Closing balance, 2015	70,937	37,094	293	108,324
Net provisions	82,644	(7,119)	162	75,687
Draw downs in current year	2,876	-	9	2,885
Applications	60,950	-	-	60,950
Other movements and transfers	113,283	30,209	-	143,492
Closing balance, 2016	203,038	60,184	446	263,668

Table 13: Changes to writedowns and provisions for the period

The information on the movement in impairment writedowns of assets (loans, available-for-sale portfolio and available-for-sale non-current assets) and impairment of contingent liabilities in 2016 is disclosed in the Notes to the institutions financial statements for that year.

7.9 Exposure to securitization

This information is required for institutions calculating risk weighted exposure amounts in accordance with part 3, title II, chapter 5, or own funds requirements in accordance with articles 337 or 338. The bank is therefore exempt from this obligation.

8 UNENCUMBERED ASSETS

According to European Banking Authority rules, encumbered assets are all those that have been provided or received as collateral in transactions to obtain liquidity and those assets associated with liabilities for non-financing related reasons.

In the guidelines issued by the EBA on 27 June 2014 (EBA/GL/2014/03) on disclosure of encumbered and unencumbered assets, and the related templates that must be completed, the following information on WiZink Bank is provided below in euros, referenced to 31 December 2016:

Carrying and fair value of encumbered and unencumbered assets:

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Carrying amount	Fair value	Carrying amount	Fair value
Equity instruments	-	-	3,316,800	3,316,800
Debt securities	-	-	258,706,077	258,706,077
Other assets	167,235,205		3,259,557,948	
Assets of the reporting institution	167,235,205		3,521,580,826	

Table 14: Encumbered and unencumbered assets

At the reference date, the bank has encumbered assets amounting to €167,235,205, determined as the proportion of the nominal value of the bonds pledged with the European Central Bank in the bank's credit facility for monetary policy operations.

- Given that at the reference date WiZink Bank has not received encumbered collateral and has not issued financial liabilities, there is no need for disclosure of the information required by the two additional reporting templates of the aforesaid EBA guidelines.

9 EQUITY EXPOSURES NOT RECORDED IN THE TRADING BOOK

9.1 Accounting policies and measurement methods for equity instruments

Note 14 (e), (f) and (h) in the Notes to the WiZink Bank annual financial statements expressly set out the accounting principles and standards and measurement methods applied for equity instruments and holdings, in accordance with the International Financial Reporting Standards approved by the European Union and in effect at 31 December 2016 ("IFRS-EU"), and taking into consideration the provisions of Bank of Spain Circular 4/2004 of 22 December 2004, as amended.

In accordance with the criteria established in those accounting rules, two kind of portfolio can be distinguished: portfolios that are available for sale and those held for strategic purposes. Specifically, available for sale financial assets include debt securities not classified as held to maturity, other financial assets at fair value through profit or loss, loans and receivables or trading portfolio and investments in subsidiaries, joint ventures and associates which have not been included in the categories of trading book, non-current assets for sale or other assets at fair value through profit or loss.

Financial assets are initially recorded, in general, at their acquisition cost, which barring evidence to the contrary will be the price of the transaction. They are subsequently measured at each accounting closing as follows:

- Financial assets are measured at fair value (usually their trading price) except for loans, the held to maturity portfolio, equity instruments for which the fair value cannot be determined in a sufficiently objective manner and financial derivatives that have such equity instruments as their underlying asset and are settled by delivery. When there is no market price for a particular financial asset, its fair value is estimated using the price established in recent transactions involving similar instruments and, in default thereof, using sufficiently tested measurement models (such as discounted cash flow, multiples, etc.). The specific features of the asset to be measured must be taken into account, most especially, the various kinds of risk associated with the financial asset.
- Loans and receivables and the investment portfolio held to maturity are measured at amortized cost, using the effective interest rate method for its determination. Amortized cost is the acquisition cost of a financial asset less any principal repayment and the portion allocated to the consolidated income statement, calculated using the effective interest method, of the difference between the initial cost and the related redemption value at maturity and minus any impairment writedown recognized directly in the asset or through a valuation adjustment account. In the case they are covered by fair value hedges, any changes that occur in their fair value relating to the risk or risks covered by the hedge are recognized.
- Equity holdings in other entities classified as available for sale assets the fair value of which cannot be determined in a sufficiently objective manner and the financial

derivatives that have those instruments as their underlying and are settled by delivery are carried at their acquisition cost adjusted for any impairment losses incurred.

- Investments in subsidiaries, joint ventures and associates are recorded at their, acquisition cost, adjusted where appropriate, for any impairment losses that have occurred.

9.2 Carrying and fair value of equity instruments and holdings not included in the trading book

The following table shows the amounts of equity holdings and other equity instruments not included in the trading book:

	Fair value (thousand €)	Carrying value (thousand €)
Available for sale financial assets	3,646	3,646
Debt securities	329	329
Equity instruments	3,317	3,317
Financial liabilities	18,633	18,633
TOTAL	22,279	22,279

Table 15: Equity instruments and holdings. Carrying and fair value.

The whole of the available for sale financial assets is composed of debt securities issued by residents (9%) and equity holdings in Spanish entities (91%).

9.3 Gains or losses recorded during the period on the sale or liquidation of equity instruments not included in the trading book

In the year of reference no gains or losses were generated from the sale of equity instruments and holdings by WiZink Bank recorded during 2016.

Gains of €8,734 thousand have arisen on financial assets and liabilities designated at fair value through profit or loss, including the profit generated by exercise of the put option that VISA Europe exercised over its shares vis-à-vis VISA Inc, which thus acquired 100% of VISA Europe. As a result of that transaction, VISA Europe received cash consideration, class C shares of VISA Inc and other deferred amounts. VISA Europe distributed this consideration to its shareholders based on their contribution to the business in the last three years. Servired and Aevis, as shareholders of Visa Europe, received their share of that consideration and then distributed it to their shareholders. WiZink, as shareholder of Servired and Aevis, thus received part of that extraordinary consideration.

9.4 All gains or losses recognized in equity

During the year, valuation adjustments of €138 thousand have been recorded in equity as at 31 December 2016 as a result of changes in the fair value of certain available for sale financial assets, net of tax effect.

10 EXPOSURE TO INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING BOOK

Structural interest rate risk is defined as the institution's exposure to changes in market interest rates as a result of the timing mismatch between maturities and depreciation of assets and liabilities on its balance sheet.

Monitoring and controlling interest rate risks requires analyzing the related maturities. This is done by dividing the bank's balance sheet into different buckets according to the timing of interest rate revisions, making it easier to pinpoint the institution's level of exposure to this risk.

Quantitatively, WiZink Bank uses two different metrics to calculate the impact that interest rate movements (for upward and downward variations of 200 basis points) could have on net interest income and on the economic value of equity (EVE). The following impacts were calculated at 31 December 2016:

	200 bp rise	200 bp drop
Change in net interest income to +200 or - 200 bp movement / Net interest Estimated	-5.62%	1.74%
Economic Value of Equity (EVE)	-1.11%	-0.10%

Table 16: Impact of variations in interest rates

11 Leverage Ratio

Part seven of Regulation 575/2013 lays down the rules for determining the leverage ratio of institutions, which is calculated as the institution's Tier 1 capital divided by the measure of exposure for purposes of that ratio, expressed as a percentage.

Tier I capital: the breakdown of the qualifying capital may be consulted in table 5 of this document, which has been calculated according to the CRR criteria.

Exposure: as provided in article 429 of the CRR, exposure is measured, in general terms, according to the carrying value, with the following considerations:

- Non-derivative exposures on the balance sheet are included net of provisions and of accounting valuation adjustments.
- The measure of the bank's total exposure is obtained by adding up the following items based on the regulatory balance sheet:
 - Positions on the balance sheet (excluding derivatives and repos, which are considered afterwards): the accounting balance of the assets per the financial statements is included, leaving out the aforesaid items.
 - Exposures in derivatives: there is included the exposure referred to the EAD used in measuring capital charges for counterparty risk, which includes both the exposure (net of offsets and guarantees) and the add-one adjustment for potential future risk.
 - Securities financial transactions (SFT): there is included the EAD adjusted for the value of the collateral and other haircuts as provided in article 220 of the CRR.
 - Off-balance sheet items: these are contingent risks and commitments primarily associated with guarantees and undrawn facilities. A floor of 10% is applied to the conversion factors (CCFs) in line with what is provided in Article 429(10)(a) of the CRR.
 - Tier I deductions: all asset amounts that have been deducted when determining Tier1 capital are deducted from the exposure in order to avoid redundant exposures. In this respect, the main deductions are intangible assets, tax loss carryforwards and others defined in article 36 of the CRR.
 - Equity investments in bank, financial, insurance and commercial entities not included within the scope of prudential consolidation (if applicable), as provided in article 429.4.

Based on the terms of article 499.3, during the transitional period running from 1 January 2014 to 31 March 2017 the institution will calculate the end-of-quarter leverage ratio and use the Tier 1 capital subject to adjustments for under the transitional provisions of Article 499.1.b) of the CRR.

At December 2016 the institution's fully loaded leverage ratio was 10.778%, far above the Basel Committee's minimum benchmark (3% of Tier 1 capital against total exposure).

Leverage Ratio Calculation	Amount (thousand €)
Tier 1 capital	522,648
Total Exposures	4,849,049
Leverage Ratio	10.778%

Table 17: Calculation of leverage ratio

Shown below are the total exposures and a reconciliation with the accounting information in the financial statements.

Leverage ratio exposure	
On-balance sheet items (excluding derivatives, SFTs, fiduciary assets, but including collateral)	4,388,224
(Asset amounts deducted in determining Tier 1 capital)	-549,038
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	3,839,186
Replacement cost associated with all derivatives transactions (i.e. net of admissible cash variation margin)	-
Add-on amount for potential future exposure (PFE) associated with all derivatives transactions (mark-to-market method)	-
Total derivatives exposures	-
Total SFT exposures	45,000
Off balance sheet exposures at gross notional amount	9,648,627
(Adjustments for conversion to credit equivalent amounts)	-8,683,764
Other off-balance sheet exposures	964,863
Leverage ratio exposure	4,849,049

Summary reconciliation of accounting assets and leverage ratio exposures		
Total Assets per published financial statement	4,433,224	
Adjustments for derivative financial instruments	-	Market value of derivatives plus the future potential risk
Adjustments for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	964,863	Off-balance sheet exposure, net of provisions once the CCFs for the exposure have been applied
Other adjustments	-549,038	Tier 1 Capital deductions plus actuarial results of defined contribution plans
Leverage ratio exposure	4,849,049	

12 REMUNERATION POLICY

12.1 Information on how remuneration policy is set in WiZink Bank

The current remuneration policy aims to align staff efforts with company performance and provides a competitive compensation package to attract employees and keep them committed to WiZink Bank, with a strong focus on ethical behavior and effectiveness.

Transparency and compliance with the law are the principles that inform all terms of that policy.

The WiZink Bank Appointments and Remuneration Committee at 31 December 2016 was composed of the following members:

Xavier Durand (Chairman)

Rick Noel

Luis Mohedano Gómez

Francisco Javier Lleó Fernández^[1]

The tasks of this committee are described in section 4.4, "Flow of risk information to the management body" under the "Corporate Governance" heading.

12.2 Information on linkage between remuneration and performance: main features of the remuneration system

At 31 December, 100% of employees were covered by variable compensation plans that peg their remuneration to individual, departmental and corporate performance. The most common formula involves measuring and paying the variable sums at the beginning of the following year. All of the variable remuneration plans tie accrual of this compensation to standards of quality and to strict fulfillment of internal rules.

For staff in central services, the variable remuneration consists of an amount based on a budget tied to the company's earnings and is approved by the finance area and the Board of Directors. That amount is distributed according to an objective formula that interrelates personal performance at employee level, fixed remuneration and evaluation of performance by the area manager.

As at the date this report is prepared, variable remuneration is the equivalent of 14% of fixed remuneration of employees. The Board of Directors has decided to increase the current maximum ratio between fixed and variable remuneration to 1:2.

^[1] The last of these members participates only in his capacity as committee secretary.

Staff with variable pay of more than €50,000 per year defers 50% of the amount over three years. Both deferred and cash payments are subject to retention or refund clauses in relation to actions that have entailed unauthorized risk for the company.

12.3 Disclosure of criteria for measuring the performance on which entitlement to shares, options or variable remuneration components is based

WiZink Bank's policy on discretionary variable remuneration (yearly bonus) is pegged to the company's performance as measured by comparing the business results obtained with the initially budgeted targets, as well as on achievement of the main objectives for business development initiatives and meeting the stipulated customer satisfaction thresholds.

The formula-based remuneration policy, in turn, involves incentive plans and is based on achievement of targets for revenue, number of card applications, cost control per account and on quality and control factors.

12.4 Determination of "Identified Staff"

"Identified Staff" consists of all persons whose work has significant implications for the institution's risk profile. At WiZink Bank, "Identified Staff" consists of the following positions:

- General Manager
- Director of Credit Risk
- Director of Portugal Business
- Director of Corporate Development
- Director of Operations and Technology
- Chief Financial Officer
- Director of Human Resources
- Head of Legal Services and Compliance
- Director of Risk Control
- Director of Internal Audit
- Director of Treasury and Capital Markets
- Director of Commercial Business

12.5 Quantitative information on remuneration of "Identified Staff" broken down by business area

The following tables show information on current total remuneration at December 2016 for the lone business area that exists in WiZink Bank:

Business area	Num. persons	Total remuneration (€)
Consumer banking	12	2,861,971

Table 18: Current remuneration of "Identified Staff"

With respect to the breakdown of remuneration information by type of office, it bears emphasis that at present the bank does not have staff contracted as senior management within the meaning of employment law regulations.

Shown in the following table are the amounts of remuneration at December 2016, divided into fixed and variable remuneration, broken down into monetary remuneration, shares and deferred shares, as well as the number of beneficiaries.

Num. beneficiaries	Fixed Rem. (€)	Variable remuneration (euros)			
		Monetary	Deferred monetary	Shares	Deferred shares
12	1,999,887	405,601	77,908	103,361	77,908
		664,778			

Table 19: Current fixed and variable remunerations amounts of "Identified Staff"

The deferred remuneration pending payment in cash amounts to €153,901, and pending payment in shares to €200,460.

At December 2016, there have been no payments for new hires or in respect of severance indemnities.

VÍCTOR LOZANO MARTÍNEZ
Traductor/Intérprete Jurado de inglés
Nº TIJ 1591

VÍCTOR LOZANO MARTÍNEZ, Traductor/ intérprete Jurado de inglés nombrado por el Ministerio de Asuntos Exteriores y Cooperación, certifica que la que antecede es traducción fiel y completa al inglés de un documento redactado en español.

En Madrid, a 21 de julio de 2017

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51