



Annual Report

cecabank



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Letter from the CEO



José María Méndez
Álvarez-Cedrón

2018, perseverance and innovation in our intention to add value to the Spanish banking sector.

2018 has been a very important year for Cecabank, for several reasons. Firstly, due to being midway through our second 2017-2020 Strategic Plan. At this point of the Plan, the Committee has conducted a comprehensive assessment of the progress and it has planned the efforts required to reach the intended objective.

Secondly, for implementing it in a challenging context, with an unstable economic and political environment and, particularly, a scenario of low interest rates and highly volatile markets. This situation has influenced negatively our net interest margin and the evolution of pension and investment funds, which have closed the year with a negative growth, and has had an effect on our Securities Services fees and commissions.

Thirdly, and equally relevant, due to a change in the entity's corporate government with the appointment of a new Chairman.

In 2018, in such a complicated year, Cecabank has again demonstrated its intention to add value to the Spanish banking sector by obtaining a net profit of 64 million euros. An extraordinarily positive figure considering the context. The reason behind this is that Cecabank continues to transform itself to offer better banking solutions, thanks to the talent of our employees and the clients' trust.

Innovation, a key point in our strategic plan. At Cecabank, we believe that only by continuously improving our day-to-day we can provide the best service in the lines of business that are the heart of the organisation: Securities Services, Treasury Management, Payments and Digital Solutions. As a result, at the end of 2018 we reached the conclusion that we had to implement a global transformation plan in the entity, with the aim of becoming swifter in meeting our clients' demand, reducing the time-to-market. Ultimately, the idea is to evolve towards a new corporate culture, for which we have launched ckbeSMART project.

With regard to Innovation, we must take into account that Interactive Services continues consolidating the ck-Lab project, with the aim of promoting the digital transformation of the organisation and the financial sector. To that end, in January of this year we organised an event called "The future of Open Banking", which is aimed at banks and fintechs and to which more than 150 professionals attended.

Furthermore, we have established the first Blockchain consortium (comprising 8 institutions and led by Cecabank) in the Spanish financial sector, Niuron, which this year has developed a platform to quickly and securely verify the identity of a person when registering as a banking client.

At Cecabank, in addition to analysing potential growth opportunities that will help us scale up, we work towards promoting incremental initiatives in our business. The intention is to identify new levers linked to innovation. With this aim in mind, we have designed and launched the Inizia project, which incorporates an investment policy designed to help technological startups advance.

We rely on quality. This year, Cecabank has continued to work towards improving the quality of the provided services, and it has received the certification of management systems for the entire organisation for the first time. Cecabank has been one of the first financial institutions to implement a Criminal Compliance Management System.

In addition, an Energy Management System has been implemented; a Reporting Service (Pyramid) has been renewed; and the certification of the Securities Services and Depositary of Collections and Payments was maintained.

Our commitment towards continuous improvement is aimed at clients and workers of Cecabank.

On the one hand, we are proud to say that we continue providing a competitive and efficient service to our clients. Our degree of compliance with the WoW experience has been of 89% this year, with practically the same percentage in new clients and long-term clients.

We are also happy that the prestigious European publication Global Banking & Finance Review has recognised Cecabank as **the best custodian bank in Spain for the second year running.**

I would like to appreciate the performance of the entire staff at Cecabank. Our workforce has demonstrated in 2018 that it is the bank's most valuable asset. At Cecabank, we continue relying on talent, and thus we continue to develop a Training Plan aimed at meeting the needs of the organisation and the people that make up and enable the entity to provide its services with the highest standards of quality and efficiency. As a result, we have promoted the use of swifter and more digitised work methodologies.

In short, 2018 has been a year full of challenges, but the Cecabank team has been able to face them and continue providing the quality service we are noted for.

This year, Manuel Azuaga, who was already a Director, has been appointed Cecabank's Chariman. I would like to express my sincere appreciation for his excellent work, with the security that his experience and professionalism will definitively contribute to overcome the entity's future challenges.





About
Cecabank

Key details

December 2018

Individual figures

9,649,828
thousand euros

1,073,170
thousand euros

1,063,402
thousand euros

63,494
thousand euros

35.83%

CET 1

Profit for
the year

Own
funds

Total Net
Equity

Total
Assets

Balance sheet (thousands of euros)	2018
Total Assets	9,649,828
Held-for-trading financial assets	1,920,383
Available-for-sale financial assets	1,478,973
Held-for-trading financial liabilities	1,376,857
Financial liabilities at amortised cost	6,946,340
Total Net Equity	1,073,170
Own funds	1,063,402

Income statement (thousands of euros)	2018
Net interest income	6,308
Gross income	249,352
Profit from operations	99,772
Profit before tax	88,741
Profit for the year	63,494

Solvency and Liquidity	2018
CET 1 ratio	35.83%
Equity	791,312
Basic Equity (core capital)	791,312
Long-term Liquidity Ratio	373%

Cecabank Rating	2018		
	Short term	Long term	Outlook
Moody's	P-2	Baa2	Stable
Fitch Ratings	F-3	BBB-	Stable
Standard & Poor's	A-2	BBB	Positive

Our activity

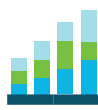
Cecabank is a Spanish wholesale bank that offers innovative, tailored solutions for its clients, guiding them through their journey to reach their business objectives.

We specialise in:



Securities Services

Global Securities Solution
IF and PP Depositary
Securities Custody,
Settlement and Clearing
Futures Settlement in
Organised Markets



Treasury Management

Execution of Equity Debt
Capital Markets
Technological Solutions
Financial Markets
Banknotes



Payments

Digital Payments
Processing Solutions and
Payment Methods
Payments Infrastructures
and Services
International Payments and
FX Platform



Digital Solutions

Digitisation of Processes
Omnichannel Services
Business Intelligence
Technological Solutions
Technological Outsourcing

Cecabank presence

Cecabank has its head office in Madrid. It also has two operational branches in London and Lisbon and representation branches in Paris and Frankfurt. The first one covers the German and Swiss markets, and the second one the French and Benelux market.



Branches

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Manager

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Representative

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jsomoano@de.cecabank.es

France

21, Avenue Pierre 1er de
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Fax: 00331.47235799

Representative

Dª María Recalde
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Shareholders and shareholder structure

Shareholders

Cecabank's shareholders are comprised by the following entities:

CECA
No. of Shares
100,000,000
% of shares
89.08%

Caixabank, S.A.
No. of Shares
3,059,729
% of shares
2.73 %

Bankia, S.A.
No. of Shares
2,848,192
% of shares
2.54 %

Kutxabank, S.A.
No. of Shares
1,352,325
% of shares
1.20 %

Unicaja Banco, S.A.
No. of Shares
1,299,440
% of shares
1.16 %

Liberbank, S.A.
No. of Shares
888,958
% of shares
0.79 %

Ibercaja Banco, S.A.
No. of Shares
765,561
% of shares
0.68 %

Abanca Corporación
Bancaria, S.A.
No. of Shares
712,677
% of shares
0.63 %

Banco Bilbao Vizcaya
Argentaria, S.A.
No. of Shares
644,683
% of shares
0.57 %

Banco Sabadell, S.A.
No. of Shares
574,171
% of shares
0.51 %

C.A. y M.P. Ontinyent
No. of Shares
57,920
% of shares
0.05 %

Caixa D'Estalvis
de Pollença
No. of Shares
52,881
% of shares
0.05 %

Cecabank investments

As at December 2018, the **Cecabank's shareholder structure**, aimed at the achievement of the bank's targets, is made up of the following:



100 %

CEA Trade Services LTD
Management of letters of credit.



78.62 %

Trionis SCRL
Development, management, and maintenance of financial services with a particular focus on payment methods.



22.78 %

Eufiserv Payments, SCRL
Payment methods.



14.44 %

Ahorro Corporación
Financial services holding company.



10 %

E6K Servicios de Valor añadido, S.L.
Administration of credit cards and debit programmes.



9.29 %

Sociedad Española de Sistemas de Pago
Exchange, clearing, and settlement of transfers.



8.85 %

LICO Leasing S.A
Leasing and banking services corporation.



1.55 %

Caja de Seguros reunidos, compañía de seguros y reasegurados
Insurance.

sistema de tarjetas y medios de pago, s.a.

1.29 %

Sistema de tarjetas y medios de pago, S.A.
Payment methods.

Presence in forums

Spanish reference bank in the provision of services to other financial institutions

Cecabank is supported by an extensive network of experts who put all their knowledge at the service of its clients. Thanks to the national and international recognition of these experts, the bank is called on **to take part in the industry's leading working groups.**

The bank has commercial and collaborative relationships with a wide range of shareholders and maintains a high level of dialogue with national and international authorities, as well as with sectoral associations and private institutions.

Extensive network of internationally and nationally renowned experts

Cecabank has consolidated its **leadership in the depository business** in 2018, strengthening its prominent role on the Securities Services market; has consolidated the treasury management business; and has cemented the innovation of the digital and payment services it provides. As a result, Cecabank, the **benchmark Spanish bank in the provision of services to other financial institutions**, has been recognised for the second consecutive year as the **best custodian bank in Spain** by the European magazine Global Banking & Finance Review. After the jury, made up of the research team and editor, considered the proposals made by the magazine's subscribers, it awarded Cecabank a prize for its leadership in Securities Services, innovation, excellence in client service, corporate governance and solvency well above the European banking's average, among other criteria.

Cecabank held another year its 5th Securities Services Conference at the Madrid stock exchange, which was attended by securities brokers, CII (Collective Investment Institutions) and pension fund managers, private equity firms and banks, which shared their impressions surrounding current



The Securities Services Conference is the reference post-trade forum

topics, such as the present and future of the securities market regulations, of T2S (Target-2 Securities) and of Paneuropean financial infrastructures. More than 300 attendees from 230 institutions debated the coexistence of fintechs, ISCs (Investment Services Companies), depositaries and other market agents, under the impact of the industry's digitisation and regulatory pressure.

The **11th Cecabank Treasury Management and Risks Conference** was held at the same time, with over 100 attendees from 20 entities taking part. It became clear at this conference that the Treasury Management's activity is increasingly subject to two disruptive forces that are significantly changing the way of doing business: regulation and digital transformation.



11th Cecabank Treasury Management and Risks Conference

Cecabank continues to consolidate its position as a **financial innovation hub**, in which it acts as a meeting point between banks and fintechs. Within the framework of CK-Lab - the financial digital transformation laboratory created by Cecabank - Public Administrations, banks and fintech companies collaborate in initiatives related to technological innovation, and participate in the search for a regulatory framework that favours the development of a digital financial company.

This fact was confirmed by the attendance of over 180 people from banks, management companies and fintechs to the **CK-Lab "The future of Open Banking"** sessions organised by Cecabank in January 2019.

During the debate that took place, it was made clear that the banks have to adapt to the new ecosystem with new players and a set of rules that will arise in line with this new situation, such as the transposition of the payment services directive (PSD2).

Also framed within the CK-Lab collaboration forum and aimed at promoting training, research, development and innovation in financial services and digital transformation, Cecabank and the **Camilo José Cela University** entered a collaboration agreement.

CK-Lab is the bank's digital transformation laboratory



Cecabank launches the first blockchain financial consortium in Spain

Within the scope of innovation, Cecabank has led, together with another eight financial institutions, the creation of Niuron, the first blockchain financial consortium in Spain, where blockchain technology is being developed to meet banking uses. An MVP (Minimum Viable Product) was developed by December 2018, that is, a platform with minimum functionality aimed at entering into actual production with 6 entities.

To discuss this and other topics, the event “**Blockchain: from theory to practice**”, organised by El Confidencial and sponsored by Cecabank, Metrovacesa, Everis, JLL, Business school and Finweg, was held at Cecabank’s Asssmebly Hall in October.

One more year, Cecabank has supported the **Spain Investors Day**, the **reference financial forum in Spain**, in which the major international investors can learn about the current situation of the main companies listed in our country.

The event **Iberian Value** was held at the Mutua Madrileña Foundation’s Auditorium in April. It was attended by investors and managers whose investment philosophy is based on discovering long-term value. El Confidencial and Finect, with Cecabank’s support, created a meeting space at this event for the people who best represent investments in Spain. The event attracted approximately twenty renowned Spanish managers, and each of them delivered a brief presentation in which an investment idea was shared with the attendees.

Cecabank has also supported the annual event organised by ISLA (**International Securities Lending Association**), which is the international association for securities lending. This event was held in Lisbon under title 27th Annual conference on Securities Finance and Collateral Management.

Within the scope of financial regulation, Cecabank supported the **legal debate organised by the Funds People magazine**, which consists in a quarterly meeting where professionals gather to analyse the current regulation on collective investment.

Cecabank sponsors specialised events in its scopes of knowledge

Furthermore, the first **RegTech Unconference Madrid 2018** took place. Cecabank, one of the major market leaders in advisory services for financial regulation and in providing consultancy services, supported and was present at the event.

In the field of CSR, the **World Food Day** and the **6th Edition of the Great Food Pickup** were held; the latter is a nationwide charity campaign. During the presentation, the **Madrid Food Bank Foundation** granted Cecabank the 2018 Award in the Sponsorship category for its collaboration in the various activities carried out.

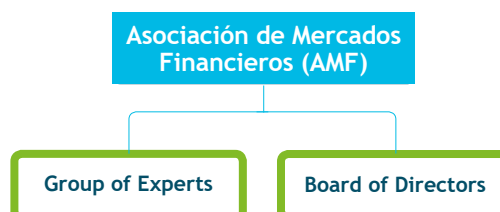
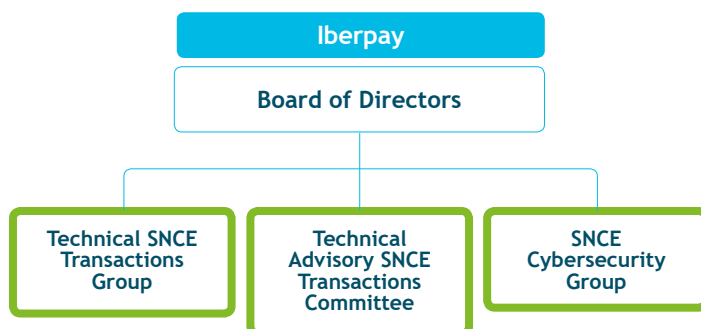
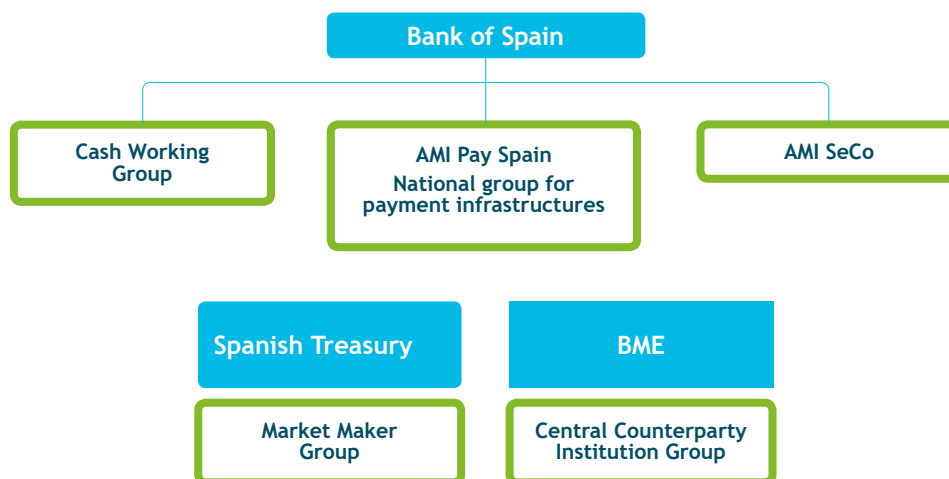
With the ambition of becoming a reference space for dialogue that facilitates a debate between members in our sector and relevant institutions and strategic actors of current society, Cecabank created **ckb-Talks** in 2018. José María Lassalle, State Secretary for Information Society and Digital Agenda of Spain, participated in the first session.

Corporate social networks have gained a foothold

Throughout 2018, **the entity's social corporate networks have gained a foothold**, offering information about the bank's activity and new developments and providing a two-way communication with our stakeholders. Social networks are also the channel we employ to facilitate communication with our clients, as well as one of the means to present new products and services.

Cecabank has reached 5,740 followers in its LinkedIn company page. This has provided further visibility to our business, enabled it to raise brand awareness and helped improve the relationship with our clients, as well as promoting the pride of belonging.

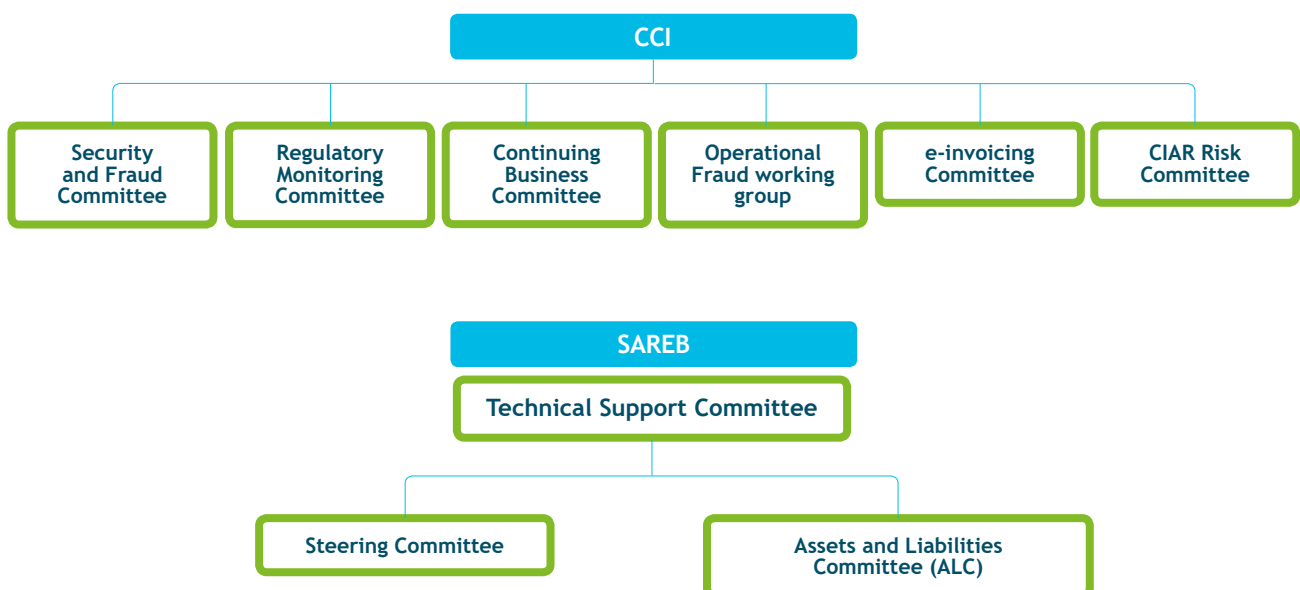
National



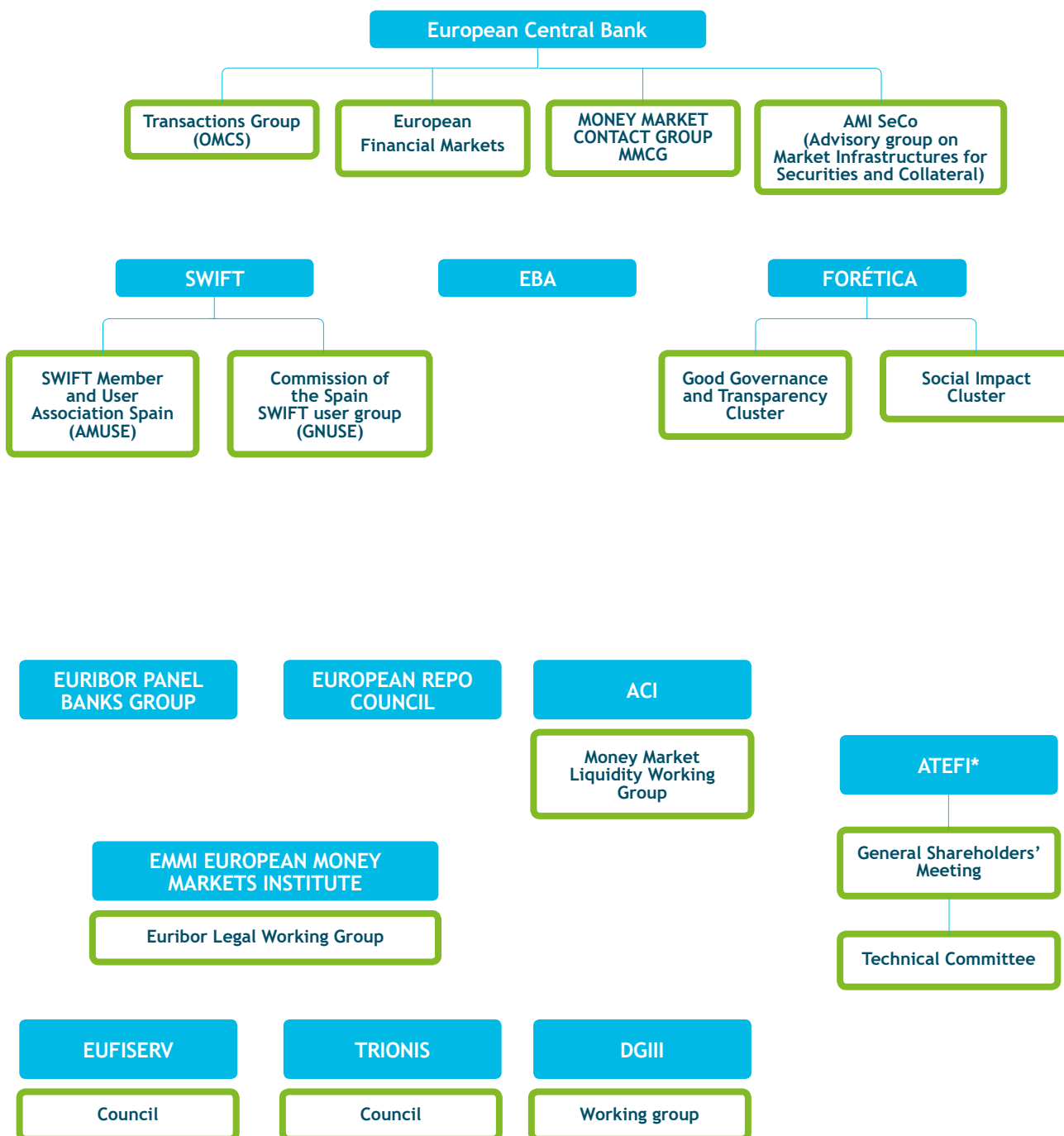
National



*CSTIC: AEC (Spanish Quality Association) Community in Communications and Information Technologies and Systems

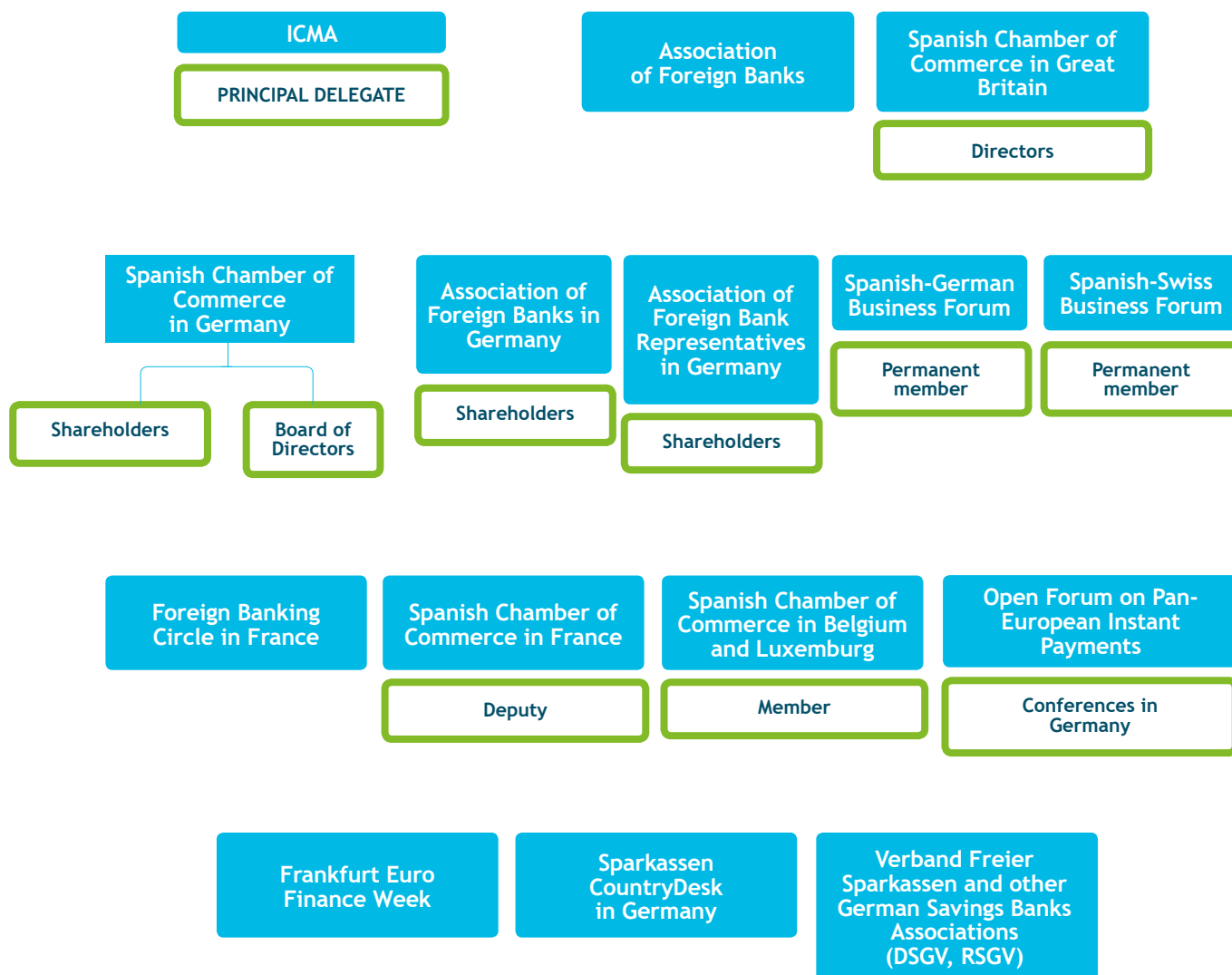


International



*Latin American Association of Electronic Transfer of Information Sources Service Operators

International



International Business

Cecabank is working towards internationalisation

The institution's overseas network allows operating in **France, Benelux, Germany, Switzerland, Portugal and the United Kingdom**, thanks to two branches: London and Lisbon and two representation branches: Paris and Frankfurt.

As a result, Cecabank has acquired **international visibility**, which is vital for carrying out its business. It is also closer to the financial institutions of European countries, thus being able to better promote its services and help the establishment of mutual collaboration agreements.

Experts in the international network have been present in forums, conferences and events of interest for the industry, involving Cecabank in all of them and keeping the organisation within the current trends and new financial movements.

This makes Cecabank part of the flow of information that facilitates creativity, allowing to **develop cutting-edge products and services**.

The Lisbon branch consolidated itself in 2018

A highlight of 2018 is the Portugal branch's consolidation, which was opened in 2017 and focused its activities on creating closer ties with Portuguese financial institutions, presenting Cecabank and the services it provides. Deeper relationships have been achieved with different Portuguese institutions by signing new agreements on the financial market's operations.

The **London branch** has maintained its correspondent activity, as well as acting as an extension of the Treasury Management's business development activity, in the United Kingdom.



In the marketplace for remittances and pensions towards Spain, the bank processes 55% of the total pensions sent to Spain

Regarding Cecabank's activity in the **marketplace for remittances and pensions towards Spain**, the **Paris and Frankfurt branches** have continued to work in maintaining the market share of processes remittances and pensions. Currently, the volume of this activity amounts to 55% of the total pensions sent to our country. Cecabank's presence in Portugal allows expanding the service offering to the entire Iberian Peninsula and working on promoting this global offering, which opens new business opportunities with the institution's clients.

Cecabank's overseas network has a **support team in Madrid** which deals with the operational handling of payment methods in foreign trade and international guarantees, as well as providing support to pension agreements and immigrant remittances.

There is a **Customer Service** specialising in resolving problems and providing advice to pensioners, beneficiary entities in Spain, senders' correspondent banks, and payer entities.

Correspondent's network

Broad network of correspondents

Cecabank maintains a **broad network of correspondents worldwide**, which is essential to us carrying out all the transactions and payments allowing us to give the level of coverage we need to provide the services offered. This gives Cecabank great international standing.

The solid alliances and collaboration agreements held with a large number of international financial entities **enable us to create new synergies** leading to an expansion of services we already provide and innovation in new products.

This year, Cecabank has continued **increasing the currencies in which it provides service** and it has optimised and streamlined the correspondents that make up the network in order to reduce costs and any unnecessary and processes.

Strategic Plan: 2017 - 2020 evolution

The Strategic Plan is at its halfway point

Cecabank has arrived at the halfway point of the **2020 Strategic Plan** with a firm commitment towards achieving growth through three lines of business:

- 1) **Securities Services**, focusing on maintaining the leading position in the depositary business by complementing the services offering within the value chain and driving the expansion into the Portuguese market.
- 2) **Treasury Management**, aimed at increasing profitability, completing the offering with new services and maintaining its position in the Banknote business in Spain.
- 3) **Banking services**, which contributes with multiple solutions to the market in a mature business, subject to the sector's adjustments and new players. Its aim is to attract and build the loyalty of users, create economies of scale that have an impact on the efficiency of clients and develop added-value solutions that help acquire business.

In 2018 it continued implementing the defined strategy, which consisted in strengthening the business of the **three main lines of action**.



In 2018 it continued implementing the defined strategy, which consisted in **strengthening the main lines of business.**





The entity is involved in a significant internal transformation project

During these two years, work has been carried out on the **internal transformation plans**, achieving significant progress in its implementation and encouraging actions that promote a culture of change that is centred on the entity's values and goals.

Strategic Plan: Internal transformation



Commercial Management Plan

Intense commercial activity
Standardised commercial monitoring



Innovation Plan

Conceptualisation of innovation
Innovation culture Inizia project



Blockchain

Niuron
Impact analysis
Disclosure of technology



Systems plan

Efforts aimed at incremental initiatives



CSR Plan

Materiality plan
CSR Committee
Social action policy



Corporate Governance

Implementation of the Plan for Continuity and Succession
EBA guideline on internal government



Quality Plan

New quality certifications
Customer journey
Customer experience



Efficiency Plan

Process analysis
Robotics



Communications Plan

Internal communications
Social networks
Events and sponsorship

Inizia part of an innovative project to invest in fintechs, regtechs and cybersecurity

These advances have allowed achieving the necessary maturity in the functional support areas in order to address a greater transformation by means of the *ckbeSMART* project, which reinforces the entity by promoting innovation and flexibility when dealing with the environment's challenges.

Furthermore, potential corporate operations are being analysed in practically all Cecabank's business areas.

At the same time as analysing traditional potential opportunities, an investment policy within the scope of fintechs, regtechs and cybersecurity has been designed and launched to encourage the identification of new levers linked to innovation.



Main milestones achieved in 2018

During the second year of implementation of the 2020 Strategic Plan, the following milestones were achieved:

Gross income

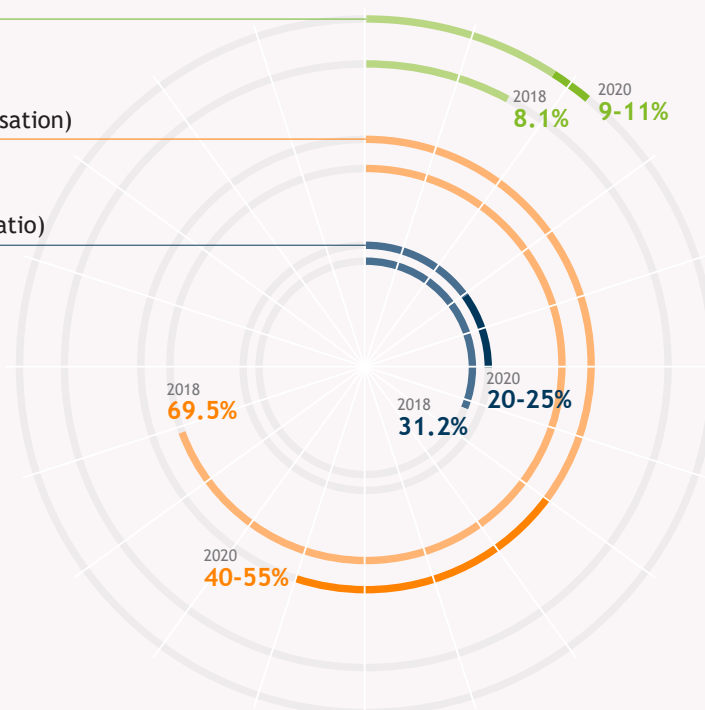
2020
270
million euros

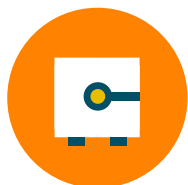
2018
249
million euros

Return (ROE)

Efficiency (without amortisation)

Solvency (Tier 1 capital ratio)





Particular focus on
diversification and
innovation



Boost in cross-
selling

The main advances in each of the lines of business are as follows:

1) Securities Services:

- In spite of a deceleration in the growth of off-balance-sheet net worth and the reduction of fees and commissions, we have maintained the net worth and deposited funds.

December 2018	Number of Funds	Net Worth (M euros)
UCITs	454	71,876
FPS-EPSVs	439	35,690
ECR	1	4
TOTAL	894	107,570

- The launching of new services, such as the Global Securities Solution, involved the creation of ecosystems by entering agreements with market leading entities.
- The Robotics project has enabled implementing automation actions, achieving significant economies of scale and operating efficiencies that have led to improving the quality of the service provided to clients.

2) Treasury:

- The **net interest margin** has been seen impacted by the markets' high volatility as a result of the uncertainty stemming from various geopolitical risks, the evolution of the interest rates and some macroeconomic indicators.
- The delay in publishing the required regulation, such as the MiFID II or Securities lending, has slowed down some initiatives.
- The incorporation of new solutions into the services portfolio, such as the Bonds platform and the FX Sharing Service, among others.



Establishment of
collaborative models

The ckbeSMART project
aims to encourage
innovation

3) Banking Services

- Significant growth of the volume of operations and users; a clear example are immediate payments. In addition, the positive trend of consumption is reflected in the operations.
- The intense commercial activity is reflected in the establishment of collaborative models to provide services, the closer relationship with clients and the diversification of services.

Main achievements of internal transformation in 2018

At the end of 2018, Cecabank worked internally on the need to address a **global transformation plan to implement across the entire entity**, with the aim of gaining agility, reducing the time-to-market and encouraging innovation to boost the business' growth.

The ckbeSMART was launched with this aim in mind. It is a global project with **five major cross-cutting initiatives** in which over 70 entity professionals are involved already and directly participate in all the transformation initiatives set out in the Strategic Plan.

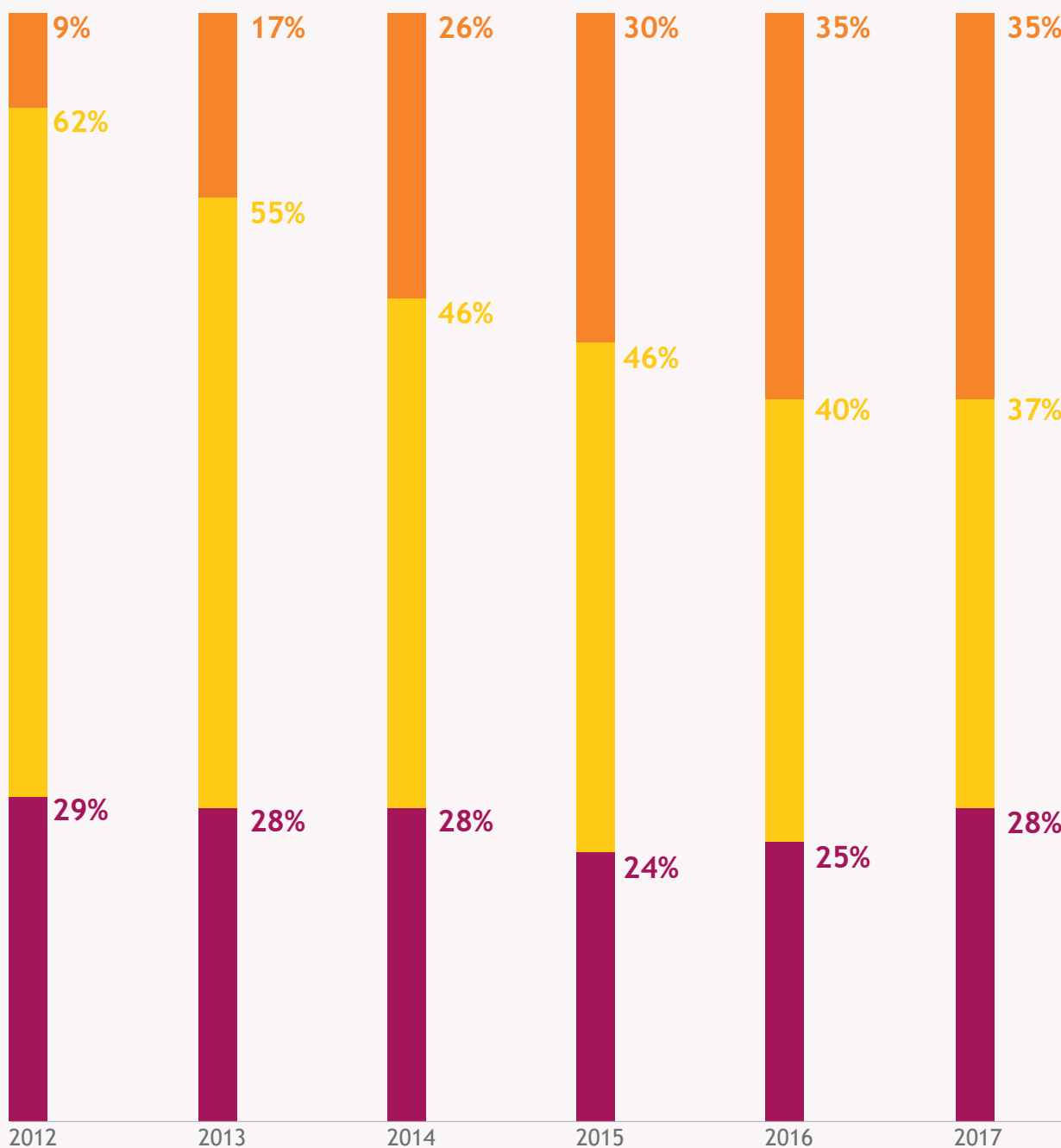
ck^{be}SMART



Diversification of income

The development of this business model has consolidated a more diversified structure of provision to the gross income.

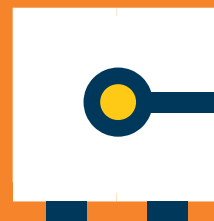
Contribution to the gross (%)



* Does not include contribution to the SRF.

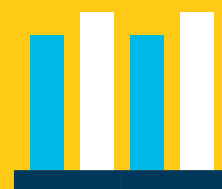
38%

Securities Services



35%

Treasury Management



27%

Banking Services



Dec-2018





Corporate Culture

Cecabank's vision

Cecabank's mission, vision and values are aligned with the Strategic Plan. As a result, its objectives seek to fulfil the expectations of all the bank's stakeholders.



Mission

At Cecabank, we work to provide support to financial institutions and other corporations using our experience as a wholesale Spanish bank with international exposure.



Vision

We strive to consolidate our leading position by offering specialist solutions for all types of financial institutions and corporations. We work together with our clients, building lasting relationships.



Values

They drive and shape the way we work as a bank.



Customer-oriented

Offering an excellent service that forms the basis of a long path together.



Integrity

We consider transparency and integrity to be the core of our ambition to build a bank known for its trustworthiness and consistency.



Specialisation

Backed by a team of experts driven by dedication and efficiency.



Solvency

Resulting from the daily work carried out by professionals guided by caution and responsibility.



Innovation

Technology and creativity go in hand in hand to offer the best specialised solutions every day.

Creation of value

Creativity and innovation become indispensable in order to be able to offer forward-looking solutions.

Innovación

ck-Lab

The bank continued in 2018 driving its digital transformation initiative for the financial sector, called **ck-Lab**. In January 2018 an event was organised on Open Banking, which was open to banks and fintechs; more than 180 professionals attended.

Activities related to public administrations were carried out, such as meeting with the Directorate General of Treasury to promote the regulatory Sandbox regulations or conferences on Open Banking with Bank of Spain inspectors.

In addition, **ck-Lab organised workshops** during 2018 with the entities on topics such as PSD2, Digital payments or Data Management.

A **collaboration agreement was signed with the Camilo José Cela University** through which the university's students carried out research projects within the scope of digital communication and channels commissioned by Cecabank. This agreement laid down the basis to jointly organise the "Advanced Programme on Financial Big Data".



The consortium enables entities to learn to develop under blockchain technology

Blockchain

The first Blockchain consortium in the Spanish financial sector, **Niuron**, (comprising 8 institutions and led by Cecabank) and Grant Thornton have developed a platform to quickly and securely verify the identity of a person when registering as a client.

The purpose is to solve a common problem for all financial institutions that need to ensure the truthfulness of the client's identity when working with them for the first time. The new platform **allows to carry out checks quickly and securely** and always with the client's explicit consent, strictly complying with the current data protection regulation (GDPR) and with the highest standards of security.

The development of this project has enabled companies to continue to develop opportunities with blockchain technology, mostly via the transfer of knowledge to its professional teams.

Inizia

It is Cecabank's new innovation investment model. We are committed to diversification, driving change and disruption, investing in companies under a unique programme to help technological startups advance.

CET 1 ratio

35.83%

Solvency

One of Cecabank's major signs of identity is its solvency. Maintaining a high level of solvency is one of Cecabank's strategic targets. Its speciality in Securities Services requires these levels in order to maintain the trust of its clients: management companies and financial institutions.

Cecabank's CET 1 Ratio at 31 December 2018 stood at 35.83%.

Cecabank's Board of Directors establishes the type and thresholds of acceptable risk to achieve the corporate objectives, and it holds ultimate responsibility for the risks incurred by the bank and performance of its activities. This body defines the general policies with regard to the assumption of risks. Similarly, the Board is the driving force in the corporate risk culture, which focuses on guaranteeing efficient internal control systems and rigorous and complete risk management and measurement processes.

Corporate risk map

The following are considered relevant in the development of the business:

- **Credit risk** is defined as the risk which affects or could affect results or capital as a result of a breach by a borrower of the commitments set out in any contract, or the possibility that it might not act as agreed.
- **Market risk** is defined as the risk affecting results or capital and resulting from adverse movements in the prices of bonds, securities and exchange rates in operations registered in the trading portfolio. In addition, it includes foreign currency risk, defined as the current or potential risk affecting results or capital and resulting from adverse movements in exchange rates in the investment portfolio's operations.
- **Interest rate risk** is the risk affecting or potentially affecting results or capital as a result of adverse movements in interest rates in the investment portfolio.
- **Liquidity risk** is the risk affecting or potentially affecting results or capital as a result of the bank being incapable of meeting its payment obligations upon maturity, without incurring unacceptable losses.
- **Operational risk** is the risk of suffering losses because of the inadequacy or flaws of the processes, people or internal systems, or due to external events, including legal risk. The operational scope covers the management of the different types of operational risk affecting the bank as a whole, including technological risk, externalisation risk and fraud risk, among others.



A prudent risk profile and a high solvency level stand out

Risk Appetite Framework

The risk tolerance defined by the Board sets a conservative strategy which aims to **maintain a moderate-low risk profile**.

Focused on keeping the quantity and quality of capital, with solvency levels clearly above the regulatory minimums, allowing us to anticipate that none of the risks identified could generate losses which could not be withstood within the normal operations of the bank.

The results of application of this philosophy are seen in a highly prudent risk profile, in particular with regard to **high levels of solvency** and a comfortable liquidity position.

The internal control framework

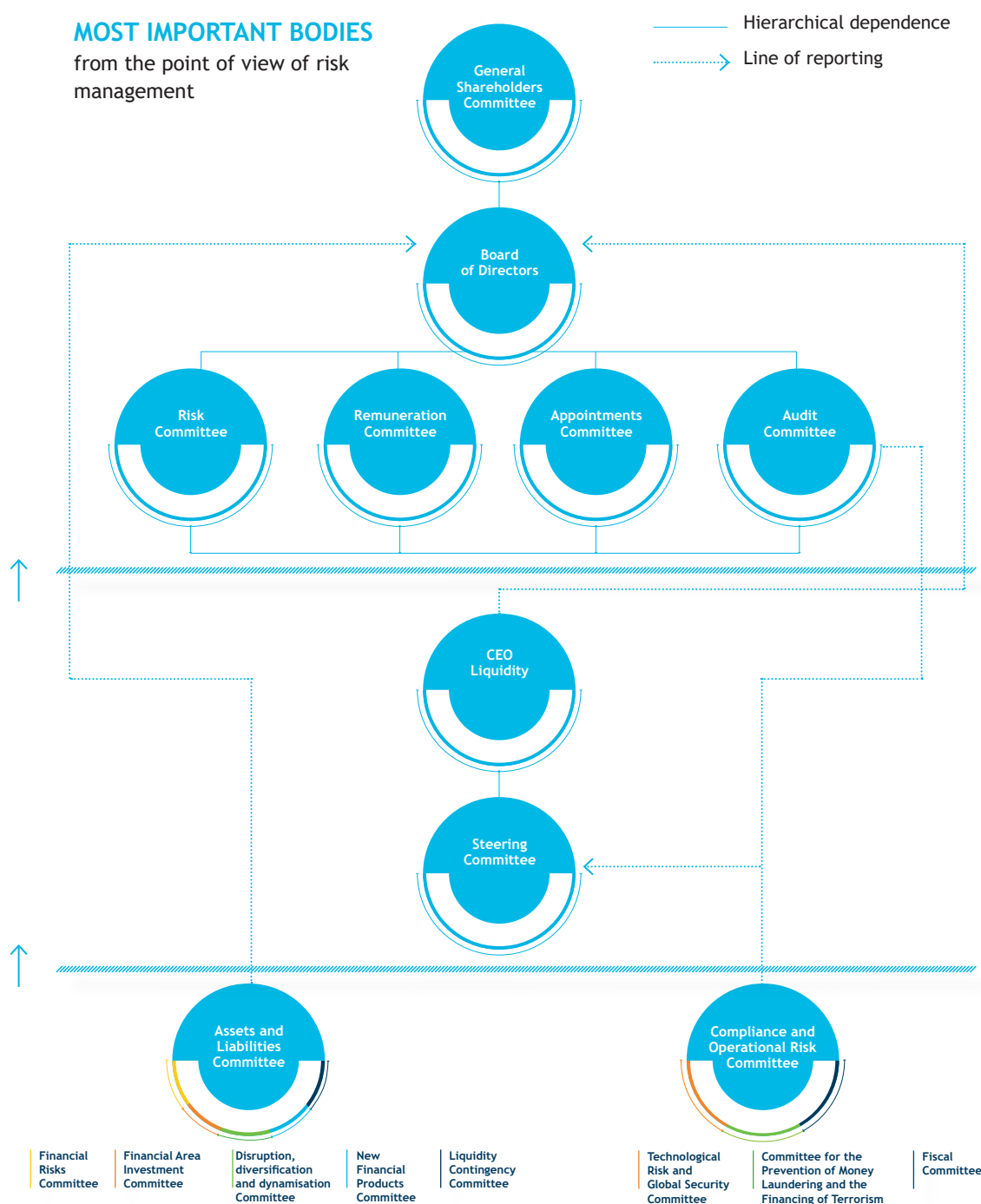
In line with the regulators' guidelines and the sector's best practices, it is structured based on the model of three lines of defence that provides a reasonable security level when it comes to achieving the Group's objectives.

Structure and organization

The internal government's outline allows suitably identifying the risk assumed by the institution, as well as their management and control. For the monitoring of the implementation of management policies and the monitoring of risk profiles, Cecabank has established a supporting structure and a reporting system as described in the following organisational chart.

MOST IMPORTANT BODIES

from the point of view of risk management



The purpose is to contribute to the transformation and growth of Cecabank. In this regard, we must highlight the following figures in 2018



30,199
hours of training



88%
level of satisfaction



59%
online training



41%
face-to-face training



100%
participated in a
training activity



average investment per employee::
1,060
euros

Specialisation

Our **Talent Management Plan “Crece”** incorporates a comprehensive performance management model, a training portal 2.0, internal mobility policies, teleworking, flexible remuneration, a wellness programme and new working spaces. Thanks to the employee web portal People Korner, all these sections are interconnected and are accessed easily.

The bank continues to undertake a training plan designed to meet the organisation’s strategic needs, encouraging the specialisation of teams by means of **official certifications**. It continues to promote the use of flexible working methods and their application in new digital environments through **high-impact and innovative training activities**.

Training is revised and adapted so Cecabank personnel are prepared to meet the needs of our clients and the markets. The **Annual Development and Training Plan** incorporates different areas of knowledge, ranging from standards and regulations, finances, digital skills and IT to management, health and wellbeing.

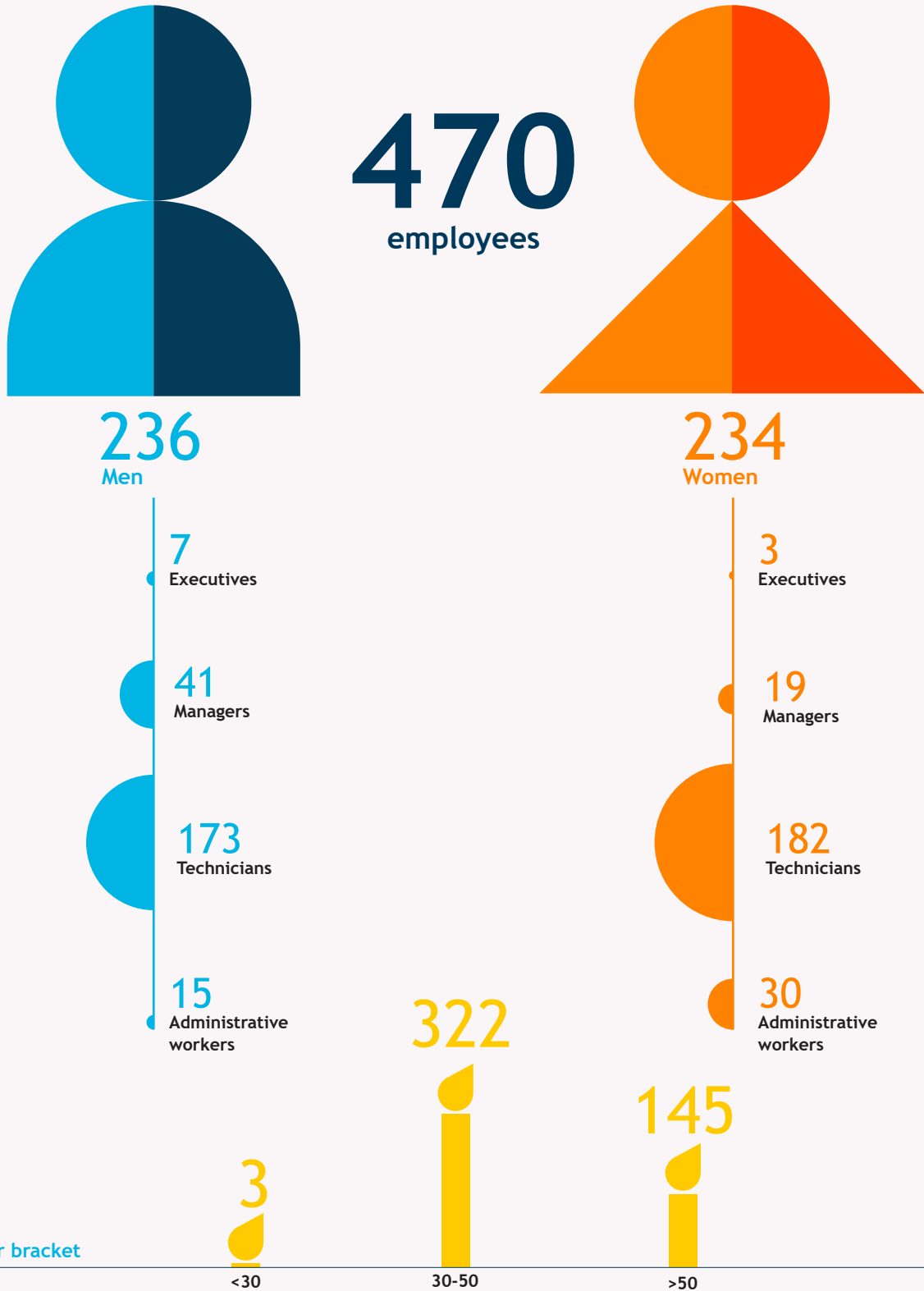
During 2018, continuing with the Policy of Functional Mobility and adjustment of profiles to the positions required covering and with talent retention and management being a strategic objective of the institution, we have carried out 18 internal calls, initiating 19 transfers from internal calls and 9 unrelated to calls.

With the purpose of incorporating profiles that add value and talent to the organisation, Cecabank incorporated 17 new employees after carrying out a selection process with 98 candidates.

In order to assist in the labour integration of new university graduates, scholarships were again awarded to students, supported by the educational **cooperation agreements entered with the most relevant universities and business centres of Madrid**. In 2018, 56 candidates participated in the open processes, and finally 11 scholarships were awarded with Cecabank, providing the candidates the opportunity to complete their studies with the practical training given by our company. In addition, the educational cooperation agreements with universities and educational centres have been extended.

At 31 December 2018, Cecabank had 470 employees (236 men and 234 women), all with a permanent contract.

Distribution of staff





ER-0289/2018



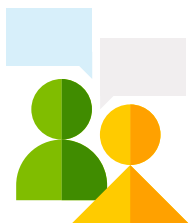
Customer orientation

Within the framework of the 2020 Strategic Plan, the bank continues implementing the Quality Plan with the aim of extending a culture of customer orientation and continuous improvement throughout the organisation. The three defined lines of work have been developed:

1. Implementing quality management systems in those areas in which a certification is a differential value:

- In 2018 a Reporting Service (*Pyramid*) has been renewed; and the certification of the Securities Services and Depositary of Collections and Payments was maintained, all under the criteria of the ISO 9001:2015 Standard
- The ISO 9001:2015 certification was obtained for the Banking Training School
- Within the four scopes certified by the ISO 9001:2015 standard, Cecabank has focused further on continuous improvement and the development of the standard's principles beyond the fulfilment of the own standard's requirements
- During 2018, certificate management systems were implemented throughout Cecabank for the first time:
 - Cecabank has implemented a Criminal Compliance Management System certification in accordance with the UNE 19601:2017 Standard, being one of the first financial institutions to do so
 - An Energy Management System Certificate has been implemented in accordance with the ISO 50001:2011 Standard
- Cecabank has continued providing support to the CMMI model for Services and Development, having worked on its consolidation and improvement





89%

degree of achievement of
the WoW experience

8.4

satisfaction index

48%

developer clients

81%

of the clients continue
trusting in Cecabank
for new solutions

2. **Measuring and analysing the client's voice**, considering client information as a key aspect of the business when it comes to making decisions.

- As it does every year, Cecabank has measured the satisfaction of both internal and external clients. This year we have focused further on the new customer experience measurement model, once the customer journey relating to our services was defined and validated with the clients
- The information obtained has been incorporated as an instrument to improve the different businesses by means of specific actions and needs detection
- A degree of compliance with the WoW experience of 89% has been achieved this year, practically the same percentage in new clients and long-term clients, with a satisfaction index of 8.4%, 48% of developer clients and 81% of clients that continue to trust in Cecabank for new solutions
- It is particularly noteworthy that all global indicators have improved throughout the entire client relationship

3. **Establishing improvement plants aimed at:**

- Improving the quality of our processes (0.0 goal: zero delays, zero non-fulfilments)
- Improving the clients' experience, as it is the basis to establish long-lasting and trusting relationships with them

In addition, Cecabank is a member of the **Spanish Association for Quality** and the **Association for the Development of Customer Experience**, having increased and diversified during the year its activity in both associations in order to cover the widest possible scope of activity and knowledge.

Following the entities' good governance recommendations, a third of Cecabank's Board of Directors are independent members

Integrity

Corporate Governance

Cecabank's Corporate Governance consists of a series of standards, principles and policies that govern the composition, structure and operation of the Governing Bodies (General Shareholders Committee, Board of Directors and its Committees), which are continuously updated to adjust to the best practices. Accordingly, Cecabank has adapted to the standards of Corporate Governance of the EBA (European Banking Authority).

The Board of Directors is made up of 13 members: 7 proprietary members, 5 independent members and 1 executive-director.

The following chairpersons of the various committees make up Cecabank's Board of Directors:

Julia Salaverría Monfort
Appointments Committee Chairperson

M^a Del Mar Sarro Álvarez
Remuneration Committee Chairperson

José Manuel Gómez De Miguel
Risks Committee Chairman

Santiago Carbó Valverde
Audit Committee Chairman

The General Shareholder Committee met twice in 2018

General Shareholders Committee

Cecabank's General Shareholders Committee is the highest representation and participation body of the institution's shareholders.

Cecabank's General Shareholders Committee convened twice in 2018, and they agreed, among other issues:

ORDINARY GENERAL ASSEMBLY 20 MARCH 2018:

- Approval of the Annual Accounts, the management report, and the distribution of profits, as well as the management of the Board of Directors, all corresponding to the financial year ending 31 December 2017.
- The creation of a capitalisation reserve
- The re-election of the company accounts auditor for 2018
- The appointment of the company accounts auditor for the years 2019 to 2021
- The re-election of 3 Proprietary members and an Executive-director
- Setting the number of members the Board of Directors to 13
- The modification of the General Remuneration Policy
- Maximum level of variable remuneration for 2018, for staff whose professional duties have a significant impact on the risk profile of the company

EXTRAORDINARY GENERAL ASSEMBLY - 22 JUNE 2018:

- The appointment of Mr. Javier Pano Riera as a Proprietary Director

Board of Directors

Operation and related issues

Cecabank's Board of Directors has the widest powers to administer the entity and, except in matters reserved to the General Shareholders Committee in accordance with the provisions established in the applicable law and Articles of Association, it is the **highest decision-making body and responsible for the risks assumed by the institution**.

At 31 December 2018, [Cecabank's Board of Directors](#) was made up of:

Name of the Board Member	Position	Status
D. Manuel Azuaga Moreno	Chair	External Proprietary
D. Antonio Ortega Parra	Member	External Proprietary
D. Francisco Javier García Lurueña	Member	External Proprietary
D. Jesús Ruano Mochales	Member	External Proprietary
D. Francisco Botas Ratera	Member	External Proprietary
D. Victor Manuel Iglesias Ruiz	Member	External Proprietary
D. Javier Pano Riera	Member	External Proprietary
D. José Manuel Gómez de Miguel	Member	Non-executive director (independent)
D ^a María del Mar Sarro Álvarez	Member	Non-executive director (independent)
D. Santiago Carbó Valverde	Member	Non-executive director (independent)
D ^a Julia Salaverría Monfort	Member	Non-executive director (independent)
D ^a Carmen Motellón García	Member	Non-executive director (independent)
D. José María Méndez Álvarez-Cedrón	Board member - CEO	Executive
D. Fernando Conlledo Lantero	Non-member Secretary	-

According to the Articles of Association, the Board must hold at least six meetings a year, called by the Chairman.

In 2018 the **Board of Directors met on twelve occasions**, at the Chairman's initiative, and they analysed, among other matters:

- Monitoring of the 2017-2020 Strategic Plan
- Monitoring of each line of business
- Monitoring of the income statement and balance sheet
- Growth options of the Securities Services business
- The creation of a capitalisation reserve
- The annual suitability assessment of Directors and the Board of Directors as a whole
- Appointment of the Board's Chairman and a Proprietary director

In 2018 the Board analysed the Strategic Plan's progress, among other matters

- The renewal of the composition of the Board's delegated Committees
- Policy for the Selection and Suitability Assessment of the Directors and CEO or similar members
- The Board of Directors' Action Plan
- The Modification of the General Remuneration Policy
- The comprehensive reports on the activities carried out during the financial year by the Board's delegated Committees

The Board of Directors has appointed a Secretary non-member, which is also the General Secretary of the institution, Mr. Fernando Conlledo Lantero. Among the main functions of the Secretary is to assist the Chairman when it comes to guaranteeing the proper functioning of the Board of Directors and to ensuring the actions carried out by the Board conform to the applicable regulation and the Articles of Association.

Period of performance of the role

Board members carry out their duties for a six-year term, after which point they can be re-elected one or more times for periods of the same duration.

Policies for the selection and suitability assessment of members of the Board of Directors and CEO or similar members.

Since June 2013, Cecabank has had a policy for selecting and assessing the suitability of the members of the Board of Directors, the CEO and similar members, the persons in charge of internal control and other key positions, in accordance with the provisions of **Act 10/2014 on the regulation, supervision and solvency of credit institutions and other applicable regulation**.

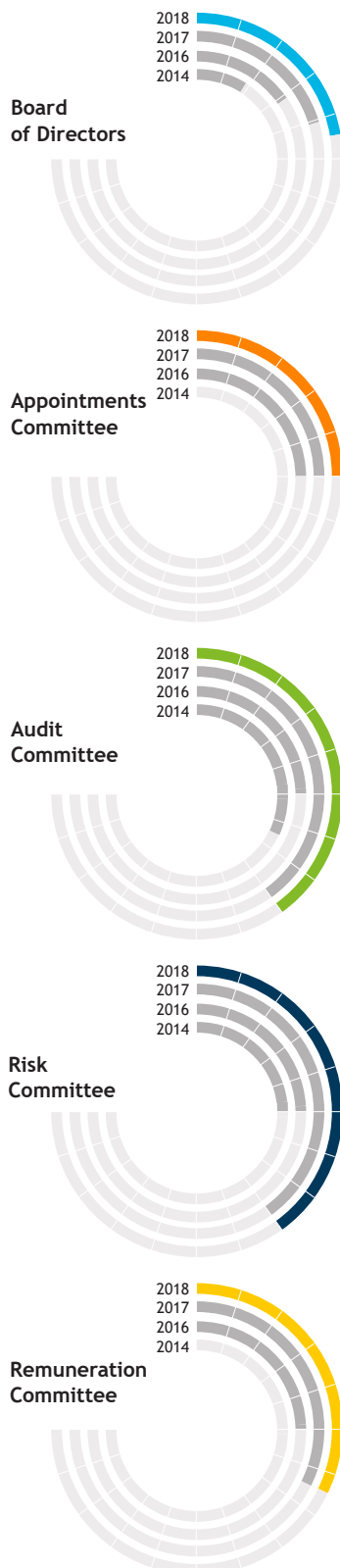
Due to the entry into force of the EBA-ESMA Guidelines on the assessment of suitability of members of the management body and key function holders, published in September 2017, the aforementioned Suitability Policy was reviewed, and it was concluded that there was a need to begin work on a **new text for the Suitability Policy**.

At its meeting of 28 November 2018, the Board of Directors agreed, as the proposal of the Appointments Committee, to approve the Suitability Policy for members of the Board of Directors, the CEO or similar members of Cecabank. With the approval of the aforementioned policy, the part of the policy regarding selecting and assessing members of the Board of Directors, the CEO and similar members, the person in charge of internal control functions and other key positions was rendered ineffective on 25 June 2013.

Similarly, the content of the Board of Directors Selection Policy, approved by the Board of Directors on 24 May 2016 and of the Policy on the representation target for the gender that is least represented on the Board of Directors, approved by the Board of Directors on 25 November 2014, was rendered ineffective since they were incorporated into the Suitability Policy approved in 2018.

In 2018 the Board approved its Member Suitability Policy

Evolution of the no. Directors



Gender diversity on the Board of Directors.

Furthermore, in applying the **Suitability Policy**, Cecabank acknowledges the value of the diversity in the composition of the Board of Directors and the importance of having Directors that are capable of contributing various points of view, perspectives, skills, experiences and professional careers, both in the debates within the Board and in its decision-making processes, which, ultimately drives the improvement of the Board's decisions. As a result, Cecabank will encourage diversity in the Board of Directors so its composition is diverse, taking into account the structure of the CECA - Cecabank group, in which CECA is the majority shareholder.

The **procedure to select Board members** shall, to the extent possible, incorporate a broad set of qualities and competences, with the aim of achieving a diversity of points of view and experiences and encouraging independent opinions and solid decision-making within the Board of Directors.

To this end, the following aspects relating to diversity will be considered, among others: **academic and professional profile, age and gender**.

Regarding gender, Cecabank must ensure that the selection and evaluation processes comply with the principle of non-discrimination and equal treatment are not subject to implicit biases that hinder the selection of women and adopt measures that include women with the professional profiles among the potential candidates.

The bank has established the **representation target of women on the Cecabank Board of Directors as at least 50%** of the Independent board members. To calculate this percentage, in the event the number of Independent board members is uneven, it shall be rounded up to the next whole number.

Furthermore, the representation of women on the Board of Directors will be subject to an upward trend, with the ultimate objective being to reach an equal balance of men and women on the Board. In order to reach this objective, vacancies that arise on the Board and its different Committees shall be taken into account.

Evolution of Female Board Members joining the Board of Directors:

Body	2014	2016	2017	2018
Board of Directors	9.09%	16.67%	21.4%	23.1%
Appointments Committee	0%	25%	25%	25%
Audit Committee	33,3%	25%	40%	40%
Risk Committee	25%	25%	40%	40%
Remuneration Committee	0%	25%	33.3%	33.3%

Board of Directors' Committees

In accordance with the regulations applicable to credit institutions, for the performance of their tasks, Cecabank's Board of Directors has Committees **specialising in different fields** and with supervisory and advisory powers to **perform their functions**.

Appointments Committee

Composition of the [Appointments Committee](#), at 31 December 2018:

Julia Salaverría Monfort
Presidenta/Independiente

Antonio Ortega Parra
Vocal

José Manuel Gómez de Miguel
Vocal

Fernando Conlledo Lantero
Secretario no miembro

Javier Pano Riera
Vocal

This Appointments Committee, in accordance with the provisions established in article 39 of the Articles of Association and its own Regulation, is responsible for, among other duties, selecting and recommending candidates for positions on the Board; assessing the Board's balance in terms of knowledge, capacity, diversity and experience; regularly assessing the Board's structure, composition, size and activities, providing recommendations; regularly assessing the suitability of the Board and its members as a whole, and informing the Board; and regularly assessing the Board's policies with regard to selection criteria and the appointment of senior management, providing recommendations.

During 2018, the Appointments Committee met on six occasions, in which among other issues the following were discussed:

- The selection, assessment and appointment of a Proprietary
- The assessment and appointment of the Board of Director's Chairman
- The Policy for the Selection and Suitability Assessment of members of the Board of Directors and General Management or similar members
- The annual suitability assessment of the members of the Board of Directors and the latter as a whole
- The self-assessment exercise of the Board of Directors and its delegated Committees
- 2017-2020 Talent management plan
- The training needs of Board members

Composition of the **Remuneration Committee**, at 31 December 2018:

M^a del Mar Sarro Álvarez
Chairperson/Independent

Santiago Carbó Valverde
Member

Jesús Ruano Mochales
Member

Fernando Conlledo Lantero
Secretary (non-member)

Remuneration Committee

The Remuneration Committee, in accordance with the contents established in article 40 of the Articles of Association and its Regulation, is responsible for, among other duties, making decisions related to remunerations, which the Board of Directors must assume; reporting information on the General Remuneration Policy of the members of the Board of Directors, general directors or similar positions, as well as the individual remuneration and other contractual conditions of the members of the Board of Directors who perform executive duties, and ensuring compliance therewith; reporting information on the Remuneration Policy of senior executives, employees that assume risk, employees performing control functions and any employee that receives an overall remuneration that falls within the same scale of remuneration as applies to senior executives and employees that assume risk, whose professional activities significantly coincide with their risk profile; and reporting information on the incentive plans for directors or employees linked to the bank's profit and/or other variable indices / components.

During 2018, the Remuneration Committee met on two occasions, in which it analysed, among other issues:

- Modification of the procedure for reimbursing Directors their travel expenses
- The modification of the General Remuneration Policy
- 2017-2020 Talent management plan

Composition of the **Audit Committee**, at 31 December 2018:

Santiago Carbó Valverde
Chairman/Independent

M^a del Mar Serrano Álvarez
Member

Jesús Ruano Mochales
Member

Francisco Botas Ratera
Member

Carmen Motellón García
Member

Fernando Conlledo Lantero
Secretary (non-member)

Audit Committee

The Audit Committee, in accordance with the provisions established in article 38 of the Articles of Association and its Regulation, is responsible for, among other duties supervising the effectiveness of the internal inspection, internal audit, and risk management systems; monitoring the process of preparing and presenting the required financial information and submitting recommendations or proposals to the Board of Directors; raising before the Board, for it to be presented to the General Shareholders Committee, the proposals for selection, appointment, re-election and replacement of the accounts auditor; annually issuing, prior to the issuance of the audit report, a report in which an opinion will be expressed on the independence of auditors; and reporting to the Board of Directors any financial information that it must periodically make public.

The Audit Committee met on six occasions in 2018, and analysed, among other issues:

- The control function and its annual reports
- The external expert's report on the Prevention of Money Laundering and the Financing of Terrorism
- The implementation of the Management of Technological Risks
- The auditor's independent report on Client asset protection
- The Euribor contribution's process
- The operational risk management framework
- The re-election of the external auditor
- The process for appointing the external auditor for the 2019-2021 period
- The supervision function of monitoring Cecabank as a depository

La composición del **Comité de Riesgos**, a 31 de diciembre de 2018 es:

José Manuel Gómez de Miguel
Chairman/Independent

Francisco Javier García Lurueña
Member

Víctor Manuel Iglesias
Member

Julia Salaverría Monfort
Member

Carmen Motellón García
Member

Fernando Conlledo Lantero
Secretary (non-member)

Risk Committee

The Risk Committee, in accordance with the provisions established in article 41 of the Articles of Association and its Regulation, is responsible for, among other duties, advising the Board of Directors on the company's overall propensity to risk, both current and future, and its strategy in this field, and to assist it in monitoring the application of that strategy; ensuring that the pricing policy of the assets and liabilities offered to clients fully take into account the business model and the institution's risk strategy; defining, together with the Board of Directors, the nature, amount, format and frequency of the information on risks that the Committee itself and Board of Directors must receive; and collaborating in the establishment of rational remuneration policies and practices.

The Risk Committee has met on five occasions in 2018, and analysed, among others matters:

- The risks and solvency situation of the company
- Capital Self-Assessment Report (CSR)
- Pillar 3 Disclosures
- The review of the Recovery Plan
- The Operational Framework for the granting of credit transactions to corporations and Public Administrations
- The structure of the risk function
- The new Management of Technological Risks Framework
- Risk Tolerance Framework review

Steering Committee



**José María Méndez
Álvarez-Cedrón**
CEO



Agustín Márquez Dorsch
Assistant Managing Director
of Technology and Overall
Business Coordinator



Antonio Romero Mora
Corporate Manager of
Association Services,
Control and Resources



Ainhoa Jáuregui Arnáiz
Corporate Manager of
Planning



**Francisco Javier Planelles
Cantarero**
Corporate Director of
Operational Services



Andrés Martín Pintor
Corporate Manager
of Risks



Fernando Conlledo Lantero
Secretary General-Corporate
Director of Secretary General
and of Legal and Fiscal Advice



**José Manuel Villaverde
Parrado**
Corporate Finance
Director

Scope of activity and responsibilities.

The Steering Committee has the following basic responsibilities::

- Deciding on matters which the Board of Directors directly submits to it
- Deciding on matters which the CEO submits to it before they are approved by the Board of Directors
- Deciding on matters which the CEO submits to it on his own initiative
- Approving the rules of conduct and internal standards of the institution, where not subject to approval by the Board of Directors

The Committee, which is made up of the entity's main executives, is chaired by the CEO and the Secretary General who acts as the Committee's Secretary. Nonetheless, other company employees requested by the Chairman of the Committee may attend its meetings with a voice and without a vote.

The Steering Committee meets before the meetings of the Board of Directors and however many times it may be called by its Chairman. In 2018 it met on 19 occasions.

The purpose of the CSR policy is to reinforce the business and the long-term relationship with clients

Cecabank has an Ethical Code with the highest standards of integrity and professional ethics

The philosophy of risk management is based on rigorous prudence criteria

CSR

The **Cecabank CSR Policy** takes into account the wholesale nature of the business and its offering of specialised financial services. The aim is to reinforce the business and the long-term relationship with the clients and partners, incorporating their social, environmental and good corporate governance concerns into the activity.

Cecabank's extra-financial performance is based on the following:

- **Cecabank's Principles:** included in the entity's corporate culture
- **Corporate Social Responsibility Policy:** Cecabank is no stranger to the environment it operates in, and stresses the importance of considering ethical, social, environmental, and good governance factors in order to generate value. The CSR Policy is defined as a lever to directly or indirectly reinforce the business, the human and material resources and Cecabank's relationship with society
- **Ethics and transparency:** Cecabank has an Ethical Code that formalises the commitment of the entire company's staff, with the highest standards of integrity and professional ethics. In addition, the entity has in place money laundering prevention procedures and control structures, an Internal Conduct of Conduct regulation in the Securities Market, own codes for the trading room and a Euribor protocol and a code of conduct
- **Governing Bodies:** lastly, with regard to Corporate Governance, Cecabank works in line with sector's best practices and complies with the regulatory requirements
- **The wholesale nature of Cecabank's business** conditions its Corporate Responsibility Policy and its extent. This approach focuses on the service to professional clients with a high degree of sophistication in their activity, with long-lasting relationships and mutual trust

In this framework, the inclusion of social responsibility criteria in the business is reflected in the following:

- **General control framework:** The organisational structure and internal control mechanisms are intended to guarantee that the institution's activities are streamlined and effective, that the information is reliable, relevant and complete and that the applicable laws are complied with. The general control framework shows a united and balanced system, with controls in all levels of responsibility.
- **Risk policy:** The risk management philosophy is based on rigorous prudential criteria, in a manner consistent with the commercial strategy, ensuring the efficient use of the capital assigned to the business units. Social responsibility aspects are included in the risk management structure and within the reputational risk analysis framework. Within this scope, an analysis is carried out on the public information of the potential Cecabank counterparties, such as the existence of a public CSR and sustainability policy, their organisational structure and the responsible product and services offering, among others. This assessment is part of the non-financial analysis of the potential counterparties.

CSR aspects are considered in the counterparties analysis

Our employees are one of the CSR Policy's main pillars

In 2018 several studies on equality have been conducted

Training on new work methodologies, key in the transformation process

- **Service excellence:** in its work towards continuously improving the service, in 2018 Cecabank incurred in R&D&i expenses to develop several IT tools for the entity's activity.

Our employees

One of the lines of action defined in Cecabank's Corporate Social Responsibility Policy is the **responsible and sustainable management of human resources**. In addition, the different policies relating to professionals establish the equality, integration and non-discrimination policies in the workplace.

Equality

In 2017 the new **Gender equality and work-life balance plan** was approved, and subsequently in 2018 detailed studies on equality (wage gap and reconciliation measures) were conducted.

The equality plan regulates the **Equality Committee's** functions, establishes positive action measures and includes the improvements agreed between the worker representatives and the company on the reconciliation of family and professional life. Furthermore, a protocol has been agreed to prevent any type of harassment and gender discrimination.

Amongst the main goals of the Equality Plan are guaranteeing the effective implementation of the principle of gender equality; promoting the presence of the underrepresented gender in decision-making positions or functions, thus increasing the possibilities of women obtaining access to positions of responsibility; contributing to reducing inequality; and encouraging the reconciliation of the personal, family and professional facets of life. In addition, it guarantees training plans that equally facilitate the development of skills and competences irrespective of gender.

Cecabank collaborates with companies that encourage the inclusion of disabled people in the workplace, an example of which is the contracting of the internal ordinary correspondence service through an intermediary.

Training

Cecabank's training is aimed at promoting specialisation and its accreditation through official certifications. The objective is to transform the bank through learning different working methodologies and acquiring new skills.

Social benefits

Cecabank offers certain social benefits to its employees, with a view to **motivate, retain and build loyalty among workers**. These are some of the social provisions offered to employees: financial benefits, reconciliation, flexibility, additional leaves, group life insurance, group healthcare policy

The Flexible Remuneration Plan has been widely accepted

for employees, nursery and study grants, and toys for employees' children, among others.

In addition, Cecabank implemented the **Flexible Remuneration Plan** in 2018 for the benefit of its employees. It provides them the possibility of contracting products and services with tax breaks.

The following products are currently included in the CkbFlex flexible remuneration plan:

- Nursery voucher
- Training voucher
- Travel card
- Food voucher
- Medical insurance for the spouse and children of employees

The **ckbFlex Plan** has been widely accepted among the staff; approximately 65% of Cecabank employees have contracted, at least, one of the offered products.

Reconciliation

Within the **Human Resources Plan**, the entity has encouraged the implementation of a **system with flexible working times and teleworking**. Both aspects have been agreed with Cecabank's worker representation by signing two labour agreements with all the trade unions present in Cecabank.

In addition, the work is organised according to the collective bargaining agreement, and compensatory measures are applied to employees with special timetables by providing longer holidays and higher wages.

Although the entity does not have a specific policy for disconnecting from work; the company has made a commitment to respect the employees' rest periods, leaves and holidays, **promoting reconciliation** in its gender equality policy and the reconciliation of family and professional life..

In 2018 20 employees enjoyed parental leave, 11 men and 9 women.



65%

Cecabank employees have contracted, at least, a product offered in the ckbFlex Plan.



44%

Medical examination

For Cecabank, occupational safety is essential



“Antonio Baró” MC Mutual Awards

Health and safety

For Cecabank, safety in the work environment is essential. The main details that prove this investment in occupational health and safety are:

- The bank currently has a **medical service** with a licensed doctor that provides daily healthcare assistance to the entity's employees.
- Work-related injuries and occupational illnesses are covered by the **mutual insurance company for occupational accidents and diseases MC Mutual**.
- In 2018 44% of the workforce undertook the voluntary medical examination provided by Cecabank every year to all its employees.
- With regard to the **ckbeWell** initiative, which promotes the employees' health and well-being, the following actions have been carried out in 2018: nutrition service, back school sessions and healthy diet conferences, among others. The physiotherapy service was also excellently received.
- During this year, the Spanish Social Security Institute granted Cecabank a bonus, i.e. an **incentive of 5% on all contributions for occupational contingencies** when completing any of the complementary actions relating to occupational risk prevention.
- Cecabank has been awarded an Honourable Mention in the “Antonio Baró” MC Mutual Awards for occupational risk prevention. This prize recognises the work carried out by companies, people and institutions that demonstrate their commitment towards prevention and it differentiates organisations that develop efficient policies aimed at protecting their workers and improving working conditions..
- In 2018 all employees have been represented in the Health and Safety Committee, and they have been subject to the Collective Bargaining Agreement for Savings Banks and Banks with the conditions and rights established therein, such as the freedom of association, among others.

As a result of these policies, we can highlight that we have built loyalty among our **staff as a way to retain value and knowledge**. The average length of time with the company, 17 years, reflects this mutual and permanent commitment.

Our suppliers

Cecabank has **852 Spanish** suppliers, which involves 89% of the total volume of resident suppliers and has a positive effect on the creation of employment and local development.

The suppliers are an essential link in the value chain of our products and services. Cecabank has a **corporate procurement model of purchases** with the following basic elements:

89% of the bank's suppliers
are Spanish

The code of conduct for business
relationships establishes the
basic principles to build a
trustworthy, transparent, honest
and productive institution



852
suppliers

- The code of conduct for business relationships
- The supplier approval process
- The “Supplier selection” internal standard, to guarantee confluence in each procurement process and their appropriate assessment
- The procedure of regular assessment and generation of results: conducting quality and service level surveys and reassessing approvals
- The Policy for outsourcing services and functions
- The Policy for delegating the custody function

Honesty is a main value inherent to Cecabank's corporate culture. Therefore, the **code of conduct for business relationships** establishes the basic principles to build a trustworthy, transparent, honest and productive institution: impartiality, concurrence, transparency, confidentiality, equality and non-discrimination must prime in the supplier contracting process.

Cecabank commits to maintaining a transparent, loyal and responsible relationship with its suppliers, establishing communications channels to learn about their expectations and setting out fair, stable and transparent conditions.

In 2018 Cecabank implemented an **approval process for suppliers of outsourced services**, which will be gradually spread to the entire supply chain. This approval process allows ensuring all the aforementioned principles, assessing the supplier's productive, technical and financial capacity and validating that they share Cecabank's moral, social and environmental values before integrating them into our supply chain and becoming an instrument of operational and reputation risk management.

Our clients

Cecabank provides service to **310 clients**, including banks, management companies, insurance companies, Public Administrations and large companies. Within the framework of the **2020 Strategic Plan**, the bank continues implementing the **Quality Plan** included in the transformation initiatives, with the aim of extending a culture of customer orientation and continuous improvement throughout the organisation.

Assessment of technological risks

The services offered by Cecabank largely depend on advanced and sophisticated technological support, which guarantees the privacy of data and business continuity, among others.

This is why the bank voluntarily opts for the highest standards and follows all the recommendations regarding ICT risks provided by the EBA. It identifies

security, change, integrity, continuity and outsourcing risks - they are all included within the risk management policy.

Social matters

One of the lines of action defined in Cecabank's Corporate Social Responsibility Policy is the implementation of a **Social action policy**, which in accordance with the entity's characteristics and corporate goals, takes leverage from the commitment of the company's employees and the promotion of their pride of belonging.

Lines of action of the Social action policy:

- **"Tú Eliges" programme**, through which employees present social, environmental and cultural projects, and Cecabank funds those selected in an open vote among all employees.

In 2018 Cecabank launched the 4th edition of Cecabank's "Tú Eliges" social aid programme. Cecabank employees presented 32 projects out of which, after a vote in which 83.8% of the staff participated, 12 finalist projects were selected, to which Cecabank provided support with 100,000 euros. Last year 7 projects were allocated with 70,000 euros; therefore, the quantity of funds and scope continue to increase.

- **Humanitarian emergencies**, for which Cecabank sets up a donations campaign to support those affected by humanitarian emergencies and matches employee contributions when launching donation campaigns for humanitarian emergencies.

Aids 4th edition of Cecabank's "Tú Eliges" social aid programme

Category	Project name	Beneficiary association	Aid
SOCIAL	Comprehensive treatment for children with cerebral palsy	FUNDACIÓN BOBATH	17,852
SOCIAL	Hogar Don Orione: Breathe hondo	Hogar Doon Orione	14,262
SOCIAL	ACROMATES	Association of people affected by achromatopsia and monochromatism in shades of blue	12,955
SOCIAL	Water for Cameroon	Ma'kwebo Association	9,828
SOCIAL	Sublimation workshop for people with autism	Quinta Foundation	7,722
SOCIAL	Cronos-hope: when time is the most valuable asset	Metastatic Breast Cancer Association	6,845
SOCIAL	Outpatient Waiting Room Cruces Hospital	La Cuadri del Hospital	6,152
SOCIAL	Help us make Alberto the last one #adislihuella	Association for People with Mild and Borderline Intellectual Impairment	5,840
SOCIAL	Being born with epidermolysis bullosa	DEBRA-PIEL DE MARIPOSA Association	5,453
SOCIAL	Children with disabilities - De Tu Mano project	Sagrado Corazón Chamartín School	5,420
CULTURAL	Promotion Young Interpreters Classical Music	Eutherpe Foundation	4,671
ENVIRONMENTAL	Running for the lesser kestrel	GREFA	3,000
Total aid			100,000

Finalist projects of the 'Tú Eliges' ('You Decide')



6 NGOs

agreements with the Spanish
Emergency Committee



5,530 euros

donation from Cecabank's employees
Earthquake in Indonesia.



1,249 kilos

Food Bank



10,000 euros

donation to buy toys

Within the framework of our Corporate Social Responsibility Plan, we signed an agreement with the Spanish Emergency Committee Initiative in 2018. Acción contra el Hambre (Action Against Hunger), Spain UNHCR Committee, Médecins du monde, Oxfam Intermón, Plan International and World Vision are the 6 NGOs that make up the Emergency Committee.

- **Earthquake in Indonesia.** We collaborate with the NGO Acción contra el Hambre (Action Against Hunger). Cecabank employees donated 5,530 euros, an amount matched by Cecabank.
- **In-kind donations.** Collection of food, IT materials, furniture, blood donation campaigns or flea markets.
- **Operation Kilo for the Food Bank.** Through a website, Cecabank employees were able to make their charity purchase to help the poorest families in our community. This charity project by Cecabank, in collaboration with the online supermarket Tudespena.com and with the Food Bank as the only recipient of this action, helps distribute food among homeless people, old people, children and the unemployed. 1,249 kilos of food were collected.
- **Blood donation campaign.** During 2018 a blood donation campaign was launched in collaboration with the Red Cross.
- **Other collaborations.**
 - **Collaboration Food Bank of Madrid.** Cecabank has collaborated with this organisation since its inception by sponsoring the **Cecabank street** in its headquarters, located at the San Fernando Educational Centre. In addition, in 2018 **Cecabank avenue** was inaugurated in its logistics centre. In addition to the financial donation made with these streets and avenues, we collaborate by donating IT equipment and different.
 - **Collaboration in the toy campaign "Their rights at stake", by the Red Cross.** By donating 10,000 euros to purchase non-military-related or non-sexist toys for children of destitute families.

Issues relating to corruption and bribery

Cecabank has various instruments in place that promote exemplary conduct:

- **Organisational and management system for criminal risks.** The system has been certified by AENOR on 18 December in accordance with the UNE 19601 Standard on Criminal Compliance.
- **Core document** of the organisational and management system for criminal risks.
- **Corporate code of conduct or code of ethics**, that formalises the commitment of all the professionals providing services at the company with the highest standards of integrity. The code projects the existence of

Cecabank imposes ethical behaviour demands with the aim of preventing, to the largest extent possible, the criminal risk of the legal entity

The code of ethics formalises the commitment of the staff, with the highest standards of integrity

a monitoring channel that gathers claims and enquiries.

- **Procedures on the prevention** of money laundering and the financing of terrorism and control structure.
- **Internal code of conduct regulations** for the securities market.
- Policies for providing investment services or **MiFID policies**. These policies include the likes of trade policies (Marketing Manual), policies relating to the execution of clients' orders (Better Order Execution Policy), policies relating to safeguarding clients' assets (Asset Safeguarding Policy) and the policies regarding records that must be maintained by the company in relation to the investment service (Record Maintenance Policy). The main aim of these policies is for the institution to adequately comply with the codes of conduct and organisational requirements linked to the provision of investment services.
- The bank has **IT systems** that allow analysing own and brokered operations, for the purpose of detecting any possible transactions related to money laundering and the financing of terrorism. Therefore, financial sanctions lists are used to verify there are no such transactions and there are specific scenarios to detect suspicious transactions. In addition, there are tools and processes in place that provide comprehensive information about the client and allows monitoring the relationship therewith.
- The organisational structure and internal control mechanisms are intended to guarantee that the institution's activities are streamlined and effective, that the information is reliable, relevant and complete and that the applicable laws are complied with. There are specific management and control units in the various risks with comprehensive and uniform areas of action; and a decentralised structure with relationships between the risk management units guided by the principles of coordination, cooperation and reciprocal information, and by having three control levels.

In addition, to promote, coordinate and monitor the CSR policy, Cecabank has a CSR and Sustainability Committee in place that reports directly to the Steering Committee.

CSR



Culture and identity



Human capital



Transparency



Innovation in the commercial offering



Ethics





Our
business
model

Economic and regulatory environment

The instability caused by the change in government and the further political fragmentation have marked the outlook in 2018

Political risks

Domestic outlook

The domestic political year has been marked by the change of Government, following a motion of no-confidence presented by the Partido Socialista Obrero Español to Partido Popular on 1 June. This change in the Spanish executive power made Pedro Sánchez the President, with the support of Unidos Podemos and the Catalan independent parties ERC and PdeCAT. This also led the Partido Popular to open a primary process that made Pablo Casado president of the conservatives.

The irruption of VOX in the Spanish political landscape fits in with the reactionary and Eurosceptic movements taking place throughout Europe. Their appearance is also a result of the political entrenchment stemming from the territorial crisis in Catalonia.

International politics

Europe

The main theme in the international agenda in 2018 and which will continue in 2019 is the Brexit. After the European Council having approved the exit agreement on 25 November, the British Prime Minister, Theresa May, does not have the support required from the House of Commons to approve the agreed text.

Europe also confirmed in 2018 that the emergence of **populist and Eurosceptic movements** is unstoppable. Currently, this type of parties already govern in Italy, Poland and Hungary, and they support conservative governments in Austria and Finland, with a major influence in countries such as France. Their speeches strongly focus on migration policies and play a prominent role in street demonstrations: the **French yellow vests** being the most recent example.

The year 2019 will also be a year of **renewal in EU institutional structure**. On 31 December, Danièle Nouy's term ended at the head of the SSM, whose presidency has been taken over by the Italian Andrea Enria. Antonio Tajani, the president of the European Parliament, will also be replaced in July 2019. Furthermore, Mario Draghi and Jean Claude Juncker will abandon the ECB's and the European Commission's management, respectively, in October, while Donald Tusk will end his term in the European Council in November.

We will have to wait until spring for new **elections to the European Parliament**. They will take place between 23 and 25 May, where the 27 member states will choose the composition of the community chamber.

2019 will be a year of renewal in the EU institutional structure

Europe has confirmed the rise of populist and eurosceptic movements

The United States, Russia and the Asian giants

From an international perspective, the political situation has been turbulent due to the **end of the United States' hegemony as the world sole superpower**. The recent international conflicts and tensions are the result of a return to a multilateral world.

Russia and China, together with emerging powers such as India, are claiming a predominant and influencing space, **transferring the centre of power from West to East**. The lack of a clear European stance, together with the United States (pending a protectionist policy), is suffering due to a loss of trust between the traditional allied powers.

Due to the great financial tensions with China, the President of the United States, Donald Trump, agreed with his Chinese counterpart Xi Jinping at the G20 summit held in Buenos Aires on 30 November to extend a period of negotiations until March, with the aim of ending the high tariffs established between both countries.

Central America

Central American countries have also experienced deep changes in 2018. The latest example is Brazil, with the election of a far right president, Jair Bolsonaro, on 1 January 2019.

Mexico, with López Obrador's victory in July 2018, will have a centre-left government for the first time, and Venezuela will face in upcoming months the most serious political and economic crisis in its recent history.

The Spanish economy grew
2.5% in 2018

Global economy

In the midst of a lagging global economy, the OCDE has lowered its **expectation of global GDP growth**, estimating it at 3.7% for 2018 and 2019. These figures are two tenths lower than the forecast made less than four months ago.

Furthermore, the calming of tailwinds in countries such as Spain, in addition to the rise of the price of petrol and the ECB's interest rates, could lead to weaker growth forecasts in states that are more affected by the international environment.

Economic framework and the state of the markets

The expansion of the global economy has waned in 2018; growth has dropped throughout the year as successive sources of risk have been materialising. The lax global financial conditions have added to the trade tensions between the United States and China and the political uncertainty in Europe, mainly due to the Brexit and the tax dispute in Italy.



According to the latest forecasts published by the IMF, the global economy is expected to grow 3.7% in 2018, i.e. two tenths more than in 2017. Among the advanced economies, the United States has consolidated the maturity of its expansive cycle, with a GDP growth of approximately 3% and a situation close to full employment. On the contrary, the eurozone has registered a lower growth in 2018 than expected, with a growth rate of 1.8% (2.4% in the previous year), dragged by a low performance of the Italian, German and French economies. Added to this is the uncertain outcome of the Brexit, which is becoming a burden for the UK economy, one of Spain's main trade partners.

The Spanish economy grew 2.5% in 2018, a relatively high rate when compared to the eurozone, but lower than the previous year (3%). Domestic demand remained considerably strong as a result of a greater dynamism of all its components, and the external sector's deterioration slowed down. Private consumption remained stable, albeit at the expense savings rate, which reached historical lows. Furthermore, investment slightly accelerated in 2018 with a higher growth of the construction sector, especially in public works; however, with a moderate investment in residential construction. By contrast, exports dropped significantly, growing 1.9% compared to 5.2% last year; therefore, the external sector affected GDP growth in a negative way.

The monetary policy has been a focus of attention while awaiting a normalisation process

Despite the favourable performance of the Spanish economy, 2018 closed with a very negative balance in the markets due to a sentiment of growing uncertainty in light of the downward revision of the global growth's forecast, the political conflicts in Europe and the trade tensions between the United States and China.

With regard to stock markets, practically all international market indexes have closed the year in negative figures. Losses have been higher in Europe, with a -14.3% drop of the Euro Stoxx 50 (reaching -18% in the German Dax and -15% in the Ibex). In the US, following a positive first half of the year, the Dow Jones closed the year with a -5.6% drop.

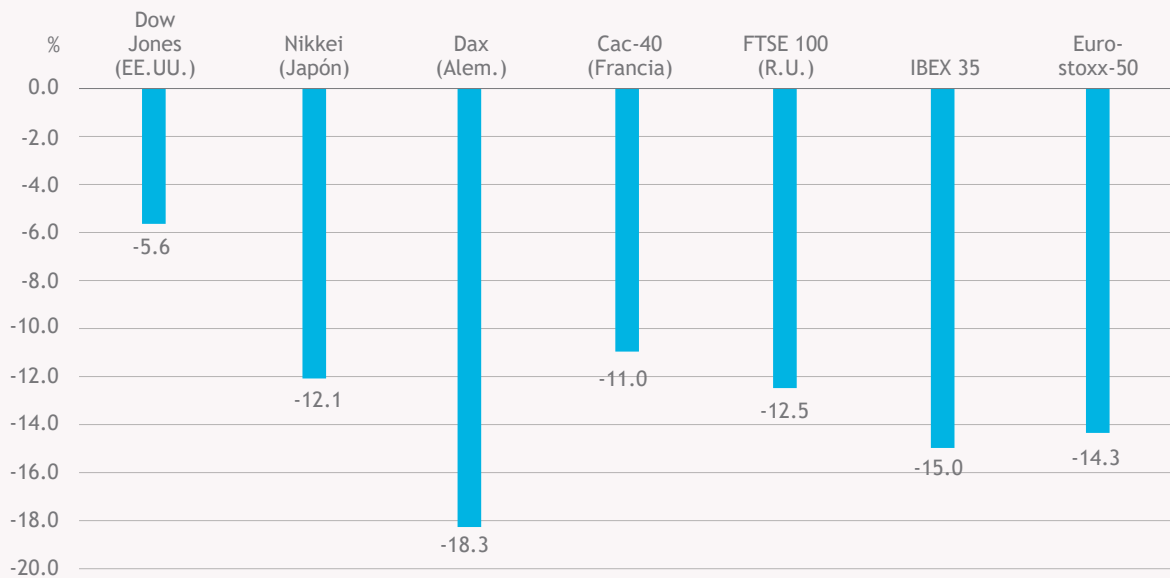
Volatility has also been a predominant factor in the public debt markets in 2018, which was reflected in a widespread rise of risk premiums of European sovereign bonds, especially, Italy's risk premium, which ended the year above 250 bp after having reached 333 bp in October.

The Spanish and Portuguese risk premiums have been dragged upwards mainly by the growing uncertainty caused by the Italian tax conflict. In the case of Spain, which in the first quarter of the year registered a minimum value of 66 bp (aided by an improvement in Fitch's rating from BBB+ to A- with a stable outlook), the premium reached its annual maximum in May (134 bp), mostly led by the increased uncertainty in Italy, and then dropped to 117 bp at year-end.

The monetary policy has continued to be the focus of attention and the markets have been very attentive to the Central Banks' statements on the pace in which the monetary normalisation is being carried out. While the Fed rises the interest rates for the seventh time in December, taking them to 2.25-2.50%, the ECB announced at the end of the year the end of its asset purchasing programme initiated in 2015. Despite this, both bodies have been cautious about future increases in interest rates in the short term.

International market rates

Annual performance in 2018

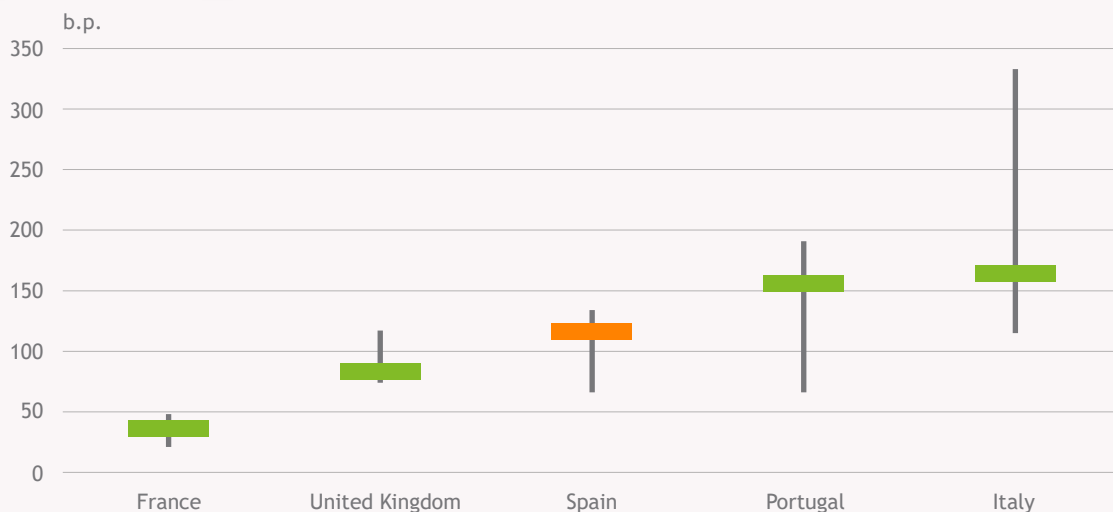


	Dow Jones (EE.UU.)	Nikkei (Japan)	Dax (Germany)	Cac-40 (France)	FTSE 100 (UK)	IBEX 35	Euro- stoxx-50
Dec.2016	19,763	19,114	11,481	4,862	7,143	9,352	3,291
Dec.2017	24,719	22,765	12,918	5,313	7,688	10,044	3,504
Dec.2018	23,327.46	20,015	10,559	4,731	6,728	8,540	3,001
	-5.6	-12.1	-18.3	-11.0	-12.5	-15.0	-14.3

Risk premiums compared to Germany

Evolution in 2018

Maximum/Minimum Year close



Dynamism in the retail business and improved credit quality

The financial markets have been marked by a high volatility

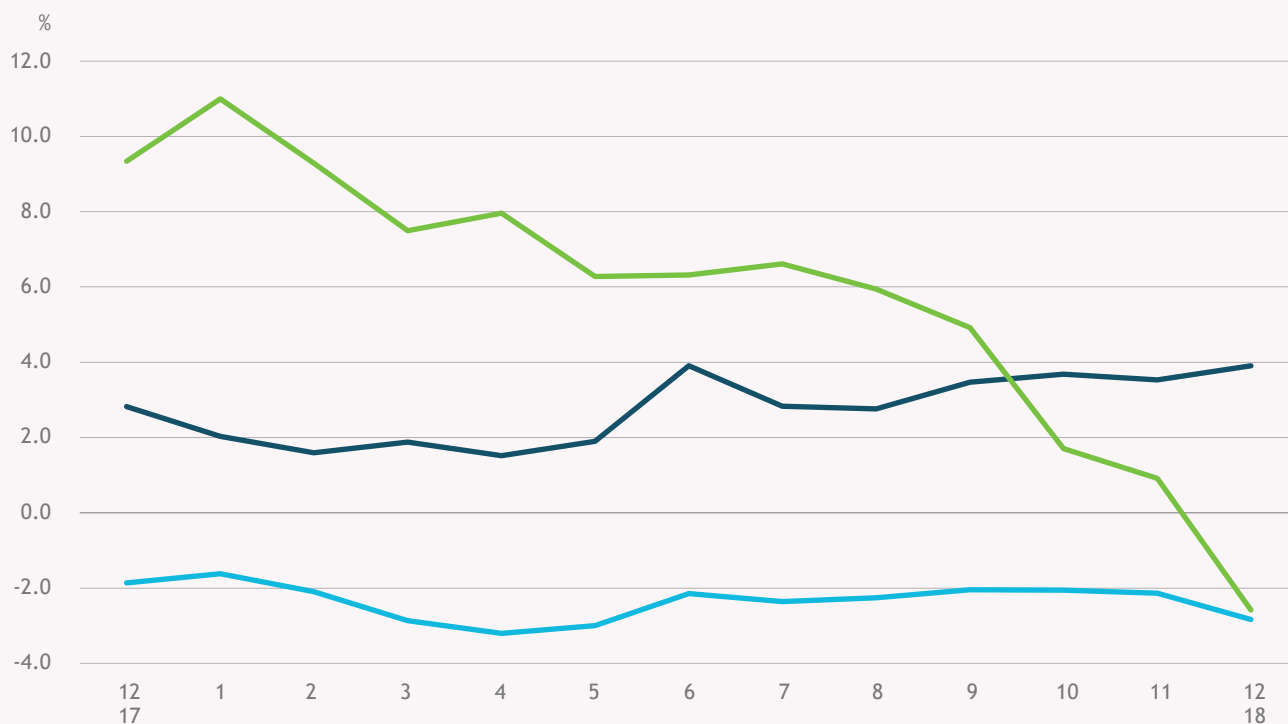
Banking business developments

The continued expansion of the economy has favoured a moderate performance of the retail business and an improvement in the credit quality. New loans have grown by 9% throughout the year, where the increase in loans to families, both for housing and consumption, stand out. Despite this, in terms of balance, loans to the private sector continued to drop in 2018, reaching -2% year-on-year in the entire system. Retail deposits have grown at a higher pace, 3%, driven by demand deposits, although hindered by term deposits due to the environment of low interest rates, the latter representing approximately 20% of the total.

The volatility of the financial markets in recent months has influenced negatively the evolution of investment and pension funds. Investment funds registered a year-on-year negative annual growth rate of -2.1% in December, as so did pension funds, -3.7%. According to INVERCO data, investment funds dropped 5,572 million euros in 2018, compared to the accumulated growth in the same period of 2017 (27,705 million euros). This is a consequence of the capital losses registered so far this year (-13,984 million euros) and the increase of net subscriptions being well below those registered in the previous year (8,410 million euros, compared to 21,220 million euros in 2017). In terms of categories of funds, global funds lead equity growth with an 18.5% rise in the year (6,542 million euros more than in December 2017). On the other hand, passive management funds continue to accumulate the highest reduction of equity, more than 3,425 million euros in 2018. Investment funds close the year with a drop in annual accumulated return of -4.6%.

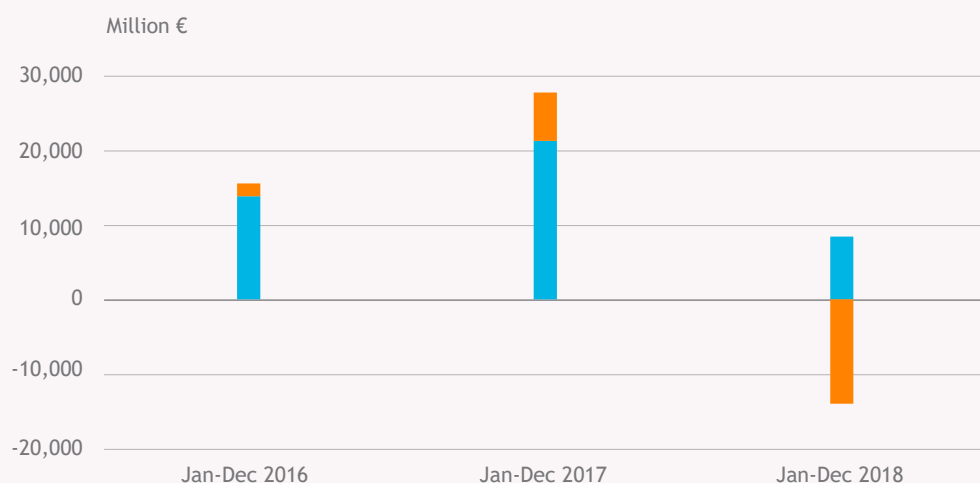
Evolution of loans, deposits and off-balance-sheet funds Annual variation

Deposits Loans Off-balance-sheet funds



Variation of the investment funds equity Accumulated January - December

Revaluation Net subscriptions



Regulatory agenda

During 2018, the main events in the regulatory framework in 2018, by quarter, were as follows:

National

Q1

- **Royal Decree 62/2018**, of 9 February, which amends the Regulation on the instrumentation of pension commitments of companies with workers and beneficiaries, approved by Royal Decree 1588/1999, of 15 October, and the Regulation on pension plans funds, approved by Royal Decree 304/2004, of 20 February.
- **Royal Decree 106/2018**, of 9 March, regulating the State Housing Plan 2018-2021.
- **Bank of Spain Circular 5/2017**, of 22 December, which amends Bank of Spain Circular 5/2012, of 27 June, to credit institutions and payment service providers, on the transparency of banking services and responsibility when granting loans.
- **Circular 1/2018**, of 12 March, of the CNMV (National Stock Market Commission) on warnings relating to financial instruments.
- **Bank of Spain Circular 1/2018**, of 31 January, which amends Circular 5/2016, of 27 May, on the method of calculating contributions from associate institutions to the Deposit Guarantee Fund for Credit Institutions to ensure they are proportional to their risk profile; and Bank of Spain Circular 8/2015, of 18 December, to branches of credit institutions and credit institutions members of the Deposit Guarantee Fund of Credit Institutions, on information to determine the calculation base of the contributions to the Deposit Guarantee Fund of Credit Institutions.
- **Technical Guide 1/2018**, of 27 February, of the National Stock Market Commission (CNMV) on related-party transaction of CIIs and other operations carried out by SGIICs.

Q2

- No relevant events.

Q3

- **Royal Decree-Law 5/2018**, of 27 July, on urgent measures to adapt Spanish law to European Union regulations on data protection.
- **Royal Decree-Law 11/2018**, of 31 August, on the transposition of directives on the protection of pension commitments with workers, prevention of money laundering and requirements for entry and residence of third-country nationals and for the amendment of Act 39/2015, of 1 October, of the Common Administrative Procedure of the Public Administrations.
- **Royal Decree-Law 14/2018**, of 28 September, modifying the revised text of the Securities Market Act and approved by Royal Decree-Law 4/2015, of 23 October.
- **Circular 2/2018**, of 12 June, of the CNMV (National Securities Market Commission), which

modifies Circular 5/2013, of 12 June, which establishes the models for the Annual Report on Corporate Governance of listed limited companies, savings banks and other entities that issue securities in the official securities market and Circular 4/2013, of 12 June, which establishes the models of annual remuneration reports of Directors of listed limited companies' Boards and members of the Board of Directors and of the Control Committee of Savings Banks which issue securities listed in the official securities markets.

- **Circular 3/2018**, of 28 June, of the CNMV, on the regular information of issuers with securities listed on regulated markets relating to the half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports.

Q4

- **Organic Law 3/2018**, of 5 December, on Personal Data Protection and the guarantee of digital rights.
- **Act 11/2018**, of 28 December, which modifies the Commercial Code, the revised text of the Capital Companies Act approved by Royal Decree Legislative 1/2010, of 2 July, and Act 22/2015, of 20 July, on Audit of Accounts, regarding non-financial information and diversity.
- **Royal Decree-Law 19/2018**, of 23 November, on payment services and other urgent measures in financial matters.
- **Royal Decree-Law 22/2018**, of 14 December, which establishes macroprudential tools.
- **Royal Decree 1464/2018**, of 21 December, which develops the revised text of the Securities Market Act, approved by Royal Decree-Law 4/2015, of 23 October, and Royal Decree-Law 21/2017, of 29 December, on urgent measures to adapt Spanish law to European Union regulations on the securities market and which partially modifies Royal Decree 217/2008, of 15 February, on the legal regime of investment services companies and on other companies that provide investment services and through which the Regulations of Act 35/2003, of 4 November, are partially modified, on Collective Investment Institutions, approved by Royal Decree 1309/2005, of 4 November, and other decrees on the securities market.
- **Bank of Spain Circular 2/2018**, of 21 December, modifying Circular 4/2017, of 27 November, to credit institutions, on public and confidential financial reporting standards and financial statement formats, and Circular 1/2013, of 24 May, on the Risk Information Centre.
- **Circular 4/2018**, of 27 September, of the CNMV (National Securities Market Commission), which amends Circular 1/2010, of 28 July, on disclosure obligations of Investment Firms and Circular 7/2008, of 26 November, on accounting standards, annual accounts and confidential information statements of Investment Firms, Collective Investment Undertakings Management Companies and Management Companies of Venture Capital Entities.
- **Circular 5/2018**, of 26 November, of the CNMV (National Securities Market Commission), which amends Circulars 4/2008, 7/2008, 11/2008 and 1/2010 on public and regular information of Collective Investment Undertakings, accounting standards, annual accounts and confidential information statements of Venture Capital Entities, Management Companies and Venture Capital Entities and European management subsidiaries established in Spain.

International

Q1

- **Commission Regulation (EU) 2018/498**, of 22 March, amending Regulation (EC) No 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9.
- **Commission Delegated Regulation (EU) 2018/389**, of 27 November, supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.
- **Commission Delegated Regulation (EU) 2018/32**, of 28 September, supplementing Directive 2014/92/EU of the European Parliament and of the Council with regard to regulatory technical standards for the Union standardised terminology for most representative services linked to a payment account.
- **Commission Implementing Regulation (EU) 2018/33**, of 28 September, laying down implementing technical standards with regard to the standardised presentation format of the statement of fees and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council.
- **Commission Implementing Regulation (EU) 2018/34**, of 28 September, laying down implementing technical standards with regard to the standardised presentation format of the fee information document and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council.

Q2

- **Directive (EU) 2018/843** of the European Parliament and of the Council, of 30 May, amending Directive (EU) 2015/849 on the use of the financial system to launder money or finance terrorism and which amends Directives 2009/138/EC and 2013/36/EU.

Q3

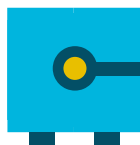
- **Directive (EU) 2018/1673** of the European Parliament and Council, of 23 October, fighting against money laundering by means of criminal law.

Q4

- **Regulation (EU) 2018/1845** of the European Central Bank, of 21 November, on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 in relation to the threshold for assessing the materiality of credit obligations past due.
- **Commission Delegated Regulation (EU) 2018/1618**, of 12 July, amending Delegated Regulation (EU) No 231/2013 as regards safe-keeping duties of depositaries.
- **Commission Delegated Regulation (EU) 2018/1619**, of 12 July, amending Delegated Regulation (EU) 2016/438 as regards safe-keeping duties of depositaries.

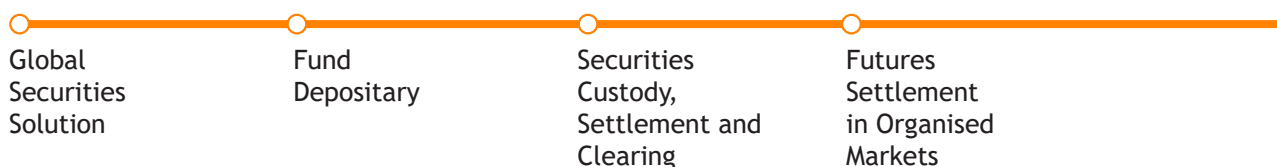


Lines of business



Securities Services

It is one of Cecabank's main businesses as a provider of custody and depositary services.



Cecabank's knowledge of the regulation enables it to anticipate the clients' needs

Securities Services is one of Cecabank's main businesses as a provider of custody and depositary services. The purpose is to contribute to the optimisation of synergies by the different participants in the ecosystem of the investment and management of assets, and our vocation is to assist our clients in their adaptation processes in everything related to the products over which we exercise our function: equities, fixed income, investment funds and pension funds, among others.

Cecabank has further experience in everything related to regulation, even beyond just that which is strictly bank-related. The regulatory wave of recent years has had a main goal: to unify the rules of collective investment, and thus increase the participant's protection and the sector's transparency. Our presence in all national and international specialised forums and our experience in the market help us provide added value to our clients and keep a close collaboration with the authorities in implementing the new regulation.

In this respect, the entity is represented in ADEPO (Spanish Group of Pension Funds and CII Depositaries), the CNMV's Reform Monitoring Committee, IBERCLEAR's Technical Advisory Committee, BME Clearing Group, the AEB-CECA Securities Committee and Bank of Spain ECB AMISECO (Advisory Market Infrastructure Securities and Collateral), ETDF, and EMIG Working Group on unification of financial transactions, as well as its participation in the European Savings Banks Group. The CNMV's Clearing, Settlement and Registry Group also participated.



Boost in innovation

- Operational changes
- Regulatory changes
- New technologies

The Securities Services business focused on boosting innovation with operational and regulatory changes and new technologies that make processes more efficient and suited to the clients' needs. Custodians and depositaries must face a new reality and undertake a digital transformation process aimed at increasing transparency before employees, suppliers and clients and adapting their new products to the new needs and at a lower possible cost. Given the relevance, Cecabank continues involved in a significant process of **digital transformation of its Securities Services business**, with the aim of strengthening its value chain, profiting from the opportunities presented in the new environment.

This year Cecabank organised for the fifth consecutive year the **Securities Services Conference** "The impact of digitisation and regulation on post-trading", establishing itself one year more as the main Spanish post-trade forum. The event was attended by securities brokers, CII and pension fund management companies, private equity companies and banks, which shared their impressions on current topics, such as the present and future of the securities market regulations, of T2S (Target-2 Securities) and of the Paneuropean financial infrastructures. More than 300 attendees from 230 institutions debated the coexistence of fintechs, ISCs, depositaries and other market agents, under the impact of the industry's digitisation and regulatory pressure.

With regard to the most innovative Securities Services initiatives:

- The Comprehensive securities solution consolidated itself in 2018, a new service that meets the requirements established by the MiFID II for the marketing of assets on the internet and that affects the processes of arranging and executing transactions in the market, the training of professionals and the tools that are used to communicate with clients. In 2019 the effort will focus on expanding the client base, with special emphasis on ESIS and management companies. The **Funds Platform** has been redesigned, achieving a strategic partnership with the main platform for market funds..
- With regard to the **FADO Project** (based on the opening of the branch in Portugal), the Branch was finally registered in the CMVM in January and formally communicated the commencement of its activity on 1 September 2018. It is expected to start being the depositary of the first funds in the first quarter of 2019.

As well as developing initiatives directly linked to the business, the **Robotics project** has also been developed, which involves deploying a network of automated processes using advanced technology. Automation actions have been implemented in different processes in all the business units achieving significant economies of scale and operational efficiencies that have led to improving the quality of the service provided to clients. At the end of 2018, 19 processes were supported by 21 virtual machines and 150 robots were fully operational.

5th Securities Services Conference

+300
attendees

+230
institutions

The entity is deploying a network of automated processes, the **Robotics Project**



We currently have the highest standards of quality, certified by AENOR

Cecabank has **certified quality management systems in place based on the ISO 9001 Standard** for Securities and Depositary Services (Design and provision of fund depositary and securities custody, management and settlement services), Collections and Payments (exchange, clearing and settlement of collection and payment transactions). It also has an Information Security Management System in accordance with the ISO 27001 standard for systems that support the transactions for exchanging and processing debit files and SEPA transfers.

The strengths of our service are focused mainly on four pillars: personalised customer service; flexibility and adaptation to our clients' needs; confidentiality; and neutrality.

It is also worth noting that Cecabank has been recognised as **Best custodian bank in Spain** by the magazine Global Banking and Finance Review. The award recognises the excellence of customer service, leadership in Securities Services and the solvency of Cecabank, one of the highest in the European Union.



cecabank
**2018 Best Custodian
Bank in Spain**



Global Securities Solution

A full omnichannel solution for opening national and international equity securities, fixed-income securities, ETFs, and marketing investment and pensions funds.

This solution completes our value chain in Securities Services, with an ecosystem of leading partners to support our clients in their digital transformation and commercial operations processes.

The Comprehensive securities solution consolidated itself in 2018, a new service that meets the requirements established by the MiFID II for the marketing of assets on the internet and that affects the processes of arranging and executing transactions in the market, the training of professionals and the tools that are used to communicate with clients.



Fund depositary

Cecabank continues another year as the first national independent depositary for collective investment institutions and pension funds.

During 2018, the total amount of assets deposited in Cecabank closed at 108,000 million euros. The year-end has negatively affected the evolution of assets of Collective Investment Institutions (CII) due to the volatility in the financial markets in recent months.

Key details

December 2018

Deposited assets over

108,000

€ million

Shared by

879

CII's-PFs

Managed by

28

companies

2018 Main milestones



Three independent management companies with accumulated assets amounting to approximately 200 million euros have been integrated, all of them trusting Cecabank as the depositary.



Agreements have also been entered with two venture capital firms.



ESPV's from three entities valued at 800 million euros and a series of collective PFs valued at €1,130 million have entered.



Agreement to manage CII's and PFs with a major entity in the market.



Securities custody, settlement and clearing

Cecabank has consolidated in 2018 its leadership as a supplier of settlement and custodian services in the Spanish market.

Key details

December 2018

Cecabank has expanded the range of services it offers to its clients, providing them with access to the most advanced functionalities allowed by the European settlement platform T2S, individual accounts, access to electronic pledges and auto-collateralisation.

Assets under custody above

136,300
€ million

Settled operations

700,000

No. of transactions settled

Domestic Market

Equity

459,750
millones €

Public Debt

71,326
€ million

Fixed Income Private-AIAF

10,891
millones €

International Market

Fixed Income and Equity

157,430
€ million

Assets held in custody

(by cash value expressed in euros)

Domestic market

Equity

15,340
million

Public Debt

20,813
million

Fixed Income Private-AIAF

3,952
million

International Market

Renta Fija y Renta Variable

96,212
million

2018 Main milestones

Five new financial institutions have been incorporated for the asset custody and settlement business; in addition, three of them will be provided clearing services.

Two agreements have been entered with different entities in the financial market to incorporate them into the growing business of **supporting the portfolio management activity**.

At present, our business is diversified, and we provide service to **15 securities houses and firms**.



Futures and options settlement in organised markets

Cecabank facilitates its clients the access to the settlement of futures and options, providing an efficient and automated management thereof.

This activity is aimed at clients that require access to these products in different currencies and in different types of underlying assets: fixed income, equity, currency, indexes and interest rates.

Access to the different clearing and settlement houses is carried out through global settlers and Cecabank's membership. This provides access to the most important ETD clearing houses at a global level. Among the services offered are the easy access to regulatory reporting and the daily flow settlement and control processes.

Key details

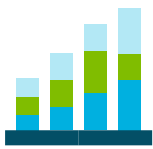
December 2018

Number of contracts settled

More than 6
million

Operational accounts

1,458



Treasury Management

The Trading Room carries out operations on the main national and international (public and private) bond, currency, equity and derivatives markets.



Cecabank is the Spanish Treasury Public Debt market maker

Operations are always carried out according to our guidelines which guarantee a high degree of both liquidity and solvency.

In addition **Cecabank is the Spanish Treasury Public Debt market maker**, participating actively in tender processes and providing the liquidity of the secondary market.

The bank is a **direct member of the main Central Counterparty Clearing Houses** (Meffrepo, LCH London, LCH Paris and Eurex).

In 2018:

- The entity has consolidated its commitment to technological innovation with the further presence of the SICE platform by FX, complemented with the Online FI bonds contracting platform. The latter has initiated its activity in Cecabank's online banking system since July, and it has also been marketed to other entities with great success. The platform is the first major online contracting project specialising in fixed-income, created after the implementation of MiFID II, which means it has been completely adapted to it.
- **The entity's liabilities** have been optimised, anticipating the changes expected in the inter-bank markets and the indexes.
- We have continued diversifying our clients according to their type, with the number of and income from non-traditional clients growing.



Cecabank's solvency is perceived by the stakeholders

- The **brokerage business** has significantly increased, which provides further stability and recurrent revenues and commissions.
- We have consolidated the solvency perception that the market, counterparties and other economic agents have of Cecabank. This is represented in the stability of the **ratings provided by the rating agencies**, which have maintained the levels of Cecabank following the rises in recent years. This has positioned the institution at the forefront of Spanish banks.
- Cecabank is the only market member appointed by BME Clearing as a **provider of securities to repurchase write-offs in 2018**.

Execution of equities

The service provided by the equity execution desk to institutional clients and covers the main European, American and Asian markets, supported by the relationships with brokers offering 24-hour coverage.

Debt Capital Markets (DCM)

As part of the creation and access to the primary markets, we have participated in the granting of finance to large companies, and we have supported the refinancing processes of several Autonomous Regions, with which we have carried out short- and long-term bilateral transactions.

Banknotes

Cecabank is the market leader of wholesale foreign banknotes in Spain, and we provide services to almost all the country's financial institutions. The bank has a wealth of experience in securities logistics and transportation, at both a national and international level. Thanks to our logistics structure and economies of scale, we can offer clients a highly flexible, top quality service adapted to their every need.

Over the course of 2018, Cecabank received over 2,500 foreign banknote purchase and sale transactions per day and carried out the whole process of transport, handling and insurance.

The bank's clients have total flexibility for requesting any type of service and can even ask Cecabank to directly deliver banknotes to their branch network or to take them away, with the corresponding cost saving and improvement in the quality of service. Over 15,000 bank branches are currently served directly by Cecabank in this way.

We have supported the refinancing processes of several Autonomous Regions

The bank has a wealth of experience in securities logistics and transportation, at both a national and international level



Equities sales

Equity execution desk for institutional clients.

Debt Capital Markets

Granting of several financing operations to large companies and support to the refinancing processes of several Autonomous Regions.

Technology Solutions

We are experts in specialised technology

RF/online

Financial markets

Cecabank offers a wide range of financial assets through its Trading Room, trading on the main national and international markets.



Cecabank is the Spanish Treasury Public Debt market maker



Direct member of the main Central Clearing Houses

Banknotes

Cecabank is the leader of the wholesale foreign banknote market in Spain.

Over

15,000

bank branches attended by the banknote service

Over

2,500

purchase and sale transactions of foreign banknotess



Payments

Solutions offering support to business and technology processes specialised in payment methods and systems, clearing and discount.



In 2018 48% of Bizum transactions have been carried out by 10 entities

Digital payments

In 2018 Cecabank has continued to improve its multi-purpose payment platform. Below are some of the new features provided in 2018 to the entities in their activity of processing and providing payment solutions:

- In 2018 the representation service for instant transfer entities (iSCT) was launched, representing three entities in addition to Cecabank.
- Within the scope of **Bizum**, the growth of the processing activity has been very important, representing in 2018 48% of the transactions carried out in Bizum through 10 entities to which the bank provides service. Cecabank has absorbed a considerable part of the developments to be carried out by the entity to adapt to the changes of the payment infrastructures in their different versions and new functionality certifications. This is because Cecabank has a double certification (technical and business), which enables it to expedite the certification processes for its entities. In 2018 Bizum evolved from a transitional solution to a final solution (iSCT) in versions V1iSCT and V2iSCT. The service has also been improved by automating the incident resolution system, which has led to automatically processing over 90% of the cases (swifter and cheaper resolution).

New service functionalities have been added to the platform, such as an extended payment schedule or PFM (Personal Finance Managers) payment solutions. An NGO payment functionality and a payment functionality for C2eR virtual stores have also been developed.

The platform has incorporated new functionalities in 2018



A financial APIs Marketplace will be made available to the entities in 2019

Dynamic Currency Conversion and Host Card Emulation, two new solutions in 2018

VISA and MasterCard recognised Cecabank's full compliance with the security requirements established in the PCI DSS standard.

All the platform's services and functionalities have been applied in 2018, allowing entities to choose from different types of integration.

During this year, an entity to which Cecabank does not provide payment services has been added to its HCE solution, which has involved an integration challenge for the institution; another 3 entities have been added too, which are provided HCE wallet payment services.

Processing solutions and payment methods

We provide high quality services that cover the entire card payment chain, providing added value and efficiency where required, and as a whole, they make up Cecabank's DNA: a strategic vision of the client as an ally and travel companion throughout this industry's innovation and continuous change.

The year 2018 has been noted for launching into the market a series of added-value solutions in the scope of payments.

Among these, the launching of the DCC (Dynamic Currency Conversion) service is worth a mention, by means of which Cecabank helps entities maximise the return of the currency conversion business on its POS network and cashpoints, using, among others, a smart online price calculation engine for each currency that significantly improves the client acceptance ratio.

In line with the market's evolution towards mobile payments, Cecabank has made available to its clients the HCE (Host Card Emulation) services, which allows integrating mobile phone payments, as well as linking services to Apple Pay and Google Pay wallets that enhance these mobile phone payment solutions.

As in previous years, we continue to achieve excellent results in the **fight against fraud**. Again the institutions processed by Cecabank are the Spanish leaders in terms of the lowest rates of fraud in transactions thanks to the efficiency of the Espia system operated by the organisation.

As usual, VISA and MasterCard recognised Cecabank's full compliance with the security requirements established in the PCI DSS standard. This compliance was verified in accordance with the PCI Security Standards Council by an external auditor certified by the organisation.

Our commitment is to keep researching the market and developing solutions that bring value to our clients and helping each one of them to grow within the challenges of regulation and innovation.



Processing solutions and payment methods

Below are the main figures obtained from the activities performed and services provided in 2018:

Card transactions processed in 2018

834

million

Cards issued

10

million

More than **132**
thousand businesses

Daily average amounts settled

100

million euros

Availability of the systems

99.999%

In addition, Cecabank provides its clients comprehensive support for payment methods, covering all stages of the value chain:



Connectivity with multiple networks, exchange and settlement of transactions in our capacity as a bank.



Tokenisation solutions (card/ client) for issuers and recipients.



Comprehensive management solutions for purchasing, issuing, and e-commerce.



Loyalty schemes for businesses.



Fraud analysis, prevention and detection using own tools.



Comprehensive DCC (Dynamic Currency Conversion) solution in POS networks and at cashpoints.



Mobile payment solutions: HCE payments, payments with wearables, Apple Pay and Google Pay, among others.



Specialised IT consultancy.



Mobile payment solutions: Mobile-pos and POS-PC.



Business intelligence tools.



The bank has acquired SWIFT certified specialist labels

Several process automation projects using robots have been initiated in the current account services and information management services of liquidity positions in euros and currencies

The entity has renewed AENOR UNE- EN ISO 9001 quality certifications relating to exchange, clearing and settlement services for collection and payment transactions

Infrastructure and payment services

They are all the services provided to credit institutions and corporate clients for the integrated management of bank collections and payments, discount operations, payment confirmations, and technical coverage of connectivity to SWIFT.

The strengths of this service are focused mainly on four pillars: a personalised service, flexibility and adaptation to the clients' needs, confidentiality and neutrality.

In 2018 we adapted to the new versions of SEPA payment "Rulebooks" in transfers and direct debits, with both customers and represented companies.

We also contributed to the design and implementation of the representation service for instant transfers in the framework of the new SNCE023 subsystem in the ASI4 settlement modality.

Within the scope of SWIFT, Cecabank's self-certification as a Service Bureau, has been completed, acquiring SWIFT certified specialist labels in the administrative and technical spheres.

As a relevant milestone worth mentioning is the launching of the second phase of the online platform to supervise and control the Exchange of Payments for entities represented in the SNCE (National Electronic Clearing System), including SEPA interchange and cheques; a third phase has been initiated with fund transfers.

Efforts have continued in facilitating operations of collective investment and pension fund managers in the depositary field in terms of the management of current accounts, the management of payments and collections, and carrying out exchange and settlements of transfers, as well as for new Securities Brokers which have started providing services following the Securities Market Reform.

The entity has renewed AENOR UNE- EN ISO 9001 quality certifications relating to exchange, clearing and settlement services for collection and payment transactions (transfers, direct debits, transfers of funds and advance credit payments), as well as the UNE-ISO/IEC 27001 standard on information security management systems within the scope of SEPA operations. These certifications are evidence of the culture of continuous service and quality improvement which is at the core of the Cecabank's Strategic Plan.

During 2018, two new entities have been added as clients in the representation service in the SNCE. A new company has been included in services for channelling international SWIFT payments, and six new companies in services for managing cash-letter remittances.

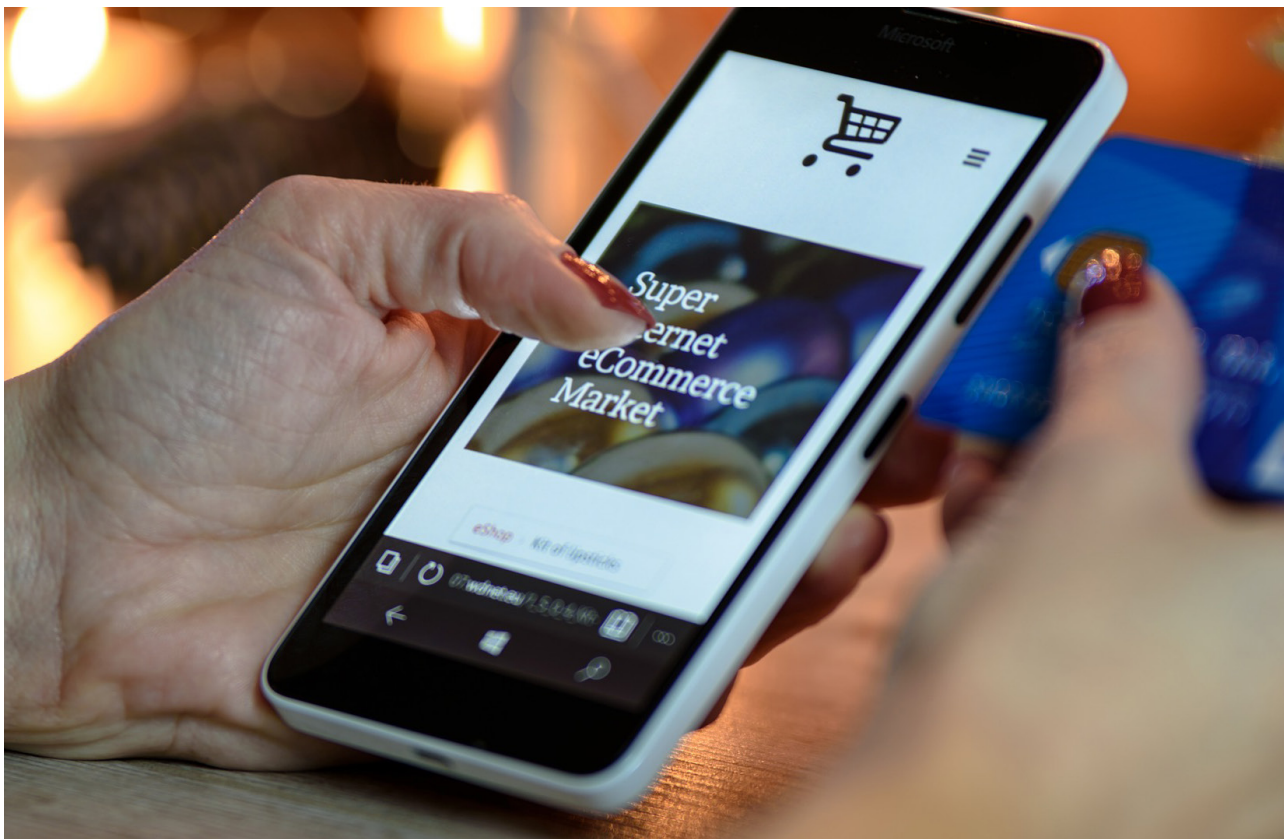


6 new companies use the service for managing cash-letter remittances in 2018

It is also worth mentioning that during the second half of the year 2018, we have collaborated actively in launching the TARGET2/TARGET2 Securities consolidation project and, in particular, in the preliminary impact analysis on the migration of Cecabank's payment messaging system to the ISO20022 Standard. In this context, Cecabank has also been incorporated in the Spanish Tax Agency's tax payment gateway.

The contractual framework has been created in the scope of payment and collection services, and the General Treasury of the Social Security's Single Centralised Account service has been monetised with 5 entities.

The fact that Cecabank maintained the Quality Management certificate in accordance with the UNE ISO 9001 and ISO 27001 standards confirms the company's outstanding position in providing payment and collection services to credit entities and corporate clients, based on a model geared towards constant innovation, maximum efficiency, and generating added value.





Infrastructure and payment services

Key details

December 2018

Cross-border exchange of cheques /
Currency Exchange

118,506

Cheques processed

SWIFT messages exchanged

1,367,962

Transactions processed with BIC Cecabank

891,444

Transactions processed with other BICs

Non-SEPA Fund Transfers
(TARGET / EBA)

206,132

Transactions processed

927,010

Nominal value (in million of euros)

SEPA transactions exchange
(EBA and SNCE)

583,710,277

Transactions processed

396,292

Nominal value (million euros)

Exchange of traditional transactions in the
scope of the SNCE

13,376,792

Transactions processed

86,101

Nominal value (million euros)

Account payable and receivable portfolio

2,928,428

Notes entering

5,353

Nominal value (million euros)

163,050

Notes deposited

486

Nominal value (million euros)

Outstanding

225

Transactions processed

70.23

Nominal value (million euros)



FX Global Payment Solution
contributes high added value to a
standard correspondent banking
relationship

International Payments and FX Platform

The FX Global Payment Solution, an innovative product, has been designed thanks to incorporating the London branch's payment processing system, which is based on the necessary intelligence to efficiently manage the exchange rate of cross-border payments whose payment currency is different from the currency of the beneficiary's account. This solution has helped provide a better service to clients and has eliminated the possibility of errors. As a result, the cross-border payment service provided in Spain and Portugal has been broadened, providing it now to over 80 countries and covering over 24 different currencies.

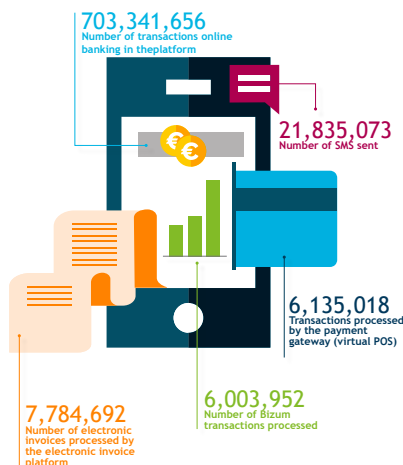
Thanks to the involvement of the foreign network in marketing this product, we have been able to establish new partnerships in payment processing with various national and international entities.





Digital Solutions

Cecabank is an expert in specialised technology, digitisation of processes, omnichannel services and technological outsourcing.



Digitisation of Processes, Omnichannel Services and Data Analysis

During 2018, the new Volkswagen Bank online banking service was launched for clients, integrating a comprehensive hosting solution of the new main banking business. Eurocaja's new online banking service is starting to be developed in this model, and a new institution, Chaabi Bank, is being incorporated into the mobile banking solution.

We have worked in providing entities with an appification platform that complies with PSD2 regulations, which will come into force in 2019. This project has also involved a comprehensive renewal of the online fraud monitoring services carried out by Cecabank to accommodate the Strong Customer Authentication (SCA) policies established by EBA's RTS for PSD2.

With regard to the omnichannel services carried out by Cecabank, an electronic mandate project has been developed and is expected to be available for clients in 2019.

The developments required to facilitate the incorporation of the 3Dsecure 2.0 standard for online payment, on both the issuing and recipient sides, have also been carried out.

With regard to electronic billing, we have started to channel all the invoicing issued by an entity through Cecabank's platform. This has led to incorporating mass data storage and management systems with a Big Data approach.



The bank provides all services related to the online channels, the value processes revolving around payments and the business intelligence and data analysis

The bank also provides a signature service with electronic certificates on the cloud, the purpose of which is to make available to the entities a robust signature system equivalent to a handwritten signature and which will be deployed in entities during 2019.

All these services are implemented under Agile methodology criteria, with the aim of improving project development times and their adjustment to the clients' needs.

The main new development in this area is the project initiated in 2018: a data standardisation and analysis plan that can generate in 2019 new services for the entities.

Digitized

The SFD Digitized Signature product is the leading solution in biometric handwritten signature applications, and it allows digitising operations and contracts, providing further efficiency to financial processes that require a client's signature in any channel related thereto: branch, mobility and online banking.

In addition to establishing a mechanism that provides the highest levels of guarantee as a means of consent, biometric handwritten signatures allow unequivocally identifying clients thanks to the Biotrace technology developed in collaboration with the Autonomous University of Madrid.

SFD is implemented currently in 26 clients within the financial, insurance, human resources and healthcare sectors, among others, deploying more than 70,000 positions and reaching a volume of signed operations of more than 600 million euros per year.

In 2018 two new clients contracted the product: Caja de Ingenieros and Sanitas, which has implemented the solution in Torrejón Hospital.

Pyramid Analysis

Cecabank's Pyramid Analysis solution allows a company to access regulatory benchmarking to find out its comparative situation in key management variables, such as its business model, profitability, efficiency, credit quality, solvency and liquidity.

In the last quarter of 2018 we covered close to the 4,000 indicators distributed over the five SREP (Supervisory Review and Evaluation Process) pillars, and Circular 4/2017 has been integrated, with the participation of 13 clients in the product project (Banco Santander, Caixabank, Bankia, Abanca, Kutxabank, Unicaja, Euro Caja Rural, Grupo Solventia, Caja de Ingenieros, EBN Banco, Caixa Ontinyent, Banca Pueyo and Banca March).

On the other hand, Cecabank continues to extend the focus towards monitoring, measuring and controlling the quality of information within the regulatory reporting's building process.

Pyramid Analysis provides regulatory benchmarking



The mediation service in the presentation/exchange of information with the Bank of Spain has processed

**more than
15,000**
deliveries

Cecabank currently manages

**more than
800**
financial statements

200,000
validations that we report to the Bank of Spain, Bank of Portugal, CNMV and EBA

Technology Solutions

Pyramid Reporting

Pyramid Reporting is an EBA-compliant solution that works based on the Data Point Model (DPM).

This platform has the AENOR UNE-EN ISO 9001 quality certification, and its evolution among our clients continues to be successful.

We continue adapting to the regulatory reporting in accordance with the new requirements that have been introduced by Circular 4/2017 and Annex IX. In addition, we have incorporated the Liability Data Report requested by the Single Resolution Board (SRB).

In recent years Cecabank has positioned itself as a leading light in financial regulation consultancy and advisory services. The skill in anticipating new regulations, the team's high level of expertise, the support of its own tools, such as the financial regulations website, combined with Cecabank's experience and expert knowledge are just some of the factors that define the bank's service.

The company extends its Pyramid Reporting service to the following clients:

- Banco de Santander
- Banco de Depósitos
- Banco Alcalá
- Currencies Direct
- Adyen
- Banco de Brasil

We should also mention that in 2018 we promoted the outsourcing service of the reporting process and infrastructure for subsidiaries of international entities that report in Spain.

Risk and Treasury Management Platform

The Treasury and Risk Services Centre provides support, maintenance, and development services to the following areas:

- Front and Back Office Treasury Management
- Monitoring of market and counterparty risk
- Operational Risk Management
- Regulatory reporting



23

Financial institutions,
Public Authorities, SGIC
and corporates

We manage collateral
contracts of

10

entities

The bond platform offers firm price
quotations in a universe of liquid
bonds that is sufficiently appealing
and extensive for all profiles

It also offers comprehensive collateral management services, EMIR services and MiFID II services.

The services provided by the Treasury and Risk Services Centre give all types of financial institutions, public administrations, collective investment institution management companies, and corporates, access to standard computer applications specialising in the different activities of a Trading and Risk Room, run by leading providers in the national and international markets.

Cecabank has 2 clear competitive advantages: the excellence of processes and the flexibility to take on board regulatory and market changes.

Over the course of 2018, the scope of services has expanded both in terms of the number of users and the range of services covered.

Within the scope of the entity's digital transformation project, the Agile development methodologies have been implemented with the aim of reducing the time-to-market and improving user experience. As an answer to the growing trend of using mobile devices and the rapid evolution of their characteristics, a mobile solution has been developed by combining the latest developments in technology, design and innovation in order to improve user experience and its interaction with the Risk and Treasury Management Platform.

Bonds Platform

The Bonds Platform enables small savers to invest in public and private fixed-rate bonds through the entities' online channels. By digitising their contracting, we have likened the offering of fixed-income products to other financial products made available to clients, such as equity and funds.

The MiFID Compliance Platform, developed under the new MiFID II regulation in force since January 2018, has been created as a white-label product in which Cecabank has no direct relationship with clients of the financial institutions, which can expand their offering of investment products.

The project has been developed by Cecabank with the support of expert consultants. It is adaptable to the needs of the using entity and offers firm price quotations in a universe of liquid bonds that is sufficiently appealing and extensive for all profiles.

In 2018 the development project was completed in all its areas: integration in Cecabank's online banking, messaging with other applications, connectivity with suppliers, MiFID contracting flows, screen design, usability and issue management.

The commercial activity has also begun, and conversations have been held with clients within and outside Cecabank's environment.



In addition, the platform has been adapted from a regulatory point of view, complying with all MiFID II ramifications

Finally, among the main results obtained in the Bonds Platform, which has been operational in Cecabank's online banking since July 2018, the volume of operations carried out in the friends and family environment has increased threefold.

Currently, firm price quotations are provided for over 1,300 bonds, including national and international equity and fixed-income and in different currencies.

Technological Outsourcing

Currently, Cecabank has an infrastructure ready for the technological outsourcing of financial institutions. As a result, the bank complies with banking regulations and has a platform designed to reach the most demanding levels of availability and security.

Cecabank stands out for having proven technological knowledge, experience and skills through 20 years of relevant outsourcing projects for financial institutions and insurance companies, payment method networks and fintechs. As a wholesale bank, it supplements the technological services that it provides with financial services in the areas of payments, treasury management, Securities Services and digital solutions.

The most significant initiatives carried out in 2018 in this technological outsourcing infrastructure were as follows:

- Implementation and launching of the SWIFT Access Securitization Platform service for Ibercaja, Liberbank, Caixa Ontinyent and Caixa Pollensa
- Commencement of outsourcing services for the technological infrastructure of the Volkswagen Financial Services banking business
- Contract closure of outsourcing services for the technological infrastructure of the Eurocaja Rural main banking business
- The RFP for technological outsourcing of AllFunds Banks activity was won together with IBM

In 2018 the technological outsourcing of AllFunds Banks activity stands out



Digitisation of Processes

A solution for generating all kinds of banking remittances and virtual payment gateway for the remote sale of any business.

Omnichannel Service



Online multi-device banking platform in service mode



An **appification hub** that enables users to export information from the back end to third parties and add the third-party information



Fraud Monitoring with collaborative intelligence, for online banking and e-commerce



Digital identity services in sign-up and signature processes for clients and non-clients through any channel, both for branches and online banking

Business Intelligence

Business intelligence applied to:



Financial data analysis for the comprehensive profiling of banking clients



Pyramid Analysis is a tool that allows comparing with benchmark peers to determine the competitive stance of a company based on the SREP pillars

Technology Solutions

We are experts in specialised technology



Pyramid Reporting, a comprehensive solution that reduces regulatory costs, optimises the information transfer cycle (XBRL) and is compatible with EBA standards



Risk and Treasury Management Platform is a PaaS Service that covers all the needs of the treasury management activity

Technological outsourcing

We provide the service of outsourcing technological infrastructures for financial institutions.

Go to www.efbcecabank.es for more information

Retail services

The only services provided by Cecabank aimed at the retail public are the Banking Training School and the Exchange Office.

Banking Training School

Cecabank's Banking Training School closes 2018 exceeding expectations again.

Following the trend of the previous year, thousands of students have been certified by Cecabank as MiFID II Advisors. Specifically, out of the 2,443 students examined at the BTS, 77% passed.

Demonstrating its best expertise, the entity has taken the lead in the training on the GDPR, and there are already several DPOs (Data Protection Suppliers), that have received the guarantees regarding training from the Banking Training School.

We have assumed the challenge of digitisation, opening a new line of Cryptoeconomy and Fintech training, with itineraries related to digital transformation, big data and blockchain, among others, without losing the essence of our school: the native view of a bank.

We have resumed the open conferences with two events:

- Customercentric: The success of digital transformation
- Presentation Big Data Programme

Cecabank has also resumed key sector contacts: Fundae's State Joint Committee, Gref and DGIII, without forgetting its traditional partner, financial institutions, hold over 3 training committees throughout the year.

In addition, the School echoes the main concerns of the sector, such as the new regulatory challenges regarding matters such as the Insurance Distribution Directive (IDD) and the Mortgage Loans Act (LCI in Spanish), working on training for the future and anticipating the environment's concerns.

Currency Exchange Office

Cecabank's Exchange Office continues to purchase and sell foreign banknotes to the public at its new location in Calle Caballero de Gracia, 30.

It has 40 currencies immediately available in different denominations and amounts, which allows us to provide top quality banknotes at competitive prices and ample public opening hours.





Financial information

Results

Cecabank, S.A. Income statements corresponding to the years ended at 31 December 2018 and 2017* (thousands of euros)

	Income / (Expense)	
	2018	2017
Interest income (Note 28)	90,055	89,641
Financial assets at fair value through other comprehensive income	29,145	36,742
Financial assets at amortised cost	6,346	5,066
Other interest income	54,564	47,833
Interest costs (Note 29)	(83,747)	(71,242)
Costs for social capital having the nature of a financial liability	-	-
A. NET INTEREST INCOME	6,308	18,399
Dividend income (Note 30)	15,199	39,474
Commission income (Note 31)	134,359	136,286
Commission expenses (Note 32)	(15,172)	(14,894)
Profits or losses for deregistering assets or financial liabilities not measured at fair value through profit or loss, net (Note 33)	23,430	10,639
Financial assets at amortised cost	3	3
Other financial assets and liabilities	23,427	10,636
Profits or losses due to assets or financial liabilities held for trading, net (Note 33)	(15,900)	(33,606)
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets at amortised cost	-	-
Other gains or losses	(15,900)	(33,606)
Gains (losses) on on-trading financial assets mandatorily at fair value through profit or loss (note 33)	(4,477)	-
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets at amortised cost	-	-
Other gains or losses	(4,477)	-
Profits or losses for assets or financial liabilities measured at fair value through profit or loss, net (Note 33)	(10)	(18)
Gains or losses resulting from hedge accounting, net (Note 33)	(3,824)	(4,798)
Exchange differences, net	65,158	65,393
Other operating income (Note 34)	48,267	50,758
Other operating costs (Note 37)	(3,986)	(4,432)
B) GROSS INCOME	249,352	263,201
Administrative expenses	(127,029)	(130,636)
Staff costs (Note 35)	(51,042)	(51,193)
Other administrative expenses (Note 36)	(75,987)	(79,443)
Depreciation and amortisation (Note 39)	(46,204)	(56,834)
Provisions or reversal of provisions (Note 16)	12,125	16,909

	Income / (Expense)	
	2018	2017
Value impairment or reversal of value impairment of financial assets not measured at fair value through profit or loss or net gains by modification (Notes 22 and 38)	497	7,132
Financial assets at fair value through other comprehensive income	309	302
Financial assets at amortised cost	188	6,830
Impairment value or reversal of impairment value of investments in subsidiaries, businesses or associates	-	-
Impairment value or reversal of the value of non-financial assets	-	-
Profits or losses on deregistering non-financial assets, net (Notes 11 and 12)	10	2
Negative goodwill recognised in the income	-	-
Profits or losses from non-current assets or disposable groups of elements classified as held for sale or inadmissible as discontinued activities (Note 10)	(10)	8,382
C) PRE-TAX PROFITS OR LOSSES FROM CONTINUING ACTIVITIES	88,741	108,156
Tax costs or income on profits from continuing operations (Note 20.2)	(25,247)	(34,938)
D) AFTER-TAX PROFITS OR LOSSES FROM CONTINUING ACTIVITIES	63,494	73,218
After-tax profits or losses from discontinued activities	-	-
E) PROFIT/(LOSS) FOR THE YEAR	63,494	73,218

* Is only and exclusively presented for corporate purposes.

Notes 1 to 41 and Annexes I and II, included in the attached Report, are an integral part of the income statement as at 31 December 2018

Activity

Cecabank, S.A. Financial Statements as at 31 December 2018 and 2017*(thousands of euros)

ASSETS	2018	2017
Cash, cash balances in central banks and other demand deposits (Note 5)	3,267,077	2,656,780
Financial assets held for trading (Note 6.1)	1,920,383	2,144,770
Derivatives	926,943	1,031,402
Equity instruments	240,744	287,482
Debt securities	752,696	825,886
Loans and advances	-	-
<i>Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge</i>	96,475	37,971
Financial assets not held for trading at fair value through profit or loss (Note 6.2)	60,413	-
Equity instruments	19,093	-
Debt securities	41,320	-
Loans and advances	-	-
<i>Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge</i>	33	-
Financial assets measured at fair value through profit or loss (Note 6.3)	-	256,876
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	256,876
Central banks	-	-
Credit institutions	-	256,876
Clients	-	-
<i>Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge</i>	-	69,228
Financial assets at fair value through other comprehensive income (Note 7)	1,478,973	1,772,261
Equity instruments	10,295	38,716
Debt securities	1,468,678	1,733,545
Loans and advances	-	-
<i>Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge</i>	137,278	19,862
Financial assets at amortised cost (Note 8)	2,497,312	2,684,459
Debt securities	21,503	21,731
Loans and advances	2,475,809	2,662,728
Central banks	-	-
Credit institutions	1,924,448	1,758,369
Clients	551,361	904,359
<i>Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge</i>	72,244	154,343
Derivatives - hedge accounting (Note 9)	17	1,723
Changes at fair value of the hedged elements of a portfolio with coverage of the risk of interest rates	-	-
Investments in subsidiaries, joint businesses, and associate companies (Note 11)	312	416
Subsidiaries	312	416

ASSETS	2018	2017
Joint businesses	-	-
Associates	-	-
Tangible assets (Note 12)	51,175	52,413
Property, plant and equipment	43,987	50,636
For own use	43,987	50,636
Leased out under an operating lease	-	-
Assigned to welfare projects	-	-
Investment property	7,188	1,777
Of which: Leased out under an operating lease	-	-
<i>Memorandum item: Acquired under financial lease</i>	-	-
Intangible assets	205,402	228,864
Goodwill	-	-
Other intangible assets (Note 13)	205,402	228,864
Tax assets (Note 20)	108,242	115,167
Current tax assets	7,924	6,315
Deferred tax assets	100,318	108,852
Other assets (Note 14.1)	56,731	42,944
Insurance contracts linked to pensions	-	-
Inventory	-	-
Remaining other assets	56,731	42,944
Non-current assets and disposable groups of elements classified as held for trading (Note 10)	3,791	3,787
TOTAL ASSETS	9,649,828	9,960,460

* Is only and exclusively presented for corporate purposes.

Notes 1 to 41 and Annexes I and II, included in this report, are an integral part of the Balance Sheet at 31 December 2018.

LIABILITIES AND EQUITY	2018	2017
LIABILITIES		
Held-for-trading financial liabilities (Note 6.1)	1,376,857	1,539,978
Derivatives	967,023	1,146,041
Short positions	409,834	393,937
Deposits	-	-
Debt instruments	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss (Notes 6.2)	-	-
Financial liabilities at amortised cost (Note 15)	6,946,340	7,032,621
Deposits	6,668,423	6,392,278
Central banks	349,573	-
Credit institutions	1,202,472	857,982
Clients	5,116,378	5,534,296
Debt instruments	-	-
Other financial liabilities	277,917	640,343
<i>Memorandum item: subordinated liabilities</i>	-	-
Derivatives - accounting of hedges (Note 9)	6,898	1,412
Changes at fair value of the hedged elements of a portfolio with coverage of the risk of interest rates	-	-
Liabilities protected by insurance or reinsurance contracts	-	-
Provisions (Note 16)	122,595	151,843
Pensions and other post-employment defined provision obligations	-	-
Other long-term benefits for employees	49,710	63,229
Procedural matters and procedural tax litigation	9,800	14,888
Commitments and guarantees granted	274	206
Remaining provisions	62,811	73,520
Tax liabilities	19,051	26,188
Current tax liabilities	1,038	-
Deferred tax liabilities (Note 20)	18,013	26,188
Capital repayable on demand	-	-
Other liabilities (Note 14.2)	104,917	150,739
Liabilities included in alienable groups of items that have been classified as held for trading	-	-
TOTAL LIABILITIES	8,576,658	8,902,781
EQUITY		
Own Funds	1,063,402	1,012,621
Capital	112,257	112,257
Paid-up capital (Note 18)	112,257	112,257
Uncalled non-paid-up capital	-	-

LIABILITIES AND EQUITY	2018	2017
Memorandum item: uncalled capital	-	-
Share premium (Note 18)	615,493	615,493
Equity instruments issued other than capital	-	-
Other elements of equity	-	-
Ganancias acumuladas (Nota 19)	266,567	-
Retained earnings (Note 19)	-	-
Revaluation reserves	5,591	211,653
(-) Treasury stock	-	-
Profit/loss for period (Note 3)	63,494	73,218
(-) Interim dividends	-	-
Other accumulated overall result	9,768	45,058
Items that will not be reclassified as results	14,534	18,318
Actuarial profits or losses on defined-benefit pension schemes (Note 17)	11,451	11,019
Non-current assets and disposable groups of elements classified as held for trading	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	3,083	7,299
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that can be reclassified as results	(4,766)	26,740
Hedges of net investments in foreign operations	-	-
Currency conversion	-	-
Hedging derivatives. Cash flow hedges	-	-
Fair value changes of debt instruments measured at fair value through other comprehensive income (Note 17)	(4,766)	26,740
Hedging instruments (non-designated items)	-	-
Non-current assets and disposable groups of elements classified as held for trading (Notes 10 and 17)	-	-
TOTAL EQUITY	1,073,170	1,057,679
TOTAL EQUITY AND LIABILITIES	9,649,828	9,960,460
MEMORANDUM ITEMS		
Loan commitments granted (Note 27.1)	199,602	181,463
Financial guarantees granted (Note 27.1)	52	50
Other commitments granted (Note 27.1)	183,090	510,163

Risk management

The ratings awarded to Cecabank as at 31 December 2018 have remained the same and in all cases considered Investment Grade. The ratings awarded by Fitch Ratings, Moody's, and Standard & Poor's are as follows:

	Short term	Long term	Outlook
Moody's	P-2	Baa2	Stable
Fitch Ratings	F-3	BBB-	Stable
Standard & Poor's	A-2	BBB	Positive

Among the aspects highlighted by the agencies are the conservative risk profile, the high solvency levels and comfortable liquidity position. On the other hand, the strategic orientation also stands out, including the leading position in Securities Services market in Spain and its role as wholesale services provider, especially to financial institutions, which allows increasing the recurrence of income.







Annual accounts

Annual Accounts for the financial year ended as of 31 December 2018 and Management Report.

6.1 Cecabank S.A.

Individual Annual Accounts, management report and audit report for the year 2018

6.2 Cecabank, S.A. and Subsidiaries belonging to the Cecabank group

Consolidated Annual Accounts, management report and audit report for the year 2018