Pillar III Disclosures Report

WiZink Group

At 31 December 2017

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Nº TIJ 1591

Tables

1 INTRODUCTION

The purpose of this "Pillar III Disclosures Report" ("*Información con Relevancia Prudencial*" — Information of Prudential Reference) of WiZink Group, S.A., referring to 31 December 2017, is to meet the market disclosure requirements primarily laid down in the reference[1] 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 Force[2] (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 Group, declares it has not omitted required information for reasons of confidentiality or because the information is reserved.

The Audit 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 Group 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 Group, (hereinafter, "the Group"), as an individual Entity conforms to the requirements of article 436 CRR.

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

In addition to its standalone banking activities, the Bank is the parent company of subsidiaries which engage in various activities.

1. WiZink Gestión
2. WiZink Mediador
3. Iberalbión A.I.E
4. WiZink Master Credit Cards, Fondo de Titulización (Securitisation Fund)

These, together with the Bank form the WiZink Group (the Group). The aforementioned subsidiaries operated in complementary activities to the main business of the Bank. These activities include the recovery and payments of client debts and insurance brokerage for the credit cards issued by the Bank.

The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies and the subsidiaries' financial statements are consolidated with the Bank's financial statements using the full consolidation method, not having differences in the consolidation base for accounting and prudential purposes.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

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

Risk appetite underpins the Bank's risk and compliance management strategy and defines the amount and the types of risk that we want to assume in the course of our activity to achieve our objectives. Our risk appetite is established and defined by our Board of Directors through the approval of our Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS). The RAF is the set of elements that will allow a full view of the risk classes, risk appetite levels, risk tolerance and capacity and compares these with the risk profile. The RAS describes the level of risk that we are willing to accept in order to achieve our business goals.

The risk policy synthesizes strict professional criteria in the Group'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).

Risk management is based on the model of Three Lines of Defense. The First Line of Defense is the areas and functions that carry out the business management, execute the strategy and are responsible on a day-to-day basis for carrying out the controls and implementing plans of action to correct any deficiencies identified within the process. The Second Line of Defense is the area of Risk Management and Compliance, providing independent supervision, ensuring adherence to risk appetite and establishing risk management policies and methodologies, identifying and monitoring emerging risks and ensuring the implementation of the model in the Group. The Third Line of Defense is Internal Audit, which provides corporate governance agencies and senior management assurance, based on the highest level of independence and objectivity within the organization, on the effectiveness of corporate governance, risk management and internal control, including how the first and second lines of defense reach their risk management and control objectives. The model ensures sufficient separation and independence to not compromise the effectiveness of the general model, in which the three lines act in a coordinated manner to maximize its efficiency and enhance its effectiveness.

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

1. **Involvement of senior management:** amongst other functions, the Group's senior management regularly monitor the evolution of its internal management of risks, with the objective of ensuring proper implementation of international capital regulations (Basel III), 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.

2. **Formal system for granting risk-approval authority:** in which the various hierarchical levels of the organization are delegated different powers for authorizing operations.

3. **Risk management and limits:** granted per client or economic group of related clients where such group relations exist.

4. **Priority placed on risk policies**: aimed at ensuring the Group's stability, short, medium and long-term viability and maximizing the risk/return relation.

5. **Strict compliance with applicable legal rules:**, in all aspects, with special emphasis on following through on anti-money laundering and terrorist financing instructions.

6. **Differentiated analysis and treatment**: of refinancing or debt restructuring operations.

7. **Search for equilibrium**: between loans and receivables and funds.

8. **Goal-oriented flexibility:** in the organizational structure.

9. **Application of internal automated systems:** based on rating and scoring mechanisms.

10. **Monitoring risk:** from initial credit analysis through to cancellation.

As the institution's highest governing body, the Board of Directors is actively engaged in managing and controlling the Group'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 Committees, 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:

1. Reviewing and approving the risk appetite and control framework.

2. Reviewing and approving the internal capital adequacy assessment process (ICAAP).

3. Reviewing and approving the internal liquidity adequacy assessment process (ILAAP).

4. Determining the Group'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 Group 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 Group's balance sheet. In WiZink Group, 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, such as the differentiated products in portfolios acquired from 2015 onwards, from Citibank Spain, the Banco Popular Group and 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 Group 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 credit risk management from extension of credit to the management of non-performing loans The responsibilities assigned to each of these risk management functions during the entire life of the product are:

1. **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.

2. **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.

3. **Collections strategy:** Definition of the collections strategy for the entire process running from the first unpaid bill through to the management of debt write offs.

4. **Collections and recovery management:** Manage loan losses to strengthen the WiZink Group 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.

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 Group with which they have matrix management flows. Those areas are:

1. **MIS & Reporting**: Projections of non-performing loans and future losses, generation of ad hoc analyses and periodic reports needed for managing credit risk.

2. **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 Group'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 Group'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 Group 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 Group'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 Group 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 Structural Balance-sheet Risk

These are risks determined by the Balance Sheet structure of the Group, the products marketed and the strategies of the Bank. These risks derive from the impact on the Balance Sheet of several factors, such as exchange rate risk, interest rate risk and liquidity risk.

Exchange rate risk arises from the possibility of the positions the Group 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 Group 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.

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

In terms of market risk, the Group does not have a trading book and is not subject to capital charges for this risk.

Interest rate risk in the banking book refers to the possibility of suffering losses due to the potential impact of changes in interest rates on the Group's profits or its net assets.

The governing principle for interest rate risk control in WiZink Group is based on measuring and managing this risk category, seeking to protect the net interest margin and the economic value of equity against unexpected variations in interest rates, in a manner compatible and consistent with the Group'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 Group is timing mismatches between maturities and repricing of the different balance sheet elements

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 management decisions about these risks are taken through the Asset & Liability Committee (ALCO) - and are executed by the Treasury Department. These risks are managed to ensure stability and maximise the financial margin of the business and the economic value of the Group, while maintaining prudent levels of liquidity and ensuring solvency.

The ALCO also oversees and gives final executive approval for all market and liquidity risks to enable balance sheet optimization and 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 Group also has a risk control and monitoring structure that allows it to oversee and control risks independently of the Treasury function.

WiZink Group 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 Assets and Liabilities Management policy.

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

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 objective of the Liquidity Risk Policy is to ensure that the Group maintains a prudent position at all times, including a buffer of uncommitted high-quality liquid assets, and sufficient guarantees to increase contingent liquidity, to withstand a series of events of stress. These stress exercises are reviewed yearly in the ILAAP (Internal Liquidity Adequacy Assessment Process) of the Group.

In the RAF, the key metrics and their thresholds are established to monitor and control the appetite for liquidity risk.

There are a number of tools and metrics that the Group uses to track liquidity risk. On a daily basis, the Treasury area controls the Group's liquidity position, the expected inflows and outflows and calculates the liquidity and funding metrics defined in the RAF. Additionally, a series of secondary metrics are calculated and monitored, as well as Early Warning Indicators that allow management to observe factors or trends that could lead to stressful situations in the future.

On a monthly basis, the information that has been collected in the daily monitoring reports of the liquidity position is summarized, projections of the metrics are made (at different terms depending on the metric in question) and the conclusions are presented in the ALCO, which decides whether it is necessary to take measures in the event that the projections indicate the possibility of operating outside the objectives established by the Group. However, the liquidity risk governance framework contains protocols that determine the process to be carried out in case the monitored metrics deteriorate and depart from their target level.

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

Likewise, the Group carries out its ILAAP process, in which all the fundamental aspects of liquidity risk management are detailed. The ILAAP documentation is updated annually, although a liquidity risk review will be carried out whenever there is evidence that the assessment of liquidity risk may not be adequate. Changes in the metrics as a result of the annual update, or whenever a reassessment is made, are proposed to the Board of Directors for approval.

WiZink Group has liquidity and interest rate management policies and has defined additional risk hedging and mitigation procedures. WiZink Group has approved the following internal policies:

- IRRBB (Interest Rate Risk in the Banking Book): This defines the Group'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 Group.

- ALM (Assets and Liabilities Management policy): This policy defines the criteria for the WiZink Group 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 Group. ALM policy mainly focuses on liquidity risk and interest rate risk in the banking book.

- Liquidity Risk Policy: This policy defines WiZink Group'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.

3.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events or internal or external fraud risk, without considering losses generated by 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.

The operational risks are classified in the seven categories of losses as defined under Basel II, according to their nature and the following definitions:

Internal fraud: The risk of unexpected financial, material or reputational loss as a result of a fraudulent action by internal company personnel.

External fraud: The risk of unexpected financial, material or reputational loss as a result of a fraudulent action by persons external to the company.

Workplace safety and employment practices: the risk of unexpected financial or reputational loss as a result of employment practices pursued by the company or the nature of its work environments that may not comply with applicable laws and regulations.

Customers, products and business practices: unintentional or negligent breach of a professional obligation towards specific clients (including the fiduciary and suitability requirements), or of the nature or design of the product.

Damage to physical assets: is the risk of an unexpected financial or reputational loss due to damage to the physical assets the company owns or operates with, as a result of natural disasters or other events.

Business disruption and system failures: risk of loss from business disruption or failure.

Process execution, delivery and management: the risk of an unexpected financial or reputational loss as a result of mis-execution of the usual business tasks. Losses due to failed transaction processing or process management, trade counterparties, and suppliers.

According to the internal capital adequacy assessment and reporting process by type of risk (see section 6) and the classification of the internal risk categories in the risk map of the Single Supervisory Mechanism (SSM), operational risk includes:

1. Operational risk (included in this section)
2. Conduct risk (see Section 3.4.3.)
3. Legal and regulatory risk (see section 3.4.6.)
4. Model risk (see section 3.4.5.)
5. Reputational risk (see section 3.4.2.)

3.3.1 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 Group's internal control environment. 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, ensuring 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 Group's internal control governance structure. The Risk Control department oversees the Management Framework from the second line of defense.

3.3.2 Structure and organization of the Risk Control function

The primary 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:

1. 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.
2. Providing a comprehensive vision of the Group's operational risk exposure, its management and control environment.
3. Advising on the design of the internal control environment and on implementing policies and procedures to mitigate operational risks.
4. Anticipating the identification of the most important existing and emerging operational risks and proposing the corrective actions need to mitigate those risks.
5. Monitoring the effectiveness of the existing corrective actions in addressing the problems and weaknesses that are identified.
6. Identifying, anticipating, measuring, mitigating and reporting on operational risk exposure. These tasks are performed drawing on the information received from the relevant committees.
7. 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.

3.3.3 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 identity the Key Risk Control Indicators (RCIs) 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.

The Group has implemented a Governance, Risk and Compliance (GRC) tool 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 Group level.

3.3.4 Risk hedging and mitigation policies

The policy for mitigating and preventing operational risk in the Group is based on the contingency and continuity plans drawn up by the Department of Information Security and COB, which allow the Group 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 Group 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 Group continuity plan, in turn, is to ensure that failure or non-performance by any of WiZink Group'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.

A number of controls are carried out to assure the effectiveness of the processes, business applications and technological platform, placing special emphasis on third party risks. These controls include the following:

1. Monitoring and control of operating budgets and development projects.
2. Evaluations and internal process control of the TI area (based on COBIT* model).
3. Monitor the availability, capacity and performance of business applications that support the Bank.
4. Follow-up of compliance with Technology Infrastructure (TI) suppliers' SLAs.
5. Monitoring and control of incident resolution times.
6. Quality control of the code of new developments and fulfilment of delivery deadlines.
7. Integral management of the relationship with third parties (from the moment of supplier selection and certification as well as the annual reviews of the service) by the Purchases Department of the Bank.

8. Definition and continuous development of the Bank's cybersecurity framework, including market best practices and recommendations from HW/SW Manufacturers.

* g Technology has organized the process map based on the model of good practices-COBIT, organized in 4 main domains: Planning, Construction, Execution, Monitoring.

3.4 Other Risks

3.4.1 Business and Strategic Risk

It refers to the risk perceived by the Group of having the capacity to reach its objectives compromised on account of 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 Group's business strategy rest on several pillars: firstly, on an independent business focused on profitability and a disciplined view of risk management and subscriptions; secondly, a direct and online sales distribution model, combined with successful and efficient delinquent account collections and operations functions; and thirdly, on being highly oriented towards customer and portfolio management, based on a mature analytical discipline.

WiZink Group is aware of the growing 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 Group has charted its Plan 2018, which was approved by the Board of Directors at the start of 2018. Pursuant to this plan, the Group has reached an agreement with Banco Popular Español, S.A. (Popular) and Banco Santander, S.A. (Totta), both subsidiaries of Banco Santander, S.A. (Santander), under which Popular and Totta will acquire the credit and debit card business promoted by Popular in Spain and Portugal and acquired by the Group in 2014 and 2016. Additionally, on 26 March 2018, entities managed by Värde Partner, Inc. have agreed to buy Santander's ownership of 49% in WiZink Bank, S.A.

These initiatives focus on achieving the Group's strategic goals during 2018 and are integrated in the Group's 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 Group'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.

During 2018, the Group 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 2018 are aligned with the ongoing transformation of WiZink Group.

Business and strategic risk is considered a material risk for the Group and is included in the risk appetite framework approved by the Board of Directors of WiZink Group.

3.4.2 Reputational Risk

Reputational risk refers to the possibility of losing customers, a fall in revenues or court cases arising against the Group 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 has a subjective component that makes it more difficult to have a quantitative measurements framework than for other risks. This makes measuring reputational risk especially complex. The satisfaction of the Group's customers is the main test of this risk and WiZink Group therefore works to ensure fair treatment to its clients, and especially to provide transparent communication with all stakeholders. All communications offered to customers are 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:

1. Internal Control Office (ICO) for anti-money laundering related issues.
2. 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.
3. The Regulatory Projects Committee serves to ensure proper adaptation to regulatory developments.

The above committees escalate incidents that are detected to the Group's Enterprise Risk Management Committee (ERMC), 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.

The Group considers its reputation as a valuable asset that must be addressed, therefore it has no appetite to carry out its business in a way that puts its reputation at risk. The Group's objective is to obtain, protect and maintain the trust, loyalty and the best consideration of all its stakeholders in order to have a positive impact on its competitiveness. In this sense, an adequate reputational risk management is carried out, which is decisive for long-term plans and objectives. It considers reputation not only as a past performance but also as a possibility and opportunity for the future.

3.4.3 Conduct Risk

Conduct risk is the risk of suffering material losses in a Group 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, poor collections management practices, as well as the incorrect handling of claims and complaints. Among other events these include:

- Bad practice in the sale of products
- Pressure to sell to consumers
- Conflict of interest during the sale
- Manipulation of the reference interest rate
- Financial impediments as a service provider
- Distribution channels that generate conflict of interest through perverse incentives
- Automatic product renewal or exit penalties
- Incorrect processing of complaints

The Group assumes that its own banking activity generates this type of risk and so carries out an active management to mitigate it. Initiatives are implemented to strengthen the compliance culture and create an environment to mitigate losses as a result of non-compliance events. The Group has no appetite to be unfair to its customers, which can be of significant detriment to them, by providing customers with simple and transparent products / services delivered through appropriate channel. The Product Committee, with members from different areas of the Bank and with representatives of the Second Line, ensures that the definition of the products offered by the Group suits the needs of our customers and that the products are defined with clarity and transparency, within the framework established by the applicable regulation. The Group seeks to obtain security in commercial processes based on (i) adequate management of risks in relation to strategic objectives, (ii) effectiveness and efficiency of the established processes and controls, and (iii) compliance with the regulation and internal policies.

To achieve this, it encourages all members of the organization to get involved and to commit themselves to this function in order to mitigate the occurrence of possible behavioral risks.

3.4.4 ICT Risk

Information and Communication Technologies (ICT) Risk is the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructures, which can compromise the availability, integrity, accessibility and security of such infrastructures and of data.

WiZink Group understands that technology-based systems are in continuous evolution, mainly due to Regulatory, Business and Customer needs, which makes them not fail-safe and therefore exposed to incidents and vulnerabilities that should be considered as inherent as part the firm's business. In addition, the technology model based on external suppliers adds additional challenges to be considered.

WiZink group has controls in place to detect system incidents & vulnerabilities and to have them classified by impact and priority so that remediation processes can be measured and ring-fenced.

All remediation actions are monitored and root causes fully investigated to make sure timings are observed and impacts in the ongoing business are reduced to a reasonable amount. The Management Team is duly notified of all material cases of system disruptions or vulnerabilities impacting customers through regular performance metrics.

The controls aim mainly to ensure confidence in the processes, business applications and technological platform, placing special emphasis on third party risks. These controls include the following:

1. Monitoring and control of operating budgets and development projects.
2. Evaluations and internal process control of the TI area (based on COBIT* model).
3. Monitor the availability, capacity and performance of business applications that support the Bank.
4. Follow-up of compliance with Technology Infrastructure (TI) suppliers' SLAs.
5. Monitoring and control of incident resolution times.
6. Quality control of the code of new developments and fulfilment of delivery deadlines.
7. Integral management of the relationship with third parties (from the moment of supplier selection and certification, as well as the annual reviews of the service) by the Purchases Department of the Bank.
8. Definition and continuous development of the bank's cybersecurity framework, including market best practices and recommendations from HW/SW Manufacturers.

* Wizink Technology has organized the process map based on the model of good practices-COBIT, organized in 4 main domains: Planning, Construction, Execution, Monitoring.

3.4.5 Model Risk

Model risk is the risk related to the undervaluation of own funds by regulatory approved models, as well as the loss risk associated with the development, appliance and misuse of models involved in the bank's decision making.

Credit risk management has a high dependency on scoring models (applications and behaviour scores) and IFRS9. WiZink Group has no tolerance for any validation delay or failure and therefore it has established appropriate controls and a governance structure to ensure mitigation of model risk.

3.4.6 Legal and Regulatory Risk

It is the risk of being fined or forced to pay punitive damages as a result of supervision over private actions or agreements between the parties. In particular, it is the risk that:

- There are incorrect or missing contractual documents, or the absence of them, which negatively affects the business activities.

- An operation cannot be executed due to the prohibition, limitation or uncertainty on the legislation of the country of residence of one of the parties or due to errors in the interpretation.
- The Group does not have the legal capacity to operate in a particular sector, product or currency or that persons acting on behalf of the Group do not have sufficient legal power to commit.
- Failure to comply with obligations established in mandatory rules, or misinterpretation of such rules.

The Group has no appetite for deliberate breaches of legislative or regulatory regulations. The Group is committed to a high level of compliance with relevant legislation, codes and standards, as well as internal policies and sound principles of corporate governance. Identified compliance violations will be remedied as soon as possible.

3.4.7 Financial Crime Risk

It is the risk arising from the facilitation of: money laundering; financing of terrorism; breaches of economic and financial sanctions; and / or bribery and corruption.

On an annual basis, the Group carries out a self-assessment of money laundering and terrorist financing risk. The latest annual analysis of this risk, conducted in 2017 and published on May 28th, 2018, for each of the relevant operating areas in 2017, as well as the controls implemented by WiZink and the existing anti-money laundering and anti-terrorist financing model, indicate that WiZink presents a Low risk of money laundering and the financing of terrorism.

The requirements of EU / SP legislation apply to the Wizink Group. Within the Group, the risk of financial crime is that its employees, third parties or its products and services are used to facilitate financial crimes. This can undermine the integrity of the market, resulting in regulatory infractions and / or detriment to customers, customers, counterparts or employees. Events of financial crime risk may also result in financial penalties and damage to the reputation of the Group.

The Group is committed to combating financial crime and ensuring that the products that are contracted with us are not used improperly for money laundering and terrorist financing purposes. It is also prohibited to provide any product or make any transaction for the benefit of a sanctioned person or entity. As such, compliance with applicable laws and regulations regarding money laundering, sanctions and anti-corruption rules is mandatory and fundamental to our business. The Group is committed to having strict and transparent standards and strengthening its processes to ensure compliance with applicable laws and regulations. The Group can subcontract or delegate some of your systems and controls and / or processing to third parties or other group companies. Accepts that involving other entities in the operation of a company's systems or operations adds an additional dimension to the risks of financial crimes that the company faces. It is committed to managing these risks so that the company ensures that subcontracting is subject to adequate standards.

3.5 Global systemic risk

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

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

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

1. The material risks to which the Group is exposed
2. The allocation of economic capital required for each type of material risk
3. Governance, management and risk control systems
4. Capital target
5. Capital planning in baseline and adverse scenarios
6. 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 Group's actual situation.

3.7 Description of the risk profile associated with the corporate strategy

The Risk Appetite Framework (RAF) approved by the Board of Directors includes an assessment of the Group's risk profile.

The annual results of the risk assessment show that the institution has followed the lines of activity within the framework of risk appetite approved by the Board of Directors and that the risks assumed remain at an acceptable level. As such, the achievement of the institution's strategic objectives has not been threatened.

In terms of the strength of internal governance, the organizational structure defined in the entity guarantees a robust control environment.

4 CORPORATE GOVERNANCE

4.1 Executives who hold positions on the Board of Directors

At present, the WiZink Group Managing Director does not hold a seat on the Board of Directors, although he does attend and take part in the meetings. The current Managing Director attends meetings of the Board of Directors and the various Committees of the Board as a permanent guest. It is anticipated that once his appointment as Chief Executive Officer is concluded, he will, in such capacity, become a permanent executive member of the Board of Directors.

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

In addition to the approval of a new suitability policy, the Group has recently approved a new Diversity policy, also following the criteria established by the EBA and ESMA Guidelines on the suitability assessment of members of the management bodies and key function holders.

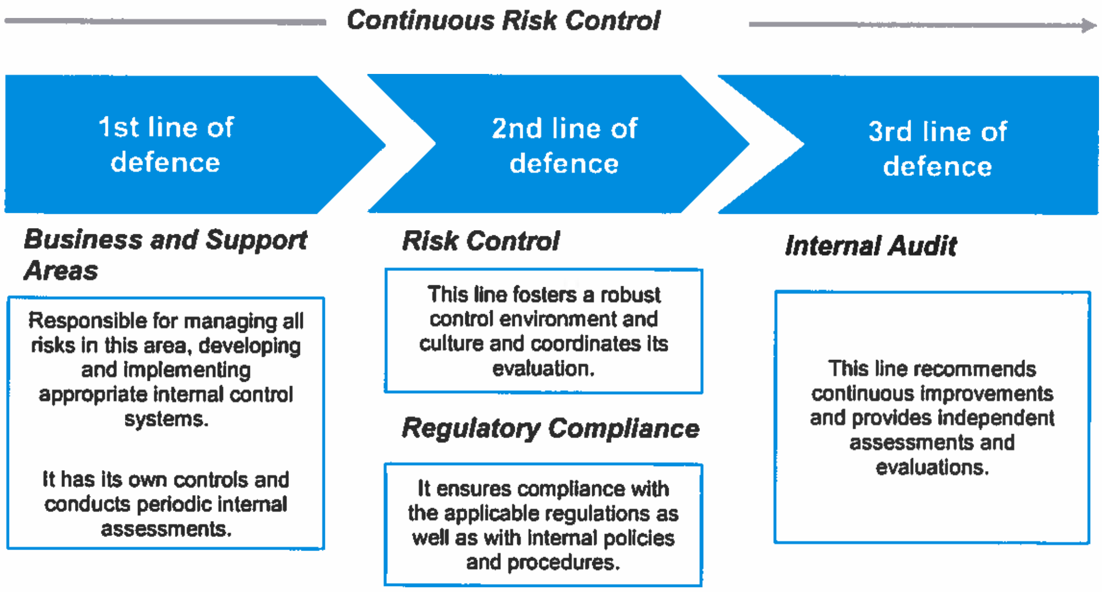
As at 31 December, women represented 50% of the Group's management team. In addition 3 of the total 8 directors on the Board of Directors of the Group are women.

The company also committed to ensuring equal pay in salary and variable remuneration.

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 Group 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.



WiZink's Group corporate structure has been updated in November 2017. The new structure is the result of an extensive exercise performed by a Corporate Governance Working Group headed by an independent member of the Board of Directors.

A new corporate governance structure has been defined: the Audit & Risk Committee, in force until 2017, has been divided into two: Audit Committee and Risk Committee.

Compliance and Risk Management functions have been reinforced through a new committee (Risk Committee), new professional profiles have been hired and new governance practices have been implemented, which, among other things, establish that the two functions that make up the second line of defence shall report directly to the Risk Committee through its executive representatives, the Chief Risk Officer (CRO) and the Chief Legal and Compliance Officer (CLCO).

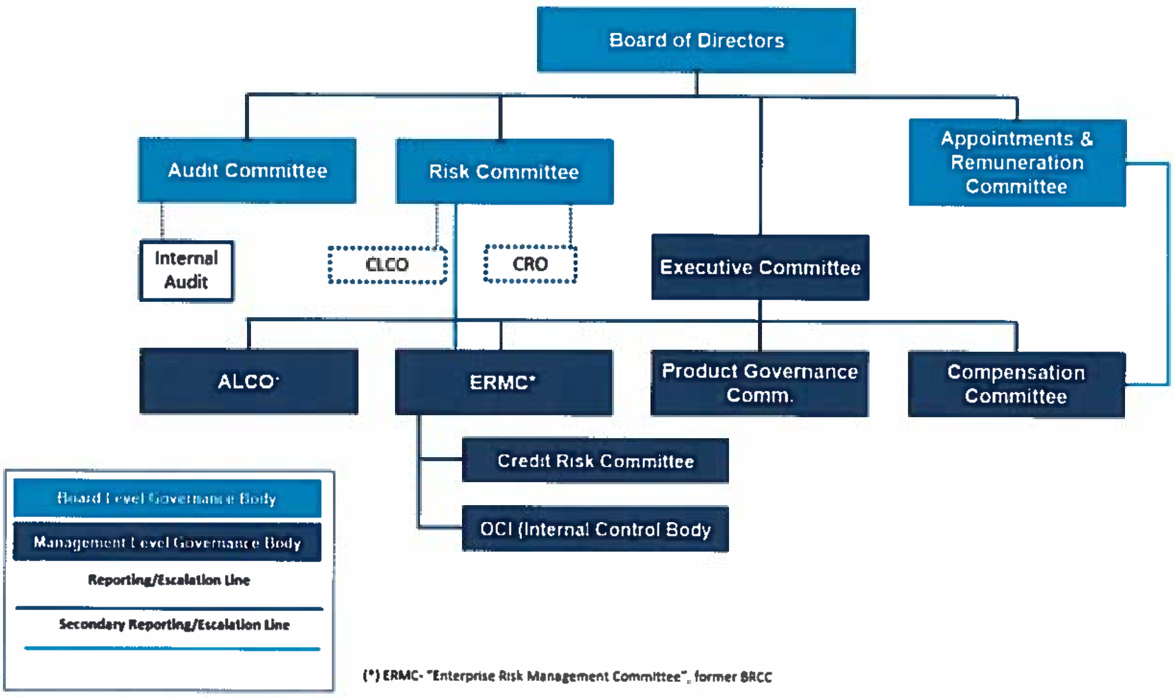
Work is underway to strengthen and improve independence between the three lines of defence, which has also been driven by the separation of the Risk and Audit Committees.

A more exhaustive and comprehensive RAF has been approved.

In line with the regulatory requirements and market best practices, the Board has delegated some of its functions in three committees: Audit Committee, Risk Committee and Appointments & Remuneration Committee. Independent members of the Board chair all these three committees and it has been made a principle that the Audit Committee must have a majority of independent directors. Due to the principle of proportionality, the Appointments & Remuneration Committee has not been divided into two.

The attendance list of the members of the committees is fixed and closed. The chairperson of each committee may invite non-members depending on the agenda of each meeting.

In the next graphic is shown the WiZink Group's corporate governance organizational structure.



This is not a reflection of all committees within the organization structure. The committees herein are part of the formal governance structure. The Managing Director has prerogative to add new committees for business management purposes.

A series of summary tables are displayed below, describing the characteristics of each committee:

Audit Committee

Committee	Purpose	Frequency	Members
Audit Committee	1. Inform the Board of Directors of all issues required by law (i.e. financial information the Group must make public on a periodic basis, creation or acquisition of stakes in special purpose entities or those domiciled in countries or territories with the status of tax havens and related party transactions). 2. Oversee the effectiveness of the Group's internal control environment, Internal Audit and risk management systems. 3. Oversee the preparation and presentation of mandatory financial information for the Group, and submit recommendations or proposals to the Board of Directors. 4. Submit proposals for selecting, appointing, re-electing and replacing the external auditor to the Board of Directors. 5. Establish appropriate relations with the External Auditor Partner. 6. Annually issue a report containing an opinion on whether the independence of the Auditors o audit companies is compromised. 7. Present an annual report to the GSM in respect of the integrity of the annual financial statements and describing the Committee's role. 8. Review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns about possible wrongdoing in financial reporting or other matters. 9. Internal Audit shall report to the Audit Committee and shall respond to requests of information that it receives therefrom in the performance of its duties.	**Quarterly** (at least)	**Chair:** Geeta Gopalan **Secretary:** Blanca Rivilla Calle (From 25/04/2018, before Francisco Javier Lleó) **Members:** • María Villanueva • Peter Herbert

Risk Committee

Committee	Purpose	Frequency	Members
Risk Committee	**RISK SUPERVISION** 1. Advise the Board of Directors on the Bank's current and future global risk appetite, the risk framework (principles, policies and methodologies) and its strategy in this area. 2. Assistance to the Board in improving the capital and liquidity strategy and the alignment thereof with the strategic commercial plans and the risk assurance plan. 3. Ensure that the pricing policy of assets and liabilities offered to customers fully reflects the Bank's business model and strategy. 4. Determine, together with the Board of Directors, the nature, amount, format and frequency of the information on risks reportable to the Risk Committee and BoD. 5. Supervise the risk function, without prejudice to the direct access of the latter to the Board of Directors, in excess of delegations of authority to management. 6. Inform the selection, appointment and termination of the Chief Risk Officer, upon prior report from the Remuneration and Appointments Committee. 7. Consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to the information needed. 8. Review and provide challenge and oversight of the Recovery and Resolution plans. **COMPLIANCE SUPERVISION** 1. Oversee compliance with applicable domestic and international regulations (money laundering, conduct on securities markets, data protection, etc.). 2. Ensure that any request for action or information that results from the reports issued or the inspection proceedings carried out by official authorities in charge of supervision and control are dealt with in due time and in due form. 3. Determine, together with the Board of Directors, the nature, amount, format and frequency of the information on compliance to be held by the RC and the BoD. 4. Supervise the observance of the codes of internal conduct, as well as the manuals and procedures. 5. Periodic evaluation of the appropriateness of the Bank's corporate governance system. 6. Supervision of the compliance function, without the prejudice to the direct access of the latter to the BoD. 7. Inform the selection, appointment and termination of the CLCO, upon a prior report from the Remuneration and Appointments Committee. 8. Approve the annual compliance plan.	**Quarterly** (at least)	**Chair:** Geeta Gopalan **Secretary:** Blanca Rivilla Calle (From 25/04/2018, before Francisco Javier Lleó) **Members:** • María Villanueva • Peter Herbert

Appointment & Remuneration Committee

Committee	Purpose	Frequency	Members
Appointments & Remuneration Committee	**REMUNERATION SUPERVISION** 1. Prepare the decisions to be adopted by the Board of Directors relating to remuneration. 2. Report the general and individual remuneration policy of the members of the Board of Directors, and ensure these conditions are observed. 3. Submitting to the Board of Directors reports on the definition of the basic conditions of senior management contracts. 4. Report the general remuneration policy of the Group. 5. Assess the application of the remuneration policy of the Group. 6. Ensure that the variable remuneration policy of the identified staff and the pay out process for variable remuneration of certain members of the identified staff is fully compliant at any time. 7. Collaborate in the determination of the existence of circumstances that might result in the application the mauls and clawback clauses. APPOINTMENTS SUPERVISION 1. Identify and recommend candidates to cover vacancies in the Board of Directors. 2. Assess the balance of knowledge, capacity, diversity and experience in the Board of Directors. 3. Evaluate periodically the suitability of the members of the Board of Directors and that the composition and operation of it prevents that the resolution taken are not dominated by one individual or small group of individuals. 4. Submitting proposals to the Board of Directors for the appointment, re-election, and of members to form part of each of the Board's Committees. 5. Reporting proposals for appointments and removal of the Board Secretary and Vice-Secretary. 6. Submitting to the Board of Directors reports on selection, appointment and suitability, and on the design and supervision of the selection and appointment policy of other members of the identified staff. 7. Assess the suitability of key positions. 8. Report the gender diversity policy of the Group to the Board of Directors and the policy to determine the identified staff for approval. 9. Annual determination of the positions of Identified Staff.	**Biannually** (at least)	**Chair:** Peter Herbert **Secretary:** Blanca Rivilla Calle (From 25/04/2018, before Francisco Javier Lleó) **Members:** • Krzysztof Drozd • Samuel Serrano (From 25/04/2018, before Jorge de Velasco Oria)

The 'Management Committees' enable the Group to comply with regulatory requirements of governance: ExCo, ALCO, ERMC (Enterprise Risk Management Committee),old BRCC, Compensation Committee and Product Governance Committee are included under this category as they compile items potentially raised from other internal reviews and working session groups and are decision making bodies.

Management Committees

Committee	Purpose	Frequency	Members
Executive Committee (ExCo)	Assist the Chief Executive (Managing Director) in the performance of his/her duties within the bounds of their authority, including: the development and implementation of the strategy as approved by the Board, the monitoring of operating and financial performance, the assessment and control of risks, the prioritization and allocation of resources, among others.	**Monthly**	**Chair:** Managing Director **Secretary:** Virginia Griego **Members:** Managing Director, CFO, HR Director, CLCO, COO, CRO, Commercial Director, Corporate Development Director and Country Manager Portugal
Assets & Liabilities Committee (ALCO)	The ALCO is a sub-committee of the Executive Committee. Its aim is to review and approve policies and activities relating to the management of liquidity, funding, capital and structural balance sheet risks. It is also responsible for reviewing (at least annually) and recommending for approval by the Board the ICAAP and ILAAP, as well as recommending and appropriate capital structure.	**Monthly**	**Chair:** CFO **Secretary:** Treasury **Members:** Managing Director, CFO, CRO, COO, Commercial Director, Head of Treasury & Capital Markets, Head of Market Risk, and CLCO
Enterprise Risk Management Committee (ERMC)	Former BRCC, provides the appropriate oversight and governance across all risk types within the Bank, ensuring alignment to WiZink's Risk Appetite Framework (RAF) including the monitoring of associated Risk Appetite breaches. The Committee will also provide recommendations to Exco and the Risk Committee on risk management matters, including recommendations on RAF, risk policies, and risk management frameworks and ensure they are implemented. The Credit Risk Committee and the OCI (Internal Control Body) report directly to the ERMC.	**Monthly**	**Chair:** CRO **Secretary:** Salomé Eguiluz **Members:** Managing Director, CFO, CLCO, COO, CRO, Commercial Director, Country Manager Portugal, Risk Control Director and Compliance Director

Product Governance Committee	Approve proposals to develop as well as execute new products using both new and existing channels ensuring adherence to risk management framework at all times.	**Monthly**	**Chair:** Chief Customer Officer **Secretary:** Cards Product Development Head **Members:** Marketing Director, Chief Customer Officer, SPBA Director, Sales & Distribution Director, Portfolio & Digital Strategy Director, COO, CRO, CFO or Treasurer, CLCO and Business Manager Portugal
Compensation Committee	Define and approve the salary budget forecast and also the salary matrix for the next year (fixed + bonus). Approve the employees' salary for the next year (fixed + bonus) considering the employee performance and harmonization exercise.	**3 times a year**	**Chair:** HR Head **Members:** Management Team, HR Compensation Team

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 Group 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 mechanisms that guarantee effective risk control are:

The continued review individual 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 supported by the WiZink Group Risk Appetite Framework, which provides an integrated overview of the analysis of all risks to which the Group 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 Committees, and to the Board of Directors.

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 Committees 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 ELEMENTS (thousand €)	
Capital	147,862
Share premium	685,022
Reserves	237,144
Profit for the year	145,735
Other accumulated grand total	-808
(-)Dividends and remunerations	-
Total Equity to Public Balance	**1,214,955**
(-) Provisional profit or not acceptable to the end of the year	-145,735
(-)Goodwill	-223,815
(-)Other intangible assets	-325,786
(-) Defined-benefit pension fund assets	-400
Additional Tier 1 deductions surplus regarding to the additional Tier 1	-111,028
Other temporary adjustments of common Equity Tier 1	111,096
TIER 1	**519,287**
Generic funds and overprovisions	-
TOTAL REGULATORY CAPITAL	**519,287**

Table 1: Reconciliation of components of capital

*The audited result for the 2017 financial year was a profit of 145,735 thousand euros, although at the date of submission of the solvency statements of December 31, 2017, the audit of the 2017 Annual Accounts was in progress, consequently to the year ended is considered as a provisional profit.

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:

1. Capital: includes the full amount of capital subscribed and paid in by the WiZink Group, S.A. shareholders. At 31 December 2017, share capital stock consisted of 147,862 thousand shares, each with a par value of €1.00, fully subscribed and paid in. The Group's shares are not publicly traded.

2. 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 2017, the overall share premium amounted to €685,022 thousand.

3. 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 2017, the figure for reserves and other reserves amounted to €237,144 thousand.

4. Retained earnings: this records the net profit for the year of €145,735 thousand.

5. 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 Group does not trade in other equity instruments and thus had none on its books at year-end 2017.

6. Own securities: this includes the amount of all own equity instruments held by the Group. The Group has not traded with treasury stock and thus held no own shares at year-end 2017.

7. 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 €182,300 thousand of intangible assets with a finite useful life were identified, mainly associated with the credit card customers acquired, together with goodwill of €167,078 thousand at 31 December 2014. In 2015, pursuant to the terms of the Citibank España, S.A. purchase agreement, the Group paid an additional earn-out of €5,000 thousand, bringing the

goodwill in the acquisition up to €172,078 thousand, which is being written off on a straight-line basis over 10 years following the acquisition date.

A total of €140,700 thousand 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 2017. The future economic benefits not identifiable separately or individually stemming from these businesses in 2016 being goodwill of €54,110 thousand. This provisional amount has been revised to €56,237 thousand at 31 December 2017 within the 12 month period where the provisional amounts of business combinations can be adjusted.

An estimated €20,400 thousand 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, subsequently adjusted to €18,600 thousand, with goodwill totalling €6,919 thousand this amount has been revised to €8,719 thousand at 31 December 2017, as a consequence of a reclassification of commercial relations with customers to the goodwill, within the 12 month period where the provisional amounts of the business combinations can be adjusted. In addition this goodwill has been subject to impairment testing in 2017 and an impairment of €7,681 thousand has been recognised in the year. The residual goodwill has been reclassified to non-current assets held for sale.

8. In addition at the date of submission of the solvency statements of December 31, 2017 the audit of the 2017 Annual Accounts was in progress, consequently an adjustment has been done because the profit is not considered acceptable to the end of the year.

The recognition in own funds of unrealized gains and losses on instruments valued at Fair Value are subject to a phase-in approach which, according to articles 467 and 468 of the CRR and Bank of Spain Circular 2/2014, was 80% in 2017. The reduction for this concept in WiZink Group's Own Funds is 12 thousand euros.

A deduction to own funds is made for the net asset recognized in the balance sheet for the defined benefit pension fund according to article 41 of the CRR. This deduction is subject to a phase in which for 2017 was 80% of the balance sheet amount. The total deduction to own funds for this concept is 320 thousand euros after an adjustment of 80 thousand euros to account of the phase in.

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 2017, WiZink Group 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 2017, the Group 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 2017

The following table summarizes the main items included for solvency purposes in WiZink Group 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	
Capital Instruments and the related share premium	832,884
Retained earnings	237,144
Other reserves	-808
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**1,069,220**
Common Equity Tier 1 (CET 1) capital: regulatory adjustments	
(-) Goodwill	-223,815
(-) Other intangible assets	-325,786
(-) Defined-benefit pension fund assets	-400
Additional Tier 1 deductions surplus regarding to the additional Tier 1	-111,028
Other temporary adjustments of common Equity Tier 1	111,096
(-)Total Common Equity Tier 1 (CET 1) capital regulatory adjustments	**-549,932**
Tier 1 capital	**519,287**
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)	**519,287**
Tier 2 (T2) capital: instruments and provisions	
Credit risk adjustments	-
Tier 2 (T2) capital before regulatory adjustments	**-**
Tier 2 (T2) capital: regulatory adjustments	
Tier 2 capital	**-**
Total capital (TC= T1 + T2)	**519,287**
Total risk weighed assets	**3,763,137**
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk exposure amount)	13.80%
Tier 1 (as a percentage of risk exposure amount)	13.80%
Total capital (as a percentage of risk exposure amount)	13.80%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.30%
Amounts below the thresholds for deduction (before risk weighting)	
Deferred tax assets arising from temporary differences (amount below 10% threshold and net of eligible short positions)	25,181
Applicable caps on the inclusion of provisions in Tier 2	
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
Capital instruments subject to phase-out arrangements	
Does not apply	

Table 2: Information on Own Funds

WiZink

6 CAPITAL REQUIREMENTS

6.1 Amount of own funds requirements by type of risk

Shown in the following table are WiZink Group's capital requirements at 31 December 2017 by type of risk:

TYPE OF RISK	REQUIRED AMOUNT (thousand euro)
Credit risk	221,990
Market risk	-
Credit valuation adjustment risk	-
Operational risk	79,061

Table 3: Capital requirements by type of risk

6.1.1 Minimum own funds requirements for credit risk

WiZink Group 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 €221,990 thousand. The following table gives a breakdown of those requirements by exposure category.

EXPOSURE CATEGORY	AMOUNT (thousand euro)
Central administration or central banks	67,856
Regional administrations or local authorities	-
Public sector entities	-
Multilateral Development Banks	-
International Organizations	-
Entities	75,533
Enterprises	15,403
Minority exposures	2,403,895
Exposures secured by mortgages on real estate	-
Exposures in default	72,132
Entries associated with particularly high risks	-
Covered bonds	-
Exposures to institutions and companies with short-term credit assessment	-
Participations or shares in collective investment	-
Equity exposures	3,143
Other	136,918
TOTAL RISK-WEIGHED EXPOSURE	**2,774,881**
CREDIT RISK CAPITAL REQUIREMENTS	221,990

Table 4: Capital requirements for credit risk. Standardized approach

6.1.2 Amount of own funds requirements for market risk

The Group 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 Group 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, 2015, 2016 and 2017).

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 2017, the calculation described above yields operational risk own funds requirements of €79,061 thousand.

6.2 Internal Capital Adequacy Assessment Process

In the 2017 internal capital adequacy assessment the Group 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

The capital conservation buffer is a capital buffer of 2.5% of a Bank's total exposures that needs to be met with an additional amount of Common Equity Tier 1 capital.

At 31 December 2017 the Group 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"

For the purpose of calculating and managing impairment losses associated with financial assets measured at amortised cost (mostly credit card receivables), the Group performs an analysis of the risk underlying each group of homogeneous customers taking into account the risk of insolvency that is attributable to each customer group. This is performed through the use of statistical analysis applied to historical information (behavioural scores) with the aim of obtaining the best estimate of impairment losses for each customer (group of customers).

When objective evidence of impairment is observed the amount of impairment losses is measured as the difference between the asset´s carrying amount and the present value of their estimated future cash flows discounted at the instrument's original effective interest rate. For fixed rate instruments the original effective interest rate is used as the discount rate, while for floating rate instruments the rate corresponding to the last repricing period is used. Impairment can be measured either on an individual or collective basis. Specifically, for the Group´s lending activities (credit cards) exposures are made of large numbers of small homogenous assets with similar risk characteristics where credit scoring techniques are generally used. Statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates, information available to the Spanish banking industry and assumed loss emergence periods. These statistical analyses are consistent with a collective assessment as described in IAS 39.

The estimated future cash flows of a debt instrument include all the amounts of principal and interest, which the Group estimates it will obtain during the life of the instrument. Consideration is given to all relevant information available at the date of preparation of the financial statements, which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of collateralised financial instruments, consideration is given to the flows which would be obtained from the sale of collateral adjusted for the costs of obtaining and selling the collateral regardless of the probability of foreclosing the collateral.

The Group also considers its exposure to credit risk arising from loan commitments, financial guarantees and other credit related commitments when calculating the impairment charge at each balance sheet date.

The impairment assessment described above is an integral part of the loan classification process which allocates customers in different categories for the purpose of credit risk management. This is outlined below:

1. Standard exposures: This includes all debt instruments for which no objective evidence of impairment or past due status has been identified.

2. Exposures that are past due but not impaired: This group includes customers with balances of principal and interest up to 30 days past due.

3. <u>Exposures in Watch list:</u> This includes customers with balances of principal and interest from 30 to 90 days past due.

4. <u>Doubtful Exposures</u>: This includes customers with balances of principal and interest that are more than 90 days past due. Specifically for instruments other than credit cards such as balances available on demand the number of days past due is calculated by reference to the inception of the instrument being assessed for impairment.

5. <u>Written-off Exposures</u> : This category includes debt instruments, past due or not, for which the entity, after a thorough credit risk analysis considers that the possibility of recovery the amounts of principal and interest is remote and therefore not in line with the definition of an asset under the IFRS conceptual framework. These exposures are derecognised from the balance sheet. Recovery is deemed remote in the following instances:

   1. Transactions classified as doubtful due to arrears greater than four years, except those that are covered by effective collateral of at least 10% of the exposure.

   2. Transactions involving borrowers for which bankruptcy has been declared or bankruptcy proceedings have commenced and for which there is evidence that the liquidation phase has been or is due to be declared, except those with effective collateral covering at least 10% of the exposure.

In addition to the assessment of impairment based on days past due the Group performs an analysis of the likelihood that the customer can be doubtful for reasons other than its past due status. This includes instances where there are reasonable doubts about the borrower's ability to meet its commitments under the loan agreement because the customer has been subject to bankruptcy or insolvency procedures or the customer's has been refinanced due to financial difficulties.

In this specific scenario the Group requires two years of full fulfilment of the terms and conditions agreed with distressed customers and an additional year for the customer to be classified as current. Refer to Restructuring and Refinancing below. In addition, if the customer has more than 20% of its total exposure in past due status for more than 90 days (irrespective of being current on a single exposure). The overall customer exposure, is classified as doubtful. This is in line with the Refinancing and Restructuring policy outlined below.

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

The Group used the parameters established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

IFRS 9 (which is mandatorily effective for annual periods beginning on or after January 1, 2018) introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), FVOCI or amortised cost based on the nature of the cash flows of the assets and an entity's business model.

These categories replace the existing IAS 39 classifications of FVTPL, AFS, loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9. The requirements related to the fair value option for financial liabilities have changed in relation to the treatment of the own credit risk component which is recognised in other comprehensive income with no further recycling to profit or loss.

The combined application of the contractual cash flow characteristics and business model tests as at the transition date resulted in certain differences in the classification of financial assets when compared to our classification under IAS 39. The most significant changes include the following:

1. The reclassification from fair value through profit or loss to fair value through OCI of the treasury bills portfolio held to manage daily liquidity needs.

2. The irrevocable designation of equity investments held for strategic purposes as vehicle to operate in the clearing / processing system from available for sale to fair value through other comprehensive income with no further recycling to profit or loss.

IFRS 9 introduces an expected credit loss impairment model which is significantly different from the IAS 39 incurred loss model. The main differences are described below.

The new IFRS 9 impairment requirements eliminate the IAS 39 threshold for the recognition of impairment losses, i.e., IFRS 9 does not require a credit event with an impact on the expected future cash flows to have occurred before credit losses are recognised. Instead, expected losses are required to be recognised and reassessed for changes in ECLs at each reporting date to reflect changes in credit deterioration since initial recognition.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity investments that are irrevocably designated as at FVOCI, which are not subject to an impairment assessment. Hence, the scope of the expected loss model includes amortised cost financial assets, debt securities classified as at FVOCI, off-balance sheet loan commitments and financial guarantees which were previously accounted for under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

Under IFRS 9, expected credit losses will be measured in accordance with a three-stage expected credit loss impairment model:

1. Stage 1 – Current non-deteriorated Book. From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a 12 months expected credit loss allowance is recognised.

2. Stage 2 – Exposures where significant increase in credit risk has been observed since initial recognition. For these exposures, a lifetime expected credit loss allowance is recognised.

3. Stage 3 – Credit Impaired Exposures. When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses will be recognised. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount as for Stage 1 and Stage 2.

Stage 1 and Stage 2 credit loss allowances effectively replace the collectively-assessed allowance for loans not yet identified as impaired recorded under IAS 39, while Stage 3 credit loss allowances effectively replace the individually and collectively assessed allowances for impaired loans.

Notwithstanding, and because all financial assets within the scope of the IFRS 9 impairment model will be assessed for at least 12-months of expected credit (the floor on the minimum impairment charge) and the population of financial assets to which full lifetime expected credit losses applies is larger than the population of impaired loans, loss allowances under IFRS 9 are higher than the ones in IAS 39.

Changes in the expected credit loss allowance will be recognised in profit or loss as exposures migrate between stages. Because migration between stages carries a different expected credit loss allowance and because incorporation of the forward economic guidance will drive migration between stages, impairment charges are expected to be pro-cyclical and more volatile than the ones under IAS 39.

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 write downs. In each case, the exposure to SMEs is specified[3]:

EXPOSURE CATEGORY	Original exposure (thousand €)	Of which SME	Value adjustments and provisions	Exposure net of value adjustments and provisions (thousand €)
Central administration or central banks	414,001	-	-	414,001
Regional administrations or local authorities	5	-	-	5
Public sector entities	178	-	-	178
Multilateral Development Banks	-	-	-	-
International Organizations	-	-	-	-
Entities	872,229	-	-	872,229
Enterprises	16,622	4,071	(249)	16,373
Minority exposures	3,293,085	97,509	(64,676)	3,228,410
Exposures secured by mortgages on real estate	-	-	-	-
Exposures in default	290,600	2,038	(219,203)	71,397
Entries associated with particularly high risks	-	-	-	-
Covered bonds	-	-	-	-
Exposures to institutions and companies with short-term credit assessment	-	-	-	-
Participations or shares in collective investment	-	-	-	-
Equity exposures	3,143	-	-	3,143
Other	159,423	-	-	159,423
TOTAL EXPOSURE	5,049,287	103,618	(284,128)	4,765,159

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 Group's loans and receivables per its financial statements at 31 December 2017 according to the business sector and geographical area[4]:

	Thousands of Euros				
	Total (*)	Spain	Rest EU	America	Rest of World
Central banks and credit institutions	**874,243**	**870,496**	**3,725**	-	**22**
Public authorities:	351,770	351,770	-	-	-
Central government	-	-	-	-	-
Other	351,770	351,770	-	-	-
	351,770	**351,770**	-	-	-
Other financial corporations and sole proprietorships (financial business activity)	**72,521**	**69,949**	**456**	**2,116**	-
Non-financial corps and sole proprietorships (non-fin. business activity) by purpose:	997	997	-	-	-
Real-estate construction and property development, including	-	-	-	-	-
Civil engineering	-	-	-	-	-
Other purposes-	997	997	-	-	-
Large companies	-	-	-	-	-
SMEs and individual entrepreneurs	997	997	-	-	-
	997	**997**	-	-	-
Other households (by purpose):	3,032,726	2,117,662	915,055	9	-
Housing	-	-	-	-	-
Consumption	3,012,278	2,097,214	915,055	9	-
Other purposes	20,448	20,448	-	-	-
	3,032,726	**2,117,662**	**915,055**	**9**	-
	4,332,257	**3,410,874**	**919,236**	**2,125**	**22**

* 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

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

The tables that follow show the same breakdown by region:

2017	Thousands of Euros						
	Total (*)	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria
Central banks and credit institutions	**892,383**	-	-	-	-	-	-
Public authorities:	351,770	-	-	-	-	-	-
Central government	-	-	-	-	-	-	-
Other	351,770	-	-	-	-	-	-
	351,770	-	-	-	-	-	-
Other financial corporations and sole proprietorships (financial business activity)	**101,477**	-	-	-	-	-	-
Non-financial corps and sole proprietorships (non- fin. business activity) by purpose:	998	-	-	-	-	-	-
Real-estate construction and property development, including	-	-	-	-	-	-	-
Civil engineering	-	-	-	-	-	-	-
Other purposes-	998	-	-	-	-	-	-
Large companies	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	998	-	-	-	-	-	-
	998	-	-	-	-	-	-
Other households (by purpose):	2,065,360	344,514	55,137	51,244	57,965	107,365	29,160
Housing	-	-	-	-	-	-	-
Consumption	2,045,698	344,514	55,137	51,244	57,965	107,365	29,160
Other purposes	18,547	-	-	-	-	-	-
	2,065,360	**344,514**	**55,137**	**51,244**	**57,965**	**107,365**	**29,160**
	3,410,874	**344,514**	**55,137**	**51,244**	**57,965**	**107,365**	**29,160**

2017	Thousands of Euros						
	Castilla la Mancha	Castilla y Leon	Cataluña	Extremadura	Galicia	Madrid	Murcia
Central banks and credit institutions	-	-	-	-	-	**892383**	-
Public authorities:	-	-	-	-	-	351,770	-
Central government	-	-	-	-	-	-	-
Other	-	-	-	-	-	351,770	-
	-	**-**	**-**	**-**	**-**	**351,770**	**-**
Other financial corporations and sole proprietorships (financial business activity)	**-**	**-**	**-**	**-**	**-**	**101,477**	**-**
Non-financial corps and sole proprietorships (non- fin. business activity) by purpose:	-	-	-	-	-	998	-
Real-estate construction and property development, including	-	-	-	-	-	-	-
Civil engineering	-	-	-	-	-	-	-
Other purposes-	-	-	-	-	-	998	-
Large companies	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	-	-	-	-	-	998	-
	-	**-**	**-**	**-**	**-**	**998**	**-**
Other households (by purpose):	68,007	108,070	381,390	34,242	139,364	318,925	66,298
Housing	-	-	-	-	-	-	-
Consumption	68,007	108,070	381,390	34,242	139,364	300,378	66,298
Other purposes	-	-	-	-	-	18,547	-
	68,007	**108,070**	**381,390**	**34,242**	**139,364**	**318,925**	**66,298**
	68,007	**108,070**	**381,390**	**34,242**	**139,364**	**1,665,551**	**66,298**

2017	Thousands of Euros				
	Navarra	Comunidad Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Central banks and credit institutions	-	-	-	-	-
Public authorities:	-	-	-	-	-
Central government	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Other financial corporations and sole proprietorships (financial business activity)	-	-	-	-	-
Non-financial corps and sole proprietorships (non- fin. business activity) by purpose:	-	-	-	-	-
Real-estate construction and property development, including	-	-	-	-	-
Civil engineering	-	-	-	-	-
Other purposes-	-	-	-	-	-
Large companies	-	-	-	-	-
SMEs and individual entrepreneurs	-	-	-	-	-
	-	-	-	-	-
Other households (by purpose):	19,968	197,125	66,324	9,272	9,876
Housing	-	-	-	-	-
Consumption	19,968	197,125	66,324	9,272	9,876
Other purposes	-	-	-	-	-
	19,968	**197,125**	**66,324**	**9,272**	**9,876**
	19,968	**197,125**	**66,324**	**9,272**	**9,876**

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	31,665	381,856	480
Regional administrations or local authorities	-	-	5
Public sector entities	-	-	178
Multilateral Development Banks	-	-	-
International Organizations	-	-	-
Entities	450,000	48,158	374,071
Enterprises	10,537	6,085	-
Minority exposures	1,371,193	1,921,892	-
Exposures secured by mortgages on real estate	-	-	-
Exposures in default	-	290,600	-
Entries associated with particularly high risks	-	-	-
Covered bonds	-	-	-
Exposures to institutions and companies with short-term credit assessment	-	-	-
Participations or shares in collective investment	-	-	-
Equity exposures	-	-	3,143
Other	-	98,476	60,947
TOTAL	**1,863,395**	**2,747,067**	**438,824**

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	365	247	247	-
Fishing	25	26	26	-
Extractive industries	33	19	19	-
Manufacture of food products, beverages and tobacco	145	130	130	-
Chemical industry	24	12	12	-
Glass, ceramics and building materials	39	35	35	-
Metallurgy and manufacture of metallic products	528	380	380	-
Manufacture of transport equipment	25	19	19	-
Other manufacturing industries	581	451	451	-
Supply and distribution of electricity and gas	25	14	14	-
Water supply	36	26	26	-
Construction (excluding property development)	1,302	963	963	-
Property development	47	35	35	-
Commerce and repairs	3,726	2,914	2,914	-
Transportation and warehousing	1,226	930	930	-
Catering	961	722	722	-
Information and communication	406	274	274	-
Real estate activities	245	202	202	-
Professional, scientific and technical activities	651	495	495	-
Administrative and auxiliary services	634	541	541	-
Education	150	84	84	-
Human health and social work	160	119	119	-
Arts, entertainments and recreation activities	190	133	133	-
Other services	296	238	238	-
Insurance	-	-	-	-
Other financial intermediation	22	4	4	-
Acquisition of main residence	-	-	-	-
Acquisition of other current assets and services	278,758	210,547	210,547	-
TOTAL	**290,600**	**219,562**	**219,562**	**-**

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	365	247	247	-
Fishing	25	26	26	-
Extractive industries	33	19	19	-
Manufacture of food products, beverages and tobacco	145	130	130	-
Chemical industry	24	12	12	-
Glass, ceramics and building materials	39	35	35	-
Metallurgy and manufacture of metallic products	528	380	380	-
Manufacture of transport equipment	25	19	19	-
Other manufacturing industries	581	451	451	-
Supply and distribution of electricity and gas	25	14	14	-
Water supply	36	26	26	-
Construction (excluding property development)	1,302	963	963	-
Property development	47	35	35	-
Commerce and repairs	3,726	2,914	2,914	-
Transportation and warehousing	1,226	930	930	-
Catering	961	722	722	-
Information and communication	406	274	274	-
Real estate activities	245	202	202	-
Professional, scientific and technical activities	651	495	495	-
Administration and auxiliary services	634	541	541	-
Education	150	84	84	-
Human health and social work	160	119	119	-
Arts, entertainments and recreation activities	190	133	133	-
Other services	296	238	238	-
Insurance	-	-	-	-
Other financial intermediation	22	4	4	-
Acquisition of main residence	-	-	-	-
Acquisition of other current assets and services	242,212	188,415	188,415	-
TOTAL	**254,054**	**197,430**	**197,430**	**-**

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	53	43	43	-
Central America	55	44	44	-
South America	76	61	61	-
Asia	5	4	4	-
Middle East	19	15	15	-
Near East	2	2	2	-
Europe	290,390	219,393	219,393	-
Spain	178,280	129,738	129,738	-
TOTAL	**290,600**	**219,562**	**219,562**	**-**

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	53	43	43	-
Central America	55	44	44	-
South America	76	61	61	-
Asia	5	4	4	-
Middle East	19	15	15	-
Near East	2	2	2	-
Europe	253,844	197,262	197,262	-
Spain	141,735	107,607	107,607	-
TOTAL	**254,054**	**197,430**	**197,430**	**-**

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 2016 and 2017 in the balance of impairment writedowns in the loans and receivables caption:

	Thousands of Euros		
	Allowance for impaired loans	Impairment for losses incurred but not reported	Total
Balance at 1 January 2016	**71,230**	**37,094**	**108,324**
Increase in provision	85,323	(7,119)	78,204
Reversals	(2,885)	-	(2,885)
Utilisation	(61,942)	-	(61,942)
Other movements and transfers (*)	111,758	30,209	141,967
Balance at 31 December 2016	**203,484**	**60,184**	**263,668**
Increase in provision	199,295	47,367	246,662
Reversals	(53,976)	(43,121)	(97,097)
Utilisation	(131,441)	-	(131,441)
Other movements and transfers	2,198	138	2,336
Attributable to non-current assets held for sale	(35,560)	(5,259)	(40,819)
Balance at 31 December 2017	**184,000**	**59,309**	**243,309**

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 2017 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 Group is therefore exempt from this obligation.

WiZink

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 Group is provided below in thousands of euros, referenced to 31 December 2017:

Carrying and fair value of encumbered and unencumbered assets:

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans at sight			51,816	
Equity instruments	-	-	3,143	3,143
Debt securities	255,642	-	144,616	96,458
Loans and Advances other than Loans at sight	822,232		3,024,394	
Other assets	97,871		853,479	
Assets of the reporting institution	1,175,745		4,077,448	

Table 14: Encumbered and unencumbered assets

At the reference date, the Group has encumbered assets amounting to €1,175,745, 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 Group 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.

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9 EQUITY EXPOSURES NOT RECORDED IN THE TRADING BOOK

9.1 Accounting policies and measurement methods for equity instruments

In note 3, point 3.5.2 of WiZink Group annual accounts the accounting principles and criteria applied in relation to equity instruments are explicitly shown, as set by International Financial Reporting Standards adopted by the European Union and in force as of December 2017 ("EU-IFRS").

Generally, financial assets are initially recognised at fair value, which, unless otherwise evidenced, will be the transaction price. They are subsequently measured depending on their accounting classification as follows:

1. Financial assets are measured at fair value except for loans and receivables, held-to-maturity financial assets and equity instruments for which fair value cannot be reliably determined, and derivatives for which the underlying assets are equity instruments that are settled through the delivery of the same underlying equity instrument which are measured either at amortised cost or acquisition cost.

2. The fair value of a financial asset on a given date is defined as the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value of an asset is the price being quoted for the asset in an active market with adequate levels of structure, transparency and of reasonable depth.

   Where there is no market price for a particular financial asset, fair value can be estimated based on that established in recent transactions involving similar instruments and, failing that, on sufficiently tested valuation models such as discounted cash flows, multiples, etc. The various risks associated with the financial asset are considered when measuring their fair values.

3. Quoted price in an active market is the best evidence of fair value and is the basis for their recognition in the financial statements. Where the quoted price is not available, financial instruments can be valued using sufficiently tested valuation models such as the Discounted Cash Flows, Black-Scholes or Monte Carlo methods.

4. Loans and receivables and held-to-maturity investments are measured at amortised cost, using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectable amounts of the financial asset. If the financial asset (or group of financial assets) is designated as being a part of a fair value hedge accounting relationship, changes in fair

value attributable to the hedged risk are recorded in 'Gain/ (losses) from hedge accounting, net' in the consolidated statement of profit or loss.

The effective interest rate is the rate that exactly discounts the estimated future cash flows over the expected life of the instrument to the instrument's net carrying amount. This rate considers all the contractual terms and conditions of the financial instrument such as prepayment, call and similar options but disregards future credit losses. The effective interest rate considers all the fees, points paid or received as well as other premiums or discounts. For fixed interest financial instruments, the effective interest rate is the contractual interest rate at the time of purchase adjusted, if appropriate, by the applicable fees, points, premiums or discounts that are directly attributable to the effective interest rate. In the case of floating interest rate financial instruments, the effective interest rate is the current rate of return until the next repricing date.

5. Adjustments to the carrying amount of available-for-sale financial assets are recognised under 'Other comprehensive income'. These are subsequently reclassified to profit or loss upon impairment or sale of the financial asset. Equity instruments classified as available-for-sale for which fair value cannot be reliably estimated as well as derivatives on the same underlying asset settled through the delivery of the asset are carried at cost, adjusted, if appropriate, for impairment losses.

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 €)	Balance sheet value (thousand €)
Available for- sale financial assets		
Debt securities	330	330
Equity instruments	3,143	3,143
TOTAL	**3,473**	**3,473**

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 (10%) and equity holdings in Spanish entities (90%).

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 Group recorded during 2017.

No gains were generated in the year on financial assets and liabilities designated at fair value through profit or loss.

9.4 All gains or losses recognized in equity

During the year, valuation adjustments of €61 thousand have been recorded in equity as at 31 December 2017 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 Group'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 Group'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 Group 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 2017:

	200 b.p rise	200 b.p drop
Change in net interest income to +200 or -200 b.p. movement / Net interest Estimated	-3.64%	0.10%
Economic Value of Equity (EVE)	-1.95%	0.04%

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 Group'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 1 from the point 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:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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 Group 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 2017 the institution's fully loaded leverage ratio was 9,26%, far above the Basel Committee's minimum benchmark (3% of Tier 1 capital against total exposure).

Leverage Ratio Calculation	Amount (thousands of euros)
Tier 1 capital	**519,287**
Total Exposures	**5,605,673**
Leverage Ratio	**9.264%**

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)	4,870,297
(Asset amounts deducted in determining Tier 1 capital)	-550,001
Total on-balance sheet exposures (excluding derivatives, SFs T and fiduciary assets)	**4,320,297**
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
Add-on amount for PFE associated with all derivatives transactions (market to market method)	-
Total derivatives exposures	**-**
Total SFT exposures	**450,000**
Off balance sheet exposures at gross notional amount	8,362,569
(adjustments for conversion to credit equivalent amounts)	-7,527,192
Other off-balance sheet exposures	**835,377**
Leverage ratio exposure	**5,605,673**

Table 18: Leverage ratio exposure

Summary reconciliation of accounting assets and leverage ratio exposures		
Total Assets as per published financial statement	5,320,297	
Adjustments for derivative financial instruments	-	Market value of the derivatives plus the future potential risk
Adjustments for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	835,377	Off balance sheet exposure, net of provisions once the CCF correspondent to the exposure have been applied
Other adjustments	-550,001	Tier 1 Capital deductions plus actuarial results of defined contribution plans
Leverage ratio exposure	5,605,673	

Table 19: Summary reconciliation of accounting assets and leverage ratio exposures

12 REMUNERATION POLICY

12.1 Information on how remuneration policy is set in WiZink Group

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 Group, 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 Group Appointments and Remuneration Committee at 31 December 2017 was composed of the following members:

Peter Ronald Herbert (chairman)

Krzysztof Drozd

Jorge de Velasco

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

As at December 2017, 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 12% 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 euros per year defer 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 Group'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 Group's risk profile, including the Board of Directors. At WiZink Group, "Identified Staff" consists of the following positions:

1. Managing Director
2. Director of Credit Risk
3. Director of Portugal Business
4. Director of Corporate Development
5. Director of Operations and Technology
6. Chief Financial Officer
7. Director of Human Resources
8. Head of Legal Services and Compliance
9. Director of Risk Control
10. Director of Internal Audit
11. Director of Treasury and Capital Markets
12. Director of Commercial Business
13. The members of the Board of Directors

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 2017 for the lone business area that exists in WiZink Group:

Business Area	Number of people	Total remuneration (Thousands of €)
Consumer banking	10	2,291

Table 20: Current remuneration of "Identified Staff"

With respect to the breakdown of remuneration information by type of office, it bears emphasis that at present the Group 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 2017, divided into fixed and variable remuneration, broken down into monetary remuneration, shares and deferred shares, as well as the number of beneficiaries.

Number of beneficiaries	Fixed Remuneration (Thousands of €)	Variable Remuneration (thousands of €)			
		Pecuniary	Deferred pecuniary	Shares	Deferred shares
10	1,935	289	94	127	94
		603			

Table 21: Current fixed and variable remunerations amounts of "Identified Staff"

The deferred remuneration pending payment in cash amounts to 344 thousand euros, and pending payment in shares to 633 thousand euros

By December 2017, 31 thousand of euros have been paid for dismissal compensation.

The members of the Board of Directors of the Entity are also considered Identified Staff. Two of them have received remuneration for their work in 2017, for a total amount of 134 thousand euros.

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 31 de julio de 2018

VÍCTOR LOZANO MARTÍNEZ
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